

Behind Zooming Condo Prices: New Demographics or a Bubble?

A Changing Middle Class
Turns to Urban-Style Units;
Speculation Raises Fears

Mr. Battaglia's Two New Pads

By KEMBA J. DUNHAM
And RAY A. SMITH

AS condominium prices reach never-before-seen heights, a debate is brewing over whether a fundamental demographic shift is driving the trend or whether this is simply the latest speculative bubble in a corner of the real-estate market that has seen plenty of them.

Last year, for the first time since the National Association of Realtors started tracking the data, the national median price of a condo was higher than that of a single-family home. In June, the median price of a condo was \$223,500, compared with \$218,600 for a traditional house. Between 2001 and 2004, condo values appreciated 57%, while those of single-family homes rose 25%. And the condo market is booming even in second-tier cities such as Minneapolis, Charlotte, N.C., and Omaha, Neb.

Demographic changes in the middle class can explain some of this. The ideal of the two-parent family with 2.2 children living in a suburban house is being supplanted by an array of arrangements, including single professionals, divorcees, active retirees and single parents. For many of these people, an urban condo is both more luxurious and convenient than a house with a yard.

"Today's middle class looks more like the cast of 'Friends' than 'Ozzie and Harriet,'" says Jason Schenker, an economist at Wachovia Corp. in Charlotte. "They're younger, they're urban and they live in high-cost areas of real estate—these sorts of things are all conducive to the growth in condominiums."

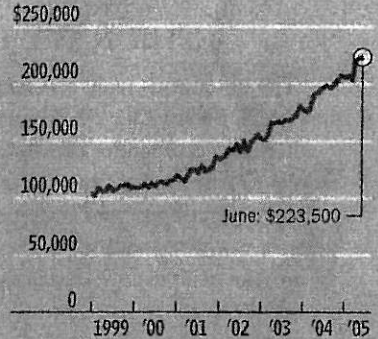
But economists and housing experts are increasingly concerned that too many people, trying to cash in on the phenomenon, are buying speculatively, causing prices to rise faster than economic fundamentals can support.

Developers started construction on about 802,000 condo units in the past five years, according to the Census Bureau. More are on the way. About 270,000 condos will be started in 2005 and a further 255,000 in 2006, estimates Michael Carliner, an economist with the National Association of Home Builders, a Washington-based trade association. That doesn't include the sizable but hard-to-quantify number of new buildings that start life as rentals and switch before completion, or the existing offices, hotels and rental properties being converted into condo developments.

"In the past, the highest and best uses

Going Up

Monthly median sales price for condos and co-ops in the U.S.



Note: Not seasonally adjusted
Source: National Association of Realtors

of land were commercial, but now with condo prices and single-family homes getting such high prices, the demand for land that would have been used for commercial is being shifted to residential," says Anthony Downs, a senior fellow at the Brookings Institution and a real-estate specialist. Median prices for condos may be skewed because many of the newer properties tend to be located in pricey coastal cities or in parts of town where land prices are higher.

Buyers like Keith Battaglia embody both the hot money flowing into the condo market and the changing face of the middle class. Last summer, when the single, 36-year-old hotel executive relocated to Minneapolis, he quickly decided to ditch the suburbs and embrace the city. He waited all night outside the sales office of an unbuilt, luxury-condominium development called the Carlyle.

"I'm so excited to actually be moving to a place that offers Central Park-style living without having to fly to New York to get it," says Mr. Battaglia.

Instead of buying one apartment, he bought two: a fifth-floor unit for \$305,000 and a 19th-floor unit for \$439,000. When the building opens early next year, he plans to live in one and rent out the other.

It's a new era for the condo, once viewed as the stepchild of the housing market. Condominium owners buy the walls and interior of their apartment and a percentage of the building's common areas, which are typically managed by a condo association. Condos leapt to prominence after the 1961 Housing Act enabled the Federal Housing Administration to insure mortgages on the units. In those days, the properties were simple and affordable, a starter home for first-time buyers whose dream was to own a more substantial home in the suburbs.

Because the condo market is liquid and prone to speculation, these apartments—or sometimes townhouses—typi-

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