PROACTIVE PRACTICE

MARK HUMPHREYS

Shifting Gears in a Changing Market

Condominium developers are reevaluating the feasibility of their projects in today's market and looking for ideas to get the most bang for their buck.

THE MULTIFAMILY MARKET RISES and falls in cycles, as everyone knows, and condominiums will be hot again, much as they were until April 2006, when the supply of buyers was turned off. But there is just too much product in the market today, and developers are finding themselves stuck with condominium sites.

Several factors have affected the condo market. In some areas, speculators could not flip their units and were faced with closings on their contracts, so they quit buying—and in many cases dropped existing contracts and walked away. This was especially prevalent in cities like Las Vegas, where 80 towers were planned, and Miami, where 60,000 units were planned or underway. In the Florida Panhandle, known for its emerald beaches, sales simply stopped. In many of these markets, sales dropped 70 to 80 percent and listings quintupled in just 12 months. Much of this decline was due to speculators leaving the market, but another factor was that construction costs shot up 24 percent, or even more, in the past two years, making projects that once met sales targets infeasible.

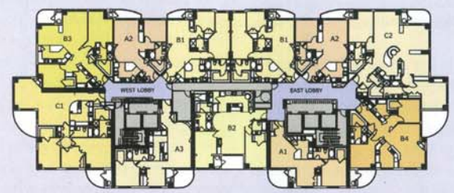
If condominiums are not selling, what can be put on these sites instead, and what are the returns? Developers must either start with the basic economics of apartments, or they must lower condo construction costs if they want to continue building condominiums.

Bringing Costs Down

First, if a developer decides to continue in the condo market—perhaps because the cost of land is too high to make an apartment project pencil out—then he or she must find a way to bring the costs down. Construction costs for a 20-story condominium building with a parking garage may be $250 to $300 per square foot ($2,691 to $3,229 per sq m). Adding soft costs and land costs brings the figure to $350 to $450 per square foot ($3,767 to $4,844 per sq m). In order to turn a profit, the sales price would need to be closer to $450 to $550 per square foot ($4,844 to $5,920 per sq m), or even higher. (All these sales price and construction cost figures are actually on the low side.)

However, condominium projects usually have inefficient plans and large units. One solution is to change the corridor to provide higher efficiency, as was done at Grant Park, a condominium building in Minneapolis. The building design places the unit entrances around two elevator lobbies, rather than along a long hallway, with a fire corridor connecting the two lobbies (see Figure 1). This saves 5 to 7 percent in space devoted to corridors and brings the efficiency of the floor to about 91 percent, providing more saleable square footage with no additional construction costs.

Figure 1



Placing unit entrances around two elevator lobbies rather than along a long hallway can bring the efficiency of a floor to about 91 percent.

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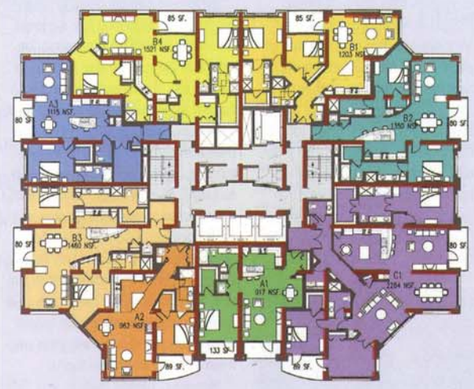
When using tunnel form construction, by crisscrossing forms and introducing curved walls, it is possible to make a building that looks like it is based on a column structure, rather than a load-bearing wall building.

Figure 2

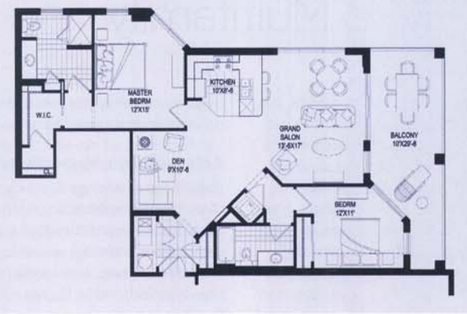


modate poured concrete walls; conventional concrete floors just have columns every 20 to 30 feet (6 to 9 m), so walls can be anywhere. Workarounds include crisscrossing the forms to create a more interesting floor plate, and making the walls that are not concrete curved to hide the look of a rigid plan (see Figure 2). The result can be a building that looks like it is based on a column structure, rather than a load-bearing-wall building.

