



- MARKET UPDATE
- WILL 1031'S BE AVAILABLE FOREVER?
- ESSEX NEWS
- CLIENT APPRECIATION

## MARKET UPDATE

Some of the soundest advice regarding the real estate market ever proffered, besides "If it's not a new roof, replace it," is that "Things are never quite as good as they seem nor quite as bad as they seem." 2006 may have been what that axiom was referring to. While it was a trying year for some investors, it was not nearly as disheartening as many had feared. In fact, it was reasonably successful for the vast majority of Chicago's real estate investment community.

Certainly, condominium converters struggled with an oversupply of inventory and an undersupply of buyers. This was one of the most widely publicized stories throughout the year. One of the by-products of this story was that by mid-year some owners of prime "condo-convertible" properties elected to wait until developers were more optimistic before placing their property on the market. This led to a decline in velocity, particularly during the last quarter of the year.

There appeared a short-lived, but related trend on the apartment side. Despite strong apartment occupancies, some owners of properties not suitable for condominium conversion were also reluctant to place their property on the market for sale. Although there has been a strong demand for apartment investments, some owners interpreted the developer conservatism and the media negativity regarding the housing market as a more global tepidness in the market.

While there was not a substantial decrease in velocity, the net result of this slight decline in inventory, combined with a deeper buyer pool than many realized, was that prices did not erode as materially

as many anticipated.

First, condominium converters, while cautious, did not disappear from the landscape. Far from it; in fact condominium converters have purchased 60% of the twenty most recent apartment transactions Essex has sold. While their pricing has become more conservative, it often remains ahead of apartment investor pricing.

*However, the gap between converter pricing and apartment investor pricing has narrowed substantially, and in many instances, it has already inverted.*

Additionally, apartment investors are benefiting from stronger occupancies than anytime during the past six years. One barometer of the strength of the market is that many historic apartment investors who have spent the past three or four years pursuing other product types such as retail and office are now returning to investing in multi-family assets.

Moreover, with an ever-growing supply of commercial properties and a quickly shrinking supply of multi-family rental properties, investors are bullish towards apartments. This is bolstered by a sense of cautious optimism towards the spring rental season. Owners are certainly balancing the rewards of today's strong occupancies with the risks of rent growth and turnover costs but the general expectation is that better managers will achieve strong rent increases.

There are certainly converters who still need to manage their inventories. A few are continuing to buy aggressively, some are buying cautiously, and others are not buying at all. The market is not perfectly efficient. Consequently, there may be turbulence and the market landing may not be perfectly soft. However, we are not landing in a blizzard either and a crash landing appears to have been avoided.

## WILL 1031'S BE AVAILABLE FOREVER?

Section 1031 of the Internal Revenue Code dates back to 1921. It has undergone numerous changes over time and by 1984, the Starker Case, or delayed exchange provision, was codified allowing for the familiar 45 and 180 day calendar rules. As any real estate professional will attest, the "1031" or "Exchange" is a hallmark of investment real estate strategy.

Many investors utilize this strategy to maximize leverage and control larger assets by investing pre-tax dollars. Other investors who have fully depreciated a property enhance their basis by leveraging into larger properties. And in recent years, many investors have utilized the 1031 for the purpose of exchanging from management intensive assets into passive, triple net leased properties.

The exchange strategy has become as ubiquitous as the navigation system in a car. Everyone relies on it, especially those of us in the real estate industry. In fact, try renting a car in a new city without one.

continued

## WILL 1031'S BE AVAILABLE FOREVER?

continued

Similarly, imagine conducting investment real estate transactions without at least the option of completing a 1031.

But as often happens with technology, it is taken for granted until it disappears (or the network is down, or the call is dropped, or until the IT guy gets back from lunch...).

Similarly, will 1031 exchanges, a luxury we take for granted, possibly disappear?

To that point, why does real estate receive preferential treatment with respect to capital gains tax deferral?

*If we sell shares of stock we typically pay tax on any gain, regardless of whether we immediately reinvest those proceeds into different stocks.*

Likewise, there is no available tax deferred exchange mechanism for most bonds either. Is this windfall for real estate unfair to securities investors?

