# REAL ESTATE UPDATE

MJ PARTNERS REAL ESTATE SERVICES

SECOND QUARTER 2005

MARKET NEWS FOR THE REAL ESTATE PROFESSIONAL

## Market Focus
### *Chicago Multi-Family Market*

***The Shoreham at Lakeshore East is a new multi-family development adding 550-units to the downtown Chicago market.***

Investment in multi-family properties throughout Chicago continues at a record pace in 2005 despite rising vacancies and flat rents. The huge flow of capital into multi-family combined with low interest rates and aggressive buying by condominium converters has driven capitalization rates to historical lows. With rising interest rates on the horizon, is the multi-family market poised for a correction?

### DOWNTOWN CHICAGO MARKET

The Chicago apartment market suffered with less-than-expected job growth (a primary demand generator for apartments) coupled with the favorable low interest rate environment for home ownership. Average apartment vacancy increased to 6.1% and effective rents fell by over 10.5%. The weak underlying investment fundamentals did not temper investor interest. Capitalization rates decreased to an average of 6.6% in 2004. Condominium converters outbid private investors on nearly half of the transactions. Capitalization rates are driven below 5% for the best product — a 100 to 150 basis point premium over private investors.

Sellers are taking advantage of strong buyer demand. The downtown high-rise apartment market experienced a flurry of blockbuster sales in the past twelve months. Recent sales totaling $461 million include 400 North LaSalle Street with 452-units, the Doral Plaza with 550-units, the Park Millenium with 480-units, and the Plaza 440 with 457-units. Prices range from $183,000 to $280,000 per unit. The strength of acquisitions is further buoyed by the modest supply of new deliveries coming on the market in 2005 and 2006. Only 2,700 units in new developments will be added which includes The Shoreham at Lakeshore East and 40 East South Water Street.

### SUBURBAN CHICAGO MARKET

Suburban market transaction activity is keeping pace with the city. AMLI purchased three complexes built by Altman Companies totaling 824-units, including the Tradition at Canterfield in West Dundee, the Preserve at Kirkland Crossing in Aurora and the Preserve at River Run in Naperville. Other significant suburban sales include Woodfield Gardens in Rolling Meadows (692 units), Westwood Springs in Westmont (550 units), Clover Creek in Lombard (504 units), and Hunter's Ridge in Elgin (408 units). Competition among suburban buyers pushed the average price per unit to above $70,000 in 2004 and early 2005 from $65,000 the previous year.

### SELL OR BUY?

While it is a fortuitous time to sell multi-family product, is it also a good time to buy? In this market investment strategies for apartments need to be approached with a certain degree of pricing caution. The short-term market faces the risk of rising interest rates and a reduction in the aggressiveness of leveraged buyers. Luxury apartments are trading at 110% to 125% of replacement costs and may have a limited ability to go higher soon.

If condominium sales begin to slow, condominium investors may begin to rent their units. The additional rental supply may offset apartment occupancy gains from renters unable to afford rising home interest costs. Currently, 11,500 for sale condominiums are available throughout Chicago with another 11,000 units in the planning stage of development.

The past three years have been challenging for operators. Declining occupancies, flat rents and increased operating expenses have impacted cash flows. Signs exist that the underlying fundamentals are improving. We expect vacancies to decline slightly and rents to increase a modest 2% in 2005. Long-term demographics look favorable as new "echo boomers" and empty nesters enter the market. If the economy continues to grow and creates moderate job growth in the region, then the Chicago apartment market is poised for growth.

Even in this market of soft underlying fundamentals, apartment investment exhibits the lowest volatility in total return of all property types. We believe apartments have the capability to continue generating strong absolute and risk-adjusted investment performance.

## Rate Check

The anticipated increase in commercial mortgage rates has yet to materialize as a result of mixed economic news. The Federal Reserve's March 22nd meeting stated concerns over an over-heated economy and a possibility of more aggressive rate hikes. Recent concerns shifted sentiment a bit due to slow economic growth, the record budget and trade deficits, and weaker-than-expected retail sales. The weak economic news has placed downward pressure on 10-year Treasury note yields, a benchmark for commercial real estate mortgages, as the rate hovered near 4.25% in April.

Economic growth hit a two-year low of 3.1% in the first quarter. Higher oil prices have eroded consumer confidence as retail sales slipped in March. The economy created only 110,000 jobs in the same month, far below expectations, as businesses were reluctant to hire in the face of diminishing corporate demand. The impact from $50 per barrel oil prices and rising material costs has not yet been passed onto the consumer in the form of higher wages and consumer prices. We believe that the Federal Reserve will increase the federal funds rate at a continued "measured" pace throughout 2005.

