

## CHICAGO MULTIFAMILY MARKET

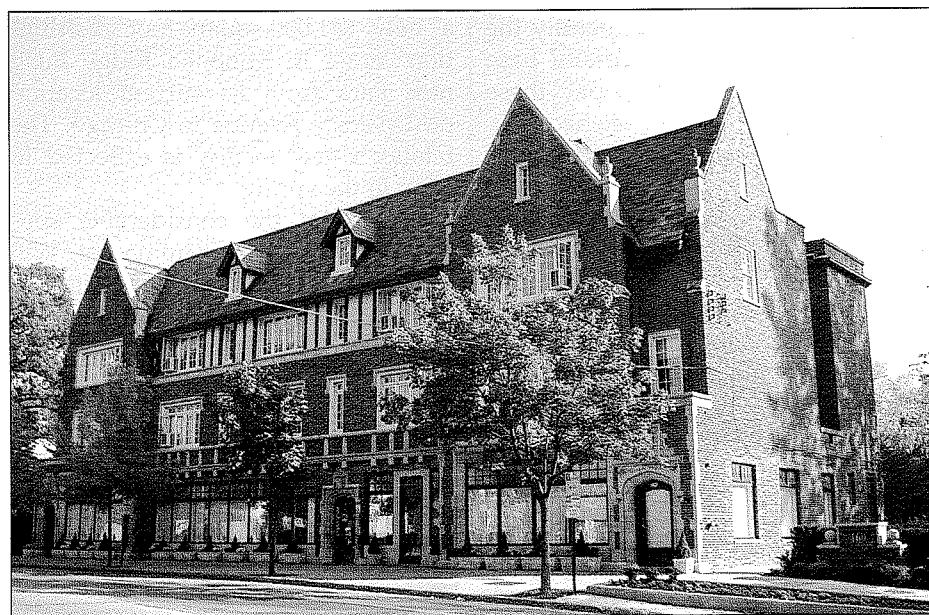
Three major trends are currently driving the Chicago multifamily market, according to Douglas Imber, president of Chicago-based multifamily and commercial real estate investment sales firm Essex Realty Group, Inc.

- The multifamily sector expects to benefit from improvements in net incomes, which have steadily increased over the past 12 months. This improvement has been driven by the condominium and single-family woes hampering potential homebuyers. The tightening of the single-family credit markets, along with positive net job growth, has led to a material increase in multifamily net incomes in 2007; most area property owners are forecasting 3 to 6 percent rent growth in Chicago this year.

- Another development that will greatly impact the multifamily market in the coming year is the shifting nature of the supply and demand dynamics in the Chicago multifamily

market. From 2001 to 2006, condominium converters primarily drove the demand for multifamily investment properties. For property owners, this was an "easy sale" — net incomes were declining for owners, but prices were rising rapidly thanks to the converters' bullish opinion of the city's residential landscape. However, in 2006, condo converters began to scale back their efforts, leaving a void of multifamily property buyers in the market. Because of that, prices softened in 2007, primarily for apartment buildings that were only secondary and tertiary conversion targets. The A-list properties continued to trade at high prices, because so many quality properties had been removed from the rental pool thanks to the recent condo conversion cycle. By mid-2007, with net incomes growing quickly, apartment investors had reentered the Chicago investment market, filling the void left by the converters the previous year.

Currently, the demand for multifamily properties is steady, even if the players have changed in the past year. On the supply side, things are much more interesting. While the approximately \$1.8 billion in multifamily investment sales recorded in the city in 2007 is the largest total value of transactions ever recorded in Chicago in one year, there was a precipitous fall in the number of deals closed: there were approximately 217 multifamily sales of more than \$1 million in the Windy City in 2007. Approximately \$1 billion of the year's total volume derived from four blockbuster sales — 540 N. State Street; Presidential Towers; 180 N. Jefferson; and 345 East Ohio. In addition to those four sales,



Essex Realty Group recently brokered the sale of a multifamily property located at 454 Winnetka in Winnetka, Illinois, just north of Chicago.

## MULTIFAMILY SALES OF MORE THAN \$1 MILLION

	Number of Properties Sold:	Sales Volume:
2003	215	\$661 million
2004	362	\$1.13 billion
2005	432	\$1.77 billion
2006	358	\$1.282 billion
2007*	217	\$1.8 billion

\*Number of properties sold for \$1 million or more

\*\*2007 numbers are approximations.

Source: CoStar Group

one portfolio encompassing 43 transactions occurred in Hyde Park. It was reported as 43 sales, but was really one portfolio. Without these deals, the numbers are whittled down to approximately 170 transactions. Compared to the number of properties valued over \$1 million that were sold in previous years (see chart), transaction velocity is way down. While 2007 was a record year in terms of the volume of sales, there were actually far fewer transactions than previous years. What does that mean for pricing?

Essentially, supply is currently down and demand is up. Therefore, prices should hold well, as there will be a lot of competition between investors for well-located, quality multifamily assets. Now that sales velocity has slowed — even though demand is steady — the prospect of selling a multifamily asset is no longer an easy

sale, as it makes more sense to hold a property in a market where incomes are growing and prices are not increasing as quickly as they had been.

In the first half of the year, expect to see an increased number of potential condo conversions that have gone through foreclosure and come back onto the market. We'll have to wait and see what kind of impact those properties have on the investment scene. Will these properties be converted, or be returned to the rental pool?

- The changing dynamics in the capital markets are also being closely watched for any potential impact on the Chicago multifamily sector. There is a real difference in financing for institutional deals and financing for mid-market deals. The conduits have been dislocated, and it has forced institutional deals to rely either on all cash or agency (Fannie Mae or Freddie Mac) financing. So how are the mid-market deals — deals from \$1 million to \$10 million — getting financed? The banks have been active — having always financed those types of deals — and have not slowed up at all. While the institutional deals have been disrupted, the smaller deals continue to receive attractive bank financing. There has not yet been a liquidity problem in those deals.

While the index rates — the treasuries and LIBOR — have remained low, spreads have increased. This has led to borrowing rates that are slightly higher than the previous year, but by historic measures, overall rates to the borrower are extremely attractive. The question is how long banks will be able to provide liquidity without a fluid secondary market.

— Douglas Imber is president of Chicago-based Essex Realty Group, a firm that focuses on the sale of investment real estate throughout the Chicago metro area, with a strong focus on multifamily sales.


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## CICERO CORPORATE CENTER


**UNDERWAY**

SIZE: 100,280 sf

LOCATION: Cicero, IL

FEATURES: 28' clear height  
Precast/glass exterior walls  
10 exterior truck docks  
4 drive-in doors  
ESFR Fire Protection

BROKER:



ENGINEER:



ARCHITECT: **PARTNERS IN DESIGN**  
ARCHITECTS

DEVELOPERS: **DavidScott**  
Acquisitions, LLC

"EVERY CLIENT IS OUR MOST IMPORTANT CLIENT..."

EVERY PROJECT IS OUR MOST IMPORTANT PROJECT."