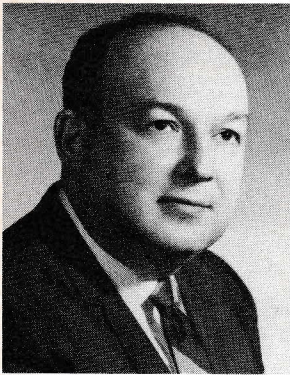


# New Condo or a Conversion?



by Eugene Matanky  
Eugene Matanky Associates, Inc.

**H**ERE'S a simple quiz. It's as appropriate for the informed as for the uninformed.

First question: What makes up the largest percentage of housing sales in Chicagoland?

Answer: Condominiums amounted to more than 50% of the home sales in 1979 in Chicagoland, one of the hottest condominium markets in the United States. And 1980 promises to be better!

Question two: How many Americans own condominiums?

Answer: More than five million!

Condominiums are the fastest-selling item on the real estate market today. With single-family homes priced out of the market for more than 80% of the population, would-be buyers are turning to condos to meet their housing needs.

Whether you (as a consumer) will find it is more feasible to purchase a new condominium or a conversion or whether you (as a developer) should build new or recycle older buildings is what literally thousands have been exploring. Whichever way you decide to go, you will be part of the biggest real estate boom to hit in years.

## Why All The Interest?

The ever-increasing demand for condo ownership has been fueled by several factors:

- The coming of age of the post-World War II babies, who started to reach home-buying age in the early 1970s. This is accompanied by recent trends towards later marriages and fewer children born later in marital life. The

*Whether you are a developer or the prospective buyer of a condominium unit, you will benefit from Eugene Matanky's authoritative and balanced rundown of pros, cons and maybes.*

result is an explosion of one- and two-person families.

- A tremendous increase in the percentage of persons over 55 years of age. This is due in great part to increased longevity brought about by better medical care. Here again, is a plethora of one- and two-person families, sometimes called "empty nesters."

- Sharply increasing divorce rates, resulting again in the formation of one-person families.

- The relatively higher level of affluence enjoyed by our middle and upper income population, young and old alike.

- The recognition of the female wage earner's income on a parity basis qualifying her as an applicant for mortgages.

- The relatively higher burden inflicted upon these same persons with higher income because of a progressive tax system with no inflation adjustment, but with a built-in favoritism for the homeowner versus the renter.

- Tremendous appreciation in property values of condominiums. It runs a minimum of 15% in most markets and there are some examples of 50% and 100% increases in downtown high-rise buildings during the first year of ownership.

- A new life-style which is more oriented towards leisure and less toward home maintenance chores. (It's more fun to play tennis on your own courts than mow your lawn on a spring morning.)

## Having Cake and Eating It

Condominium living is the best of two worlds for it offers the conveniences and advantages of apartment liv-

ing and the financial and tax benefits of home ownership. Whether you purchase a conversion or a newly built condo unit, the benefits are the same. Let's explore some of them.

- *Income Tax Savings.* The money you pay for mortgage interest and property taxes is deductible on your income tax return, as with a home.

- *Equity Buildup.* In contrast to being a renter, you as an owner have equity in the unit. It belongs to you. The principal amount of each installment you pay on your mortgage reduces the amount of your debt and increases your equity.

- *Rewarding Investment.* Due to the growing costs of construction and general trends in the real estate market, the unit appreciates in value, especially in a well-maintained building.

- *Minimized Upkeep.* In most condominiums, owners do not have to contend with most of the chores of the individual home. Building exteriors, lawns, recreational facilities and other common areas usually are maintained professionally.

- *Amenities.* Many projects are not only aesthetically pleasing but offer amenities that most single-family homes do not have, such as a swimming pool, tennis courts, saunas, putting greens, nature walks, lakes and so on. Many also have heated indoor garages, a boon in Chicago.

- *Pride of Ownership.* A condominium can provide the personal satisfaction of owning your own home. Your imagination and pocketbook can furnish your particular unit to your taste, either a showplace or a refuge, as you choose.

