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Downtown condo development continued at record-breaking pace in first quarter

by [Gail Lissner](#) 5/23/06 | Updated 7/7/06

Talk of a housing bubble lingers, resales soften, and other major real estate markets slow, but in Chicago, sales of new downtown condos continue to break records. Developers sold approximately 1,850 new units downtown during the first quarter of the year at a pace that was 20 percent higher than during the record-breaking first quarter of 2005 - and represents the greatest number of new-construction and adaptive reuse condo sales ever recorded by [Appraisal Research Counselors](#).



The first quarter of 2006 has seen a very active market, with a steady stream of new developments announced. So far, buyers have kept pace with builders, and the number of new developer contracts and reservations also has been high.

Despite talk of a bubble and a softening resale market, the biggest story of 2006 is the number of new-construction condos being announced. If this pace continues as expected, 2006 may well exceed any year in the recent past for the number of new projects unveiled.

New-construction condos continue to dominate development, with very few townhouse or loft / adaptive reuse projects. After a spate of conversions, few good commercial or industrial candidates are either available or suitable for conversion to residential use. And given the rising cost of land, builders generally are constructing townhouses on sites outside of the downtown area.

How many condos can the city center absorb? The number of unsold units did rise slightly during the first quarter of 2006, as new product was being added to the market at a rapid pace. There also was a shift in the distribution of unsold homes toward new-construction condos. During 2005, new condos and townhouses represented around 55 to 60 percent of the unsold inventory. Now, this segment represents more than 70 percent of the product for sale.

But such a shift is to be expected. Many new-construction condos have come online during the first quarter, but developers did not announce a single condo conversion for a major downtown rental apartment building.

Despite the level of development underway, demand appears to be keeping up with supply. Excluding units in condo conversions -

Contents

- [Architecture](#)
- [Buyer tips](#)
- [City neighborhoods](#)
- [Columnists](#)
 - [Don DeBat](#)
 - [Gail Lissner](#)
 - [Tom Corbett](#)
- [Condo conversions](#)
- [Deals](#)
- [Featured projects](#)
- [High-rises](#)
- [Hotel condos](#)
- [Lofts / adaptive reuse](#)
- [Market updates](#)
- [Mega projects](#)
- [New condos](#)
- [New Homes Awards](#)
- [North suburbs](#)
- [Single-families](#)
- [Townhouses](#)
- [Trends](#)
- [Ultra-luxury](#)
- [Uncategorized](#)

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currently about 1,350 homes - only 6.5 percent of attached housing units have been built and not yet sold. This includes new-construction condos, townhouses and loft / adaptive reuse units.

Many of the new developments won't be ready for buyers to take occupancy for some time. About 48 percent of the unsold units are under construction, with deliveries expected over the next three years, and 46 percent of the unsold units have not even broken ground, with deliveries projected to occur through 2009. These numbers indicate that the new condos being added to the market are being well absorbed.

Demand is keeping pace even in the booming [South Loop](#), with many projects, including the [Museum Park / Central Station](#) developments, generating strong sales. Developers continue to focus on this neighborhood, where development has pushed southward, to the vicinity of McCormick Place. The South Loop was the most active downtown neighborhood during the first quarter, leading the area in new project announcements.

In fact, for all of 2005 and the first quarter 2006, the South Loop has had a far greater slice of the market pie than any other downtown neighborhood. About 44 percent of first-quarter sales occurred in the South Loop. The next most active market was the [West Loop](#), with a 21 percent market share, followed by the [Loop / New East Side](#), which garnered 14 percent of sales for the quarter.

The new downtown condos don't come cheap. About 53 percent of homes sold were priced from \$300 to \$399 per square foot, and 32 percent fell into the \$500- to \$699-per-square-foot sector. This \$500-plus category is growing, largely because of expanding development in the area around [Millennium Park](#), the Loop / New East Side and other high-demand locations close to Michigan Avenue that are fetching premium prices.

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

See more in [New condos](#), [Gail Lissner](#).

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