Chicago Tribune
ONLINE EDITION

CONDOS 2006

Glut reaction?

Sellers acknowledge that market has slowed, but buyers see opportunity in the 'G' word

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September 17, 2006

In the condo market, "glut" is becoming a four-letter word--at least for sellers.

The once-exuberant market isn't dead--drowsy, maybe, but not dead--and it's a brilliant time to be a buyer, real estate experts say.

"Buyers are expecting more. They know it's a buyer's market," according to Deerfield agent Honore Frumentino. "The sellers who are willing to play ball are getting their homes sold.

"The ones who still think Santa Claus is going to come down the chimney--their homes are going to still be sitting there."

What she, along with many other Chicago-area agents, means is that the eager seller needs to spruce up and price right to get the deal done, because there are a ton of condos on the market.

To be precise, there are about 12,000 condos in a "ton," that being the number of units for sale (excluding townhouses) throughout metropolitan Chicago at the end of August, according to the Headrick-Wagner Appraisal Group of Naperville.

That doesn't, however, count those for-sale-by-owner and some new units whose builders don't market through agents, according to Chip Wagner, president of Headrick-Wagner.

"There are large developments coming on the market that aren't being reflected on the MLS," Wagner says.

Whether that's a "glut" is debatable: Some consider the market "balanced" if there's a four-month supply of homes for sale. That is, it would take four months to sell the inventory if no other properties were to come on the market. Others see it "balanced" with a six-month supply. Headrick-Wagner estimates a 6.1-month supply of condos in the overall Chicago market, just outside the more generous definition.

"Overall, we're almost double what we were last year in Naperville," agent Gail Niermeyersays of inventory. "And market time is probably double what it used to be--four to five months.

"But by the same token, I just sold one luxury condo and one so-called regular condo," she says. "People just have to be patient."

And realistic, the agents say. Homeowners must pay close attention to sales prices of comparable units, and they may have to throw in some incentives--offering to pay the buyer's condo association dues or closing costs, for example.

"I tell sellers to watch the market to see what the last [comp] sold for and get yourself down to that sale price so you can be the next one," Niermeyer says.

Such price adjustments tend to be easier said than done.

"People get used to things selling at a certain price level," says Palos Park broker Doug Blount. "They're reluctant to give up what they think they've gained."

Frumentino says it's generational. "The younger sellers are listening more [to suggested price changes] than older sellers," she says. "Older sellers are still banking on making a killing without doing that much."

Overall, though, Blount says, sellers appear to be adapting.

For example, since the beginning of the year, asking prices for condos and townhouses in his southwest suburban marketplace--Orland Park, Palos Hills, Palos Park and Palos Heights--have gone up 6.2 percent, he says.

But between June and the end of August, those asking prices inched up 2.8 percent, indicating that sellers are being more aggressive to get buyers' attention, Blount says.

Sales prices, though, didn't dip commensurately: The average for the long period and the more recent one were essentially the same, he says.

"There's more negotiation," he says. "Buyers are coming in a little lower, but sellers are negotiating pretty tough, hanging on to their [lowered] price."

That equilibrium may change, though, if inventories continue to pile up while would-be buyers wait and see, a phenomenon that even the National Association of Realtors acknowledges.

"Psychological factors are causing some buyers to remain on the sidelines, waiting for prices to stabilize or for more favorable news about the market and the economy," said David Lereah, NAR's chief economist, as he announced Sept. 1 that contracts to buy all types of homes in July were down 16 percent from a year earlier.

Craig LeMoyne knows it's a buyer's market, so he took his time this summer looking for a condo after a job transfer to Chicago from suburban Detroit. He traipsed through an estimated 60 units before settling in early September on a two-bedroom place on the North Side. But the deal fell through, and now he's thinking about becoming a renter again.

"Some of these units are just ridiculously priced," LeMoyne said. "They don't realize the market has changed."

He had good reason to be deliberative in his search: He lost about $20,000 when he sold his home in Dearborn.

"I bought four years ago, and it was a hot market then," he said. "The market tanked. I'm very gun-shy. I don't want to make the same mistake."

Though his new job is on the South Side, LeMoyne shunned the South Loop because he worried that it's overbuilt.

He's hardly the first to wonder aloud about the condo-filled neighborhood, where sales outshone all other downtown areas in 2005 and through the first quarter of this year, and then dropped off, according to a report from Appraisal Research Counselors, which specializes in tracking development in downtown Chicago.

In the second quarter of this year, about 2,000 units were completed, being marketed or proposed by developers there, accounting for almost half of all such condos in the broadly defined downtown area, said Appraisal Research vice president Gail Lissner.

And there's more South Loop construction on the way. Nonetheless, Lissner predicted the neighborhood would continue to command a "solid market share," with demand driven by the major retail development underway along Roosevelt Road.

Downtown housing, in general, has exploded to more than 80,000 units currently from 48,000 in 1990. It may top 100,000 by 2010. Sales are tending to keep up, according to her company's report.

Investors have played a significant role in those sales throughout the housing boom, and Lissner and the report's co-author, Ron DeVries, worry about how much "flippers"--investors who attempt to resell units right away--will weigh on an overall slowing market. So far, they say, concerns about investors who just walk away, leaving their purchase deposits on the table, haven't played out, they said.

Flippers are impossible to quantify because sales contracts and property-transfer data don't spell out the intentions of a buyer, analysts say. But industry studies of quick-turnaround sales and other indicators suggest flippers may have been involved with as much as 30 percent of sales in some of the nation's "superheated" markets, according to David Berson, chief economist for Fannie Mae. Anecdotally, flippers were very active in some parts of Chicago at the height of the boom, though they're not a significant presence in the condo market now, according to local agents.

"The investors have disappeared," said Arlington Heights agent Mary Zentz. "Now, with the market slowed down, there is just no opportunity to have the easy sale. They can't find the fast turnaround."

Baby Boomers also are credited with fueling the condo market, and industry experts expect that to continue.

Frumentino, for one, expects Boomers to continue to downsize from single-family homes as their nests empty and they approach retirement. "We'll still have a lot of Baby Boomers who want to make lifestyle changes, and it won't matter [for them] what's happening with the economy."

She says that sales of condos and townhouses throughout the North Shore are down about 10 percent down from last year, with 202 going under contract last month, down from 226 in August 2005. About 1,600 North Shore condos and townhouses are for sale now, though comparable MLSNI inventory data for last year aren't available, she said.

"We have about an eight-month supply, and that's not bad," she says. "Until recently, until the boom, it took four or five months to sell anything," she said. "The market is price-sensitive, but it is not dead. If people see value in a home, they're going for it."

But "this is not a market that has any forgiveness," Frumentino said. "Everything has to look good, show well, price well."

She said the current wave of incentives from sellers may be short-lived.

"Once we get into 2007, I think they won't be such an issue. In the last part of the year, you always have sellers who don't want to carry [their units] into the next year and are willing to get closed by the first of the year."

Such a change would be expected as the market "normalizes," she says.

"We've just had the longest abnormal market since the '70s. This was a run that nobody could predict and we enjoyed it for a long time, and now we're back to normal."

Blount says he's expecting next month to indicate where the market is heading. "I think October will tell us what's really happening. August is typically a slower market, and I'm thinking this year is a more typical year than we've seen for a while.

"I'm not too concerned at this point," he says. "The market was very strong for a couple of years, and it can't go on forever."

Frumentino said the game has shifted to buyers. "It's been a long time coming for them. They had to wait, but now they're flexing their muscles.

"We're all taking note."

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