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Condo sales up

New construction running ahead of 2009

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DON DeBAT



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As bleak as Chicago's new-construction condominium market looks, there are a few rays of sunshine filtering through the gloom, real estate analysts say.

"With 406 net new-construction condo sales in the first two quarters, 2010 is still tracking to be a stronger year than 2009 when developers marketed a total of 572 units for the whole year," said Gail Lissner, vice president of Appraisal Research Counselors Ltd.

To date in 2010, there have been 1,125 closings of developer units, including 978 new-construction condos, 78 lofts (adaptive-reuse units) and 69 condo conversion residences, Lissner reported. That compares with 1,891 new condo units closed in all of 2009.

The main driver for sales has been price discounting, affordable FHA-insured financing and the federal government's \$6,500 to \$8,000 tax credits, which ended on April 30, Lissner said.

"While some condo buildings with strong location or view amenities have continued to gain sales without discounting, the sales in these projects falls below the volume of developments which are aggressively discounting," Lissner said.

For example, the following South Loop condo developments being marketed by Weichert Realtors—Frankel & Giles in September feature attractive discount pricing and FHA financing:

Chess Lofts, 320 E. 21st St. One-bedroom units start at \$169,900, while 2-bedroom layouts begin at \$239,900.

Prairie District Lofts, 1727 S. Indiana. One-bedroom units start at \$189,800. The loft development is 95-percent sold.

Astoria Tower & Spa, 8 E. 9th St., prices start at \$169,800 for junior 1-bedroom units.

Michigan Avenue Tower II, 1400 S. Michigan. Closeout prices on 1-bedroom units start at \$199,990.

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Unsold inventory stood at 3,335 condo units at the end of the second quarter, Appraisal Research reported. Lissner noted that several downtown projects that were completed have shut down condo sales and shifted to rental units.

However, rental alternatives for a struggling condo project still do not look particularly attractive, Lissner said.

“Newly constructed condo buildings typically do not contain the optimum residence mix or unit size for a successful rental development,” she said. “Studios and convertibles are particularly marketable in the rental market and noticeably absent from the new-construction condo market.”

In addition, developers and investors who rent their condos often have to wrestle with high maintenance assessments and real estate taxes that cut into profits.

Condo buyers who are interested in new construction had better hurry because the pipeline of potential future projects has disappeared, reports Appraisal Research.

“It is likely that it will be at least two or three years before major new condo developments are launched again,” Lissner predicted. “We expect that the best locations will recover first and that smaller developments will likely be started first.”

In the interim, Lissner said the current low level of condominium pricing will not make new development feasible and prices will need to improve before construction starts again.

“With less than 1,200 units under construction in 2010, and only 88 units in the pipeline for 2011, the downtown Chicago condo market will be returning to construction levels reminiscent of the early 1990s,” Lissner said.

Don DeBat's weekly real estate column is syndicated by DeBat Media Services. For more home-buying information visit his website at: www.dondebat.net.

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