Regardless of the question of fairness, there have already been meaningful discussions in Washington since November's elections regarding this very subject. Congress is passionate about closing the budget gap, and according to articles in both *The Wall Street Journal* and *The New York Times* The Senate Finance Committee is scrutinizing many areas of real estate taxation, including interest on second-home mortgages and like-kind exchanges.

How would the investment real estate market be affected if Congress eliminated or restricted 1031's? Would transaction velocity change? Would prices be affected? How would a change impact short and long term investment strategies?

It is easy to speculate affects but hard to predict politicians. For some, now may be the first time this idea has been considered. I suspect, however, it is not the last time we may read of it.

So when we go to the rental car counter, it may be a good idea to pick up one of those free maps, just in case the navigation system isn't in the car. And when we think about our real estate investment strategies, we shouldn't assume that every option available today will be there forever. While the elimination of 1031's is perhaps unlikely, remember four simple words... Tax Reform Act '86.

## ESSEX NEWS

### Doug Imber Honored by CAR

Doug Imber, President of Essex, was recently honored by the Chicago Association of Realtors Commercial Forum with the Silver Award for The 2006 Multi-Family Broker of the Year. This is the third year CAR has presented the award and the third year in a row Doug has been recognized as either the Gold or Silver Award recipient. The award recognizes the number and volume of sales completed during the year; professionalism and ethics; community and industry involvement; and clients' perceptions.

### Essex Capital Acquires St. Louis Apartments

Essex Capital, LLC, an affiliate of Essex Realty Group, Inc. is pleased to announce that it has recently acquired the 400 unit, Class A, Enclave at Winghaven Apartments in the St. Louis suburb of O'Fallon, Missouri. The Enclave Apartments represents Essex' fourth acquisition in the St. Louis market and brings our total presence there to 1,177 units and Essex' total portfolio to more than 1,800 apartments.

Essex syndicates our acquisitions,

charging no acquisition fees, disposition fees, asset management fees, or mark-ups to investors. Our compensation comes only after providing preferred returns to investors.

Additionally, we generally structure syndications to allow for Tenant-In-Common ownerships in order to provide our clients' with additional options when completing their tax deferred exchanges.

### Essex Welcomes Leslie Johns, Weston Harding and Aaron Feldman

Essex is pleased to have recently hired Leslie Johns as our new Office Manager. Leslie previously worked with Stage Development, LLC and Joseph Freed & Co. Leslie replaces Bonnie Stimm, whom after six years with Essex, recently moved to Boulder, Colorado and refused to take all of us with her. Essex also welcomes our new analysts, Weston Harding and Aaron Feldman. Weston received his Bachelor's Degree from Texas Tech University and will be working directly as an analyst with Jim Darrow. Aaron received his Bachelor's Degree from Miami University of Ohio and will be working directly with Matt Welke.

We also bid a fond farewell to Ted Thilman who recently left to return to school to pursue his MBA. We are proud of Ted and Bonnie and will miss them both very much.

### Market Valuations and Marketing Strategies

Essex recognizes the need to provide our clients with superior market information, research and analysis. In addition, we understand the responsibility we have to provide our clients with the best strategies to expose their properties thoroughly, efficiently, in a controlled manner and tailored to suit their individual needs.

Please contact your Essex broker if you would like to discuss how we may be able to assist you in valuing your property and optimizing your goals.



ESSEX REALTY GROUP, INC. IS PLEASED TO ANNOUNCE THE FOLLOWING PARTIAL LIST OF INVESTMENT REAL ESTATE WE HAVE RECENTLY CLOSED, PLACED UNDER CONTRACT OR LISTED FOR SALE ON BEHALF OF OUR CLIENTS.



