

Empty nest: Birder sells loft office portfolio for \$86 million

By Ryan Ori November 07, 2016

Chicago real estate investors R2 and Walton Street Capital have found a rare bird, seizing the chance to buy \$86 million in smaller loft office properties in a single deal.

For Owen Deutsch, 76, the sale of his entire Loft Development office portfolio means he'll have more time for his passion, **photographing birds** throughout the world.

The venture of R2 and Walton Street on Nov. 4 bought six loft office buildings with about 449,000 square feet of space combined, R2 said. The \$86 million deal includes three parking lots that the new owners plan to redevelop, according to R2. The properties are in the West Loop, South Loop and River North.

It is the first deal involving Neil Bluhm's Walton Street, whose funds typically invest in larger transactions, and R2, which invests in loft office buildings in Chicago neighborhoods including the West Loop, River North, Goose Island and Clybourn Corridor.

Related: California investor pays \$37 million for West Loop, River North loft offices

"It's really difficult to aggregate creative office(s) like this in one transaction," said Max Meyers, chief investment officer at R2. "An opportunity like this opens the door to institutional capital that wouldn't be able to do a one-off deal because of the (smaller) equity check size."

R2 has previously partnered with New York-based Goldman Sachs on deals for loft offices, which were once solely the realm of smaller local investors. In September, a venture of R2 and Goldman Sachs sold a West Loop building and another in River North for \$37.5 million, a 68 percent increase from the properties' combined value in 2014.

Deutsch, chairman and CEO of Chicago-based Loft Development, has owned older buildings since buying an Old Town property in the 1960s. He used that property as a studio while he was working as a commercial fashion photographer.

Loft Development has bought more than 35 buildings in the past few decades, but the sale leaves the firm with just two self-storage buildings, which it's under contract to sell, Deutsch said.

Deutsch decided to sell now to capitalize on high property values in the neighborhoods where he owns and to spend more time traveling with his wife. He's traveled throughout North, Central and South America, Africa and Asia to photograph birds and other wildlife, **with his work** appearing in National Geographic and the publications of several nature and birding organizations, Deutsch said.

"I'd been spending the last 12 to 15 years traveling the world doing bird photography, and this frees me up to do more of that," he said. "This was an opportunity to get the price I thought I should and to provide substantial bonuses to my employees who want to retire or use that money to do whatever they want to do in their lives."

The seller was represented by broker Susan Tjarksen, principal and managing broker at KIG CRE.

The six vintage buildings in the deal include four in the West Loop: 118 S. Clinton St., 72,018 square feet; 130 S. Jefferson St., 76,899 square feet; 641 W. Lake St., 106,634 square feet; and 901 W. Jackson Blvd., 54,742 square feet. It also includes 445 W. Erie St., with 52,905 square feet in River North, and 542 S. Dearborn St., with 85,318 square feet in the South Loop.

The buildings are more than 93 percent leased, according to R2. The new owners plan to upgrade the buildings

and push up rents.

The deal also includes three lots with a combined 82,573 square feet of future development land. Parcels at 640 W. Randolph St. and at the corner of Green and Peoria streets are likely to become residential developments, while a parking lot at 708 W. Wayman St. could become an office tower straddling the Kennedy Expressway, R2 Managing Principal Matt Garrison said.

Architecture firm Gensler is already working on a design for an office building of several hundred thousand square feet on the Wayman site, a project that would require a zoning change and has significant engineering challenges, Garrison said.

“It’s a really interesting site that creates a lot of challenges and a lot of opportunities,” Garrison said. “You could do something really interesting architecturally, and there’s no way you could miss it driving on the Kennedy.”
