City of Chicago
Department of Housing and Economic Development

STAFF REPORT
TO THE
COMMUNITY DEVELOPMENT COMMISSION
REQUESTING DEVELOPER DESIGNATION
June 12, 2012

I. PROJECT IDENTIFICATION AND OVERVIEW

Project Name: Halsted Pershing Morgan, LLC
Applicant Name: Halsted Pershing Morgan, LLC
Project Address: 815 W. Pershing Rd
Ward and Alderman: 11th, James Balcer
Community Area: New City Community
Redevelopment Project Area: Stockyards Annex Tax Increment Financing District
Requested Action: TIF Developer Designation
Proposed Project: Industrial-warehouse and distribution
TIF Assistance: $917,000

II. PROPERTY DESCRIPTION

Address: 815 West Pershing Road
Location: Generally located at the southwest corner of W. Pershing Road and South Halsted Street
Tax Parcel Numbers: 20-05-200-009 and 20-05-200-161
Land Area: sq. ft or 6.63 acres
Current Use: The property includes a 104,000 sq. ft. industrial facility
situated on 6.63 acres. The building is approximately 3 years old and currently has 3 recently-executed leases by 2020 Exhibits, Goodman Distribution and the US Gov’t/Drug Enforcement Agency. There is an additional 25,000 sq. ft. still available.

Current Zoning: Planned Manufacturing District No. 8

Environmental Condition: Property required substantial site preparation work and remediation

III. BACKGROUND

The subject project is located within the original footprint of the Union Stockyards. The Stockyards is an active industrial corridor with over 100 businesses employing nearly 10,000 people. The economic downturn has affected this area and vacancy rates have become more common than in previous years. However, there has been recent activity within the industrial corridor, including the new Testa Produce development at 45th and Racine, Gypsum Supply’s new warehouse at 42nd and Racine, completed in 2009 and the redevelopment of 4045 S. Morgan by Experimur, LLC.

The City acquired the subject parcel in 2002 to market for industrial redevelopment purposes. The site had been long vacant and a blighting influence at the gateway to the industrial corridor on the swc of Halsted and Pershing Rd. From 2002 through 2006 the City had been marketing this site and encouraging speculative industrial development to respond to a lack of available modern industrial space. In 2006, Halsted Pershing Morgan, LLC approached the City about acquiring and redeveloping the site to respond to the City’s need for readily available modern industrial space.

In 2007, and subject to CDC action, the City of Chicago entered into a negotiated sale of the subject property with this developer for $1.00 in consideration of the substantial amount of site preparation and remediation work required. The subsurface of this site included unstable construction fill which couldn’t support a standard slab-on-grade development. As a result, the developer used a unique foundation system called Vibro-Replacement columns- a series of borings filled with crushed stone then compacted to support the weight of the slab. The additional costs associated with this foundation exceeded $1.4 M.

In 2009, the core and shell of the 104,000 sq ft building was completed as was the parking and landscaping areas and the developer was in full compliance with his negotiated sale RDA requirements. However, the MWRD had begun constructing a drop shaft at the corner of the subject parcel shortly before the building was completed. The Deep Tunnel project duration was scheduled to take 12-15 months but was unexpectedly extended an additional year.

The effect of heavy construction equipment and materials was devastating to this development. Potential tenants did not want to move in to the building knowing there was underground
blasting occurring on site. This, combined with the economic downturn, forced this developer into foreclosure proceedings in 2011. The development team was able to refinance at a much higher rate of 12.5% to complete much of the interior build-out and there are now currently three tenants in the building with 25,000 sq ft remaining. So far, there are 40 jobs at the building. The TIF assistance will sustain the development with a positive cash flow and ensure its success into the near future.

IV. PROPOSED DEVELOPMENT TEAM

Development Entity: Halsted Pershing Morgan, LLC is comprised of Legacy Capital Partners Fund I LP, Halsted Pershing Dayton, LLC (Howard Wedren, Principal) and related entities. The development team included: Architect: Cornerstone Architects; General Contractor-Summit Design; Civil Engineer: Jacob & Hefner; Structural Engineer: Grivas Krause Associates; Foundations: Hayward Baker; Broker- CB Richard Ellis and Legal counsel: Greenberg Traurig LP

The developer’s organization chart is included in the exhibits.

