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Condo Craze Not Just A Fad

Realty Times
by **Lew Sichelman**

The rush to buy condominiums is hardly a passing fancy, according to a panel of experts at a multifamily housing conference in San Francisco earlier this summer.

David Mayhood, a Washington, D.C.-based sales and marketing consultant, said that of all the factors "energizing" the trend, only one -- mortgage rates -- has the "potential for change." But even higher loan costs are not likely to stop the trend, he said.

"Eventually demand will moderate" as rates go up, Mayhood told the Urban Land Institute's Multifamily Trends Conference. But sales will taper off slowly, instead of all of a sudden, he added, especially in markets where for-sale apartments are in short supply.

Mayhood and other speakers pointed out that condominiums tend to be a more risky proposition for developers than rentals. But the rewards are usually worth the effort.

Although there is no cash flow until units are sold -- and the construction lender wants to be paid in full before the builder takes a dime -- developers typically get their capital back more quickly from condo properties than from rental buildings and enjoy "significantly greater profits" if their projects are successful, said Geoffrey Stack of the Sares-Regis Group, Irvine, Calif.

In one recent condo property, SRG nailed an internal rate of return of 415 percent, Stack, the firm's partner in charge of residential operations, reported.

Mayhood said multifamily developers need "a whole other set of expertise" to do condos, if only because they are selling a product that buyers can't see until two years after they sign their contracts.

Nevertheless, he added, condos "are a natural extension" for most rental developers who already have sources for financing, management staff, a good reputation in the marketplace and a brand name.

But residential developers aren't alone in trying to cash in on the condo craze. So are commercial companies.

Indeed, half the new condo properties are being done by developers who normally restrict themselves to office buildings, Mayhood reported.

Usually, though, the big guns "are big risk takers" who go after trophy properties, the marketing expert said. "They make big deals and go for big prices."

One multifamily housing developer that has been in and out of the condo market over the years has been Trammel Crow Residential. Currently, the Atlanta-based company is in the market, and it is "going to be in the business for the foreseeable future," Executive Managing Director Michael McGwier told the conference.

"We don't see the trend going away," he said, noting that millions of baby boomers and echo boomers are just as likely to be apartment owners as home owners.

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Despite the huge returns and great market potential, though, Trammel Crow approaches the condo sector with caution.

For one thing, the big development firm doesn't normally close on any land deal until it has financing in place, McGwier said. And it doesn't start construction without pre-sales, or unless rentals work as a backup.

"We have two sets of plans," the Trammel Crow executive explained. "That way, if the condo option fails, we can revert back to a rental."

The company usually gives its sales people four or five months to get a property moving, he said. If they fail to generate enough momentum in that time, it's time to shift gears.

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