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Downtown condo sales lag as tax credits end

 By: [Alby Gallun](#) August 16, 2010

(Crain's) — The market for new downtown condominiums remained stuck in the doldrums in the second quarter, as popular tax credits for home purchases expired and the economy lost momentum.

Downtown developers sold 150 condos and townhomes in the quarter, down from 256 in the first quarter and 313 in the year-earlier period, according to a report by [Appraisal Research Counselors](#), a Chicago-based consulting firm.

Developers are still on track to sell more condos than they did last year — but not by much.

“We’re just continuing to plod along,” says Appraisal Research Vice-president Gail Lissner.

The federal tax credits, combined with aggressive price-cutting by developers, had buoyed an otherwise dismal market in previous quarters, allowing some builders to unload unsold units and keep their lenders at bay. But many would-be buyers have lost their sense of urgency since April 30, the last day they could sign a home-purchase contract and still qualify for the tax credits, Ms. Lissner says.

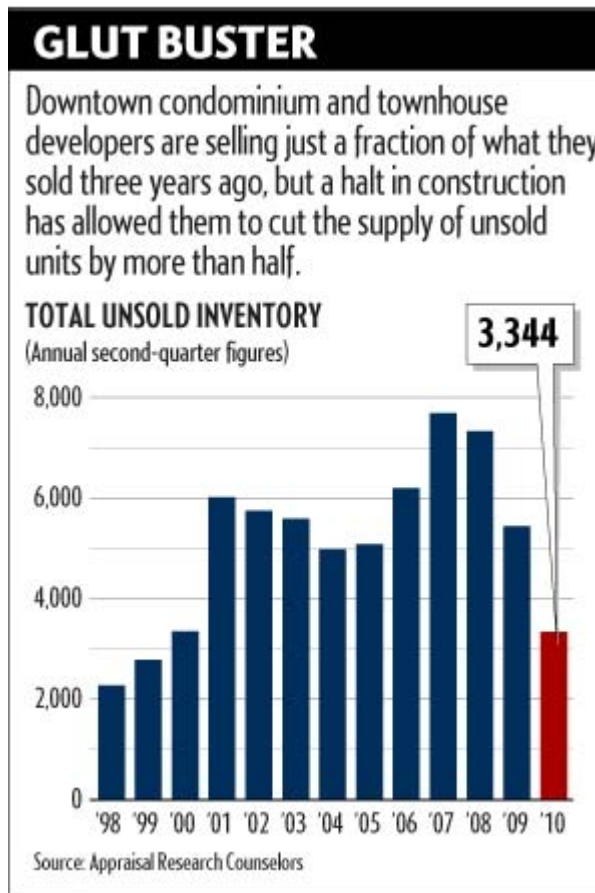
Appraisal Research tracks net sales contracts, not closed sales. The number reflects both new contracts and canceled ones, when buyers back out of purchases before closing time.

A recovery could be years away, but developers, with 406 sales in the first six months of the year, are still ahead of their [pace](#) in 2009, when they sold just 572 units during the whole year.

That’s still a fraction of the 8,162 units downtown developers sold in 2005, before the housing bubble burst and the economy plunged into its deepest recession since the 1930s.

“With the tax credit expired, continued concerns about the economy and job market, worries about the stability of housing prices, and the difficulty in selling an existing residence and securing financing, many buyers continue to remain on the sidelines for the near term,” the Appraisal Research report says.

Yet some developers have managed to attract buyers by discounting. [Belgravia Group Ltd.](#) has sold about 120 condos this year in a 241-unit development at 565 W. Quincy in the West Loop after cutting prices from 15% to 30%, says Alan Lev, president and CEO of the Chicago-based company.



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Condos in the project also qualify for Federal Housing Administration loans, clearing one hurdle for some buyers by making it easier for them to finance their purchases, he says.

Many developers are still stuck with unsold condos in projects they started when the market was strong, but construction has stopped and the glut is slowly shrinking. Downtown developers were sitting on 3,344 condos and townhomes at the end of the second quarter, down from 7,331 two years earlier, according to Appraisal Research.

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Unable to sell their condos, many developers can't pay off their construction loans, and some lenders have moved to take over projects after loan defaults. Bank of America filed a \$40-million foreclosure suit in January on the 225-unit Silver Tower in River North, while a venture led by Connecticut-based Starwood Capital Group took over Lexington Park, a 333-unit South Loop tower, through a so-called deed-in-lieu of foreclosure in May.

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For the most part, however, lenders have shown a willingness to be flexible with developers that can't pay back loans, extending maturity dates and allowing them to reduce prices to boost sales.

"It just really does seem that a lot of lenders are trying to work with developers," Ms. Lissner says.

Mr. Lev expects that it will be five to 10 years before a developer breaks ground on a major downtown condo tower. In the meantime, Belgravia is scouting for distressed uncompleted condo projects that it can buy at a discount and finish itself.

The developer, for instance, is acquiring 18 out of 34 unsold units in a vintage condominium conversion in Lakeview and plans to offer them for about \$300,000 to \$500,000 apiece, down from the original developer's \$500,000 to \$700,000.

"That's the kind of stuff we're going to be doing for a couple years," Mr. Lev says. "You won't have us developers to kick around."

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