Consultants: Johnson Research Group acted as the developer’s TIF consultant and CBRE was the broker. Johnson Research Group has extensive experience in TIF consulting and the creation of TIF districts.

V. PROPOSED PROJECT

Project Overview: The project includes the tenant build-out of approximately 75,000 sq. ft of the existing 104,000 sq ft facility. The TIF eligible expenses are based on the pre-construction site costs. There are currently three tenants in the building: 2020 Exhibits-constructs exhibit space for major conventions; Goodman Distributors- air conditioning supplier and the Drug Enforcement Agency (DEA) for warehousing. There is an additional 25,000 sq. ft. of space available in the facility.

Environmental Features: This developments includes the following “green” features: 10% green roof, on-site water detention system in the parking lot; generous landscaping using native/adaptive species; reflective roof system; high performance insulated glass windows; addition of natural light to all office and gathering areas; low VOC paints and adhesives. A complete listing of all sustainable and energy efficient features included in Exhibit.
VI. FINANCIAL STRUCTURE

The project consists of the construction of 104,000 square foot industrial building which will accommodate 4 tenants. The building has been constructed and approximately 75% of the facility is currently occupied. The developer constructed the building utilizing the following sources: equity, a construction/permanent loan provided by Union National Bank (approximately $5,500,000 principal balance) and a subordinate loan for some of the tenant build out from KJH Holdings (approximately $5,500,000 principal balance). In addition to the $917,000 requested TIF assistance the City provided a land write-down ($1,590,000) for the project as well as a Cook County Class 6(b) Property tax abatement. The TIF and land write-down amount to 19.8% of the total project costs. Largely due to extenuating circumstances during the construction of the building and extensive costs related to environmental issues and soil conditions, the TIF assistance ($917,000 or 9.6% of the TPC) is necessary. With the Streamline TIF assistance, the project can achieve a modest IRR of 7.3%. This is well below a typical rate of return of 15% but provides compensatory relief to the developer’s 2.4% rate of return without the TIF assistance. If the problems faced by this project had been known in advance, the development would have been considered for TIF assistance at the time of purchase or this project would have not occurred at all.

The assistance will be provided in 3 equal, annual payments of $305,666 beginning 1 year after a Certificate of Completion is issued for the project from available area wide increment within the Stockyards Annex TIF. During the term of the agreement (10 years from the Certificate) the developer will be required to satisfy all obligations under the Redevelopment Agreement including employment and occupancy provisions.

There are currently three tenants in the building: 2020 Exhibits- constructs exhibit space for major conventions; Goodman Distributors- air conditioning supplier and the Drug Enforcement Agency (DEA) for warehousing. There is an additional 25,000 sq. ft. of space available in the facility.

The following table identifies the sources and uses of funds.

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<thead>
<tr>
<th>Sources</th>
<th>Amount</th>
<th>% of Total</th>
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<tr>
<td>Developer Equity</td>
<td>$2,314,411</td>
<td>20.96%</td>
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<td>Primary Lender</td>
<td>$5,528,434</td>
<td>50.07%</td>
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<tr>
<td>Secondary Lender</td>
<td>$3,043,324</td>
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<td>MWRD- Easement Sale</td>
<td>$127,500</td>
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<tr>
<td>SSA Landscape Grant</td>
<td>$26,800</td>
<td>0.24%</td>
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<tr>
<td></td>
<td>$11,040,469</td>
<td>100.00%</td>
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Uses
### Hard Costs

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<tr>
<th>Description</th>
<th>Amount</th>
<th>$/SF of Building*</th>
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<tr>
<td>Base Building Construction</td>
<td>$3,927,168</td>
<td>$37.76 104,005</td>
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<tr>
<td>Demolition/Excavation</td>
<td>$429,981</td>
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<tr>
<td>Tenant Improvements</td>
<td>$900,000</td>
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<tr>
<td>Vibro Replacement Columns</td>
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<td>Site Concrete</td>
<td>$725,262</td>
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<tr>
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<td>Exterior Utility</td>
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<td>Retaining Walls</td>
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<td>Architectural and Engineering</td>
<td>$173,187</td>
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<td>Civil/Land Planning</td>
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<td>$0.00</td>
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<td>Environmental/Geo Technical</td>
<td>$55,000</td>
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<td>Permits</td>
<td>$54,890</td>
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<td>Detention</td>
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<td>Survey</td>
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<td>Geogrid</td>
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<td>Project Management</td>
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<td>MBE/WBE Consulting</td>
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<tr>
<td>Misc. Repairs and Improvements</td>
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<td>Environmental Site Assessment</td>
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<td><strong>Total Hard Costs</strong></td>
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<td><strong>$81.34</strong></td>
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### Soft Costs

