
Condo fever comes to town

Downtown gets most units, but can the demand last?

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Construction cranes point skyward. Billboards beckon residents to embrace urban living. A flurry of developers envision ways to transform parking lots and old industrial buildings.

From 414 Water Street, the first condominiums under way in the central business district, to the Ritz Carlton Residences, where buyers are spending \$1 million and up for [Inner Harbor](#) housing with a spa, concierge and valet parking, downtown Baltimore is in the midst of its biggest wave of condo development.

The latest announced project - a 59-story skyscraper in the [Inner Harbor](#) that would be by far the city's tallest building - would add 192 top-dollar condos to Baltimore's downtown residential market.

In a city where condo sales faltered badly in the early 1990s and development ground to a halt for much of the decade, 666 units were under construction at the end of February with up to 1,365 in the pre-construction or planning phase, according to the Downtown Partnership. That doesn't include projects outside downtown, in [Fells Point](#), Canton, South Baltimore, Greektown and East Baltimore, where more than 3,000 condos are under construction or in the works.

Last year, 43 units were completed downtown.

The rush of development has sparked worries about overbuilding, especially with mortgage rates rising and uncertainty over whether job growth can continue to fuel the pace of demand. The Appraisal Institute, an organization of real estate appraisers, and the [Johns Hopkins University](#) are releasing a study tomorrow saying that while the overall Baltimore-Washington housing market is heading for a soft landing, interest in condominiums may have peaked.

Experts caution that there is no assurance that all the proposed projects will be built.

But others say the town that shunned the condo lifestyle in the past is embracing it now - and should continue to do so for years.

The oldest baby boomers are beginning to retire and shed large houses and yards. A growing number of college-age and young adults are expected to want urban housing as they put off having families. A growing job base in the city, with an anticipated increase in health and bioscience jobs, is drawing young professionals to town.

And Baltimore has been discovered by Washington-area professionals who have been priced out of the Washington home market. As many as 30 percent of the city's condo buyers are Washington transplants, the Downtown Partnership estimates.

"This cycle is different than past cycles of building because what you have is a wave nationally, not just in Baltimore, to

move back into the cities," said Rod Petrik, a Baltimore-based managing director and real estate analyst at Stifel Nicolaus & Co., which acquired Legg Mason's investment banking, research and trading operations. "The increased condo activity is driven by pre-kid and post-kid adults, and you see that downtown."

Also, analysts said, Baltimore's market has more room to grow because its condo supply is much smaller than in other major cities.

"We are way behind the curve in condo development," said Robert Aydukovich, vice president of economic development for the Downtown Partnership. "If you look at D.C., Philly, New York or Boston, [that many] units is an everyday occurrence, and we're popping champagne corks thinking this is fabulous in one year. Baltimore is just starting to catch up."

Developers in the mid- to late 1990s were wary of building condos in Baltimore, where projects had struggled or fallen into bankruptcy after the savings and loan crisis, which led to the real estate crash of the previous decade, said Anirban Basu, chairman and chief executive of Sage Policy Group Inc.

But experts see differences in the current building boom.

"Lenders are being very tough on their underwriting," said Ben Frederick III, a commercial real estate broker in the city who runs Ben Frederick Realty Inc. "They're scrutinizing deals closely and making sure deals are sound. In prior times, lenders were so eager to do business, they were easing underwriting."

"At some point, there will be more projects than demand," he added. "But I don't think we're anywhere near saturation."

Experts see the appetite for city condos stretching well into the next decade, thanks to the demographic and economic forces heating up Baltimore's housing market.

"Five years ago, when the Ritz Carlton first thought about sticking a shovel in the ground, we thought, 'Who in the world is going to spend \$750,000 to live in downtown Baltimore?'" Petrik said. "The answer became pretty apparent. Anybody who spent \$250,000 on a house in the suburbs 10 years ago now has a house worth \$750,000."

Tracy Gossen, executive director of Live Baltimore, a group that promotes city living, agreed that the perception of the city has changed in the past five years.

"It's seen as a place to go out and be located in, with more restaurants and entertainment and arts and culture in the last five years," Gossen said.

When Dr. Lily Im moved to the Baltimore area in August, after finishing her medical training in ophthalmology, she looked only downtown. She and her boyfriend, a surgeon at Hopkins Bayview Medical Center, are renting a two-bedroom apartment in Harbor East until they decide where to buy their own slice of the harbor, preferably a condominium on the waterfront downtown.

