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Neighborhoods

ARC: High demand for downtown rentals

by Joseph Askins on 8/18/10

Appraisal Research Counselors on downtown apartment inventory:

Demand for downtown apartments continues to expand at a record pace. There are 2,146 more occupied rental units downtown in 2Q '10 vs. 2Q '09 — 698 units were absorbed in 2Q '10 alone. We expect the new product (2,324 units) delivering this year, combined with the remaining units at existing product, to be leased up by fall 2011. By 3Q '11, the market will transition to an overall shortage of rental units downtown. We project the number of occupied survey units to increase by 44.6 percent from 1Q '07 to 3Q '11 — an additional 6,570 renters downtown compared to early 2007.

On pricing and tenant trends:

For luxury buildings in lease-up, net effective rents are in the \$2.40 to \$2.50 PSF range — returning to peak levels from 2007. The exception is for those buildings located in the South Loop, which are closer to \$2.00 PSF due in part to intense competition from condo rentals. The market continues to respond well to new product with strong leasing activity. There is clear demand for high-end product downtown, with leasing agents reporting diverse demand sources including transferees, relocation from the suburbs, and unbundling of households, in addition to typical move-up demand in the market.

On incentives:

Concessions remain in the market, but several properties have converted to net effective rents or conversion to the LRO (lease rent optimizer) program. Rent inducements at the luxury product currently in lease-up have been scaled back from two or more months free rent to roughly 1.5 months free. We do not view this as a weakness in the market, but rather market rents at the buildings being set at aggressive levels.

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