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THE TERM *condominium* has engendered a great deal of controversy over the past few years. It is, however, a controversy that often seems to be focused on the wrong issues. The controversy does not explore the options which the condominium concept (literally, joint ownership) offers individuals, communities and the society in a period of rapidly changing social structure, lifestyles and economics. Instead, it dwells almost exclusively on those who may be seriously inconvenienced or displaced involuntarily. This is, in fact, a real consequence of some conversions for some people, and the flood of litigation and legislative controls which has ensued is testimony to the efforts being made to protect tenants and consumers from unfair, inequitable and unscrupulous treatment.

But the intensity of such controversy all too often causes us to lose sight of the opportunities offered by the condominium to cope with housing needs and enhance the redevelopment opportunities of the 1980s. Since I have not been able to find a relatively objective analysis of condominiumization

The Condo Concept: Filling a Need For the 1980s

Although controversy about condominium conversions seems to focus on the problems of displaced renters, the real issue may be that of finding ways so more people can enjoy the advantages of condo ownership.

as a mechanism for housing adaptation and urban revitalization, the outline of one is suggested here.

Prices Out of Reach

A recent analysis of the housing industry for the 1980s suggests that inflation, high interest rates and soaring land and energy costs, among other factors, have priced an increasing number of families (and a growing number of adult singles) out of the housing market. Although some abatement is predicted during the decade, it is unlikely to be great enough to put the cost of a new house within reach of the average American family. If we anticipate the 1980 census and extrapolate from it for the next 10 to 20 years, it becomes quite clear that the predictable fact of high housing costs will be confronted by the irresistible force of a household population explosion and a derivative demand for housing. We can expect an increase in the number of households over the decade of some 17 million, which will mean that by 1990 we shall have experienced a 50% increase in household formation since 1970. The numbers are irrefutable. During the decade 42 million people, the 1950 baby boom, will turn 30 years old (compared to 32 million in the 1970s) and the over-65 population will swell by 5 million, most of whom will continue to live in separate households. The 96% increase in the divorce rate during the 1970s shows no sign of abating and will continue to create still more house-

holds in the 1980s. Further, there is a significant increase in the number of young adults who choose to live alone which adds to the number of households and increases the burden on the already overtaxed housing stock.

Home ownership is a growing American tradition. Although only 40% of the population owned their own homes in 1940, 65% do so now. The vast majority of the expected 17 million new households predicted for the 1980s will attempt to buy a home even though they are becoming increasingly aware it will not be the traditional single-family detached dwelling on a plot of land. Not only does recent tradition suggest home ownership, but public policy encourages it through federal income tax laws, which in a period of growing inflation transfer home ownership from mere shelter to the average householder's most significant investment. Further, changing life-styles—especially the postponement of children and the related probability of two-income households—combined with growing tolerance of consumer patterns which permit a larger proportion of disposable income to be spent on housing, have made it possible for households seriously to consider owning and avoid the diminishing rental market.

Paradise Lost?

The so-called "American dream" of an owner-occupied single-family de-

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tached house has been disrupted, if not destroyed, for about 85% of those entering the housing market by an inflationary spiral which has driven average new-house prices toward \$70,000, with the price of used homes close behind. Respected analysts predict 1990 average prices of almost \$160,000, an increase of about 150 percent! These increases are likely to be greater than the predicted growth in personal income during the decade by about 20% to 25%, thereby increasing the financial burden of home ownership. All the evidence suggests, however, that most households are willing to dedicate a larger portion of their budgets—35% to 40% as opposed to the traditional 25%—in order to own their own residence.

The perceived need of individuals and families to take advantage of tax benefits afforded owners versus renters, combined with the growing economic disadvantages of rental building ownership, created the market conditions in the 1970s that were necessary and sufficient for the conversion of rental buildings to condominium (and in some areas, notably New York City, cooperative) ownership. A recent study on the economics of condominium conversion by the Center for Urban Affairs at Northwestern University concluded that economic, social and demographic forces have converged to create an environment highly conducive both to the construction of multifamily buildings for condominium use and the conversion of existing rental stock to condominium ownership.

