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Spring to bring rent increases

Strong demand for apartments gives landlords the leverage to push for more

By Mary Ellen Podmolik, Tribune reporter

February 11, 2011

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Dodged a rent increase in 2010? Don't assume you'll be so lucky this year.

Demand is outstripping supply, meaning landlords both downtown and in the suburbs have many existing and prospective tenants just where they want them.

Last year, landlords were able to push through rent hikes of about 7 percent. This year, rents are expected to rise by an additional 7 percent to 8 percent...

For the prospective tenant looking for a bargain, that means the time to shop for a lease that includes a free month of rent or a flat-screen television is now.

"The concessions are still out there, but as soon as you hit that April market you're going to start seeing a lot of push on rents," said Ron DeVries...

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Many leasing agents say they're seeing more prospective renters walk through their doors than they typically do at this time of year...

"It's busier than it's ever been for this time of year," said Jon Perlman, of State Street Properties Chicago LLC...

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The 2,356-unit Presidential Towers, which just completed a \$2 million renovation of its lobby and common areas, anticipates rents this spring will be as much as 8 percent higher than in May 2010.

"Last year everybody dropped the rates to get someone in the door," said general manager Phyllis Kempton. "Now, everyone is raising their rent. People are accepting of 8 percent."

Meanwhile, at Flair Tower, renters will see renewal rates increase 4 percent to 6 percent, and new renters will see fewer concessions, said general manager Amanda Kopko.

Landlords "never hit the renewals as hard as the new tenants," DeVries said. "But if the building is 98, 99 percent occupied, they're going to take a more aggressive stance because they can sign another tenant at the full rate."

A combination of factors is responsible for the current leasing environment. Consumers with the financial resources to buy properties remain leery and continue to wait for the housing market to bottom; other people are forced into apartments because they've lost their homes to foreclosure.

Meanwhile, the supply of individually owned condos rented by their owners, called the "shadow" market, reached a record 5,718 units last year. But with condo construction at a virtual standstill, little new inventory is expected. Also, some potential tenants are fearful of renting condos, fearing that the owners may fall into foreclosure.

Woodstock Institute, a Chicago research and advocacy group, reported Thursday that condominiums accounted for 42.5 percent of all foreclosure activity in the six-county Chicago area in 2010.

Also, delivery of new apartment projects downtown has plummeted in the near term. More than 2,500 new downtown apartments came online in 2010. This year, the only new building is Randolph Tower, with 312 units, followed by potential additions of 650 units in 2012 and 2,000 units in 2013, the year in which rent increases may moderate.

Also, the national unemployment rate for people over age 25 with a college degree was 4.5 percent in January, according to the Labor Department, compared with 9 percent for the population as a whole, so they have the financial footing to seek out, and afford, apartments.

From the fourth quarter of 2009 to the same period last year, 2,000 more apartments were rented in downtown Chicago.

"That's a huge number," DeVries said. "Absorption downtown is phenomenal."

The rental trends aren't expected to extend to all corners of the city and suburban markets or to every building. Rent increases in older buildings, those generally built before the 1980s, are trailing behind those of newer buildings.

And not everyone has enough confidence in Chicago's job market to test a rent increase. Arnell Cordero, leasing director of Group Fox Property Management, which manages 2,500 units in Chicago, Evanston and Hoffman Estates, has seen fewer job transferees from other states and more of his younger renters move back home.

"We're a little more open to negotiation," Cordero said. "We can ask (for a rent increase), but it doesn't mean it's engraved in stone."

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