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<td>Leasing Commissions</td>
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<td>Development Fees</td>
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<td>Operating Reserve</td>
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<td>Construction Management Fees</td>
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<td>Accounting</td>
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<td>Project Management</td>
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<td>TIF Consultant</td>
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<td>Title</td>
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<td>Administrative</td>
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<td>Marketing</td>
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<td>Builders Risk Insurance</td>
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<td><strong>Total Soft Costs</strong></td>
<td><strong>$2,580,713</strong></td>
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### Land Acquisition

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<td>Land Acquisition</td>
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**Total**  

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<tr>
<th>Description</th>
<th>Amount</th>
<th>$/SF of Building*</th>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$11,040,469</strong></td>
<td><strong>$106.15</strong></td>
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*Building is 104,005 square feet
VII. PUBLIC BENEFITS

The proposed project will provide the following public benefits.

Property Taxes: The project will expand the tax base because the investment in the property will result in an increase in its assessed value.

Environmental Features: The core and shell included insulated pre-cast construction, 10,000 sq. ft. “green” roof, white TPO roof on remainder, bike racks and water detention system. The tenant build-out for GSA was LEED Silver.

Permanent Jobs: The project currently employs 40 FTE and is estimated to generate an additional 10 permanent jobs for the 10 year compliance period.

Construction Jobs: The project has produced 100 temporary construction jobs.

Affirmative Action: The developer will comply with the requirements of Chicago’s affirmative action ordinance, which requires contract participation of 24% by minority-owned business enterprises (MBEs) and 4% by woman-owned business enterprises (WBEs), for the initial construction of the facility.

City Residency: The developer also complied with the requirements of Chicago’s city residency ordinance, which requires that at least half of all construction-worker hours be filled by Chicago residents. The developer will also comply with the requirement that all construction jobs are paid the prevailing wage.

VIII. COMMUNITY SUPPORT

Alderman James Balcer (11th) endorses the project and has provided a letter of support (see exhibits for copy). The following community organization(s) (has/have) endorsed the project: Back of the Yards Neighborhood Council. (See exhibits for copies of support letters).

IX. CONFORMANCE WITH REDEVELOPMENT AREA PLAN

The proposed project is located in the Stockyards Annex Tax Increment Financing Redevelopment Project Area. The proposed project has/will satisfy the following goals of the area’s redevelopment plan: encourage industrial development in designated sections of the Redevelopment Area that are located in Stockyards PMD No.8 and foster the City’s industrial base. The proposed project also conforms to the plan’s land use map, which calls for industrial development at the subject site.
X. CONDITIONS OF ASSISTANCE

If the proposed resolution is approved by the CDC, HED will negotiate a redevelopment agreement with the developer. The redevelopment agreement will incorporate the parameters of the proposed project as described in this staff report.

It is HED policy that no business will be conducted with a development entity whose any principal has outstanding municipal debts (such as unpaid parking tickets, unpaid water bills, unpaid business licenses, and others), is in arrears of child support payments, or who is a debtor in bankruptcy, a defendant in a legal action for deficient performance, a respondent in an administrative action for deficient performance, or a defendant in any criminal action.

Closing of the Redevelopment Agreement will not occur before the City Council has approved the redevelopment agreement.

