



Chicago Bears

Windy City multifamily developers agree with the Don, say market is in a state of paralysis.

A couple of months ago, Donald Trump visited Chicago to top off the 92-story Trump International Hotel & Tower and announced that real estate development in the Windy City was dead. Even with three-quarters of his building sold, Trump is activating extension clauses in the project's \$770 million worth of construction loans from Deutsche Bank and Fortress Investment Group, set to mature next year. Trump looked at the Chicago skyline and acknowledged "the skeletons" of projects such as the now inactive Spire high-rise and Shangri-La Hotel. He then declared that "the days of building buildings like this are over."

Is it lip service from an ingenious marketer known for self-aggrandizing promotion? Not this time, say longtime Chicago multifamily developers. Consider that locally based multifamily stalwart RMK Management is ready to break ground on a 221-unit luxury high-rise in the River North submarket—but the 35-year-old developer can't find financing, even with a 30 percent equity buy-in from a pension fund packing recourse clauses.

"A year ago, I would have had this financed in a week, and the bankers would have come to my office with term sheets, and I would have picked out who was the best," says RMK president Tony Rossi. "Now, the response is, 'We are not doing anything,' or 'We want 45 percent equity.' The financing market has totally, totally changed."

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LAST ACT: The now completed Trump Tower may be one of the last major high-rises to see completion in Chicago. Activity in the Windy City is slowing down.

JUST IN TIME

Developers with secured construction financing consequently are sitting in the driver's seat. Lynd Development Partners broke ground two months ago on the 29-story EnV, a green concept high-rise in River North that will couple LEED certification with luxury amenities to fill 249 units upon delivery in 2010. Despite sitting in a submarket with 96 percent occupancy and few concessions, Lynd Co. CEO David Lynd says EnV was lucky to get the green light. "Timing is everything," Lynd says. "We raised our debt and equity in arguably the most challenging market in history." Construction loans on EnV won't mature until 2011, and Lynd included two favorable extensions options. He will likely follow Trump's suit in extending financing, if needed. "In today's turmoil, you don't want a gun to your head to sell if the economy and the capital markets are in the tank," Lynd continues. "You want to be able to extend your loan, giving you the ability to hang in there and ride out the storm."

Chicago-based Jupiter Realty also will leverage LEED certification for its 2010 lease-up of the unnamed, 50-story apartment tower at 215 W. Washington Street. "Sometimes, I think we may have been the last deal that got done in Chicago," says Jupiter principal Don Smith of the \$157 million project. "Obviously, we're a rental project, and I think Trump is talking specifically about the big condo projects that will never be built again, and I think he's right about that. I know of a number of deals on the drawing boards that have been scrapped. They are just not happening."

For companies with condo stock already on the ground, the only alternative to selling through a recession is to revert to

First One

The Tacoma Housing Authority is redeveloping a lumber sawmill site into a 110-unit community, which will be the organization's first modular housing project.



Known as Hillsdale Heights, the project will include 60 low-income apartments, 50 affordable, for-sale townhomes, a small community center, trails, and green space. —L.S.

Lone Stars

Hamilton Properties, the father-and-son development team behind several office-to-residential conversions in downtown Dallas, is proposing a takeover of the Atmos Energy site currently owned by Cleveland-based Forest City Enterprises. Dallas City Hall gave the four-building property to Forest City in 2005 as part of a \$70 million public/private redevelopment of the adjacent Mercantile Bank Building. However, development of the Atmos site has not commenced, and Forest City has already paid the first in a series of \$250,000 payments for failing to redevelop the site into a mixed-use community with upwards of 200 apartments. The Hamilton team proposes taking over the project and implementing a \$49.5 million, 225-unit development plan with \$30 million of their own cash and \$10.2 million in tax increment financing from the city. —C.W.

Nosedive

Real Capital Analytics, a New York-based research firm, says land sales have fallen off drastically, nearly 75 percent this year.

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apartments. Local development firm The Brixton Group just announced that it will move forward with construction on phase two of the 48-unit CA/23, a condo project with units priced between \$650,000 and \$1.6 million that has pre-sold 12 of 24 units in phase one.

NO DEAL FLOW

"There is a general feeling in the market that now isn't quite the time to purchase, and we're fighting to counterbalance that with the argument that it is an incredible time to buy," says Brixton principal and CEO Geoffrey Ruttenberg, who adds that he'll address the possibility of apartment conversion when construction completes. "We'll see where we are at the time we start to deliver units, but we don't feel an urgency to go that route. Chicago is a sophisticated, affluent city with a lot of wealth, and we're 50 percent sold. That has to account for something."

Apartment players say that type of glass-half-full optimism won't change the realities of the market. "You cannot get pre-sales in this market. No one is buying,"

says Michael Newman, president and CEO of Golub & Co., a Chicago-based development firm in the midst of completing construction of the 480-unit, 54-story, high-end rental companion tower to the existing Streeter building. "We went rental when everyone was underwriting for condos, and we are opening in mid-2009 and expect to be successful. Sometimes, you are lucky and guess right."

Rossi also questions whether condo projects will be able to re-pencil to rentals when established market leaders in the apartment space can barely get a loan. "We'll get ours done, but it'll come down to the wire; we'll put in more money; and the rate will be higher than we wanted," he says. "Most of the condo sponsorships in the market have little apartment experience, and the money will go first to experienced rental developers. If you don't have an 'A' next to every single line item, you are not getting financed. I've never seen anything like it. All of our bases are covered, and it still doesn't work. Chicago is a great multifamily market, but it doesn't mean anything." —Chris Wood IMI

L.A. Story

City of Angels undertakes ambitious program.

Despite a global credit crunch, Los Angeles Mayor Antonio Vilaraigosa is moving forward with "Housing That Works"—a five-year, \$5 billion plan to build 20,000 affordable housing units. The goal: to make L.A. a more affordable place to live.

The L.A. plan leverages \$1 billion in public funds into the \$5 billion investment. The program covers the construction of new housing and the acquisition and preservation of existing housing. Today, only 11 percent of the area's households can afford a median-priced home; about 40,000 people sleep on city streets each night.

"We are the least affordable city in the country in terms of available affordable housing," says Jeff Schaffer, Southern California director for Enterprise Community Partners, a Columbia, Md.-based nonprofit that is injecting \$700 million in the project.

One group caught in this crunch is L.A.'s workforce. "We don't have anything

for the people in the *middle middle* [class]," says Jonathan Powell, press deputy for Vilaraigosa. The program will also deliver 20 sustainable transit communities and 2,200 supportive housing units; expand Section 8 voucher programs for the chronically homeless; preserve 14,000 affordable rental units; and educate Angelenos about their rights as landlords and residents.

The problem, of course, is funding the program in these shaky financial times. The city and Enterprise are shouldering a hefty burden, but grants and tax credits are also essential. "There's absolutely a capital issue today impacting real estate investment, even on the affordable side," says Paul M. Cummings, Enterprise's senior vice president of tax credit syndication. "A lot of our investors had been banks."

As a result, Schaffer is looking for new investors such as unions and utilities. "We're looking beyond traditional investors," he says.

At the mayor's office, the financial problems made affordable housing an even bigger priority. "It just brought a new sense of urgency to this issue," Powell says. —Les Shaver