Appraisal Research Counselors

400 E Randolph Street, Suite 715
Chicago, Illinois 60601-7388
T: 312-565-0977
F: 312-565-3436

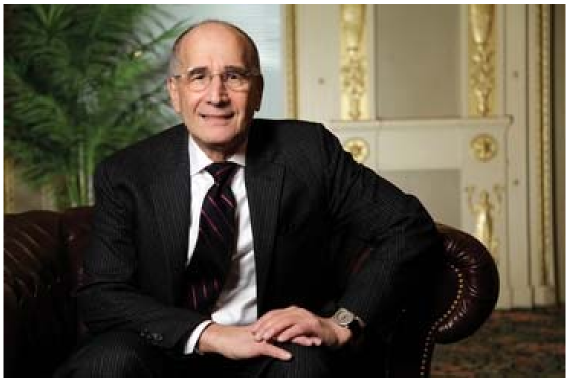
Click here to view AppraisalResearch.com

Professional Service Since 1968

Appraisal Research Counselors®

Why rents are rising on the North Side

By Alby Gallun   April 14, 2014



Stuart Handler, CEO of TLC Management Co., steered clear of downtown Chicago. "I didn't want to battle it out with new high-rises." He's glad he did.

As more construction cranes sprout in downtown Chicago, they remain rarer in neighborhoods such as Lincoln Park and Lakeview. Stuart Handler likes it that way.

With few apartment developments going up in North Side neighborhoods, landlords like Mr. Handler have more freedom to raise rents than do owners of downtown high-rises, which are starting to feel the impact of a major construction boom that shows few signs of ebbing. For all the ebullience about the downtown renaissance, Mr. Handler is happy most of his buildings are elsewhere.

"I stayed away from those areas" in downtown Chicago, says Mr. Handler, CEO of Chicago-based **TLC Management Co.**, which owns 35 buildings from Evanston to South Shore. "I didn't want to battle it out with new high-rises."

With more than **6,200 apartments** expected to open downtown this year and next, the battle for tenants may be just beginning. Rents at high-end downtown buildings already have started to fall, according to one report.

It's a different story in North Side neighborhoods, where demand for apartments continues to exceed supply, and many building owners are hiking rents by 5 percent or more annually. While that's good news for landlords, it means no relief for tenants anytime soon.

"I don't see it leveling off in the near term," says Lee Kiser, co-founder and principal of Chicago-based apartment broker Kiser Group. "There's a lot of short-term rent growth to capture."

The past few years have been a golden age for the apartment industry, as the housing crash scared many residents away from owning and pushed them into the rental market. Net rents at top-tier, or Class A, downtown buildings rose nearly 24 percent from 2010 through 2012, according to Chicago-based consulting firm Appraisal Research Counselors.

But developers rushed in, and downtown landlords have started to lose their pricing power amid the supply surge. Class A net rents **fell 2.7 percent** last year, according to Appraisal Research.

Development has picked up in city neighborhoods as well. **Halsted Flats**, a 269-unit project, recently opened near Wrigley Field, and the first residents will move in next month at **Webster Square**, a 76-unit development at Lincoln and Webster avenues.

Yet construction has been limited in the neighborhoods because it's hard to find land for big

>Browse Crain's complete Topics Pages

Crain's Live Search

For best results, please place quotation marks around terms with more than one word, e.g. "Rahm Emanuel"

APRIL 14, 2014

Past Weeks

News   Focus   Business of Life

More from This Week's CRAIN'S

Why rents are rising on the North Side

As more construction cranes sprout in downtown Chicago, they remain rarer in neighborhoods like Lincoln Park and Lakeview. Stuart Handler likes it that way.

Read Now

How Bloodshot Records has lasted so long (One hint: Lydia Loveless)

Why can't anyone make money in hyperlocal news?

How Caterpillar's tax-reduction plan works

Kraft Singles and the 'clean food' movement

How Quinn is betting on insurance companies to rescue Illinois' economy

View All The Stories

projects, and rents in many places are not high enough to justify a new building, Mr. Kiser says.

In general, rents must hit around $2 per square foot, at a minimum, to justify the cost of a new building. Many existing structures on the North Side aren't getting that, while downtown apartments are fetching $3 per square foot or more.

Finding reliable data on occupancies and rents outside downtown is difficult because it's such a large, fragmented market, and the market dynamics of city neighborhoods vary widely. Being a landlord still is tough in many South Side neighborhoods that are struggling to recover from the recession and housing crisis.

DOUBLE-DIGIT HIKES

Landlords in wealthy Lincoln Park and Lakeview can command high rents, but rent growth is better in gentrifying neighborhoods such as Logan Square and Humboldt Park, which have seen an influx of residents who have been priced out of other neighborhoods. One landlord, who asked not to be identified because he didn't want to alienate tenants, says he recently hiked rents on four units in one Logan Square building by 12 percent.

Yet double-digit rent increases are more the exception than the rule, often limited to buildings that have undergone a major renovation. Andy Ahitow, founder of Chicago Apartment Finders, a tenant service, estimates that most landlords in the strongest neighborhoods have been hiking rents by about 5 percent.

For many renters, moving out isn't a good option because it is so hard to find a new place nearby. Mr. Handler's buildings, which encompass 2,811 units, are 97 percent occupied. TLC's rents rose 3.5 to 4 percent last year.

Yet costs are rising, too, he says. He estimates that his gas and water bills rose 100 percent each last year, and he's spending anywhere from $300,000 to $500,000 on each of his 14 high-rise buildings to comply with new life safety regulations that take effect next year.

Mr. Handler also is bracing for **property tax hikes** because of Mayor Rahm Emanuel's plan to solve the city's pension crisis. That could push rents even higher.

“There's a real pressure on costs, which will mean that landlords will find a way to pass those costs along,” he says.

Editor's note: This story has been corrected to clarify Mr. Handler's estimate of how much he will spend on each of his apartment buildings to comply with new life-safety regulations that take effect next year.

For complete coverage of Chicago-area real estate, visit ChicagoRealEstateDaily.com.

What do you think?

NOTE: Crain's Chicago Business has changed commenting platforms. Readers may continue to post comments if logged in using their existing ChicagoBusiness.com credentials. But now, readers may also log in using their social media credentials and elect to share their ChicagoBusiness.com comments with friends on their designated social media pages.

The commenter section of Crain's Chicago Business is an opportunity for our readers to start a dialog on our content. While we don't require you to use your real name, we do ask that you participate as though you were – that is, keep the conversation civil, stay on topic, avoid profanity, vulgarity and personal attacks, and please don't post commercial or self-promotional material. We will remove comments that violate these standards.

Post a new comment

WILLIAM M. (Logout) | Follow replies to my comments