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Downtown market adjusting to slower pace, rolling out fewer condominium developments

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Housing Watch



Slow but steady may be the mantra for downtown Chicago's new-construction condo market this year.

During the first half of 2007, 14 new projects with a total of 1,700 units started marketing programs downtown. That pace so far puts 2007 on a slower course than 2006, when a total of 34 new projects with more than 6,600 units started marketing programs. Last year's record numbers were up significantly from the 4,700 units announced downtown in 2005 or the 3,600 units in 2004.

During the last dozen years, developers have added an average of 2,600 units per year to the downtown market. The bumper crop in 2006 represented more than double the historical averages over this 12-year span. It appears that for 2007, the market will revert to the historical average.

It's no surprise that the South Loop continues to dominate downtown development. During 2006, the rapidly growing neighborhood accounted for 53 percent of units announced downtown, and so far this year, the South Loop has 47 percent of the newly announced units. River North took a distant second with 17 percent of the new inventory in the first half of '07, followed by 15 percent in southern Streeterville, 12 percent in the Gold Coast and 9 percent in the West Loop.

These new units are priced from \$245 to \$900 per square foot, with an average overall price of \$442 per square foot.

Sales have been relatively consistent in 2007. During the second quarter, developers reported sales of 926 units, up from 874 sales in the first quarter, 638 sales in the fourth quarter of 2006 and 716 sales in the third quarter of 2006. However, the second quarter saw a 22 percent decline in sales activity from the second quarter of 2006, when 1,193 new units sold downtown.

Most of the sales at downtown condo developments have fallen within the \$300- to \$399-per-square-foot range, though higher-priced, well-located, luxury buildings are seeing faster sales. The \$200- to \$299-per-square-foot condo has virtually disappeared from the new construction market downtown. Buyers must consider resales to find that pricing, or look outside of the downtown area, where they'll find it in a variety of neighborhoods.

More and more new-construction condos are cropping up in the \$400- to \$499-per-square-foot category, many of them barely crossing the \$400-per-square-foot threshold. The big growth segment of the market is in the \$500- to \$699-per-square-foot range, as these properties can appeal to the empty nester, affluent professional and in-town-residence buyer.

In the \$700-per-square-foot bracket, two high-profile projects with more than 550 units started marketing in 2007: [Canyon Ranch](#), planned for 680 N. Rush St., and [Lincoln Park 2520](#), planned for 2520 N. Lakeview Ave. north of

downtown. Prospective homebuyers and industry types alike are watching closely to see what developer [Garrett Kelleher](#) will charge for one of the 1,200 condos planned for [The Chicago Spire](#), the twisting tower designed by renowned Spanish architect [Santiago Calatrava](#) and expected to start marketing later this year.

The combination of huge project announcements in 2006 along with a less robust sales pace resulted in a sharp increase in the inventory of unsold condos on the downtown market in 2006. This number has stabilized in 2007. We have seen only a modest increase in unsold inventory because the pace of new development has moderated in all segments of the market.

In another healthy sign, projects already under construction achieved solid sales before breaking ground. In fact, nearly 90 percent of the units to be delivered in 2007 are under contract, with 80 percent of the 2008 deliveries also under contract. Of the units that are under construction and will be delivered in 2009 and 2010, more than 55 percent are already under contract. The vast bulk of the unsold inventory being marketed by developers is in newer projects that have not met lenders' presale requirements and have not yet started construction.

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 tracks development activity and helps people investing in residential real estate make informed decisions.

See more in [Gail Lissner](#).