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Family Offices Find Investment Opportunities Amid Market Dislocation

Well-Heeled Private Buyers Stand To Benefit From Fewer Competitors

A Chicago sunset reflects off the multifamily tower at 727 W Madison St. (CoStar)

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Sales of commercial real estate properties exceeding $200 million have declined dramatically: The 62 such deals in the final quarter of 2021 dropped to only nine since July 2023. This downturn is even more noteworthy because it spans all property sectors, including office, industrial, retail and multifamily properties.

Consequently, smaller private investors eyeing this expensive market segment now encounter significantly fewer competitors, presenting a unique opportunity for those with the necessary capital and resources to acquire available trophy assets.

Multifamily properties constituted the largest share of assets in the lineup of mega deals that closed in the back half of 2023, and one example, a newer-build apartment tower in Chicago's West Loop, stands out for its architectural design and prestigious ownership. 727 W. Madison is a 44-story, 492-unit steel and glass high-rise apartment building located off West Madison and South Halsted Streets near Chicago's Fulton Market.

In August, the family office of Zara founder Amancio Ortega acquired the 93% occupied luxury apartment building for $231.5 million, or $470,528 per unit. Local market experts suggest that this price per unit might have been higher if the property had sold in early 2022. The billionaire family office, Pontegadea, known for its holdings of office and retail properties in the Southeast, added 727 W. Madison to its Chicago holdings after it purchased the 216-room Eurostars Hotel Magnificent Mile in 2019.

Pontegadea went even bigger in December 2022 with its acquisition of the Kiara, a 41-story, four-star apartment building in Seattle's South Lake Union. The family office paid $322.7 million, or $700,000 per unit, for the 461-unit luxury high-rise. Similar to the recent Chicago acquisition, the Kiara was 93% occupied and was constructed in 2018.

Larger still was Ortega's purchase of 19 Dutch in September 2022 for $487.5 million, or about $1 million per unit. The five-star luxury high-rise in New York's Financial District was built in 2018 and 98% leased at the time of sale. Pontegadea assumed the existing Fannie Mae loan, which had an interest rate of 3.82%.

There's more. Pontegadea also purchased a 7 million-square-foot industrial portfolio with locations sprinkled throughout the East Coast and Texas. Total consideration for the portfolio topped $905 million, or $128 per square foot, and featured a weighted average lease term of more than 10 years.

With approximately $2 billion in acquisitions since the onset of global lockdowns, Pontegadea has substantially added to its lineup of trophy assets with a growing national footprint.

This family office isn't the only one to take advantage of the current dislocation in the capital markets. Other independent investment groups backed by the Merage family of Hot Pockets fame, the Monster Energy founders and the Galvanize Climate Solutions founder and hedge fund manager, Tom Steyer, have also been actively acquiring major real estate properties.

These private investors stand to further benefit from less competition if institutional capital remains sidelined, which may persist for the near term.

This story was updated Dec. 6 to correct the spelling of the last name of Amancio Ortega.

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