

Wall Street Journal article raises concerns about Chicago's condo market

A June 22, 2005 article in the WSJ (*Chicago's Condo Market Shows Signs of Cooling*) paints a rather abstract picture. The highlighted message of the article is "The bubble is starting to break." This message is rather inflammatory – and wrong.

"Supply bubbles" break when demand doesn't keep pace. Here are the facts: A total of 14,185 units have been brought to the Downtown market since 2002 – 15,823 units have been sold (through 1st Quarter 2005). Demand in 2005 is at a record pace and it continues to exceed supply. Where's the bubble?

From the article, we learn that Chicago's condo expansion ranks 3rd in the nation (behind Miami and San Diego). I'm not sure why this is a problem. Chicago is the 3rd largest metropolitan area.

The article points out that sales in some projects are slow and a handful have narrowly averted foreclosure. Downtown Chicago is an efficient market where more than 100 developments compete at any one time. Not all are going to be in that "above average" utopia. Some have slow sales. Some developers even over-estimate. Using the word "*developer*" in the same sentence with either of the words "*refinanced*" or "*foreclosure*" is not earth shattering news in any market.

One of the quotes is "If they have to put a big sign out, they're not getting the traffic they have to get." Nice quote that fits well in the article. But it isn't true. How do we know? Because we track weekly traffic at over 60 downtown developments. In fact, our firm provides the most detailed and comprehensive data available about the Downtown Residential market. We publish it quarterly and we provide it to the media upon request. Appraisal Research Counselors is always pleased to be quoted in the press. We were, and the quote is correct. It is the one fact that doesn't seem to fit in with the article's premise (prices are up!).

Are there risks to developing in Chicago? Yes. But the real estate community – developers, lenders and the City of Chicago – have done a pretty good job of maintaining a balance between supply and demand. I expect that some sleepless folks in the boom markets of the coasts may be envious now of our stability. Unfortunately for the press, there's not much of a story in the phrase "Chicago Works."

By William H. Miller, Vice President, Appraisal Research Counselors.