

## Can You Still Make Money in Condos?

By Kiara Ashanti

We've all seen the signs. They're on almost every road corner, sidewalk and billboard in America. No, not the infamous, "We Buy Houses" signs. Those are old news by now. They've been replaced by a new roadside site annoyance—Condos for sale!

Throughout the country, every possible advertising choice is being used to sell condos. Hardly a day goes by that some overpriced apartment building, or even underpriced apartments for that matter, changes its name and begins marketing itself as the new place to buy a condo.

On the surface, condos appear to be a great investment for a real estate investor. They're cheaper to buy than current houses and there seems to be a large demand. After all, if you spend even a little time with a group of real estate investors, somebody will know of someone else that made 30 percent or more investing in condos. There are several people in the marketplace selling seminars on how to make money in condo preconstruction.

"At least once a month, the OREIA [Ohio Real Estate Investors Association] has some group asking for permission to come talk to our members about a boot camp that will teach them how to make 30 percent on their money by means of preconstruction in Florida," said Vena Jones-Cox, noted real estate investing guru. Unfortunately, the truth is many people HAVE made money by preconstruction. Why use the word unfortunately? Because those people made their money one to two years ago.

When rates were much lower than they are now, most of the media attention and hype was geared toward single-family houses. But housing communities are not the only developments that get a spike from low interest rates. Many developers eschewed single homes and instead started developing condo units. Savvy investors would put a small deposit down on one or more units for a building that wasn't even built yet. A few months later, and long before the owner had to close, the unit may have risen in value 30 or 40 percent. The owner would then just sell the contract for a profit.

The unique mix of low rates, creative lending products and media hype, in this latest real estate boom has created a record number of sales in condo units. According to the National Association of Realtors, sales of new and existing condominiums and cooperatives hit their ninth successive annual record in 2004. With numbers like that, the evitable wave of condo conversions was soon to follow. The question remains, however, are they still a moneymaker, or is investing in them now the same as boarding the Titanic?

According to John Chappellear, head of condo development for D.C. area developer KSI, it all depends on what you plan to do with it. "There never has been a piece of property I owned, that I didn't still wish I had," said Chappellear. "It's all about long-term investing. If you need a home or second home, then now it's still a good time to buy."

Chappellear's statement is strangely reminiscent of comments many, if not most, investment experts said about many stocks during the dotcom run. Keep them for the long haul. When this likeness is mentioned to Chappellear, he scoffs at the idea.

"I get the analogy, but the comparison doesn't hold water. Real estate fundamentally has underlying values that most of the Internet stocks didn't have. They didn't have profits; some didn't even have a clear product. They were going up in price because of speculators."

Of course, what Chappellear is pointing out is that many traders knew that Internet stocks were not good long-term investments, but they traded them anyway because they just wanted to profit off the short rise in price. Instead of buying low and selling high, traders bought high, and sold higher. This again, sounds close to what investors were doing with preconstruction. A point Chappellear concedes.

"I would say that most of the people buying condos now, I mean right now, are not owner-occupants. They're investors looking to sell their contract," Chappellear said.

Doing so will become increasingly difficult. The number of investors "flipping" condo contracts became so high in recent years that developers began placing clauses in their contracts requiring owners to keep the property at least a year from closing. Another possible wrinkle is simple market demand. According to the Commerce Department, U.S. housing starts were down 7.9 percent in February. A continued housing slow down coupled with rising interest rates could make the much-talked real estate bubble pop.

Chappelear believes the talk of a slow down is media hype. "All that's happening right now in condos and single-family homes is homes are selling in 45 days, not in three days. That's what you call a normal market."

Chappelear may have a point. Long before the current market upswing, selling a house in fewer than 60 days was considered good. "If you talk to experienced appraisers, they'll tell you that market value is the price a house will sell for in less than 90 days, not the next three minutes," he added.

Other experts disagree. One such person is Stephen Wayner, vice president of Bayview Financial Exchange Services, a company that provides 1030 exchange services. Wayner is less interested in interest rates and number of days on the market, and more worried about construction stops.

"If you want to know the pulse of the market, look at the market leaders. The Related Company is one of the premier developers in the condo market. They recently canceled two projects in Las Vegas, even though 60 percent of the units were pre-sold," said Wayner.

Indeed many other developments across the country have canceled projects as well. But that's big-money development; what about the average investor? Can you still make a buck in condos?

"Now is not the time to try to flip condos. Right now the vacancy factor [number of units that are empty] is beginning to creep up. Just go look at a completed condo building in the evening, and count the number of units with no lights on," said Wayner.

More than anything else, these two points that Wayner make are critical to the answer of the possible dwindling returns in the condo market. Another one is the sheer number of units available. As pointed out by Chappelear, many of the condos under contract now are from investors, not owner-occupants. Many have placed large deposits down, and so they are going to close on them. But unlike a year or two ago, they may not be able to sell it right away.

"Many of these condos are going to be worth the same price that the investor bought it at," said Wayner.

If Wayner is correct, that could spell trouble. Especially for people who don't have the finances to carry a second home for the long haul. Either way you cut it, a basic lesson in supply and demand may be heading our way. The huge demand for homes and condos sent the market flying up, increased the number of conversions and development projects, and increased prices. But if we have reached a point where supply has outstripped demand, then prices are going to come down.

"I'm not excited about condos right now, except in certain vacation spots and maybe Florida. But I tell my wholesaling students there could be some deals out there," said Jones-Cox. "If they can find a condo in foreclosure or get at about 60 percent of its value for some other reason, there is still money to be made."

Wayner believes the opportunity now is elsewhere. "If I were an investor, I'd be looking at apartments. So many conversions have taken place, the real demand for the next few years will be people looking for apartments to rent," asserts Wayner.

Other areas of possible opportunity are parts of the country where the buildup hasn't occurred. Places like Spokane, St. Louis, Detroit are cities that have not seen the same amount of buildup or conversion of apartments to condos. Especially units near downtown areas.

"From the perspective of long-term investment potential, when there is a "glut" on the market, the time to invest may, in fact, be the most suitable. Downtown condos and lofts are a very different product than suburban or even close-in-to-downtown units. Being right in the heart of a great, vibrant, exciting, fun-filled, growing downtown like Spokane that's getting better all the time because of new businesses and new investments is always going to be an attractive choice," said Ron Wells, a Realtor in Spokane, Wash.

As with all investments and markets, the cycle will ultimately be cyclical. There will be upswings and downswings. We've had our upswing in the real estate market, but now all signs point to a downward swing. There is still money to be made, but it most likely will be from taking advantage of the current weaknesses in the market, not what has worked in the last few years.

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