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Attractive rehabs, pricing and locations let conversions compete with new condos

 by [Gail Lissner](#) 11/16/05

By the end of 2005, more than 4,000 rental units in downtown Chicago will have converted to condominiums, according to estimates by Appraisal Research Counselors. That represents the biggest conversion market since the record Chicago set in 1979, but the current crop of towers is much different than its '70s counterpart.

As I discussed in last month's column, the buildings being converted today are typically much newer – many less than five years old – than the ones that went condo during the '70s, and as a result, they are competing with new construction.

Another difference between the '70s boom in conversions and today's is the condition of the units themselves. Developers in the 1970s sold apartments "as is," without the current options for fancy new kitchen and bath renovations. Converters in the 1970s were typically not renovators; they wanted to achieve a rapid sellout and move on to the next project.

Developers still want to sell out as quickly as possible, but increased competition from today's hot market for new-construction condos has led them to offer buyers the option of purchasing units either renovated or "as is."

The most price-sensitive buyers opt for the un-renovated units, while others choose the condos with upgrades. Because developers realize economies of scale in rehabbing these large buildings, they frequently offer renovated condos at prices that buyers doing their own renovations couldn't match.

Ten- to 20-year-old properties being converted in 2005, such as 474 North Lake Shore Drive, Ontario Place, Huron Plaza and 222 East Pearson, are offering a variety of renovation programs for buyers, providing choices that position the properties as alternatives to new construction. These upgrades and premium locations close to Michigan Avenue are allowing conversions to give similarly priced new product in less established neighborhoods a run for their money.

Of course, renovated homes in newer buildings and better locations translate into higher prices for today's conversions.

During the mid- to late 1970s, prices of around \$50 per square foot were typical in condo conversion projects. In the Gold Coast, you could have bought a studio for – hold onto

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your mortgage payment – just \$25,000. One-bedrooms in the neighborhood were going for \$50,000, and two-bedrooms ran \$75,000.

Ah, the good old days. During 2005, newer condos in good locations have been selling for \$350 to \$425 per square foot. Studios are exceeding \$200,000, one-bedrooms have passed \$300,000, and two-bedrooms are going for more than \$400,000.

Seeing these prices, it's not hard to understand why investors have long bought conversion units to rent out, anticipating price increases over time. The best estimates are that current condo conversions typically sell about 25 percent of their units to investors – a benchmark that tends to apply whether the building is recent construction or older. The benefit for renters is that they often can remain in their units after the apartments have been sold to investors. Some developers – American Invsco is the prime example – have special "investor programs" for purchasers who don't want the headaches of managing an investment unit.

During 2005, nearly all of the major apartment buildings offered for sale downtown have been bought by condo converters, not the REITs (real estate investment trusts) that operate rental properties, and Appraisal Research Counselors expects the conversion trend to continue strong in 2006.

Conversions offer lower prices than new-construction developments because rental buildings are weighted heavily toward the smaller studio and one-bedroom units now in such high demand. Given today's low interest rates and conversions' competitive pricing, these projects offer an attractive point of entry into the housing market for new buyers.

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.

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