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Retro real estate

Report: Downtown residential condo construction levels back to the 1990s

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Editor

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Retro crazes and vintage trends bubble up in generational cycles, mostly in the world of style. Thus in recent years has early '80s New Wave music regained its modish gloss and Ray Ban sunglasses suddenly again became the sun blocker du jour.

But now the market for new development projects in the broader downtown area is going through its own retro spell — back to the 1990s.

According to the real estate information firm Appraisal Research Counselors, developers will complete construction on 1,133 new condo units and 2,234 new construction rental units this year in an area stretching from Old Town to the South Loop, and including the West Loop out to Ashland.

And just 88 condo units are scheduled to finish in 2011. No rentals will arrive that year.

That's a remarkable drop-off from the peak of downtown residential construction, when developers delivered some 17,000 units to market between 2006 and 2009. It's a return, Appraisal says in a report of development and sales activity for the first quarter for this year, "to construction levels reminiscent of the 1990s, when there was very little new condo development activity."



Asking price for a one-bed, one-bath units at Quincy 565 near the West Loop have dropped from \$328,000 to \$245,900.

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Gail Lissner, an Appraisal vice president, said the slowdown may allow the for-sale market time to strengthen for future rounds of building.

“The upside is that the inventory is now capped at what it is currently. We’re not having the new projects continually being delivered each year,” she said. “We know now how much inventory is in the market. It’s not going to increase.”

The pipeline of projects — those potential deals where developers see vacant parcels or surface-level parking lots transforming into buildings — is gone, in other words.

“There are not property deals anymore. The market’s on hold,” Lissner said.

Still, with unemployment high, financing difficult and economic conditions uncertain at best, selling units remaining from the last housing boom remains a challenge, and is forcing price cuts.

The developments that fared best during the first quarter of 2010, the Appraisal report says, offered “high-profile price discount or incentive programs.”

Lissner cautioned to point out that discounting isn’t ubiquitous among the new-construction buildings. Developers in specific geographical markets who are locking horns for customers are the most likely to make that turn, Lissner said.

At Quincy 565, a Belgravia Group project near the West Loop, the cost of a one-bed, one-bath unit first priced at \$328,000 is now offered for \$245,900. At the firm’s Union Row townhome project 622 W. 16th St., a four-bed, four-bath spread is marked down by \$200,000.

Belgravia’s Alan Lev said the decision to cut prices was “totally market driven,” something necessitated by price cuts emerging at competitors’ buildings.

Near Quincy 565, for example, is the R+D project, at 659 W. Randolph, where one bedroom units with a den now are offered for \$279,000, down from \$402,000.

New, lower pricing means you have to follow suit, Lev said, or risk missing badly needed sales.

“If you have two projects in the same location, both are brand new and one is \$300,000 and one is \$350,000, guess which one is going to sell?” he asked.

Lev said he hopes to sell the remaining two Union Row townhomes soon, and finish Quincy 565, which still is offering 60 units out of the 241 contained in the building, by the year’s end.

As to when the construction pipeline may start filling up again, that’s an uncertain proposition.

The Appraisal report predicts the market is “at least” two to three years away from new projects and deals.

Lev, however, saw a longer timeframe, saying there won’t be any projects started again until developers are assured of a “line out the door” when sales start. That could be anywhere from five years away for smaller buildings and townhomes and eight years off for high rises.

“Until the demand so far outstrips the supply, and values and prices go so far up beyond where they are today ... there’s no economic rationale in building it because you won’t be able to cover your costs,” he said.

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