June 13, 2015

Why a Chicago developer may be coveting your condo

By ALBY GALLUN

Marc Realty Real Estate Apartments News Condominiums

How hot is the Chicago apartment market? So hot that developer John McLinden tried to buy all 492 condominiums in a Gold Coast high-rise so he could convert them to apartments.

“I thought it was a long, long shot,” says McLinden, managing partner of Chicago-based Centrum Partners.

It was. Unsatisfied with his price—$41 million, according to one board member—the condo board at 1660 N. LaSalle St. rejected the offer within days, deciding not even to ask residents to vote on it.

But the attempt illustrates how the local housing market has been flipped on its head. Instead of converting apartments to condos—an established strategy you would expect at this stage in the market's recovery—a group of developer-arbitrageurs is going

MANUEL MARTINEZ

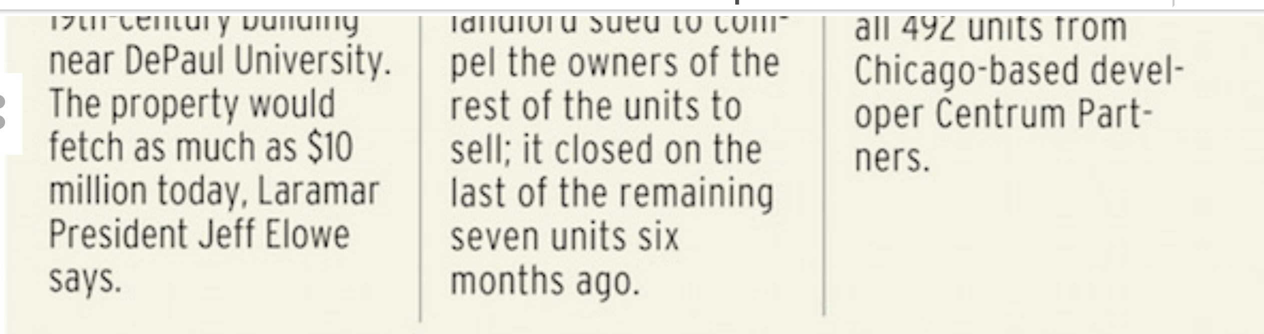
the other way as Chicago apartment prices keep climbing.

Some already have pulled it off in smaller buildings. Last August, Chicago-based Laramar Group **paid $7 million** for all 24 condos in a vintage Lincoln Park building, and the firm has more deals in the works, President Jeff Elowe says.

But a few developers with the money and patience, like McLinden, are thinking bigger and chasing high-rises with hundreds of units.

"Big-time players are looking at prices and saying, 'I think we could buy this building lock, stock and barrel and make money by running it as an apartment building,'" says Chicago attorney David Sugar, a partner at Arnstein & Lehr and chairman of the firm's condo law group.

"Hopefully, condo boards will figure out that they can make 50 percent more selling to these apartment idiots chasing a bubble," says David Ruttenberg, principal at Marc Realty Residential, a Chicago-based apartment landlord. "Hopefully, I'm the fool they call."



While "de-converting" condos may be the newest way to profit from the boom, de-conversions are still rare. The biggest obstacle: dealing with dozens, or in Centrum's case hundreds, of sellers who each have a different opinion of what their condos are worth. Some are so attached they won't sell for any price.

Under state law, a developer can buy all the condos in a building if the owners of 75 percent of the units vote to approve a sale. When that happens, the dissenting owners are compelled to sell, with disputes over price and other terms handled by an arbitrator.

Marc Realty Residential, for instance, tried to buy a 108-unit building in East Lakeview for about $200,000 a unit, or $21.6 million overall. But it came up just short in a vote last fall after owners of 74 percent of the units voted in favor of the deal, says Ruttenberg, who estimates that the units were worth about $140,000 each as condos.

Because apartments have a higher value in the current market, Ruttenberg might make another run at the building. “We're very patient,” he says.

Indeed, patience is key: After **buying 31 unsold units** from the developer of a stalled 38-unit Rogers Park condo project in 2012, Marc Realty Residential just closed on the last of the remaining seven units six months ago.

It may be the real estate equivalent of herding cats, but there is a payoff. Elowe of Laramar estimates that the 24-unit building his firm bought in Lincoln Park, at 2215-2221 N. Clifton Ave., could fetch as much as $10 million if it were sold today, 43 percent more than Laramar paid last August.

“It's a higher and better use as a traditional multifamily building than as a condo building,” he says. “That location is about as good as it gets.”

The de-converting trend started after the condo bust, as developers snatched up unsold condos in failed projects in bulk deals and rented them out. What's new today is that developers are seeking longtime condo buildings, trying to buy out lots of individual owners, not a bank or developer.

For his part, McLinden is pursuing two other condo buildings that could be good de-conversion candidates, declining to identify them. He's targeting properties that need major capital improvements. He's betting that condo owners will be more willing to sell if they are about to be hit with a big assessment.

“There are a lot of people who just won't pay,” he says.

0 Comments Crain's Chicago Business

1 Login

Recommend Share Sort by Best

Start the discussion…

Be the first to comment.

ALSO ON **CRAIN'S CHICAGO BUSINESS** WHAT'S THIS?

Think Illinois is a biz-tax hellhole? Well ... - Blogs On Politics

5 comments • 3 days ago

Egad — But but but Indiana and Wisconsin and Chicago is the next Detroit.

Letters to the editor - Opinion

1 comment • 2 days ago

Greg Lydon — The Heartland Institute, a far right-wing Koch funded propaganda machine agrees with the Illinois Policy Institute, a far

Rauner is taking the budget fight to Democratic districts - Government News

1 comment • 2 days ago

SN1789 — Rauner misundestands his mandate. He won because (1) he was not Quinn and (2) people fell for the ad campaign

What’s worse than a sharp stick in the eye? - Opinion

1 comment • 2 days ago

walter oakley — The Chicago land Chamber is part of the problem and will not support change as long as it's members are mostly

Subscribe Add Disqus to your site Privacy

CRAIN'S CHICAGO BUSINESS