"We're not interested in living in a typical cookie-cutter type of place," said Im, who grew up in Northern Virginia's suburbs.

The two are considering HarborView, the Ritz and Harbor East. Over the next couple of years, they will likely have those options and more, especially as the housing boom continues its shift to for-sale homes as opposed to rentals.

Across Key Highway from the waterfront parcel where cranes are busy erecting the world's first all-residential Ritz Carlton, a sales center in a brick building offers buyers a glimpse at the pampered life.

On the second floor of the sales center, a model of the six-building complex shows manicured grounds with park benches and a promenade, a five-star restaurant and a spa. A model apartment gleams with hardwood floors and a contemporary kitchen, with black granite countertops, stainless Viking appliances and cabinet drawers built to glide, not slam, shut. A wine cooler accents one wall.

In the marble master bath, a computerized shower control enables residents to program temperature and water flow before stepping in, while medicine cabinets feature anti-fog mirrors. Each unit comes with a private elevator lobby and discreet back entrances with butler's pantries off a service corridor, where staff members can deliver packages, food, room service, dry cleaning or theater tickets.

Buyers have reserved more than half the units, at prices up to \$7 million, said Jack Cayre, senior vice president of Midtown Baltimore, the Ritz developer.

Marilyn North, an [Annapolis](#) resident and a real estate agent for Coldwell Banker, signed a contract on a \$1.2 million, one-bedroom condo with a den at the Ritz, to use as a second home where she can eventually retire.

She said she was attracted by the Ritz reputation, the services, the spa and a restaurant on site that can deliver a cocktail party to her door on short notice. She's not worried about her investment, she said, because she believes luxury waterfront properties in Baltimore will stay insulated from market fluctuations.

"It's going to be a luxurious place," North said. "This is going to be so fabulous, like the Ritz Carlton hotels around the world."

The Ritz won't have a corner on the luxury market for long.

Farther east on the waterfront, at Harbor East, construction is expected to start on the Four Seasons hotel and condominiums by June, while the Vue, a 122-unit condo tower, is under construction.

A 34-story tower is slated to rise atop a Metro stop at Market Place, a plus that developer David Cordish believes will give the project an edge, especially for employees of Johns Hopkins Hospital.

"You could get over to the Hopkins Hospital in a minute," he said.

Despite all the best market studies and demographic predictions, gauging the condominium market remains a dicey proposition, economists and real estate experts said.

In some cities, the market has begun to cool, said Celia Chen, director of housing economics for Moody's Economy.com in West Chester, Pa.

"Regionally, we're definitely seeing a slowdown in Boston, Washington, D.C., Florida and Las Vegas," where investors have been buying and flipping condos, driving up prices as much as 40 percent in the past few years, Chen said.

Such trends worry Michael C. Hudgins, a research strategist with Boston-based Property and Portfolio Research, who believes that Baltimore's condo market could become overbuilt by early next year.

"We are not very bullish on the condo market nationally," Hudgins said. "As mortgage rates go up, marginal buyers are forced out of the market, and the first thing to suffer will be condos. Investors who are on interest-only loans who bought to flip or to rent may panic and realize they can't sell projects. If they sell them at a loss, market prices plunge."

Hudgins estimated that about 500 condos would be completed this year in Baltimore, with 984 more slated to come on line next year, numbers that rise by the hundreds with the addition of rental apartments converted into condos, he said.

"I don't think Baltimore has the growth," he said, especially because the market has been so dependent on buyers and investors from Washington.

"If the demand pool in D.C. starts to shrink, those waters will recede, and when those waters recede, what's left high and dry is Baltimore's CBD [central business district]."

The study by Hopkins and the Appraisal Institute also raised questions about whether overbuilding is on the horizon in

metro Baltimore. The analysis suggests that projects not on waterfronts may struggle and that demand might not be there for all units planned for [Fells Point](#), Canton and [Federal Hill](#).

But well-located, high-amenity projects should do well, the study said.

Petrik, the real estate analyst, said the spring home selling season could prove telling. As construction costs have gone up and interest rates rise, demand could slow, he said.

If that happens, "not everything proposed is going to come out of the ground," he said.

"As soon as the first deal struggles, then future lenders of future deals will become skittish. It will take somebody losing money before others realize that. If you don't see demand continue where it's been, if there's any pullback, you will see a lot of these deals wither on the vines."