

Appraisal Research Counselors

400 E Randolph Street, Suite 715
Chicago, Illinois 60601-7388

T: 312-565-0977
F: 312-565-3436

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Related pockets big sum in \$175 million apartment refinancing

By Alby Gallun



Less than a year after completing its 500-unit apartment tower on Lake Shore Drive, developer Related Midwest LLC and its partner have gotten their original investment back and then some. And they didn't even have to sell the building.

A venture led by Chicago-based **Related Midwest** refinanced the new 45-story high-rise at 500 N. Lake Shore Drive with a \$175 million loan from Massachusetts Mutual Life Insurance Co., according to Cook County property records.

The new debt allows Related Midwest and its partner, the AFL-CIO Building Investment Trust, to pay off a **\$100 million construction loan** and pocket about \$75 million at the same time. The deal represents a hefty return for the venture, which invested \$57 million in equity in the project back in September 2011.

The big payout highlights the rewards awaiting apartment developers who started downtown projects a few years ago. Rising rents and property values have created a compelling cash-out opportunity for many landlords, whether it's by selling out or refinancing. Because apartment buildings are worth more than they were a few years ago, developers can borrow more against them and just pocket the difference between the new loan and the old one.

Yet it's unclear whether the opportunity can get any better given a development boom — downtown Chicago could get more 6,000 new apartments in 2014 and 2015 — that is already depressing rents at the high end of the market. Class A downtown apartment rents **fell 2.7 percent** last year, according to Chicago-based Appraisal Research Counselors.

LENDERS INTERESTED

Still, lenders have shown few signs of pulling back in downtown Chicago, said Appraisal Research Vice President Ron DeVries. Insurance companies like Mass Mutual typically will lend about 65 percent of a property's value, suggesting that 500 N. Lake Shore could have appraised out at about \$270 million, or \$540,000 a unit.

That's about as expensive as it gets in downtown Chicago, but not surprising considering that net rents at 500 N. Lake Shore were \$3.09 per square foot in fourth-quarter 2013, higher than all but three buildings in the market, according to Appraisal Research. The tower was 88 percent leased.

A Related Midwest executive declined to comment, and a Mass Mutual executive did not return a call.

A flurry of refinancings and sales often follows a construction boom, as developers and their partners hunt for new deals and decide to take some chips off the table. Last fall, for example, Chicago-based Fifield Cos. and its partner **refinanced K2**, a new 496-unit tower in the Fulton River District, with a \$110 million loan. Now, the building is being **put up for sale**.

With so many new downtown apartment towers wrapping up — Related Midwest is set to open a 504-unit tower at **111 W. Wacker Drive** this summer — more developers and their investment partners will be exploring sale or refinancing opportunities in the coming months.

"Every one of those deals is going through that dialogue right now," Mr. DeVries said. "It just depends on the ownership and how they've structured the deals."

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