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Is a big change ahead for this South Loop dorm?

By Alby Gallun



777 S. State was built in 1985 as a conventional rental building and converted to student housing in 2003.

PHOTO BY COSTAR GROUP

As he wraps up a major apartment development in Streeterville, Chicago landlord Bill O'Kane is placing another big bet on the South Loop.

O'Kane has agreed to buy a 330-unit student housing tower at 777 S. State St. from a joint venture including local landlord Marc Realty Residential, according to people familiar with the transaction. He's paying about \$85 million for the 28-story high-rise, generating a solid return for the Marc venture, which bought it **for \$58.5 million** in 2013.

O'Kane and a Marc representative declined to comment.

Though the apartment market **is booming**, student housing is **a different animal**, tied in part to enrollments at local colleges. It's unclear what O'Kane plans for the South Loop building, but the brokerage selling it, CBRE, has pitched it as candidate to be converted back to traditional apartments. The tower was built in 1985 as a conventional rental building and converted to student housing in 2003.

"Owners of the property could drastically enhance returns through the combination of the elimination of student-housing specific expenses and capitalizing on the current surge in South Loop market rental rates," says a CBRE marketing brochure.

Given how much South Loop rents have risen, a conversion back to apartments would make more sense today than it did a few years ago, said Ron DeVries, vice president at Appraisal Research Counselors, a Chicago-based consulting firm.

"Some deals that might not have penciled out at low rent levels might today," he said.

About 70 percent of the property's 882 beds are held by to Columbia College Chicago through a master lease that expires in 2017. O'Kane also could boost the value of 777 S. State by negotiating a new lease with Columbia, according to the CBRE brochure. The school currently pays \$778 per bed, about 30 percent below the market rate, the brochure said.

An executive in CBRE's Chicago office declined to comment.

O'Kane is buying the building from a venture that includes Marc and New York investors Atlas Real Estate Partners and Angelo Gordon & Co.

O'Kane's company, Group Fox, currently oversees a portfolio of 2,800 apartments in the Chicago area. He's in the final stages of converting the former River East Plaza in Streeterville **into 285 apartments**.

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