The Times-Picayune

Sunday MONEY

SECTION F
Sunday
November 14, 2004

Condominium units downtown are hotter than habaneros ...

LENGSFIELD LOFTS

610 John Churchill Chase

29 units

Developer: Sean Cummings

List price: $220,000 to $750,000

Project: Large, new condos in former industrial building, shooting for high-end clients

... and buyers' ravenous appetites seemingly can't be satisfied

1205 ST. CHARLES CONDOMINIUMS

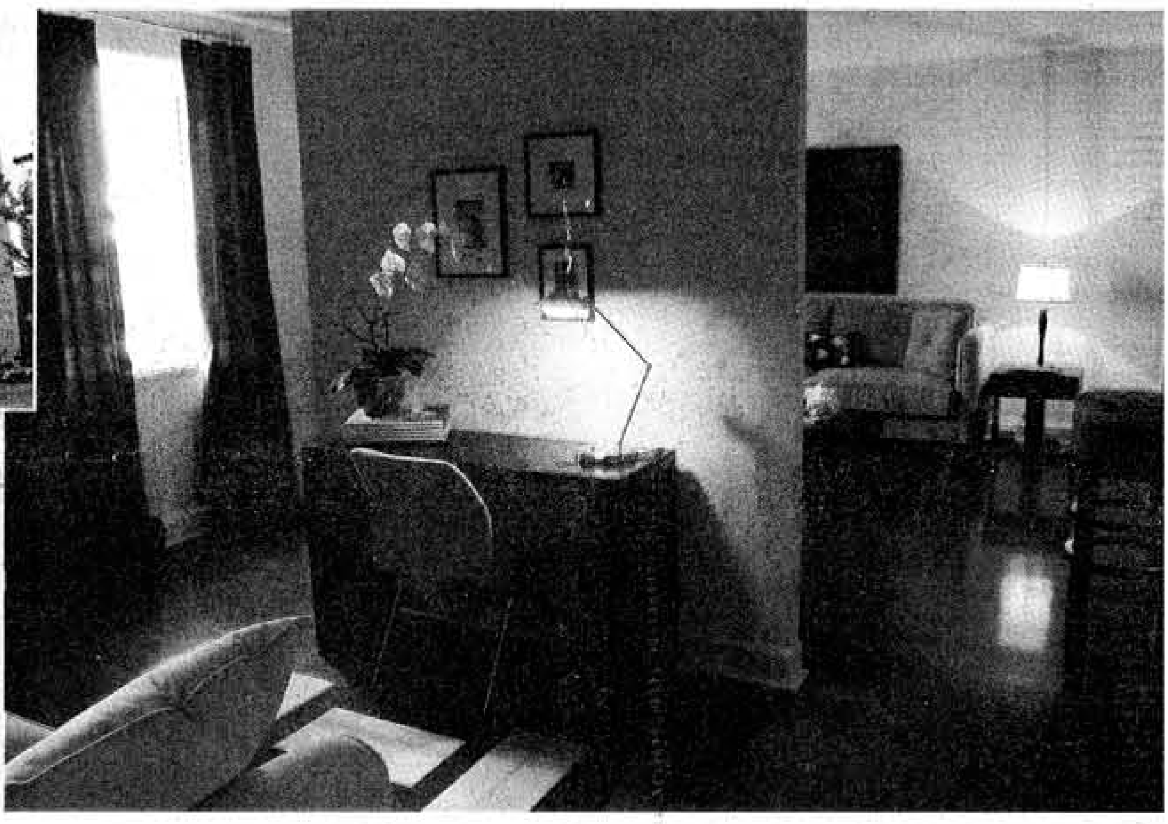
1205 St. Charles Ave.

221 units

Developer: KFK Group

Price: $79,000 to $179,000

Project: Conversion of 40-year-old apartment complex into affordable condos. Marketing targets students, second-home buyers wanting a parade route apartment and even first-time home buyers.



Condo craving

Stories by Greg Thomas
Real estate writer

When Elie Khoury bought the Regency Apartments in September to convert the property to condominiums, he ordered hundreds of glossy, eight-page brochures to market the project as the 1205 St. Charles Condominiums.

The brochures came back from the printer in three weeks, but Khoury might just as well have tossed them into the trash.

All 215 units were already in contract to sell.

That's quick, but more amazing is what that demand did to price as frenzied buyers — many of whom were investors planning to resell the units — snapped them up long before construction began.

For example, the small 565-square-foot Regency condos, one of several floor plans, were originally marketed at $115,000. Demand and multiple bids resulted in average purchase prices of $135,000. And the properties were actually appraised at values as high as $163,000.

