

Landlords trying pop-up hotel, co-living services

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For some residential landlords in Chicago, just renting out an apartment for 12 months at a time doesn't cut it anymore.

Seeking new ways to keep their buildings full, more apartment owners are dabbling in the hotel business, teaming up with short-term rental startups like Sonder and Stay Alfred. The developer of [Essex on the Park](#), a new 56-story high-rise across from Grant Park, has leased 92 of the building's 479 units to Sonder, which rents them out Airbnb-style to tourists and business travelers.

Other landlords are experimenting with co-living, a residential format for adults borrowed from student housing, with tenants renting by the bed, not the unit. Last year, a unit of a German housing company, [Medici Living Group](#), opened a 175-bed co-living operation within an apartment building in the Fulton Market neighborhood.

Venture capital is fueling the trend, financing new real estate models that are blurring the lines between the apartment, hotel and student housing businesses. Though yet to be recession-tested, the ideas are gaining currency among apartment landlords, historically not the most innovative bunch.

"There's a big convergence happening," says John Rutledge, founder and CEO of Chicago-based Oxford Capital Group, leader of the joint venture that built Essex on the Park, at 808 S. Michigan Ave.

Many landlords are willing to embrace that convergence, believing new residential hybrids can diversify revenue streams and boost profits and property values. It's part of a broader transformation underway in real estate, what Dennis Frenchman, head of MIT's real estate school, calls "real estate fracking," when a property gets broken into pieces and reconfigured into higher-value combinations. One example: [WeWork](#), the Icarus-like co-working startup, which leases big spaces in office buildings and turns them into little spaces it rents to small businesses and professionals.

Yet like co-working, short-term rentals are essentially a new twist on an old idea: corporate housing. San Francisco startup Airbnb, founded in 2008, ushered in a new era by rolling out a digital platform that allows individual homeowners or apartment residents to rent out their properties.

For multifamily landlords, however, Airbnb and its main competitor HomeAway were persona non grata. Most apartment owners prohibit tenants from subleasing their units on a short-term basis, worried about security risks and transient guests disturbing residents. With the support of many landlords, Chicago passed a shared-housing ordinance in 2016 restricting vacation rentals. Among other things, the ordinance limits properties to no more than six short-term rental units at one time.

As the corporate version of Airbnb, companies like Sonder and Stay Alfred have made the idea more palatable to apartment owners by working directly with them, not with their tenants. They provide professional management and security, and typically segregate transient guests from tenants.

At Essex on the Park, Sonder rents out units on the eighth through 10th floors and 14th through 20th under a master lease with Oxford. Guests, who check in at an office on the eighth floor, undergo a background check and must stay for a minimum of two nights, to discourage parties. Sensors monitor noise levels to make sure Sonder guests don't disturb residents.

"We were super-fastidious and focused on making sure they co-existed in a complementary way," Rutledge says.

The short-term rental option is also especially appealing to developers with hundreds of new apartments to lease up, says Mike Wilson, senior vice president of real estate at Stay Alfred. The process can easily take a year or more for big high-rises; signing a master-lease for dozens of units can bring the cash in more quickly.

Tenants get something out of it, too. Short-term rentals are an added amenity, offering a place for friends and family to stay when they are visiting from out of town, says Liz Wawak, San Francisco-based Sonder's head of real estate in Chicago. Essex residents receive a discount on Sonder's units. Short-term rates at the Essex range from \$105 per night for a studio to \$196 for a two-bedroom unit, according to the company's website.

The firm has 228 units for rent in Chicago and plans to double that by year-end, adding 41 units at the Waterman Building, at 127 S. State St., and 39 units at the Jewelers Building, at 19 S. Wabash Ave., Wawak says.

Other apartment owners are exploring the hospitality option in different ways. Equity Residential, the Chicago real estate investment trust founded by Sam Zell, cut an agreement with WhyHotel for a 95-unit "pop-up" or temporary hotel in a new apartment building it developed in Washington, D.C.

Another big Chicago landlord, Laramar Group, has master leases with both Sonder and Stay Alfred. Nine Four Ventures, a venture-capital firm affiliated with Laramar, has also invested in Stay Alfred, a Spokane, Wash.-based "alternative accommodation" startup.

In Chicago, building owners can bypass the city's shared-housing ordinance if they have zoning that allows for a hotel on their property and if they apply for a hotel license. The City Council recently approved a zoning change allowing the owner of One Superior Place in River North to offer as many as 20 percent of the building's 809 apartments to short-term tenants.

The investor, New Jersey-based Hartz Mountain Industries, plans initially to offer 12 short-term units and has hired Kasa Living, a San Francisco-based vacation-rental firm, to manage them, says Larry Garb, executive vice president and managing director at Hartz.

Co-living is catching on with more local landlords as well, though it's not as pervasive in Chicago. The concept appeals to renters on a limited budget who want to live in high-cost neighborhoods. Co-living also offers a social vibe that attracts people who just moved to Chicago or are looking to make friends.

Quarters, a unit of Medici, operates the biggest co-living property in Chicago, leasing the top five floors of a 10-floor apartment building at 171 N. Aberdeen St. developed by Chicago-based MCZ Development. Chicago developer CityPads is working on an even bigger project, with plans for 505 beds in the Clark Adams Building, a 41-story vintage office tower in the Loop.

It's too early to say whether the multifamily business is truly entering a new era, or whether short-term rentals and co-living will turn out to be two more overhyped fads that fizzle when times get tough and the money runs out.

"There's a lot of private equity out there trying to discover the next great deal. There's an appetite to try to make money disrupting markets," says Ron DeVries, senior managing director in the Chicago office of Integra Realty Resources. "We'll see where that demand is. Can people make money?"