

Appraisal Research Counselors

400 E Randolph Street, Suite 715
Chicago, Illinois 60601-7388

T: 312-565-0977
F: 312-565-3436

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Price cuts mount as condos linger

Mary Ellen Podmolik, Tribune reporter

July 4, 2010

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A trio of condo developments — one small, one medium and one large — announced price cuts recently as the market readjusts in a post-tax credit market and lenders show their nervousness about the summer selling season.

Price cuts in Chicago's condo market are nothing new, particularly downtown. Earlier this year, 565 Quincy, 200 North Dearborn, 222 E. Pearson and Metropolitan Tower all trimmed their advertised prices. Other buildings conducted auctions and then set new prices for the remaining units, based on the auctions.

The size and scope of the decreases, at Parkside of Old Town, The Columbian and Wabansia Row, vary. The constant, though, is lenders' efforts to jump-start stalled sales in new buildings.

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"Every development has a different circumstance, depending on if it has a lender that's coming to reality," said @Properties agent George Schultz. "Every development is financed a different way. But the bottom line is the downward pressure on new construction has come to bear."

Developers and their bankers are hoping that as the economy slowly firms up, buyers will see the one-two combination of reduced prices and historically low mortgage interest rates as proof that it's a better time to own than rent or to move up to a bigger, and now more affordable, home.

"The mentality of the buyer walking through my door now is different than a year ago," said Matt Hollman, sales director at The Columbian. "A year ago they were all talking about how bad the market is. Now a third are talking about the bad market and two-thirds are saying it's the right time to buy at the right price. They're going to take the best deal."

Three sets of recently released data aren't likely to calm the nerves in sales centers. The first, from real estate site Trulia.com, calculated the price-to-rent ratio for major cities by comparing the average list price with the average rent on a two-bedroom apartment, condo and townhome. The Chicago area's price-to-rent ratio was 15, meaning it just eked by as being a city where it's less expensive to own a home than to rent. Had the ratio been 16, it would have been a better city for renters, depending on their situation.

Another piece of data, from a Campbell/Inside Mortgage Finance survey, found that nationally, home shopping activity nosedived in May, following the April 30 expiration of when buyers had to have sales

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contracts signed to qualify for a tax credit. Meanwhile, the U.S. Census Bureau reported that new home sales in May were down 32.7 percent from April and 18.3 percent lower than in May 2009.

Among the developments with recent price cuts is Parkside of Old Town, where prices were cut by up to 30 percent on 75 condos and up to 40 percent on 27 town homes. The development, on the site of the former Cabrini Green public housing complex, is one of the city's Plan for Transformation communities and offers a mix of market-rate, affordable housing and units set aside for returning **Chicago Housing Authority** residents. It has been beset by slow sales and financing issues.

In Bucktown, Wabansia Row has dropped the price by up to \$100,000 on 11 new town homes. At The Columbian, a 46-story condo tower that overlooks **Grant Park** and was taken over earlier this year by Fidelity Investments, prices on 20 of the remaining 60 unsold condos have been cut by an average of 25 percent.

Nevertheless, Hollman said it's no fire sale of the project because the goal is to sell 20 units this year. It may not reassess the pricing structure on the other 40 units until next year.

Home shoppers may see more of that strategy, namely slashing prices on just enough units to pacify a project's investors, as the year goes by. The reason behind it is the other reality of Chicago's condo market. Anyone who wants a newly constructed condo next year is going to find them in short supply — and that will likely firm up prices.

Appraisal Research Counselors predicts that it will be at least two years and maybe more than three years before new development deals begin. In fact, the only project scheduled to deliver condos to the market in 2011 is the ultra-high-end Ritz Carlton Residences.

"This is a strategy that developers contemplate," said Gail Lissner, a vice president at Appraisal Research Counselors. "They fully realize that there is going to be no more new product added to the market and next year we'll have fewer units that are in competition."

Adds Schultz of @Properties: "Everyone wants to hold out as long as they can."

mepodmolik@tribune.com

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