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

By RYAN ORI |  



A California real estate investor paid more than \$37 million for two downtown loft office buildings, a price that reflects fast-rising rents in the West Loop and River North.

Shopoff Realty Investments on Sept. 23 bought the buildings at 224 N. Des Plaines St. in the West Loop and 900 N. Franklin St. in River North for \$37.5 million, or about \$220 per square foot, from a venture of Chicago-based real estate investment firm R2, said R2 Managing Principal Matt Garrison.

That price is 68 percent higher than the properties' \$22.3 million value in 2014, when they were recapitalized by New York-based Goldman Sachs. In that deal, previous investors for the venture—then known as South Street Capital, before R2 split off into a separate company—cashed out from acquisitions initially made in 2012 and 2013.

The two acquisitions were the first in Chicago by Irvine, Calif.-based Shopoff, which owns and develops real estate throughout the country.

Though the value of the properties has jumped over the past two years, Shopoff believes it will continue to rise as current leases expire in the coming years, allowing the firm to renew existing tenants or sign new ones at higher rents, Executive Vice President David Placek said.

“We see great rental growth,” said Placek, who added that rents on new leases could be as much as 150 percent above current rates. “There’s a lot happening in both of these markets, which really allowed us to dig deep on both of these properties.”

The six-story building at 224 N. Des Plaines and the eight-story structure at 900 N. Franklin have about 170,000 square feet combined and are fully leased except for ground-floor retail space in the Des Plaines building, Garrison said.

Lease expirations are staggered over the next several years, with some longer-

term rents now paying less than half of today’s market rate, Garrison said. Since buying the Franklin property in 2012, rents have increased from under \$15 to the low-\$30s gross per square foot, Garrison said. Since buying the Des Plaines building in 2013, gross rents have risen from \$18 to the mid-\$30s, he said. Gross rents include costs such as taxes and operating expenses.

R2 bought both buildings out of distress and spent money to fix them up.

Earlier in 2014, before Goldman Sachs recapitalized the buildings, marketing firm AgencyEA paid \$4.6 million for the four-story building at 920 N. Franklin St. that South Street had acquired with the connected 900 N. Franklin structure in 2012.

“We’ve learned so much about how to operate these buildings the last four years,” Garrison said. “It’s bittersweet to sell, but in the value-add business you buy, fix and sell. It was time to sell and realize a return for our investors.”

The Chicago office of HFF represented the R2 venture in the sale.

It’s the second recent deal in which R2 cashed in big on a loft office sale. In the other deal, in River West, R2 sold a building at 770 N. Halsted St. for \$24 million. That was more than twice the price it paid for the property in 2013.

Shopoff owns Midwest properties in Ohio and Minnesota but hadn’t been a landlord in Chicago until now. The firm has been looking in Chicago for about a year and would like to buy more properties here, said Placek, who is based in New York.

Its purchase comes after overall downtown office vacancy reached a 15-year low during the second quarter, and after a wave of news of relocations to downtown from the suburbs, including recent deals by McDonald’s and Wilson Sporting Goods.

“We like what’s happening in Chicago,” Placek said. “It’s the boomerang effect, with companies that had left downtown Chicago coming back to the city center now. That bodes well for everything in Chicago: office occupancy, retail occupancy and residential occupancy.”