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## Condo Absorption is Slow but Steady

Sales, prices are decreasing but so are inventories.

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By Chris Wood

New condo players in Boston aren't exactly in the fast lane toward property stabilization. Absorption rates in the city are averaging out at approximately one per month. Still, that's a better rate than the one unit per two months seen in Boston's suburbs. And both are better than zero sales.

According to the *Prime Report*, an analysis of new condo sales absorptions by Boston-based real estate marketing and research firm PrimeTime Communities, Bean Town new condo projects sold 1.2 units per month in 2008, with monthly sales velocities ranging between 3.8 and 0.3. "Boston is selling homes—granted at a slow pace, but there is some velocity," noted PrimeTime principal Thomas Skahen in the report. "In other parts of the United States, some real estate markets are still completely frozen from a sales perspective."

Skahen is right. According to data released Wednesday from the National Association of Realtors, existing condominium and co-op sales dropped 10.2 percent nationally to a seasonally adjusted annual rate of 440,000 units in January, down from 490,000 units in December. The sales are 20.3 percent lower than the 552,000-unit level of a year ago. The median existing condo price also dropped significantly to \$174,400, down 20.6 percent from January 2008.

Still, market analysts are hopeful that the sales velocities—regardless of pace—will continue to eat away at inventory and help return stability to the housing sector. "Even though we are an intermediary, we are beginning to see more transactions," says Richard Swerdlow, CEO of Condo.com, a Coconut Grove, Fla.-based Internet Listing Service that features about 600,000 condo listings. "And it seems to be across the board from a \$2.2 million, all-cash Miami Beach unit and plenty of buyer-financed \$200,000 condos as well. We see foreign buyers; we see well-financed buyers; and we see short-sale activity."

NAR chief economist Lawrence Yun likewise hopes that sales velocity will steadily improve relative to the total housing inventory. At the end of January, total housing inventory fell 2.7 percent to 3.6 million existing homes available for sale, representing a 9.6-month supply at the current sales pace. Multifamily condo sales are typically thought to account for 15 percent of existing home sales activity. "The drop in total inventory is an encouraging sign because the number of homes on the market has declined steadily since peaking in July 2008, and inventory is at the lowest level in two years," Yun said in a statement accompanying the data release.

According to Swerdlow, new mortgage underwriting requirements from Fannie Mae are keeping the pace slow even

as they ensure lending to condo buyers occurs in well-stabilized properties. In particular, the GSE is asking lenders to check that condo owners associations are well budgeted with 10 percent cash reserves and have less than 15 percent of common area resident fees in delinquency for a month or longer before they purchase the loan.

If federal stimulus funds can further help to buoy consumer confidence and encourage lending, inventories could begin to drop even faster. "There are only about 600 units left in the Boston market, and for 1.5 million people that is pretty small," Skahen of PrimeTime says. "The big question right now is consumer confidence, and I think as it shifts toward the better, those 600 units are going to get blown out, especially in the more stabilized buildings."

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