- *Group Participation.* The condominium

*continued on page 84*

## New Condo or Conversion?

continued from page 70

ium life-style offers many opportunities for involvement in social activities, special interest groups and a sense of community. It is the most basic of grass-roots government, as the board of directors and association make decisions which allow the community to function smoothly. These decisions, which affect the entire condo community, must be entirely objective and consider the interest of every member rather than those of just the few.

• *Secure Future.* A condo home owner is protected against inflation because fixed monthly mortgage payments remain stable in contrast to climbing rentals.

• *Security.* Because of the closeness of persons, the condo life-style gives a sense of security and dispels the feeling of isolation. On the more practical side, it is well known that condominiums stabilize a neighborhood. They create an owner—a person who traditionally has more of a stake in the community. Criminologists will tell you that crime is not as prevalent in owner-occupied areas, especially in multifamily dwellings where the proximity of neighbors and security of buildings discourage criminals.

### What Are Differences?

Now that we know the similarities between converted condos and newly-constructed ones, let's look at the differences. Odd as it might seem, there is a similarity here, too. It is in location.

There's an old gag which says the three most important factors in buying a piece of real estate are location, location, location. Well, that may have whiskers on it, but it's still the truth.

Whether the buyer is looking at a conversion or a brand-new unit, location is of prime importance.

Proximity to shopping, transportation, recreational and cultural centers, schools and houses of worship are all vital considerations.

If you are a developer, you have certain determinations to make. If you are building, make sure the land is located in an area which lends itself to individual ownership. Be wary of transient communities and locations suffering from economic and social decline.

If you are a converter, determine if the building has had a good record as a rental project. What was the vacancy factor? Why was there a vacancy factor? Remember that renters not only have the potential of becoming buyers; the rents they pay create a good portion of the new cash flow which is needed during the period of conversion.

Why would one developer choose a conversion while another elects to build? Well, it's not good to answer a question with a question, but what makes one person want to read *War and Peace* while others read *Sherlock Holmes*? It's all in the background, the expertise, the skills and personality of the developer. It depends on what he has been doing for the past 20 years, how involved he's been in various phases of real estate and building, and what strengths he can bring to his position.

### Money Talks

And then there is the important factor of ECONOMICS! There was a time when a developer could purchase an apartment building from an owner for from \$15 to \$20 a square foot of living space. With some rehab, a little paint and a few extras, the developer

could market those units for twice the price he paid for them.

However, the apartment building owners began to get smarter. Soon they were asking \$30, \$40 or \$50 per square foot and the developer could no longer double his money, much less make a profit.

It was at this time that some developers discovered they could construct new buildings for less money per square foot than they would have to pay for older properties. Other Chicagoland developers then moved their operation to other cities.

Of course, there is a hedge in new construction. If you build during a time of abundant construction, you may be faced with a shortage of labor or construction materials.

If, on the other hand, you decide to build during a period of slow construction, there may not be money available for the interim or end loans which you need to carry you through to the finish.

### Commitment To Finish

New construction is more susceptible than conversions to changes in the economic structure. It takes longer to complete. Meanwhile, the floating prime rate can hurt you. The taller the building you are erecting, the longer it takes to build and the more likely you are to be affected by that floating rate. If the rate goes up too high, and you are only on the fourth floor of a 20-story building, there is no way you can stop and say: "Wait! Don't build till the prime comes down." You must continue with your construction, despite the cost.

As a result, in today's market more developers are getting economically hurt in construction than in conversion.

Conversion often is the better way to make money for a serious developer. He has the ability to get in and out of a conversion in a hurry. There are cases on record where complexes were purchased, rehabbed and totally sold out in a few short months. My firm had one complex in the far north suburbs which sold out completely one August weekend.

However, the developer must understand that rehabilitation in a conversion is somewhat of an unknown. Consequently, the developer must rely on the expertise of an engineer and/or architect to go over every inch of space before he contracts to purchase.

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Electrical, heating and plumbing systems must be carefully inspected. Roofs, elevators, stairwells, sidewalks and parking lots must be investigated also. These are big-ticket items. They must be figured into the cost of property. At the same time you must keep an eye on what you want your final sales price to be, all the while remembering that a profit of from 15% to 20% is necessary for the risk taken.

