Related drops $49 million on affordable housing

This 300-unit apartment building at 2045 W. Jackson St. on the Near West Side is one of four affordable-housing buildings in Chicago that Related Cos. ventures bought last month. Photo from CoStar Group Inc.

Related Cos. is best known in Chicago for building **luxury downtown apartment and condominium towers,** but the developer's latest acquisitions here cater to tenants with more modest means.

Ventures of New York-based Related paid about $49 million last month for four affordable housing buildings in Chicago comprising 688 units, according to property records and the company.

The ventures bought a 300-unit apartment building at 2045 W. Jackson Blvd. on the Near West Side; a 196-unit complex at 2303 N. Clybourn Ave. in Lincoln Park; an 111-unit property at 1745 N. Keystone St. in Hermosa, and an 81-unit complex at 3632 S. Indiana Ave. in Bronzeville, the records show.

The properties, which are almost fully leased, increase the company's affordable portfolio in Chicago by 31 percent, to 2,916 units.

Related Midwest, the developer's Chicago-based division, has emerged as one of city's most **active developers** since the crash. Now, the company is beefing up its affordable-housing portfolio here in part because the buildings offer rental income backstopped by public agencies, insulating it from market swings.

“Affordable housing is sometimes seen as a hedge in the real estate world because we're not necessarily subject to the ups and downs and vagaries of the market-rate properties,” said Matthew Finkle, president of Related's affordable unit in New York.

As part of the deal, Related also paid $3.5 million for a 68-unit affordable-housing property in Peoria, according to a source. Related acquired the properties from partnerships managed by local investor Terry McKay.

Each of the five buildings Related bought last month is subsidized through the U.S. Department of Housing and Urban Development's project-based voucher program, where renters pay 30 percent of their income toward rent, with the federal agency subsidizing the spread between the renter's contribution and a contracted rate, Mr. Finkle said. The contracts determining rent at each property are all different, he said.

MANAGEMENT CAN BE A CHALLENGE

One challenge with affordable-housing buildings is management, since renters are often grappling with complex social and economic issues, said Jeffrey Rappin, chairman of Chicago-based Evergreen Real Estate Services LLC, which owns 5,200 affordable-housing units in Illinois, Indiana and other states. The higher operating costs limit investment returns.

“Management is very difficult because you're dealing with people who are, in some cases, living month to month,” Mr. Rappin said.

Mr. Finkle said Related plans to renovate each of the five structures using tax credits, adding new roofs and building systems within a year or two, maintaining them as affordable housing. The company will also manage the properties.

Mr. McKay, who served as general partner of the five partnerships that sold Related the properties, said his investor groups wanted to sell because tax credits they used to renovate the buildings years ago were expiring, ending their ability to use the credits to lower tax liabilities. The investors also wanted to cash out considering how much real estate prices have risen, he said.

“This opportunity won't come back for a long time for real estate investors,” said Mr. McKay, who once worked as an executive at investment adviser **Capital Associates Group** in Chicago but described himself as semi-retired now.

Related financed its acquisitions in Chicago with mortgages from the Illinois Housing

Development Authority, records show. The loans will help the firm preserve the buildings as affordable housing, an agency spokeswoman said in an email.

Marcus & Millichap, including its Southfield, Mich. office, brokered the sales of the properties for Mr. McKay.

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