

The Neglected Condominium

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Since the early 1990's, multifamily construction has rebounded dramatically. At the same time, the home ownership rate has increased to record levels. The combination of those developments would seem to imply an increase in condominium construction, but construction of new multifamily condos has not increased by as much as construction of multifamily rental units. Single-family condo production has shown more life, but since 1997 the condo share of single-family starts has slipped. Moreover, the number of condo conversions also has been modest.

The limited additional supply is apparently not due to a lack of demand. Information about demand for single-family condos is limited, but recent demand for multifamily condos appears to be strong, consistent with demographic and regional trends. The absorption rate for newly-built condo and co-op apartments has been extremely high, and resale prices for existing condo and co-op apartments have outpaced prices of single-family homes.

Condominium housing is a form of ownership, not a type of structure (although some types of structures are more suitable for condominium ownership than others). Condominium homeowners hold a fee-simple title to the housing unit and share ownership of common areas and facilities.

In a cooperative, owners have shares in a corporation that owns both the housing units and the common areas, but the individual owner has exclusive rights to occupy a unit. Despite the legal distinction

between condos and co-ops, the effective investment, expense, and tenure characteristics are similar.¹

According to the American Housing Survey, as of 1999, there were 5,614,000 condo and 709,000 co-op housing units in the nation's housing stock. Of the total 6,323,000 condo/co-op housing units, 53.7 percent were owner-occupied, 25.8 percent were renter-occupied, and 20.5 percent were vacant. About two-thirds of the vacant units were second homes held for seasonal or occasional use (see Table 1).

Overall, about 5.5 percent of the national total of 115,253,000 housing units were condo or co-op units. The condo/co-op share of all owner-occupied units was 4.9 percent, while the condo/co-op share of renter-occupied units was 4.8 percent. For second homes (vacant units classified as being held for seasonal or occasional use, and those temporarily occupied by people whose usual residence is elsewhere) the condo/co-op share reported in the 1999 AHS was 15.4 percent. Among vacant units that were not second homes, 6.3 percent were condos or co-ops.

Table 1. No. of Condos and Co-ops Compared to Total 1999 Housing Stock

	Total	Co-op	Condo	Condo/ Co-op Share
All Housing Units:				
Total	115,253	709	5,614	5.5%
Occupied	102,803	588	4,438	4.9%
Owner	68,796	366	3,029	4.9%
Renter	34,007	222	1,409	4.8%
Vacant	12,450	122	1,177	10.4%
2nd Homes	5,609	80	785	15.4%
Other	6,841	42	392	6.3%
Occupied Units:				
Total	102,803	588	4,438	4.9%
In Metro Areas	79,911	575	4,212	6.0%
Central City	31,131	396	1,550	6.3%
Suburb	48,780	179	2,662	5.8%
Non-Metro	22,892	13	226	1.0%
Northeast	19,958	411	861	6.4%
Midwest	24,360	65	804	3.6%
South	36,389	52	1,466	4.2%
West	22,096	60	1,308	6.2%
Single Family	71,500	124	1,662	2.5%
Detached	64,536	46	267	0.5%
Attached	6,964	78	1,395	21.2%
Multifamily	24,518	450	2,771	13.1%
2-4	8,571	45	619	7.7%
5-19	9,263	83	1,125	13.0%
20-49	3,343	65	466	15.9%
50+	3,341	257	561	24.5%
Mobile	6,785	13	4	0.3%

Source: 1999 American Housing Survey.

More than a third of occupied condo/co-op units in 1999 were single-family homes. Single-family condo/co-op units were mainly attached (townhouse) structures.² Indeed, fully 21 percent of all occupied single-family attached homes were legally condo or co-op units.

