

Downtown apartment units add up, as do rents

More than 3,600 luxury rental units will be added this year, and more apartment towers are slated for 2014



Work is under way at a new apartment building at 73 E. Lake St. in Chicago. The project, run by McHugh Construction Co., is set to open in 2014. (Heather Charles, Chicago Tribune / December 26, 2012)

**By Mary Ellen Podmolik, Chicago Tribune
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They're back: Construction cranes. In downtown Chicago. Lots of them, a visible sign of the more than 2,600 luxury rental units that will be added to the apartment market this year.

About every downtown neighborhood has a project in the works or in planning stages.

Loaded with amenities, the new buildings cater to renters who want to live downtown and are willing to pay for it. And because demand is high — and is expected to stay that way — the additional supply will not lower rents, at least not yet.

In the final months of 2012, a shortage of downtown apartments meant less than 5 percent of units were vacant and available for rent. As a result, there were more than 10 buildings downtown where average rents were at least \$2.80 a square foot, up 8.5 percent from a year earlier, according to Appraisal Research Counselors. Rents in good and better buildings were up as well, by lesser amounts.

"In Chicago, not only the rents have improved, but the vacancy rates have improved," said Daria Salusbury, senior vice president of leasing at Related Midwest, which is building 500 units at 500 N. Lake Shore Drive and 504 units at 111 W. Wacker. "We're very bullish."

There's plenty of reason for such upbeat sentiment, which is widely shared among multifamily developers.

After years of doubling up with friends or moving back in with their parents after college, an improving economy and lower unemployment is giving young professionals with steady incomes and job stability the confidence to strike out on their own. In the 12 months that ended in September, the nation added 1.15 million new households, according to the most recent census data, and some of those households were renters.

They have the desire and the means to move but don't necessarily yearn for homeownership, despite the lowest average annual mortgage rates in at least 65 years. Home price gains remain minimal, new condo construction is practically nonexistent and mortgage financing remains a challenge. In November, the average credit score of approved first-lien mortgages was 750, according to Ellie Mae.

"It really is the only type of housing that people are looking at," said David Hovey, architect and developer of Optima Chicago Center, a 325-unit rental building under construction in the city's Streeterville neighborhood. "In the immediate future, it's all about rental apartments."

For the city's newest rental apartments, it's all about the extras.

"It's an easier decision to build a highly amenitized building," said Ron DeVries, a vice president at Appraisal Research Counselors. "The equity investors and the lenders are going to demand it to do the deals. They don't want to take the risk of putting a product out that won't capture demand."

In addition to the de rigueur condo finishes inside apartments, frills that will be found in some of the common areas of buildings now under construction include spas for renters and their pets, pools with private cabanas, libraries, business centers, a basketball court, rooftop gardens and decks with fire pits, golf simulators and fitness centers filled with high-end equipment.

Anthony Rossi Sr., president of M&R Development LLC, partner in a venture that is building the 332-unit 73 E. Lake, is among those who acknowledges that builders are creating a demand for apartment building extras, not answering one voiced by consumers. "It's absolutely being fed by developers and I plead guilty to being part of it," Rossi said. "The market that we're in now, everybody is looking for an edge."

Some of the renters expected to set up house in these swank apartments, which run the gamut in a building from efficiencies to penthouses, are young professionals whose first apartments were in the city's Lakeview or Lincoln Park neighborhoods.

Now they want to move downtown, as its entertainment and housing options have evolved. Other potential renters are new residents who like the central location and nearby amenities of city high-rise living. They are well-qualified; leasing agents vet would-be renters just like lenders make sure homebuyers have the good credit scores and established income to afford a mortgage payment.

"A few years ago, these people would have been buyers," said T.J. Rubin, managing broker of Fulton Grace Realty, an apartment leasing and property management company. "More people that continue to rent haven't necessarily lost all faith in the housing market, but they want to park their money. They want a nice luxury stay for a few years."

Related's Salusbury added, "You may want to test drive if your lifestyle in Chicago is going to be as fantastic as you think it will be."

Richard and Rebecca LaRue have decided downtown Chicago living is indeed fantastic. After arriving in the city for new jobs, the couple lived in corporate housing for a few months and late last summer began renting a one-bedroom apartment at Randolph Tower City Apartments, an office building-to-apartment conversion in the heart of the Loop.

"I looked at an awful lot of other places, but then I directed my search downtown," said Richard LaRue, 30, art director at Leo Burnett Arc. "Right now I live five minutes from work. I've done the trains and buses. Once I could walk to work, that's what really sold me."

With conveniences inside the building and a growing number of amenities downtown, including a recently opened Target and a two-level Walgreen store, the LaRues have no immediate plans to trade high rent for a mortgage payment.

Besides, years ago Richard LaRue owned a condo in Florida. "I don't want to get stuck again," he said.

The ambitious list of rental projects still in the pipeline will include some that will run into zoning issues and either get delayed or scuttled. Others might get turned into condo buildings when that market starts to reappear, maybe in 2014, much in the same way that some former condo projects are now rental buildings.

Developers are keeping their options open for when the market shifts. Some consider the projects as long-term investments; others foresee a day when the buildings will "go condo" and have designed them accordingly; and others plan to recoup their investment by selling them to investors, who have a hearty appetite for solid investments.

Just before Christmas, Fifield Cos., and its joint-venture partner, Pacific Life Insurance Co., sold the 848-unit, 94 percent leased Alta at K Station, to Canadian REIT Morguard Corp., for \$302 million. It was downtown Chicago's biggest apartment sale since May 2011. Another of Fifield's apartment towers, the 496-unit K2 that is just west of Alta's two towers, is scheduled to open this spring.

mepodmolik@tribune.com

Twitter @mepodmolik

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