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## Sales still strong as downtown condo building continues at record levels

by [Gail Lissner](#) 8/23/06

The pace of condominium development in downtown [Chicago](#) continues at record levels, and despite rumblings about softening demand, sales of new units and demand for rental apartments remain strong in the city center.

You might not guess it from all the talk of a housing bubble, but downtown sales of new-construction condos during the first half of the year were virtually identical to sales during the first six months of 2005.

Developers signed contracts on about 2,800 new condos downtown during the first six months of 2005, and the number of contracts for the first half of this year was about the same. In its "Downtown [Chicago](#) Residential Benchmark Report," [Appraisal Research Counselors](#) did note a change from quarter to quarter (first-quarter sales were higher in 2006 than in 2005, and second-quarter sales were higher in 2005), but the six-month totals are the same.

What has changed year-to-year is the number of new project announcements. During the first half of 2006, developers began marketing 45 percent more new developments than they launched during the first six months of 2005. The earliest part of '06 proved especially active.

Despite this increase in new projects, the number of unsold units does not appear to be more than the current market can bear. Of the 8,100 new-construction condos completed during the past three years, fewer than 150 (about 2 percent) have not yet been sold by developers. And about 90 percent of the units expected to be completed and delivered this year already are under contract.

Condos that have not yet been completed, however, have seen a rise in unsold inventory. This category includes buildings under construction, with deliveries scheduled over the next few years, as well as those that have yet to break ground. While units at these projects merit close monitoring, their completion is far in the future, which will provide time for them to sell before their delivery dates.

Sales results for the first two quarter of '06 vary widely, with some



## 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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- [Expert journals](#)
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projects selling rapidly and others struggling. It's no real surprise why some buildings are outselling others. The key factors include location, views, price, size, finishes, amenities and marketing strategy.

Overall, buildings with strong locations or views are doing well, providing their prices are in line with demand. Unit sizes continue to shrink because of increased construction costs, but this is not a negative. Demand for the lower-priced smaller units continues to be strong.

Unlike the first quarter of 2006, when the [South Loop](#) clearly dominated the other submarkets, with 44 percent of all new-construction sales downtown, sales patterns were more balanced in the second quarter. The Near North, [West Loop](#), [River North](#), and Loop / [New Eastside](#) markets each comprised 16 to 18 percent of downtown sales. The [South Loop](#) was only slightly ahead, with a 24 percent market share.

While downtown units are getting smaller, they aren't getting cheaper, at least not on a price-per-square-foot basis. New units priced under \$300 per square foot are becoming rarer in the downtown [Chicago](#) market. In fact, only 12 percent of first-quarter sales and 5 percent of second-quarter sales were in this price range. The market for units priced under \$300 per square foot market is being served, but in neighborhoods outside of downtown.

During the second quarter, 55 percent of units sold downtown were priced from \$300 to \$399 per square foot and condos priced from \$500 to \$699 per square foot comprised a growing segment of the market.

The rental market also has experienced a big boost during the first half of 2006, as occupancies firmed up and rental rates again rose solidly. Job growth, depletion of rental apartment supply due to the large number of 2005 condo conversions and minimal new construction of rental buildings have converged to produce a very tight rental market downtown. This strength in the rental market should bode well for the individual investors who want to lease out their condominiums, as apartment dwellers have fewer alternatives in the large conventional rental buildings.

*Gail Lissner, CRE, SRA, is co-author of [Appraisal Research Counselors' quarterly Downtown Chicago Residential Benchmark Report](#), [www.AppraisalResearch.com](http://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](#).

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