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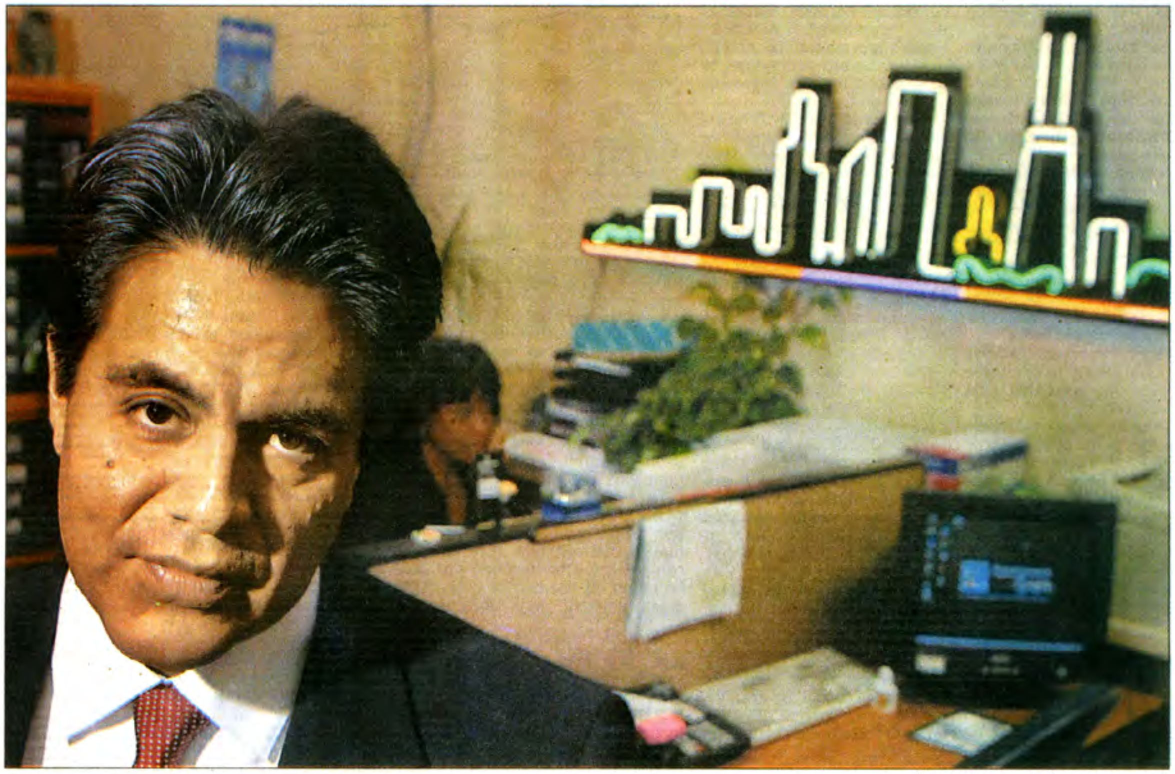

Photo for the Tribune by Yvette Marie Dostatni

Maurice Ortiz, marketing director for Apartment People, says rent increases of 8 to 10 percent are common in trendy neighborhoods such as Streeterville, the Gold Coast, Lincoln Park and Lakeview. 'We are approaching a landlord's market,' he says.

MOVE OVER

Renters muscle in on market for homeowners

By Sharon Stangenes
Special to the Tribune

Deb O'Dell is a working mother of two who has been renting since her divorce several years ago.

"I initially did feel that I had missed the housing boom," she says of her first years in the two-bedroom 1,200-square foot Oswego home she shares with her children and two dogs at Prairie Brook Apartments at Farmington Lakes.

But now, with home sales slowing and foreclosures swelling, O'Dell says, "I'm kind of relieved I didn't buy because I would be tied to a mortgage I couldn't afford."

O'Dell is one of a growing number of people choosing apartment living in what experts say is a tightening local rental market.

"A lot of people have been frightened off by the current real estate market and are continuing to rent or are deferring buying," says Maurice Ortiz, marketing director for Chicago-based Apartment People, an apartment finding service in Chicago and the North Shore. "We are approaching a landlord's market," he says.

Photo for the Tribune by Ryan Rayburn

Deb O'Dell says she worried about missing the housing boom when she rented a two-bedroom unit in Oswego, but now is relieved that she deferred buying a home.

After struggling for several years to keep units filled while tenants were lured to buy homes with low mortgage rates and fast price appreciation, many apartment complexes boast an occupancy rate of 95 percent and higher, according to real estate experts.

In addition to high occupancy, big landlords are enjoying the lowest turnover rates in years despite 2007 rent increases of 2 percent to more than 11 percent, according to a survey of the Chicagoland Apartment Association. Downtown luxury apartments have shot up 17 percent in the last two years, according to Appraisal Research Counselors, a consulting firm.

The reason for this turnaround is the continuing job growth—albeit slow—in the Chicago area, a dearth of new apartment construction to replace units converted to condos and growing consumer jitters about the real estate market.

"Demand is up. Supply is down," says Judith Roettig, executive vice president of the CAA with members representing 136,000 rental units in a six-county area.

The rental market was hit hard early in the decade by the departure

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RENTALS: Renewals brisk amid tight supply

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or closing of several major local employers. Then came an economic downturn following the terrorist attack on New York City and Washington, D.C., Sept. 11, 2001.

