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# Gail Lissner: Condo development trends see a change of pace

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The residential development trends in downtown Chicago are undergoing a transformation, as record numbers of new condominium units are completing construction and few new buildings are breaking ground.

Downtown Chicago is nearing the end of a four-year construction boom period, which has resulted in the completion of 18,500 new condominium units, a record number of condominium deliveries for the downtown Chicago market.

Starting in 2006 with 4,200 units completed, an additional 4,800 units were completed in 2007, along with 4,900 units in 2008, and another 4,600 units which will be completed during 2009. Currently, 75 percent of the units being completed in 2008 have already been sold, and 60 percent of the 2009 deliveries are also reported to be under contract.

However, the construction pipeline for new condominium buildings is now suddenly empty after 2009. Only three new downtown buildings totaling less than 500 units have obtained construction loans in 2008 and started construction this year. Thus, there will be little new inventory of condominium units delivered to the market in 2010 and 2011, and likely into 2012.

Because of the weakness in the housing market, developers are postponing or cancelling their plans for potential new projects. During 2008, 11 proposed condominium projects were cancelled, with developers closing their sales centers and refunding deposits to the buyers. With the problems in the housing market along with the financial markets, these projects were not gaining adequate pre-sales in order to obtain construction loans. In addition, developers are finding that construction financing is extremely difficult to obtain with lenders also requiring substantial equity, another hurdle in an already near-impossible scenario.

What does this mean? Certainly, the lack of new condominium product will help the unsold inventory situation, allowing the market to absorb what is currently delivered or delivering within the year. With little new product being developed, buyers will find that their choices will start to thin out.

Currently, prospective buyers have a multitude of new construction housing choices. However, as these units sellout and few new buildings start construction, the new construction alternatives in 2010 and 2011 will be extremely limited, consisting of a lesser number of unsold units along with resale properties. Thus, the most desirable units will have already been purchased, leaving the tougher units in the unsold inventory pool.

With so many potential buyers now putting their own decisions to purchase on hold, we expect to see evidence again of pent-up demand again in the market, once the nation's economic conditions improve. Yes - it will take a time to work through the current unsold inventory, given the sluggish sales pace seen in 2008. However, once there are some positive signs of the market rebounding, both buyers and developers will move off the sidelines and reenter the housing market arena.

The strongest markets are historically affected least by market downturns and do recover first, and downtown Chicago has certainly proven itself to be one of the strongest housing markets in the metropolitan area.

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