

Chicago Tower Sets Sales Record

By Robyn A. Friedman

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In the latest sign that ultraluxury apartment living is spreading far beyond New York and San Francisco, a glass-sheathed tower changed hands in Chicago last week in a deal that is shattering records.

The 60-story building, named OneEleven, was sold for \$328.2 million, or \$651,000 per unit, the highest price ever paid per unit for an apartment building of more than 50 units in Chicago. The 504-unit building, located in Chicago's downtown Loop neighborhood, was sold by a unit of New York-based Related Cos. and was acquired by Heitman, a global real-estate investment-management firm based in Chicago.

The purchase price "is emblematic of the seemingly insatiable demand for high-quality, large real-estate assets in primary markets," said Ben Thypin, director of market analysis for Real Capital Analytics, a commercial-real-estate data and analysis firm in New York.

Apartment rents in OneEleven, which opened just last year, range from \$1,700 a month for studios to \$12,000 a month for three-bedroom penthouses.

For years, the conventional wisdom held that wealthy residents in Midwestern cities would almost always choose to buy a home rather than pay hefty rent. But those notions changed as homeownership has lost its allure in certain segments of the population, especially younger generations of renters who want to avoid lengthy commutes from the suburbs and some aging baby boomers and empty nesters who want to downsize.

Some industry analysts speculate that OneEleven could eventually be converted to a condominium building when homeownership becomes popular again. "At \$651,000 a door, the new owners may be looking at a potential exit strategy of condo conversion

because it's extremely difficult at this purchase price to achieve positive cash flow," said Jack McCabe, a real estate analyst in Deerfield Beach, Fla. "My guess is that when units come on the market, the average price will probably be higher than \$1 million."

Heitman declined to comment for this article. But Curt Bailey, president of Related Midwest, the Chicago office of Related Cos., agreed that condo conversion would be a logical exit strategy for OneEleven. "I think in Chicago today the property is probably worth more as an apartment than it is as a condo," he said. "But it will probably change in the future, and I think conversions may be something we begin seeing in the next 24 months or so."

OneEleven was originally slated to be a 90-story hotel-and-condo tower. The project stalled, however, when its developer ran out of money after commencing construction and reaching the 28th floor. The partially built structure was acquired by Related, in a joint venture with Clark Wacker LLC, in 2011. Related repositioned the project and restarted construction.

The sale marks a big profit for Related, which spent about \$180 million on the project from start to finish, according to a person familiar with the costs.

"The building has an incredible location right on the river," Mr. Bailey said. "You have 50 million square feet of office space that you can walk to in five minutes, and right across the street is [the] River North [neighborhood], which has emerged as Chicago's great gathering place for restaurants and nightlife."

Chicago, like many large cities, is experiencing a strengthening job market. "The city has done a very good job of bringing in larger companies with high-paying jobs and continuing to fuel the desire to live in the city," said John S. Sebree, director of the National Multi Housing Group for brokerage Marcus & Millichap.

In April 2014, Motorola Mobility LLC unveiled its new 600,000-square-foot global headquarters in downtown Chicago, a return to the city after nearly 40 years in the suburbs. Other companies, such as [Google Inc.](#), have expanded their presence in the downtown area.

For investors, Mr. Sebree said that Chicago is an easier first-tier market in which to buy

buildings compared to other first-tier markets such as New York or San Francisco. That is resulting in strong demand by investors from New York, Canada and Asia, he said.

And while prices are rising, returns are still higher in Chicago than in some other large cities. The capitalization rate, or projected return, for apartments in Chicago was 6.5% at the end of the fourth quarter of 2014 compared to 4.9% in Los Angeles, 5.6% in Boston and 4.1% in San Francisco, according to Real Capital Analytics.

Marcus & Millichap is forecasting a robust year for the Chicago apartment market, with vacancy rates and rents projected to improve even though more than 4,000 new apartments will come online in 2015. Effective rents are forecast to tick up 3.3% to \$1,297 a month.

Mr. Sebree predicts that Chicago will continue to attract investors due to its strong economic fundamentals. But he doesn't expect any more record-setting transactions, at least for a while. "That's a big number that Related got," he said. "That cost per unit may stand as the highest for quite a while."

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