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## Downtown Chicago rental market soaring

### Poor housing market, new projects' high-end amenities encourage would-be buyers to rent



The open air pool at Flair Tower. (Shauna Bittle, Chicago Tribune / June 9, 2010)

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One morning last week, Fabio Mazzilli warmed up by shooting hoops on a full-size basketball court and later relaxed in an outdoor spa tub before getting ready for work.

He wasn't at the nearby East Bank Club. Mazzilli had walked across the street from his apartment to enjoy the perks of the new apartment building he and his wife will relocate to later this month. "I feel I can really relax, be isolated and recharge my batteries," Mazzilli said. "The amenities are what sold me."

This year, six buildings brimming with amenities and high-end design will add more than 2,200 apartments to the downtown Chicago rental market, including Alta at K Station, at 848 units the largest apartment complex to open downtown in at least 11 years. Until recently, this year's influx of new units into a tough economy, particularly after the addition of almost 1,300 apartments downtown in 2009, had developers holding their breath.

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Not anymore. Unlike the suffering condo market, the rental market downtown is hot, and observers say the newest projects — which carry eye-popping rents that top out at \$5,000 a month — should be more than 90 percent leased in the next 12 to 15 months.

"We were building right through the recession which wasn't so great but we opened up at the beginning of a fundamental economic recovery in Chicago," said longtime developer Steven Fifiel. "Is there a huge recovery, no. But there are fewer people buying condos and more people renting."

Leasing agents currently offer the typical one to two months of free rent associated with new buildings, but those concessions are fading as certain floors or units rent. While they sell the sizzle of condo-quality kitchens and baths, eco-friendly design, party rooms and personal trainers, building developers and managers also are looking ahead to rent increases. Without construction in the pipeline, the market expects significant market-rate increases by spring 2012.

"I think the landlords are starting to regain control," said Lauren Dolan, manager of Flair Tower, 222 W. Erie St. "A year ago, some properties were waiving three months' rent or throwing in all utilities. We're pulling away from that now."

Ron DeVries, vice president at Appraisal Research Counselors, predicts that downtown apartment rents could rise 3 to 4 percent this year and at least 5 percent next year. "There's just not a lot of new product and people are looking for high-quality product right now," he said.

At a time of low mortgage rates and, some would say, rock-bottom housing prices, it may seem counterintuitive to pay \$1,500 a month for a studio apartment. Homebuyers, however, face stringent borrowing requirements and the worry that any home purchase — and particularly a condo — will further decline in value. The median price for a traditionally sold condo or town house in Chicago in April was \$316,000, a drop of almost 10 percent since January, according to data supplied to the Chicago Association of Realtors by Midwest Real Estate Data.

Given that reality and possible changes in their personal circumstances, young professionals seeking to live downtown would rather rent swanky apartments and maintain their flexibility.

When he decided to make a move this spring from Schaumburg to Chicago, Andrew Connell never considered buying a condo. Instead, he signed a two-year lease for a two-bedroom, two-bathroom unit at 215 W. Washington St., where he pays more than \$2,000 monthly.

One downside is the outdoor swimming pool doesn't get much direct sunlight. But that pales in comparison to what some of his friends are enduring. "I've got a few friends who've bought places and now they're stuck because they can't sell," he said.

There seems to be plenty of that sentiment going around. Originally conceived as a condo project, Parc Huron's new owners built it as an apartment tower and expected it to appeal to 25- to 30-year-olds. The just-opened building at 469 W. Huron now is expected to lure more 30- to 40-year-olds to rent there. "The people that are coming through, most are clearly capable of buying a condo," said Tony Rossi Sr., president of RMK Management.

What's also fostering the market's health is that the six new buildings aren't cookie-cutter facsimiles; each has a different feel and look and will appeal to renters' individual preferences.

For instance, 215 West, which began delivering apartments in late March, is 25 percent rented, and property manager Tracy Braun says many of the tenants are people who want to live within a few blocks of where they work. Meanwhile, Alta at K Station, at 555 W. Kinzie St., is more geared to renters who like a big building and are willing to be farther west than other new market entrants.

The buildings may have a different ambience but they're playing one-upmanship with each other when it comes to resortlike perks.

"Amenity floors" feature flat-screen televisions with theater-style seating, electronic game systems, business centers, billiards, dog runs and fitness areas. Building concierges schedule events ranging from movie nights to wine-tastings.

"Once they buy, they bought," Fifiel said. "With renters, we have to resell ourselves every year because every year people can choose to leave. We're not trying to rent an apartment. We're trying to rent a lifestyle. The rents we need to justify these buildings, you've got to give people a great value when they come in and pay \$1,400 for a studio."

When she was transferred by her company from southern Florida to Chicago in March, Kentucky native Lindsay Larsen had two days to find an apartment. She eschewed neighborhoods like Lincoln Park and Lakeview, and toured a dozen buildings in the Gold Coast and River North before settling on a \$1,480, 550-square-foot convertible on Flair Tower's eighth floor.

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"I wanted to be downtown by the young professionals and all around the action," Larsen said. "There's monthly events, wine nights. In the winter, everyone hibernates. It's nice to know you've got a party room, flat-screen TVs, a pool table. That was a huge selling point for me."

DeVries doesn't see the investment in expansive common areas slipping anytime soon. "For the younger generation who's looking for those areas to socialize and network a little bit, these buildings with amenities give them the opportunity to do that," he said. "They want to see and be seen and interact when they want."

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I agree with Neuman35. Why not buy? I mean, put down \$100,000 on a \$500,000 property so that the property can drop another 30% in value and you can lose all of your equity plus some! Sounds great, doesn't it? Here's better advice, take your \$100,000 to Vegas. At least you'll have a chance.

The fact is that unemployment remains high, and given states' balance sheets, it'll be going even higher (after netting out Census hires). Foreclosures continue to climb to new highs (contrary to what the popular press seems to imply, they've never gone down). The shadow inventory of foreclosures is through the roof (these are homes that have already been foreclosed on but not yet put back into the market or homes with mortgages that are more than 6 mos. behind, but the bank can't foreclose because it can't sell the property). Add to that the re-introduction of traditional lending standards (none of which were enforced in the lead-into and during the bubble) which limits the pool of available buyers. Oh, and the \$8,000 first-time home buyer credit just expired, too!



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		RATE	+/-	LAST WEEK
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6 month CD		0.78%	—	0.78%
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