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Urban Innovations finds the right deals in a recovering market

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Two years ago, as the economy was still on its downward spiral, River North-based Urban Innovations was at a crossroads.

Aaron Zaretsky, leasing director at UI, watched the firm's inventory creep up to its highest vacancy in years. He came to the conclusion that the firm would have to take one of two drastic steps: cut prices significantly or double down by injecting more capital into its older product.

He decided to do both.

"If the product is stale, it is either priced too high or the layout is compromised," says Zaretsky. "It's always one of the two. The market doesn't lie."

Aaron Zaretsky, leasing director at Chicago-based Urban Innovations

With that, the firm set off on an ambitious remodeling effort, investing new capital into certain properties in a multi-phased process. Likewise, UI was willing to do shorter deals with startup firms seeking very competitive rates.

"To be honest, if I was starting my own business, I wouldn't be paying a lot in rent right now," he says.

The strategy has paid off. The firm is now 97 percent leased throughout its 650,000 square feet of urban loft space in the River North neighborhood. It has leased a total of 115,000 square feet so far this year in 37 deals.

"We had a tough 2009, but as soon as we hit 2010, the phones started ringing," says Zaretsky.

Revitalization

While the firm itself has been revitalized, the neighborhood that it has called home since 1983 is no stranger to the process either. Walk down any street in River North and you will see a mix of old and new. The area just north of the Chicago River is home to several glass skyscrapers, new high-rise apartment and condo buildings, and several trendy restaurants run by some of the country's most recognizable chefs. Interspersed throughout all of this are constant reminders of the area's past. Mid-rise red brick buildings, old warehouses and a few stately civic buildings give a sense of what the neighborhood once was: an industrial district that served the Port of Chicago.

From the 1920s to the 1960s, the area served as the main warehousing district for nearby Navy Pier. When the fabled pier shut down commercial activity in 1972, moving the majority of shipping further south to the Calumet River, the area now known as River North fell into disrepair. A short walk from the central Loop, it became the city's unofficial red-light district.

Developer Albert Friedman is credited with first investing in the area 35 years ago. He coined the term River North for marketing purposes. The area is loosely defined as north of the Chicago River, west of Michigan Ave., south of Chicago Ave. and east of the west branch of the Chicago River.

Not long after Friedman began redeveloping warehouse space, Howard Conant Jr. founded Urban Innovations in 1983. The firm began to retrofit older properties as urban loft space for office users. At one point, it owned 1 million square feet and 11 properties. It sold several properties at the height of the commercial market a few years ago.

The recent recovery may be slow, but it has been enough to trigger a wave of leasing for UI. Many displaced workers have given up trying to find jobs with established firms, and have subsequently banded together with other like individuals to form small, start-up companies.

This has been the target market for UI, says Zaretsky.

The firm knows its client base and has modified its leases and space to accommodate this rush. Zaretsky says that the firm's typical lease is now for space between 2,000-4,000 square feet and at terms of two years or less.

Short-term leases may not seem like the dream scenario for a commercial real estate firm, but it has kept Zaretsky incredibly busy and, most importantly, the firm's inventory is almost fully occupied.

The shift seems to fit with an overall UI philosophy: Gain the trust of clients by doing what is right for their business.

It comes across in the firm's willingness to do short-term deals with office users. New firms don't want to think too far ahead when it comes to commercial space. With so many unknowns to address in the first year of business, expansion and lease terms are hardly the most pressing issues for entrepreneurs. By allowing firms the ability to test the waters without any long-term commitments, Zaretsky finds that he is often rewarded when the firm gains its footing and is looking to expand.

Many of the deals that the firm completed in 2009 and 2010 will come up for renewal later this year. Zaretsky says that multiple tenants have already resigned, with many of them choosing to expand. He expects UI to double the amount of deals that it has already completed this year, with more firms set to renew.

The firm's philosophy is also is evident in how it deals with its 90,000 square feet of retail space.

The firm has turned away lucrative deals in favor of what Zaretsky calls "right" deals. He is very cognizant of what deals would benefit or hurt current tenants. The majority of space is street-level retail that houses the art galleries and high-end furniture makers that the neighborhood is now known for. Zaretsky says that he has turned away businesses that would not fit the same balance of his current clientele, namely stores that offer discount product.

He has also turned away concepts such as health clubs, spas and fast food chains, because they do not fit the same aesthetic that the facilities now house.

"Our philosophy regarding retail leasing is to create and maintain a well-integrated assemblage

of showrooms and art galleries," he says. "Retail tenants benefit by the establishment of a cohesive community and we create a better opportunity for retail demand."

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