Next, an unprecedented housing boom forced landlords to keep rents down or offer concessions, essentially rolling back rents, to keep units filled.

It was so tough a number of owners simply got of the business—either by selling to condo converters or converting the units themselves. The loss of apartments was particularly strong in Chicago, where in 2005 alone 3,832 downtown apartments went condo, says Ron DeVries, vice president of Appraisal Research.

And that does not include conversions beyond the downtown area or buildings of less than 25 units.

A lack of incentive to buy or build for several years has limited apartment development in the metro region, though 57 percent of Chicago-area residents are renters, according to the CAA.

But as home sales have slowed so have rental move-out rates as apartment dwellers re-think the benefits of buying.

Diana Pittro, executive vice president of RMK Management, which manages more than 6,000 units in metro Chicago and Minneapolis-St. Paul, says 45 to 50 percent of rental residents typically move out each year. In 2007 the rate is 40 to 45 percent so "most properties are enjoying a high renewal rate."

And it may be lower in more desirable neighborhoods.

"I had one building with eight units where only tenant moved this year and that was because he was transferred by his company to another city," says Mary Prekop, manager of Victorian Independent Properties, which has more than 40 apartments in Old Town and Lincoln Park in Chicago.

The stability is good news for landlords, many of whom hiked rents in 2007 to catch up for the years when rents trailed rising operating costs.

Photo for the Tribune by Ryan Rayburn

Deb O'Dell has no regrets about renting a two-bedroom apartment for her family the last several years.

Photo for the Tribune by Joel Wintermantle

Being a longtime renter has allowed Deb Paulson to sample the lifestyle of various downtown buildings.

"We are almost back to 2000 and 2001 [rent] levels," says Prekop, who adds that utilities, taxes and "insurance—you don't know how much for insurance" has skyrocketed in recent years.

The average gross rent in luxury rental buildings downtown rose to $2.31 a square foot in the second quarter of 2007, the latest figures available from Appraisal Research, up 3.6 percent from a year earlier. So the monthly rent for a typical 920-square-foot, two-bedroom apartment is $2,125.

In the suburbs, new rents rose to $1.12 per square foot, up 4.3 percent from a year earlier, according to the consulting firm. The monthly tab for a typical one-bedroom suburban apartment rose to $890 a month, and a two-bedroom unit hit $1,073.

Newcomers bear the brunt of most of the increases because landlords prefer to keep hikes reasonable for current tenants to retain them.

Ortiz said rent increases of 8 to 10 percent are common in popular neighborhoods such as Streeterville, the Gold Coast, Lincoln Park and Lakeview. Those hikes are pushing more renters to look at options in other neighborhoods, including Uptown, Edgewater and Lincoln Square "where they can get more for their money" and increases are more on the order of 4 to 5 percent, or in Evanston, where hikes are 6 to 7 percent, he says.

"Availability" is the key, says Ortiz, adding "I haven't seen so many lease renewals for many, many years."

Suburban retirees who have sold homes to move into the city to be close to amenities are joining the rental pool, traditionally comprising of students, young professionals and those working here on a short-term basis, Ortiz says.

And he points to a growing stream of people from out of state or country coming to Chicago. Almost one-third of the 40,000 clients his company gets each year are from outside Illinois, up from 25 percent in the past, Ortiz says.

A growing number of those apartment seekers are finding homes in the "ghost" market of condos rented by private owners, says Ortiz.

Such units made up 21 percent of his firm's listings in 2005 but are 29 percent now.

"I see that rising until 2010," predicts Ortiz as more condo projects under construction come onto the market.

How many condo units have been bought by investors to rent or are being rented by owners waiting to sell when the market is stronger is hard to determine.

In downtown Chicago, those units have provided a stopgap in the period when thousands of apartments were removed from the market in conversion.

Deb Paulson, an administrative assistant at a Loop law firm and a renter for more than 20 years ago, was in that situation. Paulson was not ready to buy when her building at 400 N. LaSalle St. was converted to condos a couple of years ago. Wanting to walk to work, she opted to rent a condo in Marina Tower in part because she is developing a business as a photographer of Chicago architecture and liked the idea of living in such an iconic building.

Nevertheless, she was one of the first people at the April opening of the rental office for Habitat's Co.'s new 420-unit Kingsbury Plaza.

Paulson, who moved into the 46-floor Kingsbury Plaza, where rents ranging from $1,200 a month for a studio to $2,652 for a two-bedroom, in late August, said she loves the floor plan and amenities of her convertible unit though she is paying nearly $1,500 a month, $200 more than before.

The Habitat project is one of a handful of new downtown apartment towers, including Forest City's Sky 55 at Central Station in the South Loop and Fifield's Left Bank at K Station in the West Loop, which have opened in the last year. Several are opening in 2008, with even more on the drawing board.

Almost 1,200 new apartments have been added downtown in the last year and another 1,700 are scheduled to be completed in 2008, DeVries reports. Those additions, coupled with the investor units coming on line, could hold down rent increases in the central city to 3 to 6 percent in 2008, he estimates.

Most, if not all, of those units will carry luxury price tags, however.

Outside of downtown, where renters traditional go for more affordable apartments, "we are not seeing any substantial development" in the city or the suburbs, the consultant says.

"The numbers don't make sense" for building in city neighborhoods because the housing boom pushed up the price of land, he says.

In the suburbs, developers are not finding suitable sites because "most municipalities would rather have owners than renters."