

Pritzker family to sell Presidential Towers

By Alby Gallun and Thomas A. Corfman
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(Crain's) — In one of the biggest downtown real estate deals in recent memory, the billionaire Pritzker family has agreed to sell the Presidential Towers apartment complex in the West Loop to Waterton Associates LLC, a Chicago-based real estate investment firm, sources say.

An exact price could not be determined, but sources say Waterton is paying roughly \$470 million for the 2,346-unit property, the largest apartment complex by far in downtown Chicago.

That would eclipse the \$450 million many observers had expected the property to fetch, underscoring the strength of the apartment investment market.

If completed, the sale would generate a huge return for the Pritzkers, who rescued it from foreclosure in 1995 with a \$14-million investment. It would be the third acquisition in the city in the past year for Waterton, which formed a \$330-million joint venture in 2006 with the California State Teachers' Retirement System.

David Schwartz, co-founder and managing member of Waterton, declines to comment, and Penny Pritzker, CEO of Pritzker Realty Group L.P., did not return phone calls.

A broker at CB Richard Ellis Inc., which started marketing the property in December, also declines to comment.

Sources say Waterton won out in a field of 21 bidders, including a partnership of Walton Street Capital LLC and Levin Realty Advisors LLC, two Chicago firms that team up on apartment deals; **California-based Eagle Real Estate Group**; Connecticut-based

BIG DOWNTOWN DEALS

Waterton Associates LLC's pending purchase of the Presidential Towers apartment complex, at a price sources say is roughly \$470 million, is likely to rank among the largest real estate sales in the city in recent memory.

Sears Tower	\$840 million	April 2004
Citadel Center	\$560 million	Nov. 2006
Merchandise Mart/ 350 N. Orleans St.	\$480 million*	Jan. 1998
Presidential Towers	\$470 million**	March 2007
Prudential Plaza	\$470 million	April 2006
Aon Center	\$463 million	May 2005
10 & 30 S. Wacker Drive	\$462 million	Sept. 1997
111 S. Wacker Drive	\$412 million	Dec. 2005
John Hancock Center	\$385 million	Jan. 2007

*Estimated, part of a \$625-million deal.

**Sources say price is roughly \$470 million.

Note: Joint-venture deals are not included.

Sources: NAI Hiffman, CoStar Group Inc., real estate industry sources

pension fund adviser GE Asset Management Inc.; and a joint venture of Chicago-based developer Fifield Cos. and New York-based investment manager Blackrock Inc.

At \$470 million, the sale of Presidential Towers would rank among the largest downtown property sales in several years, topping prices paid recently for some of downtown's biggest trophy office buildings.

Yet for many years, the property's four 49-story towers stood as symbols of political clout and business failure.

Developers Daniel Levin, James McHugh and Daniel Shannon built Presidential Towers in the mid-1980s, financing the project with federal tax-exempt bonds. With the help of U.S. Rep. Dan Rostenkowski, the developers managed to avoid a federal requirement that they reserve one-fifth of the project's units for low-income renters.

Amid a depressed apartment market, the developers defaulted on a \$159-million mortgage in 1990. The Pritzkers bailed out the project five years later. They picked a good time to sell the property, which covers two blocks bounded by Madison, Monroe, Desplaines and Clinton streets and includes 110,000 square feet of retail space and 1,159 parking spaces.

Downtown apartment occupancies and rents have risen to levels not seen since 2001, boosting landlord profits. Presidential Towers' net operating income (NOI) is projected to rise 28% to \$16.7 million in the year ended April 30, according to marketing materials provided to investors. NOI is forecast to rise another 35% in the next 12 months, to \$22.5 million.

Moreover, the real estate investment market is awash with capital from investors, driving prices up and returns down. Waterton's yield would be about 3.6% based on the current NOI.

Many bidders wanted to convert some of the property's apartments into condominiums, selling them off at a higher per-unit price than they cost, sources say. A developer could gross \$587 million by selling all the property's apartments as condos at an average price of \$250,000, a modest price for downtown Chicago.

Some bidders had planned to spruce up the property and reposition it to remove any stigma stemming from its past ties to the federal government.

"It's screaming for a rebranding," says **Randall Friend**, founder and managing partner of **Eagle Real Estate Group**, which made it into the final round of bidding. "Everybody in the city thinks it's a HUD deal and it's not."

The West Loop's growing residential population also presents possibilities for the property's retail space.

"It's an opportunity to bring in some upscale retail," **Mr. Friend** says. He declines to discuss other bidders or disclose how much **Eagle** offered to pay for Presidential Towers.

Waterton has acquired more than 32,000 apartments since 1995, when Mr. Schwartz, a former executive at Chicago-based Equity Residential, founded the company with Peter Vilim, a former executive at Chicago-based Amli Realty Co.

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Waterton entered the downtown market last year when it acquired a 306-apartment tower 1 E. Delaware Place and a 400-unit building in River North.