

Willis Tower: Redefining an American Icon

by Matt Baron, NAIOP Chicago Staff Writer

This is a summary of the June 28, 2018 meeting of the Chicago chapter of NAIOP, the Commercial Real Estate Development Association.

Its members gathered at Willis Tower in Chicago to hear [David Moore](#), *Senior Vice President & Portfolio Director, Equity Office*; and [Jamey Dix](#), *Senior Vice President, Industrial, The Telos Group*, describe the ambitious plan to renovate and redefine the structure that for a quarter-century was the tallest building in the world. Members also received a sneak peak of the \$500 million transformation under way at the iconic structure.

It's not often that you hear "Willis Tower" and "neighborhood" in the same sentence—unless you are listening to David Moore describe the efforts under way to renovate and redefine the iconic building as a hub for work and play.

"What we're doing," he said in introductory remarks, "is creating a neighborhood from the ground up."

It is a multi-pronged effort, seeking to appeal to building tenants, Loop workers, locals and tourists. To minimize the potential friction between those various groups, the building's office lobby was moved from the first floor to the second floor—just one of many changes in the building known as the Sears Tower from its construction in 1973 until 2009.

One of the keys to attracting top-flight businesses as tenants is to build a sense of community. That comes from breaking down what can be an overwhelming structure into smaller pieces, said Moore.

And a key piece that was recently completed: the 72,000 square feet of amenities on the building's 33rd and 34th floors. The space includes a health club that is nearly 30,000 square feet, conference rooms, a restaurant-bar that offers billiards and ping pong, along with dazzling views, and other lavishly appointed nooks where people can meet or settle in for a wide range of purposes.

On the 66th and 67th floor, the Altitude Lounge opened earlier this year and is part of another set of amenities that cater more to the high-rise tenants, often professional services firms, said Moore. He also noted that the Metropolitan Club just opened on the 67th floor.

[Purchased for \\$1.3 billion in March 2015](#) by private equity real estate investor Blackstone Group, Willis Tower has since been the focus of the company's largest investment in a single property in the history of its funds.

Equity Office, Blackstone's operating partner which recently rebranded as EQ Office, is focused on a "tenant-centric" approach to its work, said Moore. Based on some of the numbers provided in the program, that strategy has been a winning one.

Tenant occupancy has soared to 96 percent, up from the low-80s. Along the way, rents have risen to over \$30 per square foot as the tower is competing with other Class A properties in the area—a status it did not enjoy until the recent upgrades.

With a near-perfect walkability and commuter transit access rating, Willis Tower is in a prime spot. That is true for not only a thriving tourist base of 2 million annually but also the estimated 170,000 Loop workers within six blocks who augment the building's 15,000 workers, said Moore.

He cited a few of the building's strong features, including efficient floor plates that range from 11,000 to 50,000 square feet and which can appeal to a wide variety of tenants.

"What has changed is how work is created, and the way that people approach work. It's less about work-life balance; it's more work-life integration," said Moore. "...the best companies are those that can adapt. It's not just attracting talent, it's retaining and inspiring that talent."

In contrast to its initial conception, when Sears, Roebuck & Co. occupied 3.5 million square feet, it is now paramount to pursue a mixed-use, diverse, urban renewal-style formula. Also, plans are afoot to shift from the building's hardscape design—as seen in the big granite walls on the ground-level corners—to a more open, welcoming design that features greenspace at the building's base.

"When we're done, the goal is to create this diversity of experiences and diversity of amenities that serve the office user and contribute to that day-in-the-life experience, from the morning to the afternoon to the night," said Moore.

At the base of the building, by the first quarter of 2020, plans call for a 300,000 square foot podium to be transformed into a five-level retail destination, with three floors above grade and two below grade. It will have a "pretty heavy component of food and beverage," said Moore. "If you were sitting here three years ago, it would have probably been a different programming mix, but today's it's more focused on the services and the offerings (for) curating that day in the life of an office worker."

"We're trying to be very careful—I'd say painstakingly so—on those users that we select and trying to eliminate overlap," Moore added. "We're trying to curate what our workers want in this building."

Other elements of the building upgrades: the building [has received the U.S. Environmental Protection Agency's Energy Star certification](#)—making it the largest office building in the country, and the third largest overall, to gain that designation; it is expecting to secure Leadership in Energy and Environmental Design (LEED) Gold certification, which is the second-highest level of LEED attainment; and about \$75 million is being invested in upgrades to over 100 elevators.

After taking ownership three years ago, "from the very beginning, Blackstone's vision, as you can tell, was very ambitious," said Jamey Dix. That outlook came amid a generally negative perception of the building among existing and prospective tenants.

"You had scale, you had views, but as a tenant you weren't rewarded for being in the building...we really had to change all that (through) big, dramatic changes," said Dix. "Really it was leveraging the scale to do something very unique that only this building could provide."

The solution: creating "neighborhoods," largely through amenities put into place in common areas.

A turning point came in October 2016, when the 33rd and 34th floors were completed. From that point, leasing soared from the low-80s to its current leasing level of 96 percent, Dix noted.

"The leasing turned on immediately. Multiple large transactions came together all at once," said Dix. "...it happened very quickly. The market took to the vision that Blackstone developed and recognized it as an amenity package and overall experience that couldn't be created anywhere else."

Since the acquisition just over three years ago, rental rates have gone up 35 percent and 1.3 million square feet of office space has been leased—with 900,000 square feet in the last year alone.

During a wrap-up question-and-answer segment, the speakers responded to several inquiries. Their answers spanned topics that included:

- The rental rates' movement (up by 35%, to over \$30/square foot) since Blackstone's purchase. Whereas it had "become a low-cost alternative" on Wacker Drive, some companies didn't even consider occupying the building at any price, said Dix. The goal, therefore, was to begin qualifying for those types of tenants, "then the pricing followed" to enable Willis Tower to compete with other trophy buildings in the area.
- The lease-up for the retail component is at about 40 percent, though that figure will climb soon. Three or four additional retailers are expected to sign on in the next month, said Moore.
- One audience members wondered if tenants are signing up for less space because of their potential to tap into the amenities as an expansion of their actual footprint. Both Moore and Dix said that the strengthened common space is helping drive tenancy. In addition, Dix said that regardless of how much conference space a company has in its own space, "there's still a desire to get out and use amenities within the building...that is a great differentiator."
- Whether there has been any opposition from neighboring buildings, given the new configuration that is occurring at the base of the building and the changing dynamic it will create for neighboring streets. "For the most part," said Moore, "it's been unanimous support." He added there has been a focus on respecting the tower's heritage and iconic nature, noting that Chicago Ald. Brendan Reilly has been supportive and "heavily involved from the beginning."

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