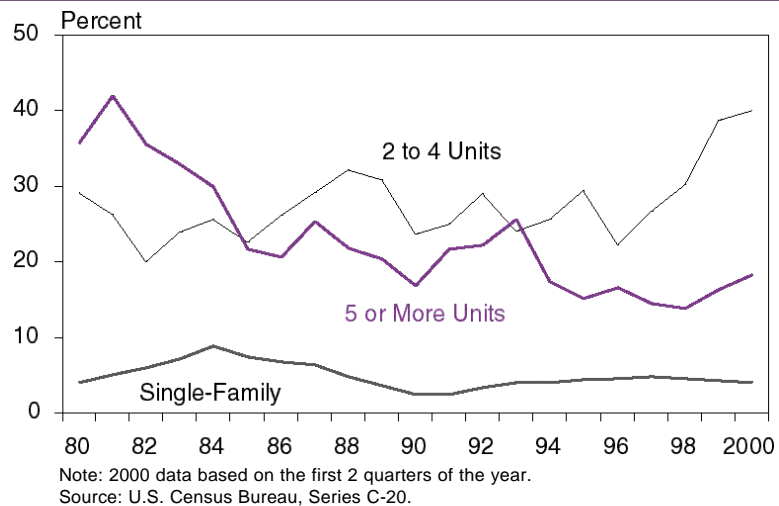
There were 2,556,000 occupied condo/co-op units in structures of 5 or more units in 1999, representing about 51 percent of all condo/co-op units and 16 percent of all occupied units in structures of 5 or more units.

The AHS reports that 74,000 mobile homes in 1999 were under condominium or cooperative ownership. Most of those mobile homes were in co-ops rather than condos, and most were used as second homes. Only 17,000 regularly occupied mobile homes were reported as being in condos or co-ops, and all of those were said to be owner-occupied. Because only about one in every 2,000 housing units is included in the AHS, the number of condo or co-op mobile homes is not measured with precision, and the data on the occupancy and use of condo/co-op mobile homes shouldn't be taken too seriously.

Among the 5,026,000 occupied condo/co-op units in 1999, 67.5 percent were owner-occupied, according to the AHS. The owner-occupied share of condo/co-op units was highest for single-family attached units, at 80 percent. Indeed, the owner share of occupied condo/co-op townhouses was much higher than the owner share of occupied fee-simple townhouses, which was only 42 percent. Among occupied condo/co-op units in multifamily structures, 61 percent were occupied by owners.

The majority of condo/co-op units in 1999 were in the suburbs of metropolitan areas.³ The share of regularly-occupied units that are condos

Figure 1. Condominium Share of Starts



or co-ops is higher in central cities, at 6.3 percent, than in suburbs, where they only account for 5.8 percent of the occupied housing stock.

Among occupied condo/co-op units, 25.3 percent are located in the Northeast, compared to 19.4 percent of all housing units. That reflects the large number of co-op units in the Northeast. More than two-thirds of the nation's 588,000 occupied co-op units in 1999 were in the Northeast. Considering occupied condo units only, the Northeast's share of the U.S. condo total was 19.4 percent—the same as the Northeast's share of all occupied units.

The region with the smallest share of the occupied housing stock consisting of condos or co-ops was the Midwest, where such units represented only 3.6 percent of the regional occupied housing stock. The condo/co-op share of the occupied stock in the South was 4.2 percent. The condo/co-op share of the total occupied stock was substantially higher in the Northeast (6.4 percent) and the West (6.2 percent).

A comparison of the 1999 AHS with the 1995 AHS indicates that the total number of condo and co-op units increased by 589,000 over the 4-year period.⁴ The number of condos and co-ops in 1999 that had been

built during the preceding 4 years was 441,000, according to the 1999 AHS. That implies that 148,000 condo and co-op units were created as a result of conversions, net of any units lost from the 1995 stock of condos and co-ops.

Interestingly, the AHS shows that the number of renter-occupied condo and co-op units increased from 1995 to 1999 by more than the number of owner-occupied condo/co-op units, reducing the owner share from 70.3 percent to 67.5 percent. For occupied units that were not condo or co-ops, the number of rental units declined between 1995 and 1999, and the owner-occupied share increased from 64.8 percent to 66.9 percent.

Condos and Co-op Starts

In 1999, according to data from the Census Bureau's Survey of Construction, there were 119,000 new condo or co-op units started. Nearly half of these (58,000) were single-family structures—primarily townhouses. Of the 61,000 multifamily condo/co-op starts, 12,000 were in structures of 2 to 4 units. Indeed, condos and co-ops represented more than one-third of the 31,000 units started in 1999 in structures with 2 to 4 units (see Figure 1).

Condo/co-op units accounted for 16.3 percent of starts in structures of 5 or more units in 1999. While that was consistent with other years in the late 1990s, and somewhat above the shares in 1997 and 1998, it was way below the condo/co-op shares of starts in structures of 5 or more units in the early 1980s, which reached as high as 42 percent (in 1981).

