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Job market to keep suburban apartments stagnant

By: [Alby Gallun](#) Feb. 16, 2010

(Crain's) — Suburban apartment landlords ended 2009 on a flat note, and the bad job market will keep this year from being much better.

The median suburban net rent held steady in the fourth quarter, at \$1.07 a square foot, unchanged from the previous quarter but down from \$1.10 in the year-ago period, according to a report by Appraisal Research Counselors, a Chicago-based consulting firm.

The suburban occupancy rate rose to 92.2%, up from 92.0% in the third quarter and 92.1% in fourth-quarter 2008.

The apartment sector remains a mixed bag, dragged down by a lousy job market, which has forced many renters to move back in with their parents or double up. On the other hand, landlords have benefited from the housing crisis, which has allowed them to hold onto tenants who would normally move out to buy a house or condominium.

"There's just more people staying in the rental pool longer," says Appraisal Research Vice-President Ron DeVries. "They're not moving out, they're just sticking around."

Some are leery of buying, worried that they may lose their jobs or that home prices will fall further. Others can't qualify for a mortgage or scrape together enough money for the higher down payment that most lenders require today.

As a result, landlords seem to be weathering this downturn better than the last one, when low interest rates and easy credit sucked many renters into the for-sale market. Another key difference: Suburban developers have restrained themselves, limiting the supply of new apartments.

Landlords won't see a measurable improvement, however, until the job market comes back, which isn't expected to happen this year. Appraisal Research forecasts that net rent, which includes concessions like free rent, will hold steady or fall at suburban apartments this year.

The Appraisal Research report covers 225 properties with 75,523 units in seven Chicago-area counties. The southern Cook County submarket recorded the biggest net rent gain last year, 14.1%, while McHenry County had the largest drop, 6.5%.

Though the suburban investment market barely had a pulse a year ago, apartment investors got busy again as the financial crisis ebbed in the later half of 2009. Investors are bidding up prices

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again, and first-year yields, or capitalization rates, on some recent transactions have dipped below 7%.

"All of a sudden the floodgates opened," Mr. DeVries says.

Still, sales volume fell in 2009 to levels not seen in seven years. Fourteen properties changed hands last year for \$297 million, down from 17 sales for \$471 million in 2008, according to Appraisal Research.

The buyers included Northbrook-based Prime Property Investors Ltd., which paid \$32 million in December for the Arbors of Brookdale, a 281-unit apartment property in west suburban Naperville. The price equates to a 7.454% capitalization rate.

Prime Co-CEO Michael Zaransky has high hopes for the suburban apartment market because of the lack of new construction and because the echo-boom generation is graduating from college and entering its prime renting years.

With a 97% occupancy rate, the Arbors is performing better than many multifamily properties in the suburbs. The complex has eliminated concessions, and Prime may decide to hike rents there this spring, Mr. Zaransky says.

Like many apartment properties, the Arbors is experiencing unusually high lease renewal rates among its tenants. The property's renewal rate in recent months has exceeded 70%, vs. a more typical 50%, Mr. Zaransky says.

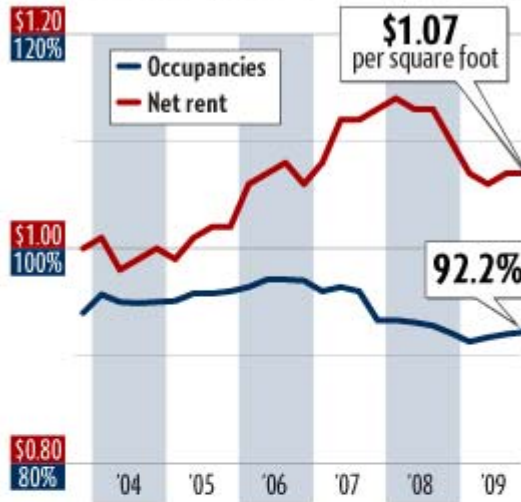
"There's a lack of renters fleeing to home ownership," he says.

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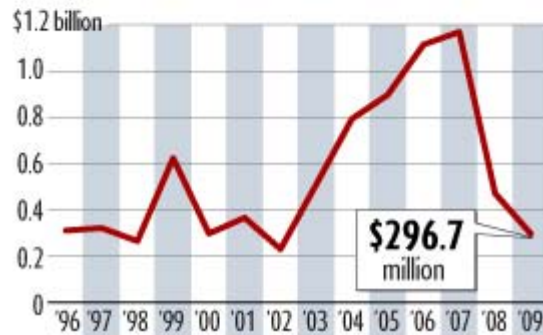
SUBURBAN STABILIZATION

Occupancies and rents at suburban apartment buildings held steady in the fourth quarter, more evidence that the market is leveling off.



SUBURBAN SALES

Sales of suburban apartment properties fell 37% in 2009, but activity picked up at the end of the year as investors returned to the market.



Source: Appraisal Research Counselors

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