XI. RECOMMENDATION

The Department of Housing and Economic Development has thoroughly reviewed the proposed project, the qualifications of the development team, the financial structure of the project, its need for public assistance, its public benefits, and the project's conformance with the redevelopment area plan, and HED recommends that the CDC recommend to the City Council the designation of Halsted Pershing Morgan, LLC as Developer for the industrial build-out of the development at 815 West Pershing Road.
DATA:
SITE AREA: 291,416 SQ.FT.
6.69 ACRES
BUILDING AREA (GROSS): 104,008 SQ.FT.
EXTERIOR DOORS: 10 DOORS
DRIVE-IN-DOORS: 4 DOORS
CAR PARKING: 85 CARS
F.A.R.: CLEAR HEIGHT: 36 FEET

SITE PLAN: 0 20 40
THIS NORTH

HALSTED PERSHING BUSINESS CENTER
DAYTON STREET PARTNERS LLC

SEPTEMBER 22, 2008  052150
©2006 Cornerstone Architects Inc.
Halsted Pershing Morgan, LLC

815 W. Pershing
815 W. Pershing Rd
April 18, 2012

Mr. Andrew Mooney, Commissioner
Department of Housing and Economic Development
City of Chicago
121 N. LaSalle Street, Room 1000
Chicago, IL 60602

RE: 815 West Pershing Road - Tax Increment Financing

Dear Commissioner Mooney:

This letter is to express my full support for the Streamlined TIF request of $1 million in TIF funds from the Stockyards Annex TIF district for 815 West Pershing Road. The project involves the environmental clean-up and development of long vacant site into a 105,000 square foot manufacturing and distribution facility.

The delays caused by the Metropolitan Water Reclamation District “MWRD” dramatically affected the project, prohibiting the Developer leasing the project and completing the build-out of the space within the project completion schedule, resulting in a substantial increase in costs.

Delays by the MWRD caused line items under the original budget to increase substantially, including additional debt service costs, operating expenses, and transaction costs relating to securing additional financing (secondary lender).

The TIF assistance is to ensure the overall successful completion of the project and ultimately bring much needed jobs to the community. Public benefits resulting from this project include the remediation of a brownfield site, returning public land to the tax rolls, and the creation of temporary construction jobs as well as skilled wage permanent jobs. I strongly endorse the use of Stockyard Annex TIF funds to support this project.

Sincerely,

James A. Balcer
Alderman, 11th Ward
COMMUNITY DEVELOPMENT COMMISSION
OF THE
CITY OF CHICAGO

RESOLUTION NO. __ - CDC -

AUTHORIZATION TO NEGOTIATE A
REDEVELOPMENT AGREEMENT WITH HALSTED PERSHING MORGAN, LLC

AND

RECOMMENDATION TO
THE CITY COUNCIL OF THE CITY OF CHICAGO
FOR THE DESIGNATION OF HALSTED PERSHING MORGAN, LLC
AS DEVELOPER

WHEREAS, the Community Development Commission (the "Commission") of the City of Chicago (the "City") has heretofore been appointed by the Mayor of the City with the approval of its City Council (the City Council referred to herein collectively with the Mayor as the "Corporate Authorities") as codified in Section 2-124 of the City's Municipal Code; and

WHEREAS, the Commission is empowered by the Corporate Authorities to exercise certain powers enumerated in Section 5/11-74.4-4(k) of the Illinois Tax Increment Allocation Redevelopment Act, as amended (65 ILCS 5/11-74.4-1 et seq.), (as amended from time to time, the "Act"); and

WHEREAS, the City Council, upon the Commission's recommendation pursuant to Resolution 96-CDC-56 and pursuant to the Act, enacted three ordinances on December 11, 1996, pursuant to which the City approved and adopted a certain redevelopment plan and project (the "Plan") for the Stockyards Annex Redevelopment Project Area (the "Area"), designated the Area as a redevelopment project area and adopted tax increment allocation financing for the Area. The street boundaries of the Area are described on Exhibit A hereto; and

WHEREAS, Halsted Pershing Morgan, LLC (the "Developer"), has presented to the City's Department of Housing and Economic Development ("HED") a proposal for redevelopment of the Area or a portion thereof that is in compliance with the Plan, consisting of the construction build-out of space to accommodate industrial uses (the "Project"); and

WHEREAS, HED requests that the Commission recommend to City Council that the Developer be designated as the developer for the Project and that HED be authorized to negotiate, execute and deliver a redevelopment agreement with the Developer for the Project; now, therefore,
BE IT RESOLVED BY THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF CHICAGO:

Section 1. The above recitals are incorporated herein and made a part hereof.

Section 2. The Commission hereby recommends to City Council that the Developer be designated as the developer for the Project and that HED be authorized to negotiate, execute and deliver on the City's behalf a redevelopment agreement with the Developer for the Project.

