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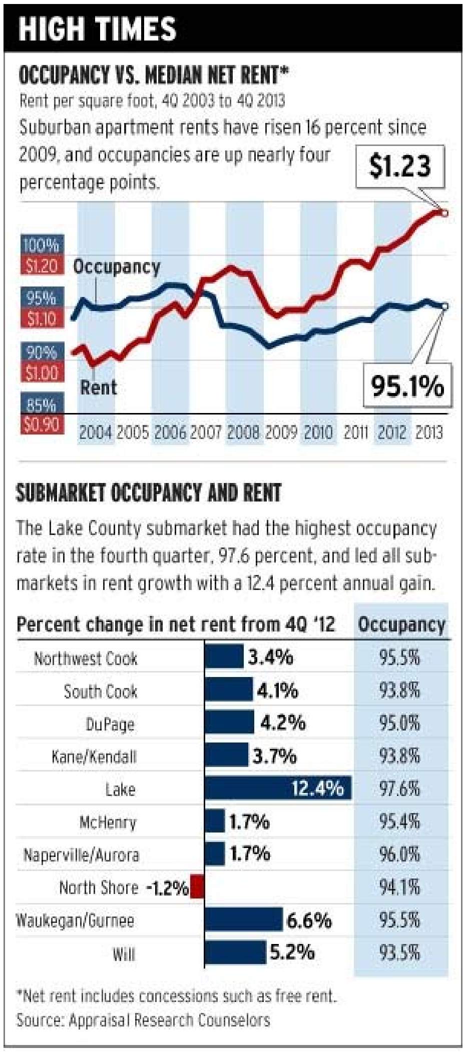
Suburban apartment landlords poised for more gains in 2014

By: Alby Gallun **March 03, 2014**



The suburban apartment market is not too hot and not too cold — just right for many landlords who have full buildings and are hiking rents at steady pace.

The median suburban net rent was $1.23 a square foot in the fourth quarter, flat with the third quarter but up 3.6 percent from a year earlier, according to a report from Appraisal Research Counselors, a Chicago-based consulting firm. It was the fourth straight year of rising rents.

The suburban occupancy rate was 95.1 percent, down from 95.2 percent in the second quarter but up from 94.9 percent a year earlier.

"We've seen good demand and all our buildings are full," said David Strosberg, president and managing principal of Morningside Group, a Chicago-based developer with 10 suburban apartment buildings. "We've had some good rent increases, nothing dramatic."

Demand for apartments rose across the country after the real estate crash amid a reluctance — or inability — of many people to buy, either because they couldn't get a mortgage or were spooked by the drop in home prices. More recently, the job market, the traditional driver of apartment demand, has improved, giving more people the confidence to move out of their parents' house or ditch their roommate and get their own apartment.

"As the broader economy continues to grow, we expect the overall multifamily sector to remain strong in 2014," David Brickman, executive vice president of the multifamily business at Freddie Mac, said in a statement. "Revenue growth in the industry will continue to perform near or above historical averages, but at lower rates than the previous two years."

Freddie Mac, the McLean, Va.-based housing finance firm, forecasts that apartment rents will rise 3.8 percent this year in the Chicago metro area. Appraisal Research Vice President Ron DeVries expects suburban rents to rise another 3 to 4 percent.

Development has picked up amid the strong market: Developers completed 2,088 units in the suburbs last year, the highest annual total since 2002, according to Appraisal Research. The firm forecasts builders will add another 1,244 apartments in 2014.

Morningside, for instance, is putting the finishing touches on a 306-unit building in west suburban Wheaton — it's already 40 percent leased — and plans to break ground by June on **347-unit project in Northbrook,** Mr. Strosberg said.

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While a downtown building boom **is fueling fears of a glut,** the suburban market is so vast and spread out that the additional supply isn't likely to have a broad impact. But it could affect landlords in places like Evanston, where developers completed 469 apartments last year. Another **356-unit project** being developed by Chicago-based Fifield Cos. is under construction in Evanston.

For existing buildings nearby, the new competition probably "kept their rents a little bit in check," Mr. DeVries said.

Indeed, net rents fell 1.2 percent last year on the North Shore, the only suburban submarket with a decline. The North Shore occupancy rate was 94.1 percent at the end of the year, down from 94.8 percent a year earlier, according to the Appraisal Research report, which covers more than 270 properties with more than 85,000 units.

Other suburbs have had such little development over the past couple decades that a couple new buildings aren't likely to make a big difference. Wheaton hasn't had a new apartment building in about 17 years, while Northbrook hasn't had one in about 20, Mr. Strosberg said.

On the demand side, some renters in high-end buildings may move out to buy condominiums or single-family homes, though memories of the crash have eroded the appeal of owning for others.

"While stability in pricing is returning to the single-family market, the younger population continues to prefer the flexibility in renting for career mobility and has limited opportunity to finance the purchase of a residence," the Appraisal Research report said. "Nonetheless, we note the rate of homeownership is increasing sharply, which typically has a siphoning effect of higher-quality renters from the market."

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