The largest units, which are 850 square feet, were originally offered at $149,000, but the average price those units actually sold for was $189,000, and appraisals came in at $199,000.

"This market isn't just hot," said Hayden Wren, a real estate broker with **Corporate Realty**. "This is volcanic. And it's not done yet."

In 2000 and 2001 combined, only 161 condominiums were sold in the Central Business District, defined as stretching from Iberville Street to the Pontchartrain Expressway, and from Claiborne Avenue to the river.

In 2002, 114 CBD condos were sold. Last year, 181 sold. And so far this year, 161 have been sold. In a further sign of the high demand, units today have a median per-square-foot sales price of $221 — 17 percent higher than two years ago.

See **CRAVING,** *F-2*

Going condo involves more than just a moving van

Condo mania may be shaking up the Downtown residential market with a proliferation of new projects, but getting into one of these urban homes isn't all that easy, and sometimes condos inflict unwanted surprises.

The biggest headache can be trying to finance the purchase of a condo that's in the midst of a conversion or renovation. That's important locally because several projects are under construction.

"Buyers get approval for the loan," said local mortgage broker Sheila Borne with **Avenue Mortgage**. "But underwriters don't approve the building."

In other words, lenders are willing to give the money to the buyer but the lender won't issue a mortgage on an individual condo that is part of a project under construction.

Or lenders will make the loan but the buyer will have to come up with 25 to 30 percent of the purchase price as a down payment. "That shuts off a lot of sales," Borne said.

One example was the rush in late summer by buyers to snap up 221 condominiums at the Regency Apartments on St. Charles Avenue. Buyers signed purchase agreements and supplied 10-percent cash deposits. But construction to convert the apartments to condominiums has just started, and most buyers are unable to get a conventional mortgage until construction is nearly finished.

Avenue Mortgage ended up writing collateral mortgages for the buyers. In a collateral mortgage, a buyer must put up collateral, such as jewelry or something of

See **GOING,** *F-2*

Surge in demand spurs leap in price

CRAVING, *from F-1*

'It's a no-brainer'

A variety of market forces converged to create this condo mania in New Orleans, including the expiration of tax breaks for apartment complex owners, continued low mortgage rates benefiting both consumers and developers, and the maturation of the CBD — particularly the Warehouse District — as a residential neighborhood.

But perhaps the biggest reason, Realtors say, is that many of the newer units are relatively cheap. For projects with studio units selling for under $100,000 or even $150,000, many buyers — from empty nesters to medical students — are finding that mortgage payments are equivalent to or less than the market's prevailing rents.

"It's a no-brainer," said Wren, a commercial broker and accountant. "Mortgage rates are effectively low, and at the end of the day, the (buyer) gets urban living and parking for what they were paying in rent."

Ten years ago, most residences downtown were apartments. But condos have been eating up the inventory of apartments, at least in the CBD. As of October, the CBD had 26 condominium buildings consisting of 822 units.

The apartment market, by comparison, now consists of eight major apartment buildings with a total of 998 units. (This excludes the 700-unit Saulet apartments, which is in the Lower Garden District, not the CBD.)

As the number of apartments dwindle, it pressures rents up, so developers are now planning to turn the few remaining warehouses or industrial properties in the Warehouse District into apartments.

Wade Ragas, a professor of finance at the University of New Orleans and director of the UNO Real Estate Market Data Center, said that low price and a downtown perceived as safe and filled with retail amenities — two factors that didn't exist 15 years ago — are driving much of the demand in the CBD.

"Take the Krauss project," Ragas said. Khoury said last week he has agreed to buy the Krauss Department Store building on Canal Street, empty since 1997, and carve out 250 condos costing between $149,000 and $249,000. "He's trying to achieve a very modest price, near the $150-per-square-foot level, and that's far below the competition in the area. French Quarter rates are $300 to $400; the Warehouse District, it's over $200. I think if he can do it at the price point he's talking, he'll sell it out rapidly."

JULIA PLACE

333 Julia St.

105 units

Developer: Weber & Associates

List price: $169,000 to $300,000

Project: Renovation of Julia Place Apartments into condominiums, upgrade of common areas.

