

By Alby Gallun

## 2 apartment properties to sell for \$52 million

(Crain's) — Apartment investors are getting busier in the Chicago suburbs, where deals are in the works for two properties, one in Naperville and one in Oak Park, for a combined \$52 million.

Prime Property Investors Ltd., a Northbrook firm that specializes in student housing, has agreed to pay about \$32 million for the Arbors of Brookdale, a 281-apartment complex in Naperville owned by Milwaukee-based Northwestern Mutual Life Insurance Co., according to sources familiar with the transaction.

Separately, Boston-based Intercontinental Real Estate Corp. has agreed to buy the 125-unit Oak Park City Apartments for about \$20 million from BlackRock Inc., the New York-based investment manager, sources say.

The two deals offer further evidence that the apartment investment market is returning to normal after the credit crisis choked off acquisition activity in late 2008. After writing down the value of their real estate earlier this year and watching their equity portfolios shoot back up, pension funds and other large institutional investors now own less property than their investment guidelines prescribe, so they need to start buying again to hit their asset-allocation targets.

"Buyers are returning to the market and the bid-ask gap has narrowed considerably," Appraisal Research Counselors, a Chicago-based consulting firm, says in a recent report.

Apartments also have held up better than other property types because government-supported lenders Fannie Mae and Freddie Mac have continued to provide financing for multifamily investors.

Ten suburban apartment properties have changed hands for \$216 million this year, according to Appraisal Research. That's still well below the 17 suburban deals for \$471 million in 2008, but 22 suburban properties are on the market, and several of those could trade before the end of the year.

Though falling prices earlier this year sent capitalization rates, or first-year returns, up to 7.5% or higher on suburban apartment sales, rising investor demand is pushing cap rates back down below 7%. That's still well above the 5.5% rates that were typical at the market peak in 2006 and 2007.

The Arbors of Brookdale would be the first apartment acquisition in many years for Prime Property Investors, which owns a \$136-million portfolio of student housing properties with about 2,500 beds.

Prime co-CEO Michael Zaransky declines to discuss specific transactions but confirms that his firm has been scouting the suburbs, and especially DuPage County, for apartment deals. He expects demand for apartments to jump in the coming years as the "echo boom" generation graduates from college and enters its prime renting years. He wants to get in front of the wave now.

Suburban apartment development also has been limited, so the supply side looks favorable, too, Mr. Zaransky says.

"We feel now is the time to jump back in," he says.

A spokeswoman for owner Northwestern Mutual did not return a phone call, and an executive at Holliday Fenoglio Fowler L.P., the broker hired to sell the property, declines to comment.

Built in 1989, the Arbors, at 1373 Ivy Lane, was 96.8% occupied at the end of the third quarter, according to Appraisal Research. Rents there have fallen 4.7% over the past year.

At \$20 million, the Oak Park City Apartments are selling for about 24% less than the \$26.2 million BlackRock paid for the property in December 2006. The complex is encumbered by an \$18.3-million mortgage with Massachusetts Mutual Life Insurance Co.

An Intercontinental spokeswoman declines to comment on the property. A BlackRock spokesman and an executive at CB Richard Ellis Inc., which was hired to sell the Oak Park property, did not return phone calls late Tuesday.

The complex at 675 W. Lake St., which was built in 1987, was 96.8% occupied at the end of the third quarter. Rents there have fallen 8.1% over the past year