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Downtown's record building matched by record buying in 1st quarter of '05

If 2004 was a big year for new housing in downtown Chicago – and hefty sales figures and ubiquitous construction cranes leave little doubt – 2005 has the potential to be even bigger.

According to the latest Downtown Chicago Residential Benchmark Report by Appraisal Research Counselors, developers are contemplating the addition of up to 10,000 new housing units – both for sale and for rent – to the downtown market.

It's likely that the actual number of new homes announced during 2005 will be closer to 8,000 units, but that's still substantially more than the 6,000-plus units introduced during 2004.

And 2004 was a record-breaking year for new construction, with developers writing contracts for 6,300 housing units – 83.5 percent more than during 2003.

To put these numbers in perspective, consider this: from 1990 through 2004, an average of around 2,867 units a year were put on the market or delivered in downtown Chicago, according to an analysis by Appraisal Research Counselors.

The obvious question in the midst of such a building boom: are there enough buyers to go around?

The answer so far, is positive. During the first quarter of 2005 alone, we reported more than 2,500 sales (contracts and reservations) in our quarterly Downtown Chicago Residential Benchmark Report. This represents an 80 percent increase over the first quarter of 2004 and a 50 percent increase over the record level set in the first quarter of 2000.

Unprecedented building is being matched by unprecedented buying. In fact, of the units currently marketed by developers in completed downtown buildings, only 273 are unsold. The remainder of the 3,643 available condos that Appraisal Research Counselors has identified include 1,589 units in buildings that will be completed between sometime in 2005 and 2008, along with 1,781 units in buildings with pre-sales programs that have not yet broken ground.

Homebuyers now have a dizzying array of choices when it comes to downtown condominium developments, including a growing number of apartment buildings converting to condominium ownership.

The conversion trend really heated up during 2005, which could become the most active year for condo conversions since the early 1980s. Four major downtown highrise conversions totalling 1,360 units started marketing programs during the first quarter, and several others announced or began sales programs in April and May.

The demand for converted condo units remains high among buyers, as these buildings often have excellent locations and lower prices because of their smaller unit sizes. Their mix of units – often weighted towards studios and one-bedrooms – fills a niche that's underserved by new construction.

The condo is king downtown, where so far in 2005, developers have not unveiled any new loft / adaptive reuse or townhouse projects.

Who is buying all of these condos?

Suburbanites, attracted to downtown living and potential appreciation, are a growing share of the market. Some are

buying condos as primary residences and some simply want in-towns for use on weekends and after long workdays at Loop offices. Others are purchasing units as investments. This is different from a few years ago, when first-time and move-up buyers dominated the market.

As you might expect given this market shift, condo prices continue to rise, with less focus on entry-level product and more on homes for affluent buyers. Given current land and construction costs, developers aiming for price-sensitive buyers (purchasing homes priced at \$250 per square foot and less) can't afford to build downtown. Look for these homes in other submarkets on the periphery of the official downtown market area.

The high-end market is growing south of the Chicago River too, where \$500-per-square-foot luxury housing is now firmly established. Formerly entrenched in the Gold Coast and the River North / Cathedral District area, the upscale condo market has forded the river, spurred on by the development of Millennium Park.

Buyer demand is generating premium prices for properties located along the perimeter of Grant and Millennium parks, from Randolph south along Michigan Avenue to Roosevelt. In particular, the South Loop broke the \$500-per-square-foot barrier during the first quarter with One Museum Park, by the Enterprise Companies. This project alone has generated a huge share of luxury market sales for the quarter

Though sales have been brisk, this surge of downtown development will mean greater competition among developers, which can be a positive for buyers. Significant risks to the housing boom exist – competition between resales and developer units, the effect of speculators and the lack of area job growth – but 2005 is already shaping up to be a record year.

*Gail Lissner is co-author of Appraisal Research Counselors' quarterly **Downtown Chicago Residential Benchmark Report**, an in-depth analysis of the downtown Chicago housing market, focused on the area between North (1600 N.), Cermak (2200 S.), the lake and Ashland (1600 W.) The report tracks development activity and helps people investing in residential real estate make informed decisions. www.AppraisalResearch.com.*