The commercial real estate mortgage market continues to produce a competitive environment for borrowers. To win over borrowers, lenders are offering an abundance of flexible products for quality assets featuring high loan-to-value ratios and lower debt-service ratios. Competition from debt providers is keeping spreads low between the 10-year Treasuries and mortgage rates. The spreads on the best quality real estate range from 95 to 105 basis points over Treasuries and widen slightly to 105 to 120 basis points for Class B assets.

The commercial mortgage-backed securities (CMBS) market is scheduled for record growth of $125 billion in 2005. Conduit lenders are offering attractive non-recourse mortgages for five, seven and ten years. Borrowers of conduit products should expect a rate premium of 25 basis points over the 10-year rate for

*continued on page 2…*

…continued from page 1

five-year loans and 12-15 basis point premium for seven-years. Commercial banks are most active with recourse and partial non-recourse products focusing on development and value-added transactions.

While commercial mortgage rates remain near historical lows, the increasing of rates remains probable. Today represents an opportune time to convert floating-rate debt into fixed-rate debt before long-term rates rise.

## Notes

*Marc Boorstein*
*Jeff Jacobson*
*Dennis Nyren*
*Vince D'Amico*
*Jim Byczek*
*Sandy Breitowich*
*Andrew Becker*

### MJ PARTNERS SALES/ FINANCINGS/LEASES

- **Woodfield Gardens Apartments, 4700 Arbor Drive, Rolling Meadows, Illinois.** 692-unit garden-style apartment complex overlooking Interstate-90 and Route 53. Sale Price: $41,100,000
- **Park Willow Apartments, Route 83 and 55th Street, Clarendon Hills, Illinois.** Acquisition financing and mezzanine loan for the conversion of 159-unit apartment complex into condominiums. First Mortgage: $13,280,000, Mezzanine: $2,880,000
- **Penthouse and Offices at Laurel Avenue, 1766-1777 Green Bay Road, Highland Park, Illinois.** Construction financing for a luxury mixed-use development of six residential units, 20,540 square feet of medical office and 8,663 square feet of retail space. Construction Loan: $11,700,000
- **Oak Lawn Self Storage, 4600 Southwest Highway, Oak Lawn, Illinois.** Newly built 69,515 sq. ft. rentable, 767 units in lease-up. Sale Price: $6,200,000
- **250 South Wacker Drive, Chicago, Illinois.** Mezzanine debt for acquisition of 16-story 230,000 sq.ft. West Loop office building. Mezzanine Loan: $5,000,000
- **Mt. Holly Self Storage, 1812 Route 38, Lumberton, New Jersey**. 67,125 square feet, 570-units, 92% occupied. Sale Price: $4,850,000
- **Storage Trust Self Storage, 1510 Lake Street, Mundelein, Illinois**. 53,620 square feet, 364-units, 78% occupied. Sale Price: $3,466,667
- **3501 Woodhead Drive, Northbrook, Illinois.** 22,000 sq.ft. flex industrial building located in the Sky Harbor Business Park. Sale Price: $1,275,000

### MJ PARTNERS NEW LISTINGS

- **318 West Adams Street, Chicago, Illinois.** 19-story 146,335 sq.ft. West Loop office building. List Price: $7,500,000
- **Extra Closet Self Storage, Warrenville and Plainfield, Illinois.** 46,720 square feet, 382 units and 52,450 square feet, 368 units. List Price: $7,000,000
- **Grand Avenue Self Storage, 4500 and 4014 W. Grand Avenue, Chicago, Illinois.** 81,885 sq.ft., 1,126 units. List Price: $7,000,000
- **Storage Options, 530 W. Colfax Street, Palatine, Illinois.** 67,250 square feet, 585-units. 100% climate-controlled. List Price: $6,500,000
- **1152 W. Carroll Avenue, Chicago, Illinois.** A single-story 36,481 square foot warehouse/ distribution building located in the Kinzie Industrial Corridor. List Price: $2,950,000
- **400 S. Chicago Street, Joliet, Illinois.** A 9,135 Square foot retail center with two outlots. List Price: $1,750,000
- **441 North LaSalle Street, Chicago, Illinois.** 3-story River North commercial building. List Price: $1,600,000
- **143rd Street near Wolf Road, Orland Park, Illinois.** 4.5 acre development site with potential residential or commercial use. List Price: $1,250,000.

MJ PARTNERS
REAL ESTATE SERVICES

150 South Wacker Drive
Suite 450
Chicago, Illinois 60606
312.726.5800
312.726.2905 fax
info@mjpartners.com

**Real Estate Brokerage ◆ Consulting ◆ Finance**

PRESORTED
STANDARD
U.S. Postage PAID
Chicago, IL
Permit No.1737

***Creative Solutions For Today's Marketplace***