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Developers Pursue Super-Lux Condo Projects Despite Risks

\$500 Million LA Acquisition Sets Record, But Bigtime Busts Also Abound in Quirky Multifamily Market

Call it: "Condo Affluenza." Condominium investment has always been especially prone to cyclical booms and busts, and the fortunes of two high-end projects show just how Jekyll-and-Hyde the market can be.

In a \$500 million acquisition -- one of the most expensive single-property purchases ever in Southern California -- the CPC Group, an investment division of London developer Christian Candy, bought the former Robinsons-May store in Beverly Hills at 9900 Wilshire Blvd. from locally based New Pacific Realty Holdings.

Candy's plan includes construction of 252 super-luxury condos and retail. Richard Meier, architect of the Getty Center, will design the center.

Making the deal even more astounding, New Pacific just 2 1/2 years ago paid Federated Department Stores a rock bottom \$23.5 million for the 7 1/2-acre property, according to CoStar data. (For additional information on this sale, please see CoStar COMP #1283370.)

Compare that with what's going on in a ritzy district of Dallas, where the owners of a high-rise condominium have given up on market sales and will auction off 15 upper-floor luxury residential units in the Centrum tower on May 20, according to real estate auctioneer Sheldon Good & Associates. Dallas-based Centennial Real Estate Corp. and GEM Realty Capital of Chicago bought and converted the dwellings in late 2005. But only eight units have sold, according to Travis Mathews, vice president of Briggs Freeman Real Estate in Dallas, who is marketing the condos.

What separates the 'have' developers in hot markets from the 'have-nots' in markets where dwellings are languishing along with other for-sale housing stock?

"The condo market differs in every single city in this country, especially between older, converted condominium buildings and brand-new, straight-out-of-the-ground projects," Mathews said. "There are a lot of variables."

Within Dallas, for instance, a new condo tower developed under the edgy W hotel brand in Victory Park sold out in short order. But in other markets, like Manhattan, buyers often prefer condo conversions in hip, historic locations, Mathews said. In other recent deals:

- Palos Verdes Street Investments LLC plans to develop an 18-story high-rise residential tower, 4,000 square feet of ground-floor retail and commercial space and 32 brownstone-style flats and town home condos on 1.6 acres at Palos Verdes and Fifth Streets in San Pedro, CA.
- An affiliate of Post Properties (NYSE: [PPS](#)) and Ardent Residential will co-develop Four Seasons Residences, Town Lake Austin, a 166-unit luxury condominium project in downtown Austin. Four Seasons Hotels Limited will



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manage the project, expected to break ground adjacent to the Four Seasons Hotel this fall.

- Last month, Legacy Partners acquired the 573,000-square-foot One World Trade Center on the Long Beach waterfront for \$149 million, or \$259.72 a square foot, from G REIT Inc., an affiliate of Santa Ana-based Triple Net Properties. In February, the leasehold to the historic Queen May ocean liner and surrounding 75.7 acres on the Long Beach waterfront were put up for sale following a bankruptcy settlement.
- A private investor purchased two parcels at 10763-10777 Wilshire Blvd. in Los Angeles for \$18.35 million. The 26,425-square-foot property currently includes two apartment buildings totaling 34 units. The buyer plans to raze the structures and redevelop the property into a 60-unit luxury condominium development.

Growing numbers of convenience-minded Baby Boomers -- and their Echo Boomer children interested in totally hip, low-maintenance environs -- are eschewing single-family dwellings for high-rise condo and apartment living. But Mathews wonders how long markets can hold out before becoming as glutted as Las Vegas and most famously, South Florida, where owners have converted numerous high-rise apartments to condos and much of the new construction is condos. Condos are re-entering the market as rentals at a growing clip, competing against existing apartment supply.

"On the coasts, brands associated with (hotel) buildings help to get condos out there, and sell them a little harder," Mathews said. "But in places like L.A. and here in Dallas, you have so many new buildings, it has to lower the absorption rate at some point."

Evidence of a slowing condo market has left many investors unfazed -- more than half of respondents surveyed in Marcus & Millichap's 2007 Investor Outlook said condo conversions are a good business tactic in certain markets. But 30% also said condo conversions are no longer a sound business practice in any market.

One difference in this condo cycle is that demand remains strong from empty nesters, high-end urban professionals and other groups, according to M&M.

"The condo market didn't run into a fundamental demand problem. Sure, the speculation and frenzy had to be rung out of the market, but the current situation is more a case of oversupply mostly limited to eight to 10 markets," says Linwood Thompson, managing director of Marcus & Millichap's National Multi-Housing Group.

In the last 10 years, about 300,000 multifamily units have come online each year, a very "moderate and disciplined" supply, Donna Brandin, CFO of Equity Residential Properties Trust, told investors at the Credit Suisse 2007 Real Estate Conference in New York on Wednesday. However, much of the new construction has focused on condos rather than apartments.

"We do see some (condo) supply coming back onto the market, honestly, but not enough that it's going to be detrimental to our (apartment) business," Brandin said.

The apartment market shows signs of rebounding following the worst of the condo craze, according to results of the National Association of Home Builders' Multifamily Rental Market Index released last month.

Apartment developers are coming back to meet the demand for rental housing depleted by condo conversions. The next two years will bring a correction, with for-sale condos

falling from one-half of all multifamily starts -- a record share -- to one-third by the end of next year, said David Seiders, NAHB's chief economist.

One of those making an encore is Chicago-based real estate developer Fifield Companies, which Wednesday announced it has formed a joint venture between FRC Residential, LLC and Pacific Life Insurance Co., of Newport Beach, CA, to develop and finance up to \$400 million in apartment projects over the next two years, including condo-saturated markets like Chicago, California, Washington, D.C., Southeast Florida and Phoenix.

Senior Research Associate Dean Sison-Buenaventura contributed to this report.