

Condominium glut, loan snags depress market

Slump sees owners trim prices, convert buildings

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This year is shaping up to be one of the worst for condominium sales in Benton and Washington counties. Real estate experts say difficulty acquiring loans and an oversupply of units account for most of the drop-off.

The housing market in the two counties was red-hot before the recession, gaining momentum through the mid-1990s before sliding dramatically in 2007.

While bankers and real estate professionals wait for better economic times, some condominium developers in the two-county region are considering how to reposition themselves. Options include leasing, discounted sales or conversion to town houses. Still others have embarked on new branding or turning units into hotel rooms.

Currently, there's a twoyear supply of condominiums on the market, said Mark Flake, a real estate agent with Weichert Realtors in Springdale, referring to an estimated 153 listings in early November in the Northwest Arkansas Multiple Listing Service. The listing is a feebased, computerized inventory of residential and commercial properties that are for sale.

"And there's a much wider range [in price per square foot] than you'll see in [single family] residential" listings, said Flake, quoting \$15 to \$300 per square foot.

Condominium sales in Northwest Arkansas have in the past attracted three types of buyers: parents of University of Arkansas students, those wanting to live close to Beaver Lake, and retirees who have discovered Bella Vista as an inexpensive place to vacation or live yearround.

In most instances condominiums in the region have been developed as duplexes and fourplexes with the look and feel of a single-family residence. That's unlike what a buyer would find in a bigger city, where multistory buildings are more likely, experts say.

Kathy Deck, director of the Center for Business and Economic Research at the University of Arkansas' business college, said the area's condominium sales data mirror what happened with residential sales in general.

Access to easy credit fueled the 2006 condominium sales peak.

With rising home values, some thought condominiums would make a great investment. Some real estate agents estimate that investors made up about 40 percent of the condominium market during its height.

When the recession hit in late 2007, however, favorable financing for condominiums vanished, dislodging many buyers from the market, Realtors say.

Real estate values plummeted.

Lending activity for condominiums was restricted by the U.S. Department of Housing and Urban Development through the Housing and Economic Recovery Act of 2008.

By November 2009, the government modified the approval process for condominium projects and insurance requirements for mortgages on individual units.

Requirements included a limit on the percentage of units owned by one investor; the pre-sale of half of the total units before any mortgage, on any unit, could be approved; and that half of the sales also be to owneroccupied units.

Getting buyers into units is being thwarted by the government's new requirements, said Steven R. Plaisance, executive vice president and chief operating officer of Arvest Mortgage Co. in Tulsa.

David Bordovsky, president of Pinnacle Bank in Rogers, said the bank will sell The Arbors at Deer Crossing development — its only condominium property — once a decision is made on how to market it.

"The location is such that there's interest," he said, referring to the Benton County parcel's proximity to shopping in nearby Rogers.

Only a fraction of the proposed 86-unit development in southwest Bentonville is complete — 18 units in six one-story buildings. Construction began in 2009.

In Washington County, the developer of Abshier Heights — a reference to the street that the six-unit

development borders, tried to salvage his project by converting the condominiums to town houses. Buyers of town houses own the land the unit is on and face fewer financing hurdles than do condominium buyers.

David Chance, a Springdale real estate developer and owner of D&P Chance Properties, said he sold three units before the lender repossessed his property. The initial proposal for Abshier Heights, made in late 2005, included 30 condominium units, city records show. "I would have liked to have built out the whole complex, and sold them," Chance said. "That would have been a success."

A couple of miles south in downtown Fayetteville, Ted Belden, owner of a nine-story, 54-unit condominium building, hopes modifications such as amenity upgrades will boost the occupancy rate. Ten units have been sold.

The building once known as The Lofts at Underwood Plaza, was recently bought by Belden and renamed The Dickson.

Unit prices have come down, too, but not to fire sale levels.

"We're not dumping product on the market," he said. Belden also announced plans to turn some of the units into 16 hotel rooms as part of the restructuring.

Luxury high-rise condominiums didn't exist in the two-country region before the 2007 completion of the Legacy Building and 2009 completion of The Lofts at Underwood Plaza.

The Legacy Building was foreclosed on and bought at auction in late 2009 by Legacy National Bank, the lead lender for the project. Unable to make payments to the bank, the group of former owners of The Lofts headed off a foreclosure action with Arvest Bank in August.

Both buildings sit in the heart of Fayetteville's entertainment district.

The developers who built the high-rise condominiums can be considered visionaries, but it's unfortunate they got caught in the economic downturn, said Anthony Clark, a real estate agent with Bassett Mix & Associates, a boutique firm specializing in high-end real estate in and around Fayetteville.

"The [Fayetteville] market is oversaturated with that type of product," Clark said.

Fayetteville condominium listings represent about 41 percent of those up for sale in the region.

Jeremy Pate, director of development services for Fayetteville, said the city has seen a lot of conversion activity among condominium developers because once changed, the project automatically becomes more "finance-able."

When the market for condominiums will recover is unknown, Pate said, but there is a national trend showing a desire for urban living and "we're seeing it in our census data."

Ramsey Ball, a commercial real estate broker with Colliers International Arkansas and a listing agent for a lender-owned condominium project called The Lofts At Metro District in downtown Fayetteville, said the slack needs to come out of the market.

"I think it's safe to say the [real estate] market couldn't get any worse," he said. But Ball sees economic signs that demand will come back.

"The University of Arkansas is growing ... Wal-Mart's apparel division is being relocated back to Arkansas ... and the opening of Crystal Bridges" art museum are significant, Ball said.

"And a lot of [condominium] owners are trying to reposition themselves and create value in these properties," Ball said. "You have to be nimble on your feet to evolve with the market."