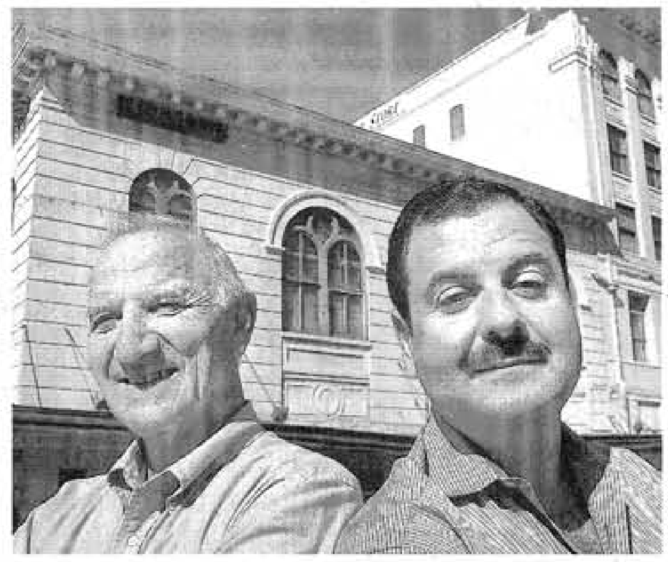
3915 ST. CHARLES ST.

100 units

Developer: William Mains

Price: $209,000 to $389,000

Project: Acquisition and conversion of 1970s-era apartment complex.



Elie Khoury, doing business as KFK Group, right, is eager to make a deal with Krauss Department Store executive Hugo Kahn. Kahn, with the store for 40 years, has watched several deals come and go. He hopes this one flies. Khoury plans 250 condominiums in the 1903 store and its 1950 warehouse, which combined take up two city blocks.

Owning vs. renting

How long will the condo conversion trend continue? "As long as it's perceived to be cheaper to own than to rent," Ragas said. "As long as that gap is there, it is going to persist."

For example, a 750-square-foot condo in the Warehouse District selling for about $200 per square foot would cost $150,000. Assuming a 10 percent down payment was made, a $135,000, 30-year fixed-rate mortgage at 5.6 percent would create a monthly payment of $777. That excludes property taxes and condo association fees.

Condos do not require flood or homeowners insurance. Association dues pay for insurance on the structure, while residents must insure the contents, which costs about one-third as much as a traditional homeowners policy.

However, there are those association dues. Shaun Talbot, a vice president with the **Talbot Realty Group**, said that in high-end condo projects — those with shared amenities, such as pools, fitness centers and landscaped courtyards — association dues can cost 33 cents per square foot a month. Condos with fewer amenities run about 23 cents per square foot. Assuming the example above would have the average, or 28 cents, the buyer would need another $210, or a total of $987 a month.

Rents in the Warehouse District are among the highest in the city, pushing $1.30 per square foot per month for top properties, which would create a monthly payment of $975 for the same unit described above. Rent often doesn't include covered parking, which runs $100 a month, while in condos a parking spot is included.

While the call on whether to rent or own is close — the dollars shelled out are about the same in both scenarios — many consumers look at a base note of $777, excluding fees, and compare it to the rent payment of $975.

Furthermore, buyers believe they're getting more for their money through ownership, including the deduction of mortgage interest payments and the hope that the value of the unit will increase over time.

Another reason many projects are coming on market, particularly in the Warehouse District, is the expiration of tax credits, said Sean Cummings, a local developer. Cummings is wrapping up a $7 million, 29-unit high-end condo project dubbed the Lengsfield Lofts at Tchoupitoulas and John Churchill Chase streets. The units in Lengsfield Lofts will sell for between $220,000 and $750,000.

Cummings explained that many of the projects going condo were warehouses that had been converted into apartments using historic tax credits, a federal program where a developer can sell tax credits for up to 20 percent of the project's cost, so long as the developer adheres to strict architectural guidelines.

The program requires that the project remain rental property for five years. After that, they can be converted into condos. And going condo often yields more money to the developers.

Many projects are coming off that five-year prohibition, such as **HRI Properties'** 269-unit Cotton Mill.

Represented by Talbot Realty Group, the 60 units in the first phase of the Cotton Mill to go condo sold out in three weeks. A second phase of about 70 units is just coming on the market.

Cummings added that for many properties, restoration tax abatements are also expiring. That city program, designed to spur redevelopment and renovation, freezes a property's taxes at the usually low pre-restoration value for five years, and the freeze is eligible for a five-year extension.

But Mayor Ray Nagin's administration is tapping the brakes on routine renewals of the abatement. The higher tax bill may spur owners to cash out by selling to a condo developer.

Among the largest condo-inspired transaction is the recent sale of 333 Julia St. for $16 million. It's a deal that shows several of the motivations for apartment complex owners to sell.

The 105-unit Julia Place, the first large warehouse-to-apartment conversion project in the Warehouse District, was tackled by **RCB Builders** in 1985. Principals Carey Bond and Henry Lambert went on to several other residential projects and Hampton Inns.