Section 3. If any provision of this resolution shall be held to be invalid or unenforceable for any reason, the invalidity or unenforceability of such provision shall not affect any of the remaining provisions of this resolution.

Section 4. All resolutions, motions or orders in conflict with this resolution are hereby repealed to the extent of such conflict.

Section 5. This resolution shall be effective as of the date of its adoption.

Section 6. A certified copy of this resolution shall be transmitted to the City Council.

ADOPTED: ______________________, 2012

Attachment: Exhibit A, Street Boundary Description
EXHIBIT A

Street Boundary Description of the
Stockyards Annex Tax Increment Financing
Redevelopment Project Area

The Area is generally bounded by Pershing Road on the north, Wentworth Avenue on the east, West Exchange Avenue on the south, and Racine Avenue on the west.
EXHIBIT A

LEGAL DESCRIPTION OF PROPERTY

(SUBJECT TO FINAL SURVEY AND TITLE COMMITMENT)

ALL THAT PART OF LOTS 1 AND 2 IN STOCKYARDS SUBDIVISION OF THE EAST HALF OF SECTION 5, TOWNSHIP 38 NORTH, RANGE 14 EAST OF THE THIRD PRINCIPAL MERIDIAN, BOUNDED AND DESCRIBED AS FOLLOWS: BEGINNING AT THE INTERSECTION OF THE WEST LINE OF SOUTH HALSTED STREET, BEING A LINE 40 FEET WEST OF AND PARALLEL WITH THE EAST LINE OF SAID SECTION 5, AND THE SOUTH LINE OF WEST PERSHING ROAD AS OPENED AND WIDENED TO 108 FEET BY ORDINANCE PASSED JUNE 3, 1929; THENCE SOUTHWESTERLY ALONG SAID SOUTH LINE OF WEST PERSHING ROAD A DISTANCE OF 625.32 FEET TO A POINT 665 FEET WEST FROM THE EAST LINE OF SAID SECTION 5; THENCE WEST ALONG SAID SOUTH LINE OF WEST PERSHING ROAD A DISTANCE OF 92.00 FEET TO A POINT THAT IS 757 FEET WEST OF THE EAST LINE OF SAID SECTION 5; THENCE SOUTH ALONG A LINE PARALLEL WITH THE EAST LINE OF SAID SECTION 5, A DISTANCE OF 179.84 FEET TO A POINT 233.85 FEET SOUTH OF THE NORTH LINE AND 757.00 FEET WEST OF THE EAST LINE OF SAID SECTION 5; THENCE WEST A DISTANCE OF 118.49 FEET TO A POINT 234.01 FEET SOUTH OF THE NORTH LINE AND 875.49 FEET WEST OF THE EAST LINE OF SAID SECTION 5; THENCE SOUTH ALONG A LINE DRAWN PARALLEL WITH AND 875.49 FEET WEST OF THE EAST LINE OF SAID SECTION 5, A DISTANCE OF 27.34 FEET TO A POINT 261.35 FEET SOUTH OF THE NORTH LINE OF SAID SECTION 5; THENCE WEST 414.82 FEET TO A POINT 256.95 FEET SOUTH OF THE NORTH LINE AND 1290.28 FEET WEST OF THE EAST LINE OF SAID SECTION 5, BEING THE EAST LINE OF SOUTH MORGAN STREET AS DEDICATED BY PLAT RECORDED DECEMBER 6, 1968 AS DOCUMENT NO. 20697167; THENCE SOUTH ALONG SAID EAST LINE OF SOUTH MORGAN STREET, A DISTANCE OF 204.20 FEET TO A POINT 461.15 FEET SOUTH OF THE NORTH LINE AND 1290.24 FEET WEST OF THE EAST LINE OF A POINT 461.15 FEET SOUTH OF THE NORTH LINE AND 1290.24 FEET WEST OF THE EAST LINE OF SAID SECTION 5; THENCE EAST, 850.93 FEET TO A POINT 462.62 FEET SOUTH OF THE NORTH LINE AND 439.31 FEET WEST OF THE EAST LINE OF SAID SECTION 5; THENCE SOUTHEASTERLY ON A CURVED LINE CONVEX TO THE NORTHEAST WITH A RADIUS OF 805.32 FEET, A DISTANCE OF 265.53 FEET, TO A POINT 507.84 FEET SOUTH OF THE NORTH LINE AND 178.94 FEET WEST OF THE EAST LINE OF SAID SECTION 5; THENCE SOUTHEASTERLY ON A CURVED LINE CONVEX TO THE NORTHEAST WITH A RADIUS OF 1949.48 FEET, A DISTANCE OF 150.06 FEET, TO A POINT IN THE WEST LINE OF SOUTH HALSTED STREET, BEING A POINT 564.24 FEET SOUTH OF THE NORTH LINE AND 40 FEET WEST OF THE EAST LINE OF SAID SECTION 5; THENCE NORTH ALONG SAID WEST LINE OF SOUTH HALSTED STREET, A DISTANCE OF 531.24 FEET TO THE POINT OF BEGINNING, IN COOK COUNTY, ILLINOIS.