Increased Acceptance

Because of the dramatic increase in the cost of new construction, condominium conversions, where all three major parties to the process (apartment building owners, converters and unit buyers) are likely to gain, have made a major impact on an increasing number of urban housing markets. At a time when the demand for home ownership is growing and the cost of traditional single family detached homes has outpaced income, the concept of shared building ownership—condominiums—is becoming culturally acceptable to a broader spectrum of the population and economically attractive as a combination of shelter

and inflationary hedge.

The upsurge of conversion in the last few years makes the point graphically—45,000 in 1977, 85,000 in 1978, and 150,000 in 1979. All indicators suggest continuing sales at this level in 1980 if and when the mortgage market stabilizes at a level acceptable to buyers. In contrast, every other section of the housing market is suffering; single family housing starts declined 23% and sales of single-family houses plummeted 17% in March of this year.

Chicago Leads Way

The Chicago area is identified by many as the "condo capital" of America because of the large number of conversions here. Depending on whose numbers you use, there are 60,000 to 80,000 city and suburban condominiums. A four-year (1976-1979) analysis of home sales trends in the Chicago area indicates that condominiums may soon account for the majority of sales in the city and a quarter of sales in the suburbs. The percentage of all home sales represented by condominiums rose from 17% to 42% in Chicago and from 11% to 21% in the suburbs for a combined 1979 Cook County percentage of 30%, up from 12% in 1976.

While the 1970s condominium boom may have begun here, the phenomenon has spread throughout the nation and housing markets in every region have been impacted. There is no doubt that the condominium has become a significant national housing option produced by some dramatic and volatile forces, social and economic, in our society.

If the condominium phenomenon is a function of underlying demographic and economic factors in a period of societal flux, it has also caused a wide-

spread political reaction on the part of those who feel "condomania" is either elitist (and therefore exclusionary), inflationary, or both. Tenants of converting buildings have organized political action groups and city, county and state legislatures throughout the nation—and even the United States Congress—have passed or have under consideration a vast array of ordinances, statutes and resolutions to control, regulate and even prohibit condominium conversions. Litigation is bountiful and major issues of due process and property rights are being addressed in courtrooms around the country. There is growing sound and fury over conversions and there are significant externalities to be assessed and adjustments, procedural and substantive, to be made in the interests of equity and justice.

Wrong Focus

However, I would contend that much of the debate over conversion regulation and especially prohibition, whether *de facto* or *de jure*, misses the point. Despite the hardships such conversions may have for some segments of the population—especially the displacement of the elderly, those on fixed income, and young adults without accumulated capital for conventional down payments—the brisk sale of units in converted structures and the few new condominium buildings argues forcefully for the existence of a real market for condominium housing in urban areas. *The critical problem may be that of finding ways to permit more of the population to take advantage of condominium ownership, especially those who now feel excluded and abused by the phenomenon.*

The condominium as a housing concept is neither good nor bad. To the

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extent that condominiums permit home ownership for the present and anticipated home buying market, they are obviously filling a gap created by the inadequate number and exorbitant prices of new and existing single-family homes. The average \$40,000-\$50,000 price of condominium homes is significantly less than the \$60,000-\$70,000 average for single-family dwellings, although even that price range excludes too large a proportion of the growing market. The need is as obvious as it is imperative—identifying a creative combination of public policy supports and private sector incentives to facilitate the purchase of condominium homes for a larger segment of the housing market, and particularly at the lower and moderate income levels.

Government Can Help

The displacement of rental building occupants in the process of conversion to condominiums can be mitigated by positive governmental policies which promote home ownership and by politically realistic and socially responsible practices by lending institutions and developers/converters who protect the existing housing opportunities of vulnerable renter populations and where feasible provide new options for them.