**ALBANY PARK**  
3002 W. Ainslie  
31 Units



**LAKEVIEW**  
433 W. Briar Place  
34 Units



**UPTOWN**  
900 W. Argyle  
72 Units



**LINCOLN PARK**  
1157 W. Webster  
12 Units



**ROGERS PARK**  
1329-37 W. Touhy  
43 Units



**ROGERS PARK**  
1331 W. Loyola  
46 Units



**HYDE PARK**  
1424-28 E. 53rd Street  
34,000 SF Retail/Office



**HUMBOLDT PARK**  
1530-1542 N. Kedzie  
50 Units



**HIGHLAND PARK**  
1833-55 Deerfield Rd.  
18,010 SF Retail



**BOWMANVILLE**  
2103-23 W. Berwyn  
40 Units



**RAVENSWOOD**  
2557-2565 W. Montrose  
33 Units



**ROGERS PARK**  
2749-2759 W. Arthur  
31 Units



**ALBANY PARK**  
3105-3109 W. Argyle  
9 Units



**LINCOLN SQUARE**  
4901 N Leavitt  
20 Units



**EDGEWATER**  
6255 N. Kenmore  
57 Units



**ELGIN**  
25 S. Grove  
The Burrill Bldg. 31,189 SF



**SOUTH SHORE**  
7131-7133 S. Bennett  
61 Units



**PALOS HEIGHTS**  
12101 S. Ridgeland  
5,000 SF



**SOUTH SHORE**  
7350 S. Phillips  
75 Units



**SOUTH SHORE**  
8047-55 S. Manistee  
30 Units



**WAUKEGAN**  
Sunset Lakes Apartments  
414 Units



**CRYSTAL LAKE**  
Darlington Court Apts.  
235 Units



**SOUTH SHORE**  
7836 South Shore Drive  
28 Units



**GLEN ELLYN**  
Iron Gate Apartments  
180 Units



**LOGAN SQUARE**  
2536 N. Sawyer  
50 Units



INVESTMENT REAL ESTATE SERVICES

500 Skokie Blvd., Suite 600  
Northbrook, Illinois 60062  
Phone: 847-501-4555  
Fax: 847-480-4618

Inside This Issue:

- MARKET UPDATE
- WILL 1031'S BE AVAILABLE FOREVER?
- ESSEX NEWS
- CLIENT APPRECIATION

Please feel free to contact us, read previous Newsletters, or learn more about Essex by visiting...

[www.essexrealtygroup.com](http://www.essexrealtygroup.com)

## CLIENT APPRECIATION

Essex would like to extend our appreciation to the following clients for their confidence, friendship and loyalty in recent transactions:

Kenmore Realty	Jack Richter
Jerome and Katherina Jung	Woodmoor Management Co.
Cyrus Development	Randy Posthma
Pete and Joe Dorenbos	Adam & Michelle Miller
Maya Realty	Inverbrass Funds, LLC
Gebavi Property Investments	Leo and Rosa Riccardi
Acorn Management	Ted Theodosiadis
MLC Properties	Art Holmer
Stefan Holdings LLC	Kass Management
Svigos Asset Management	OwnACondo.com
Twin Arch	M & M Management
Perfect Management	Costello Family LTD Partnership
Winnemac Properties, Inc.	Bertsch Properties
Loyola University	M. Fishman & Co.
BJB Partners, LLC	The Lord Companies
John Klise	Checkmate Realty
ICM Properties	North West Express Remodeling
Banner Property Management	B & B Management
Cagan Management	South Shore Realty
Ambit Management	Nick Dosen
Relda Management	Buffco
Kopley Group	Viorel Horvat
Wolcott Group	Vintage Properties
Craig Yale & Associates	



Phone: 847-501-4555 • Fax: 847-480-4618

**Douglas S. Imber ext. 300**  
dougimber@essexrealtygroup.com

**James J. Darrow ext. 304**  
jimdarrow@essexrealtygroup.com

**Douglas E. Fisher ext. 307**  
dougfisher@essexrealtygroup.com

**David B. Goss ext. 303**  
davidgoss@essexrealtygroup.com

**Matthew C. Welke ext. 305**  
mattwelke@essexrealtygroup.com

**James R. Barcelona ext. 314**  
jimbarcelona@essexrealtygroup.com

**Jon P. Morgan ext. 308**  
jonmorgan@essexrealtygroup.com

**Aaron Feldman ext. 302**  
aaronfeldman@essexrealtygroup.com

**Jacob Fenton ext. 309**  
jacobfenton@essexrealtygroup.com

**Bob Matteson ext. 318**  
bobmatteson@essexrealtygroup.com

**Weston Harding ext. 319**  
westonharding@essexrealtygroup.com