### **From Buyer's Viewpoint**

Now, let's pretend for a moment you are a buyer. Maybe that is not so much a fantasy. More than 150,000 persons will purchase condominiums this year. Do you want a new one or a conversion?

Let's look at both sides of the question.

A conversion can certainly sit on some of the prime land in the Chicago-land area. Lakefront property, Streeterville, Gold Coast, Sheridan Road, Hyde Park—some of the best and most beautiful neighborhoods in the city are rife with condominium conversions. Do you want to live at a posh address in a prime area? Then a conversion probably is for you. There is little land left in those communities for a builder.

Conversions, of course, normally are cheaper. The high cost of construction today has sent new buildings skyrocketing. Two years ago, we were able to build for a lesser amount than that for which we could convert. Today, in most areas this is no longer true.

Condominium conversions, especially those in suburban areas, are selling for fairly reasonable amounts. It is still possible to purchase a two-bedroom unit in a suburban complex for under \$35,000.

A conversion has another strong point which involves the model apartment. A well-furnished, attractive model is open for viewing to all possible purchasers. They can walk through it, examine the appliances, get the feel of the unit and relate to it.

Frequently, in a new building this is impossible. You must deal with a more sophisticated buyer, one who has the ability to read blueprints or purchase from an artist's conception of what the unit will eventually look like.

It is easier to sell a conversion than a blueprint. It is more tangible. The buyer can touch, see, even smell the newness of the remodeled unit.

### **Known Mortgage Rate**

A purchaser of a conversion also can

be more assured of the mortgage rates available on the day he closes his unit. He can close faster. He knows what the terms of the mortgage will be and will know to the penny his monthly charges.

The buyer of a new building may not know the mortgage situation. The building may not be ready for occupancy for some time and who knows what the mortgage rates and terms will be at that point? Unless the builder has a guaranteed end-loan for his customer, the new condo buyer must be prepared for rates to go up, for points to go up and for terms to fluctuate.

There is another aspect of conversion which is more appealing to many young buyers. This is the opportunity of buying an older unit in a vintage building. Perhaps the building they desire is a converted six-apartment built in the heydays of the 1920s. It is loaded with oak, fireplaces, stained glass and parquet floors. There is a sun parlor off a mammoth living room, a dining room with a built-in hutch with leaded glass doors. The master bedroom has a fireplace and the bathrooms have huge porcelain sinks on thick claw-footed bases. These attrib-

utes are not to be found in a new building.

The light, space, grace, the high ceilings, the wood dadoes are all inviting extras that charm a generation of younger people who never lived in such splendor. There are persons who want to move into these units immediately, fill them with hanging plants and antique clocks and bring back a time of tranquility which they have never seen.

### **Newness Sparkles Too**

Now, this is not to say that the new construction does not have its share of pluses also. First of all, there is location. A new building can be in a countrylike setting, in a suburb, surrounded by grass fields, tennis and golf clubs and wondrous shopping centers.

Many persons do not want to buy a conversion, because they desire to live in a unit where no one ever lived before. They want to be the first to use the stove, the refrigerator, the dishwasher, disposer, microwave oven. They want to put in the color carpeting they like most and the fancy wallpaper and ceramic tile which most

*continued on page 94*

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are the Taft Hotel in New Haven and the Opera and Benjamin Franklin hotels on the upper west side of New York. Three troubled hotels on the South Michigan Ave. strip in Chicago (Pick-Congress, Blackstone and Conrad Hilton) might appropriately be considered candidates for conversion to residential properties as part of a master plan to revitalize the South Loop.

### Many Neighborhoods

Although most of the discussion concerning condominium conversion in Chicago has focused on the luxury buildings along North Lake Shore Drive and several in Hyde Park, the condominium phenomenon has clearly moved away from the lake and into structurally sound and usually smaller buildings in neighborhoods undergoing rehabilitation and revitalization. Rogers Park and some sections of Uptown, as well as neighborhoods in the near Northwest area, are undergoing significant rehabilitation, most often by a growing number of small-scale indigenous firms which have discovered the condominium process as a way of making a reasonable profit by restoring valuable buildings and simultaneously enhancing the viability of neighborhoods. This process of neighborhood revitalization bodes well for city and community alike if it can be accomplished without unnecessary displacement and disruption. It is important to preserve the social fabric of lower-income and ethnic neighborhoods where possible through creative financing schemes involving both the public and private sectors, and by providing suitable and acceptable rental housing as necessary and appropriate. Options and equity must be guiding principles in this process.