There are in existence policies and practices at both the federal and sub-national level which have been or can be employed to reduce displacement by condominium conversion and enhance opportunities for home ownership with all that that implies for individuals psychologically and economically and for communities: renovation of existing housing stock, increase in the tax base, stabilization of social relationships, and increased commitment to the viability of neighborhood and city. HUD Secretary Moon Landrieu has already indicated his intention to carry out a Congressional directive to make Section 235 subsidies, discontinued since the mid-1970s, available to low and moderate income tenants who wish to buy their units in buildings converting to condominiums. The Government National Mortgage Association (GNMA) provides an interest subsidy that permits lenders to offer mortgages at a below-market interest rate, although since 1976 it has concentrated its entire appropriation on multifamily rather than single-family (including condominiums) mortgages.

Shared Equity Mortgage

A more controversial option for expanding condominium ownership involves shared capital gains. The shared equity mortgage approach allows the government as lender and subsidizer of mortgage payments to become part-owner of a housing unit, such as a condominium, and to share in the payments as well as the profits made from the appreciated property at the time of sale or upon the death of the owner. The advantage to government involvement in subsidization is the so-called "take-out," as opposed to the ongoing subsidy under such programs as Section 8 rent supplements. Such an approach seems to be mutually advantageous, i.e., renters become owners with all the attendant advantages, and the government becomes a participant in an investment rather than a perpetual subsidizing agent without possibility of reimbursement. Congress is currently considering dropping the Section 8 program because of its exorbitant cost, which is bound to grow given the economics of housing projected for the future.

Chicago Subsidy

There are some very important experimental programs designed to provide increased opportunities for low- and moderate-income ownership. Chicago initiated an imaginative program a few years ago to offer subsidized 8% mortgages for thousands of low- and moderate-income families in an effort to encourage home ownership including condominiums. That plan was emulated in a number of cities and an attempt has been made to encourage a national policy based on this approach. In another effort by cities and the federal government to extend the rapid growth of home ownership to low-income families through cooperative and condominium conversions, there are more than 25 low-income cooperative projects in cities as disparate as Berkeley, California; Denver, Colorado; and Fairfax County, Virginia. One of the projects, at 810 West Grace St. in Chicago, will provide 240 cooperative units in a high-rise building that was deteriorating and would have otherwise gone into default.

Salvaging Old Buildings

Many of the buildings being turned into cooperatives are deteriorated or even abandoned. Utilizing such buildings as cooperatives salvages housing

units at a time when there is a shortage of low-income units. Turning the properties into cooperatives also keeps them on the tax rolls. Such projects, which require that low-income families make a modest down payment for their coops and which permit them to receive rent-supplement payments under the Section 8 program, allow low-income owners to build equity, to share in appreciation, and perhaps most importantly to derive a sense of economic participation in progress rather than dependency.

In a similar but more dramatic move the British government recently introduced a radical new housing policy, offering the approximately seven million tenants now living in public housing projects the right to buy their dwellings at discounts up to 50% off the market value with 100% mortgages financed by the government. The plan was designed to provide tenants an opportunity to acquire a capital asset whose value is rising and to liberate them from stifling bureaucratic rules and regulations affecting their life-style. While there has been some discussion of experimentation with condominium or cooperative conversion of public housing in the United States, there is at this point no plan to do so. It is, however, an idea worth serious consideration by agencies such as the Illinois Housing Development Authority and the Chicago Housing Authority.

Imaginative Implementation

The condominium concept is being employed in imaginative and inventive ways in the exciting revitalization process in cities across America. The recycling of deteriorating, underutilized or abandoned commercial and industrial buildings of sound construction for residential use is a rapidly growing phenomenon both in Chicago and elsewhere.

Best known of the Chicago projects is Printers' Row on South Dearborn St., which will rescue those buildings from oblivion and provide housing opportunities for people who wish to live in the city center. Such projects will help to revitalize the South Loop. Further, landmarks such as the McCormick mansion can be saved by permitting owners to convert them into multifamily structures.

A number of center city hotels which are not economically viable in today's market are being converted to condominium apartments. Examples

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

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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?

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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. □