(EXCEPT THAT PART LYING SOUTHERLY AND SOUTHWESTERLY OF A LINE DESCRIBED AS FOLLOWS: BEGINNING AT A POINT 353.15 FEET SOUTH OF THE...
NORTH LINE AND 1290.26 FEET WEST OF THE EAST LINE OF SAID SECTION 5, BEING THE EAST LINE OF SOUTH MORGAN STREET, AFORESAID; THENCE EAST, A DISTANCE OF 851.86 FEET TO A POINT 354.62 FEET SOUTH OF THE NORTH LINE AND 438.40 FEET WEST OF THE EAST LINE OF SAID SECTION 5; THENCE SOUTHEASTERLY ON A CURVED LINE CONVEX TO THE NORTHEAST WITH A RADIUS OF 913.32 FEET, AN ARC DISTANCE OF 301.14 FEET TO A POINT 405.91 FEET SOUTH OF THE NORTH LINE AND 143.11 FEET WEST OF THE EAST LINE OF SAID SECTION 5, THENCE SOUTHEASTERLY ON A CURVED LINE CONVEX TO THE NORTHEAST WITH A RADIUS OF 2057.48 FEET, A DISTANCE OF 110.81 FEET, TO A POINT ON THE WEST LINE OF SOUTH HALSTED STREET, BEING A POINT 446.31 FEET SOUTH OF THE NORTH LINE AND 40.00 FEET WEST OF THE EAST LINE OF SAID SECTION 5, BEING ALSO THE POINT OF TERMINUS.)

(ALSO EXCEPTING THAT PART DESCRIBED AS FOLLOWS: BEGINNING AT THE NORTHEAST CORNER OF SAID LOT 1, BEING ALSO A POINT 33.00 FEET SOUTH OF THE NORTH LINE OF SECTION 5 AND 40.00 FEET WEST OF THE EAST LINE OF SAID SECTION 5, SAID POINT ALSO BEING THE INTERSECTION OF THE WEST LINE OF HALSTED STREET AND THE SOUTH LINE OF PERSHING ROAD; THENCE SOUTH 00 DEGREES 05 MINUTES 22 SECONDS WEST ALONG THE WEST LINE OF HALSTED STREET A DISTANCE OF 7.00 FEET TO THE INTERSECTION OF SAID WEST LINE WITH A LINE PARALLEL WITH AND 40.00 FEET SOUTH OF, AS MEASURED AT RIGHT ANGLES TO, THE NORTH LINE OF SAID SECTION 5; THENCE NORTH 00 DEGREES 49 MINUTES 40 SECONDS WEST ALONG SAID PARALLEL LINE A DISTANCE OF 208.33 FEET TO THE INTERSECTION OF SAID PARALLEL LINE WITH THE SOUTH LINE OF PERSHING ROAD; THENCE NORTH 88 DEGREES 14 MINUTES 52 SECONDS EAST ALONG THE SOUTH LINE OF SAID PERSHING ROAD A DISTANCE OF 208.44 FEET TO SAID POINT OF BEGINNING, ALL IN COOK COUNTY, ILLINOIS.)

Commonly known and numbered as: 815 West Pershing Road, Chicago, IL.

Permanent Index Numbers: 20-05-200-009
[20-05-200-157 (partial) - Old PIN]
20-05-200-161 -0000 [New PIN]