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Rents up at downtown apartments for first time in 2 years

By: [Alby Gallun](#) May 24, 2010

(Crain's) — A construction wave coupled with 11.2% unemployment would normally make life miserable for apartment owners, but downtown landlords are holding up surprisingly well.

The occupancy rate for top-tier downtown apartment buildings rose to 93.6% in the first quarter, up from 91.4% in the fourth quarter and 90.9% in the year-earlier period, according to Appraisal Research Counselors, a Chicago-based consulting firm.

Including concessions like free rent, net rents at Class A buildings rose to \$2.16 a square foot, up 3.9% from \$2.08 in the fourth quarter and 1.9% from \$2.12 in first-quarter 2009. It was the first year -over-year rent increase in two years.

"There's just huge demand for rental product downtown right now, and owners have been quick to capitalize on it," says Appraisal Research Vice-President Ron DeVries.

Apartment demand is usually low when unemployment is high, as would-be tenants try to save money by doubling up or living with their parents. But that's not the case downtown, where many prospective condominium buyers are renting as they wait out the depressed condominium market.

"They're not convinced that the market has bottomed out on the ownership side," Mr. DeVries says.

That helps explain why a much-feared surge in apartment supply so far has not kept occupancies and rents from rising. Developers have added 4,077 units to the downtown market since the beginning of 2008 and will complete another 799 by the end of the year, according to Appraisal Research.

"Six months ago all of us were nervous," says Steven Fifield, president of Chicago-based Fifield Cos., the developer of Alta at K Station, a new two-tower, 848-unit apartment project at 555 W. Kinzie St. in the West Loop.

The nerves have given way to relief. Fifield estimated it would lease about 10 units a week at Alta's 420-unit west tower, which opened March 1. Instead, Alta is averaging more than 20 and the west tower is already 50% leased, Mr. Fifield says.

"The supply is getting absorbed substantially faster than I expected," he says.

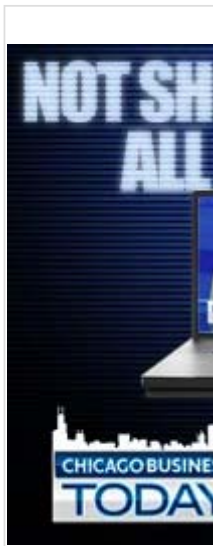
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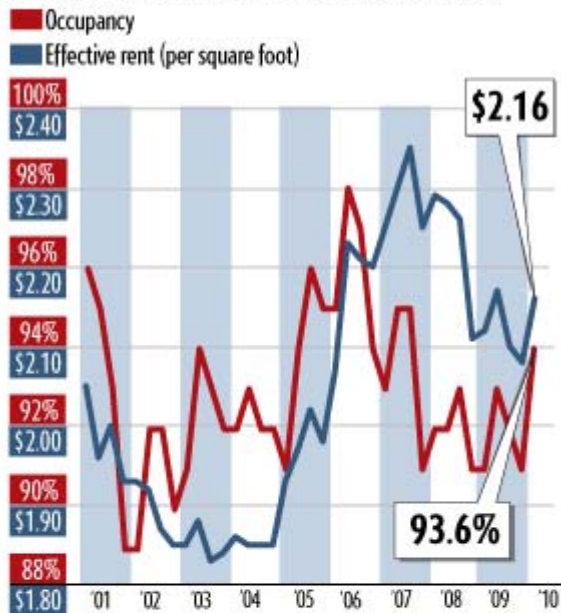


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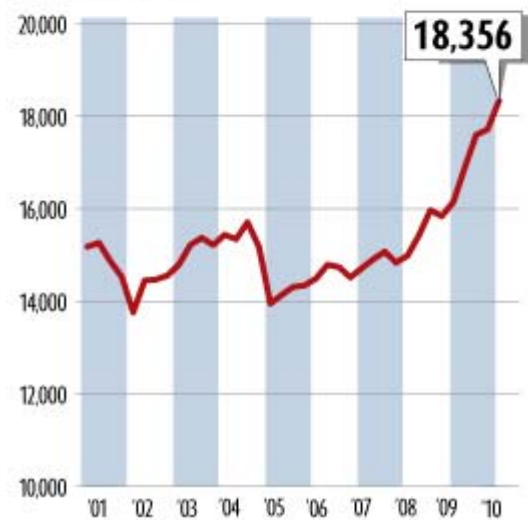
Rents and occupancies at downtown Class A apartment buildings rose in the first quarter despite a building boom that has added more than 2,700 units to the market since last May.

DOWNTOWN CLASS A APARTMENTS By quarter



The number of occupied downtown apartments rose 22% in the past two years, a sign that the recession hasn't depressed demand.

OCCUPIED UNITS



Source: Appraisal Research Counselors

One key measure of demand is rising at its fastest pace of the past 10 years. The number of occupied downtown apartments rose by 2,190 units from first-quarter 2009 to first-quarter 2010, the biggest annual gain of the last decade, according to Appraisal Research.

By contrast, the number of occupied apartments fell in the last recession by more than 1,400 units.

Granted, developers are offering good deals to attract tenants, in many cases as much as two months of free rent. As a result, developers are collecting lower net rents than they projected when they broke ground, before the jobless rate soared.

And while downtown Class A net rents are rising again, they have fallen more in the current recession than they did in the last one. Net rents declined 13% from their peak in the third-quarter 2007 to their low of \$2.08 a square foot in fourth-quarter 2009, according to Appraisal Research. They fell 12.4% in the prior recession.

Still, given how strong demand is, Mr. DeVries expects net rents to rise about 4% this year and occupancy to hit 95%.

"Once those jobs do start coming back, it will be fascinating to see what happens with rents," he says.

If there is one spot where oversupply is a concern, it's in the South Loop, where new construction and competition from condo rentals is depressing rents.

"There's been a bit of divide in the market," Mr. DeVries says.

But optimism is returning, with some developers already laying the groundwork for the new round of construction.

They are looking forward to 2012, when the

economy is stronger and the market has had time to absorb the supply from the current development wave. After completing 2,234 units this year, downtown developers will finish none in 2011.

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“There’s a lot of people talking now and trying to work up numbers for a new rental building,” Mr. DeVries says.

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