It is my judgment that the process of converting multifamily buildings from single ownership to multiple ownership, either through condominium or cooperative arrangements, has the potential for filling a growing housing need for a changing urban population, while simultaneously offering a mechanism for salvaging a significant proportion of our valuable built environment and sustaining or rebuilding viable urban neighborhoods. The condominium concept has proven itself for several thousand years and its contemporary rediscovery as a viable tool for redevelopment at this juncture in our national history should not be underestimated or over-regulated. □

### Setting the Record Straight

*continued from page 67*

In addition to the economic advantages of condominium ownership for the unit buyer, cultural changes have insured a favorable opinion of condominium ownership for many families. A recent survey conducted by the National Association of Homebuilders, for example, revealed that consumer preference for maintenance-free dwellings has shifted from interest in the single-family home, which requires lawn gardening and exterior maintenance, to the condominium which allows maximum free time for owners.

Finally, conversion is beneficial to municipal governments. Condo conversion may increase the tax base of the city because the market value of a building is always higher after conversion. This slows the shift of investment from the city to the suburbs. In addition, conversion is looked upon as a stabilizing effect on the neighborhood which suffers from the transiency inherent in the rental market. Homeowners, in general, who hold a greater stake in the community are less likely to turn a deaf ear to neighborhood issues.

### Responsible Support

Studies conducted by Harvard University, the Northwestern Urban Studies Department, and other reliable sources such as the Institute of Real Estate Management, have come to the conclusion that the emergence of the condominium movement is one of the most beneficial developments for unit owners, neighborhoods in general, and the city as a whole which has occurred in the last three decades.

Barber's reporting of condominium conversion is loaded with shocking descriptions of fraud by the developer, tenant victimization and high risk for the unit owner. All of this highlights the worst in condominium conversion and fortunately represents the small minority of cases. In failing to portray fairly the overwhelming majority of instances in which the unit owner is satisfied with his purchase, he has given us a slanted picture of the situation. If he were to poll a cross-section of typical unit owners, and not depend on interviewing the mysterious and few developers who came to him with a heavy conscience, surely his story would not have resulted in such a disservice to the reading public. □

### New Condo or Conversion?

*continued from page 85*

pleases them. They want to put their dishes in brand-new cabinets and hang their clothes in closets smelling of new wood.

And there is a group of persons to whom the term "conspicuous consumption" still holds true. There is status to moving into a brand-new building, especially if that brand-new building has a clubhouse, a swimming pool and all other modern and delightful amenities.

A new building has another positive factor. *Everything* is brand new. There are minimal construction problems and almost everything is under warranty. Any problem? The warranty takes care of it for a certain amount of time. That is security which can be very comforting.

### Waiting Not All Bad

As for the distinct possibility that a purchaser may have to wait a year to move into new construction, this is not a negative to some families. Perhaps they have a home or another condominium they must sell. The year between purchasing and moving in will give them ample time to sell their old property and prepare to occupy the new.

Whether you purchase a new or a converted condominium, it is most likely there will be professional management if you are buying into a building of more than 12 units. This management will supervise the day-to-day operations of the property and will insure harmonious living and proper upkeep and maintenance of common areas on a continuing basis.

Before you buy, check on the management firm. Determine how effective it is. Take a walk around the building (if you can) and see if the property is well-tended. The management company also is responsible for record keeping, helping with financial matters, organizing committees and securing proper insurance coverage.

And finally, Mr. Prospective Buyer, know yourself also. Know what appeals to you the most. Determine how your living arrangements will fit into your way of life. Again, look into yourself. There are the answers.

Buying, building, converting are rewarding investments for everyone. With a little care and concern, they can be rewarding for you, too. □