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Suburban apartment rents back near peak

By: [Alby Gallun](#) August 09, 2010

(Crain's) — The suburban apartment market continued its comeback in the second quarter, with rents nearing their peak hit two years earlier, before the economy tanked.

Suburban landlords are flourishing again despite the lousy job market, which usually depresses demand for apartments. Their savior: the shaky residential market, which has made many renters wary of buying a house or condominium.

"Right now, people are choosing the least-risk decision, and that's to rent," says Ron DeVries, vice-president of [Appraisal Research Counselors](#), a Chicago-based consulting firm that tracks the local apartment market.

That's one reason the median suburban net rent increased to \$1.13 a square foot in the second quarter, up 2.7% from \$1.10 in the first quarter and 6.6% from \$1.06 in the year-earlier period, when rents bottomed out, according to an Appraisal Research report.

The median rent, which includes concessions like free rent, is now just shy of its \$1.14 high in early 2008, before the financial markets crashed and the unemployment rate soared.

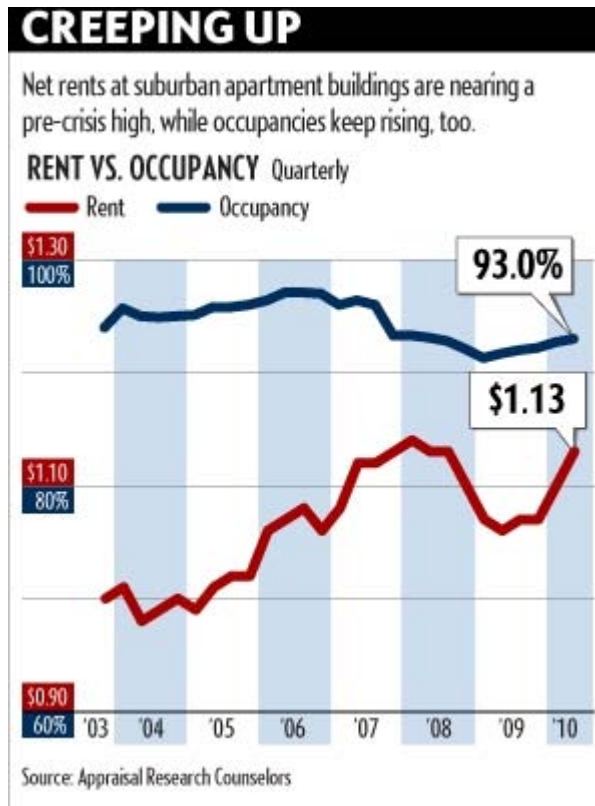
The suburban occupancy rate, meanwhile, climbed to 93% in the second quarter, up from 92.7% in the first quarter and 91.7% in the year-earlier period. The occupancy rate is still well short of its previous high of 97.1% in 2006.

Apartment investors are holding up better than many observers expected amid a deep recession that has dragged rents and occupancies down at shopping malls, office buildings and other property types.

Demand for apartments usually falls when jobs are scarce, as many renters double up or move in with their parents. That's what happened in late 2008 and 2009, when net rents fell as much as 7%.

But the local job market stabilized earlier this year, enough, Mr. DeVries says, to motivate some renters to leave their parents or roommates and get their own apartments.

Nonetheless, the local unemployment rate was still 10.6% in June, and it's unclear whether landlords will get much of a boost from the job market in the coming months. The U.S. Labor Department reported Friday that the country lost 131,000 jobs in July, fueling concerns that the recovery is running out of gas.



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But as bad as the job market has been, the market for single-family homes and condos is even worse.

"Many would-be buyers remain on the sidelines because of appropriately tighter lending requirements, fears that home prices may continue to fall, and continued uncertainty over the strengths of the economic recovery," Bryce Blair, chairman and CEO of apartment investor AvalonBay Communities Inc., said last Thursday in a conference call with analysts, according to a transcript.

That's good news for companies like Alexandria, Va.-based AvalonBay, which owns five properties with 1,257 units in the Chicago suburbs. People have to live somewhere.

"While jobs have been and will continue to be an important driver of apartment demand, it is likely that changes in the for-sale market may have an even larger impact than job growth on the strength of the apartment market in the coming years," Mr. Blair said.

Mr. DeVries expects rents to level off in the second half of the year but says the suburban occupancy rate will keep rising, hitting about 95%.

The Appraisal Research report covers 225 suburban properties with 75,523 apartments in seven Chicago-area counties. The median net rent rose in seven of 10 submarkets in the second quarter, led by South [Cook County](#), with a 13.5% year-over-year increase. McHenry County logged the biggest decline, 3.2%.

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