When originally developed, Julia Place received historic tax credits and two five-year tax abatements, Lambert said. While the expiration of tax breaks was partial motivation for selling, the project also had 25 partners. "There were personal reasons" as well as the expiration of credits, Lambert said.

Earl Weber, doing business as **Weber & Associates** announced the purchase along with plans to spend several million dollars renovating the units and common areas, along with a new fitness center, club house and rooftop pool. The sale price at more than $150,000 a unit is thought to be one of the highest amounts paid in the Warehouse District for an existing apartment complex. It was a good time for RCB and partners to cash out, Lambert said. "It's a very, very fair price."

Weber will sell the condominiums for $169,000 to $300,000.

Julia Place tenants were told Friday that the complex is going condo, and as in most conversions, those tenants are given first crack at buying their units. Leases are honored until their expiration.

Debt can also motivate owners to sell their complexes. Most apartment building owners get loans for 10 years, and those loans include onerous pre-payment penalties, said Larry Schedler of **Larry G. Schedler & Associates.** After a wave of warehouse conversions to apartments in the early 1990s, some local properties now are ripe to be sold and converted to condo without a severe prepayment hit.

And many owners have found that converting their properties to condos generates more revenue than refinancing the original debt. In this market, Schedler said, if the complex isn't going condo, it's because of debt restrictions.

Income taxes, too, move many apartment complex owners to sell to a condo developer rather than do the project themselves or keep the property as apartments. Wren pointed out that the owner of an apartment complex may pay higher taxes if he takes the complex to condos and sells them himself. Such an undertaking would land most of the income from the project in the 35 percent income tax bracket.

But if an owner sells his apartment complex to a developer with plans to convert it to condominiums, he would pay a capital gains tax of only 15 percent on his income from the sale.

Furthermore, the developer who buys the complex will likely pay a premium for the property because his conversion will drive up the complex's value.

Nationwide trend

Mark Obrinsky, chief economist for the National Multi Housing Council in Washington, D.C., said condo mania is sweeping many metropolitan areas, especially those with a vibrant downtown.

Obrinsky said that in the 1980s, national condo purchases averaged fewer than 200,000 a year. That climbed to 500,000 a year in the 1990s and has hit 1 million a year in the fourth quarter of 2004.

He points out that just 10 years ago condos had a bad name in real estate — even ones near the beach didn't always see much appreciation. For example, he said that in 1995 median sales prices of condos nationally had increased only 2 percent over values seen in 1989. "Now all of a sudden we're in a different world than most of us are familiar with," he said.

Between 2000 and 2003, condominiums across the nation appreciated in value 47 percent compared with 22 percent for single-family detached homes, Obrinsky said.

And though condos represented 6 percent of all housing sales in the 1980s, they are 13 percent of today's sales.

Do these prices reflect a pricing bubble for condominiums? Obrinsky doubts it. "If you cut down (condo) appreciation from 10 percent a year to 3 percent a year, no one gets bothered by it," he said.

Will it go to zero? As many urban areas see a renaissance in conversions to condos, Obrinsky doesn't think those close to vital downtown's will have to worry about losing value in stable economies. "In Chicago? New York? Or, I suspect, in New Orleans? No. My guess is that the popularity of living closer to a thriving downtown is not going to go away," Obrinsky said.

Meanwhile, condo projects are stacking up. Longtime developer William Mains cut his teeth on converting single-family residences in the French Quarter into condominiums and claims he was one of the first to have a significant project sell out at $300 per square foot.

Convertible properties in the Quarter are hard to come by now. His most recent project was the purchase of 760 Magazine St., known as Magazine Place, a 56-unit apartment building he bought in 2002. After upgrading each unit, he began selling them as condos in early 2003.

One month ago, he paid $12.5 million for the 94-unit, seven-story 3915 St. Charles Apartments Uptown. As of Wednesday, he had contracts to sell 40 units. "My banker just keeps shaking his head. He can't believe it," Mains said.

Yet another development team that has been surprised by demand is Patrick Quinn and Mickey Palmer of **Decatur Hotels.** They owned 711 Tchoupitoulas for several years and are moving forward with a 35-unit condo project.

They have just started construction. "When we started in earnest 18 months ago, we were thinking of (per-square-foot sales) in the $150 to $200 range, Quinn said. "Now that construction is under way, we're looking at $250 to $300. It's amazing."

How long can this market pace keep up?

"I don't know where it ends," said Wren, who brokered the recent sale of Julia Place. "But the evidence in the strength of the market is the Regency (Apartments). That those units were absorbed in less than 30 days. That's strong, and that's the story."

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