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# The Upside Down Recovery: Part Two

Multifamily operators are forced to account for concessions, as effective rent comps are vital for recovery benchmarking.

By: [Chris Wood](#)

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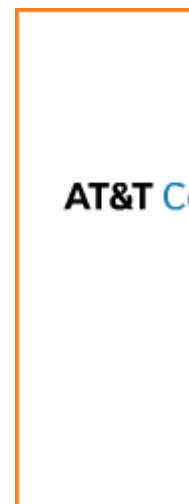


Windy City Wonders: Sheridan Plaza is one of 17 Chicago-area apartment assets where Horizon Realty is experiencing effective rent improvements as market concessions burn off.

Credit: Horizon Realty

With nearly 5,000 apartment units added to downtown Chicago since 2008 and unemployment hovering in the low double-digits, you'd think the Windy City is a multifamily market nightmare. You'd be wrong. Data released May 25 by Chicago-based real estate consulting firm Appraisal Research Counselors shows downtown apartment occupancy on the increase, at 93.6 percent in the first quarter, a 2.7 percentage point increase from just a year earlier and an improvement from 2009 fourth quarter occupancy levels of 91.4 percent.

“We’re really pleased with the spring rental season,” says Jeffrey Michaels, CEO of Chicago-based Horizon Realty, which operates 17 buildings across Chicagoland. “We’re looking at our numbers, and we fall right in line with the [Appraisal Research Counselors] data. Our effective occupancy is 93 percent, and even though we are a small fish in a big pond here in Chicago, we’re seeing good fundamentals out there and some good activity from the renter market.”



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Key to Michaels' self-assessment is the casting of Horizon's numbers as effective rent and occupancy, which is inclusive of concessions, move-outs, and other specials and factors that can obscure the relative revenue strength of rent rolls. While the multifamily sector is beginning to see both official and anecdotal evidence of occupancy and rent improvements, industry veterans caution that the recovery will be slow and steady, as effective fundamental improvements still have to account for more than a year's worth of concessions and rent cuts to show true growth relative to pre-recession highs.

"In the markets I'm in, which are the Southeastern United States and Texas, all of the market reports have come to the same conclusion that yes, we've hit the bottom," says Bill Stahlke, president of investments at Atlanta-based Lane Co. "But we're in for a long—and here's the magic word—moderate improvement, not 5 percent to 6 percent compounded improvement." As Stahlke scours Sunbelt markets for possible acquisition targets, he's been surprised at the number of deals touting non-effective rent fundamentals and questions the overall exuberance regarding the state of the industry and the prognosis for a mega-rent surge.

"I've looked at a number of deals that are 87% occupied; I've looked at deals that are 93% occupied. But the bottom line isn't market rents," Stahlke says. "It is really what are you collecting on a monthly basis, divided by physical occupancy, and that's what you compare to the competition."

Michaels says consumer disdain in the for-sale market is helping to power Chicago fundamentals in a relatively concession-free environment but emphasizes the importance of maintaining strong effective rent fundamentals, particularly during lease-up of new buildings. "Like most landlords, we tried to fight the concessions as much as possible, but there are instances where we'll do some things just to attract some short-term interest and then quickly go back to laying off the concessions," Michaels says. "In this market and these times, the renters out there have more choices, but if you offer a good product, I think you'll be able to stay a little bit above the fray."

Editor's Note: Check out Part One of this story [here](#).



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