Another way to save money is to change the product planned on a site—for example, by substituting a four-story wood-frame building for a 20-story high-rise condominium on a two-acre (0.8-ha) site. Doing so will halve construction costs. In addition, today it is not uncommon to see 120 to 130 units per acre (297 to 321 units per ha) in wood-frame buildings, which is about the same density found in a high rise. So, if density is what is needed and views are not crucial, it is possible to lower costs significantly.

An extremely large patio increases the saleable square footage at a low cost, while lowering the sales price per square foot.

Figure 3



an 850-square-foot (79-sq-m) unit becomes a 900-square-foot (84-sq-m) unit. At $400 per square foot ($4,300 per sq m), the sales price would be $360,000. With a patio that is bigger by half, the result is an "outside room," instead of a short patio (see Figure 3). The added construction cost primarily involves the expense of concrete—at $25 per square foot ($269 per sq m), addition of 25 square feet (2.3 sq m) to the patio size would cost $625—but the sales price would increase by $10,000, if the price per square foot of the unit remains constant.

The Rental Solution

Development of apartments may provide the best opportunity for a profit in today's market, or just qualify as an interim measure. For example, it is possible to build a four-story project as an apartment building, but convert it to condominiums later if needed. As an alternative, developing higher-density apartments on a portion of a site leaves the remainder of the site open for constructing condominium towers when the market recovers.

Apartments today have many similarities to condominium units, such as larger patios and smaller units. The advent of flat-screen TVs allows the width of a living room to be reduced by one to 1.3 feet (0.3 to 0.4 m), which results in a huge savings on project costs and makes apartments a feasible alternative for a condominium site. Density is the key to making apartments financially feasible on sites originally intended for condos: additional units allow a developer to recoup the high cost paid for land planned for condo development. Smaller units and "four over two" buildings—four stories of housing over a two-level garage—can help a developer achieve the necessary density at half the price of a high rise.

By running the numbers, a developer can discover that returns on an apartment project can be higher than those in the original pro forma—while providing an annuity, to boot. **MFT**

What else can be done to save money? In a high rise, the system known as tunnel form construction can save $15 per square foot ($161 per sq m), if executed correctly. Tunnel form is a poured concrete system that uses hinged forms rather than conventional forms that need bracing, then plywood, to be set up, requiring days of work. Tunnel form construction allows quick pours of each floor because walls and floors are in each form. This creates large savings in time and construction dollars, with as many as two pours of a floor per week possible with tunnel forms, compared with one pour per week with conventional forms.

However, tunnel form is less flexible because the design must accom-

Substituting a four-story wood-frame building for a 20-story high-rise condominium on a two-acre (0.8-ha) site will halve construction costs.

Condominium unit sizes have dropped dramatically, which also helps to make a condo project financially feasible. Demographic changes demand it: a generation of 65 million empty nesters is downsizing from a large home, and for many, an 850- to 1,000-square-foot (79- to 93-sq-m) one-bedroom-plus-study unit is just fine. The irony is that their children, the echo boomers—also 65 million strong—want a plan of the same size or smaller, and could be living in the same urban development as their parents. The only financial difference is that the parents might be making the earnest money deposits for both units.

A recent trend in condominium development is the inclusion of large patios. This does two things. One is that an extremely large patio increases the saleable square footage at a low cost, while lowering the sales price per square foot. For example, most patios are five by ten feet (1.5 by 3 m), so, with a patio,

Grant Park, Minneapolis, Minnesota.

PHOTOGRAPHY: JOEL KOYAMA, KOYAMA PHOTOGRAPHIC/PROJECT: HUMPHREYS & PARTNERS ARCHITECTS

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