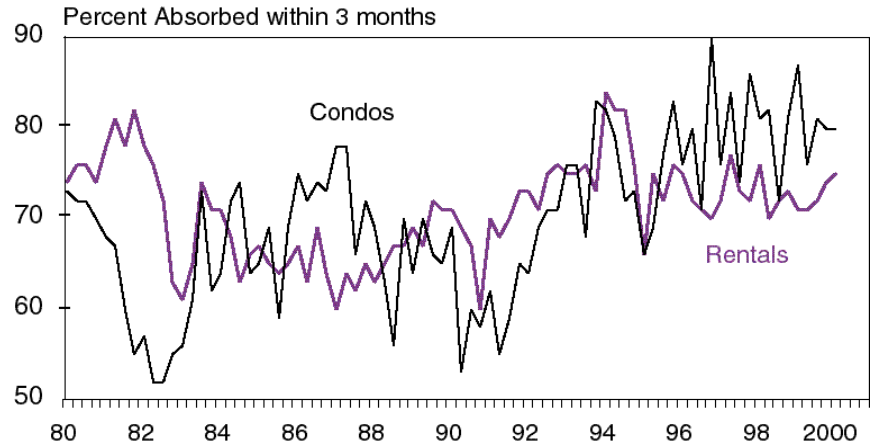
Condo/Co-op Demand

The Census Bureau conducts a quarterly Survey of Market Absorption to measure the rate at which new housing units in structures of 5 or more units are rented or sold. As part of that survey, data on number of bedrooms and asking price or rent are also collected.

The survey has shown that, since 1996, about 80 percent of new condo and co-op apartments have been sold within three months of completion. The 3-month absorption rate for new condo/co-op apartments completed in 1999 was 81 percent, a record high. The absorption rate for rental apartments completed in 1999 was 72 percent (see Figure 2).

For condo apartments completed in 1999, the Survey of Market Absorption reports that the median asking price was \$130,800, up from \$118,800. The jump in median price

Figure 2. Apartment Absorption Rates



Source: U.S. Census Bureau, Survey of Market Absorption.

from 1998 to 1999 was partly due to a shift toward larger units, with the share featuring 3 or more bedrooms increasing from 23 percent to 27 percent.

Data for the condo apartments completed in the first quarter of 2000 show the median price rising further to \$143,900, but the quarterly data are volatile and subject to large sampling error, so that figure should be interpreted cautiously. The data for first quarter completions also show the 3 month absorption rate for condos and co-ops remaining quite high, at 80 percent

The jump in prices for new condo and co-op apartments reported in the Survey of Market Absorption is mirrored by data on re-sales of existing multifamily condos and co-ops

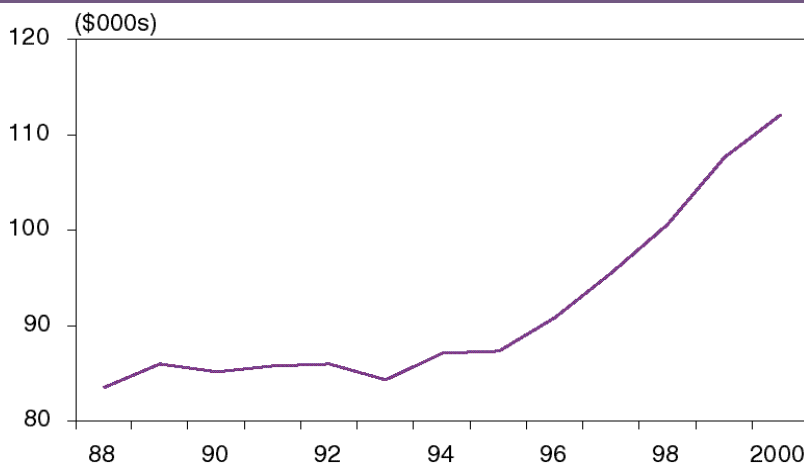
reported by the National Association of Realtors (Figure 3). They show the median price rising modestly from \$85,200 in 1990 to \$90,900 in 1996, but then accelerating to \$95,500 in 1997, \$100,600 in 1998, and \$108,000 in 1999. For the first 3 quarters of 2000, the reported medians were \$109,900, \$112,900, and \$113,600, respectively.

Who Lives There?

Many of the 5,026,000 households who lived in condos or co-ops in 1999 consisted of people living alone. Single person households accounted for 45 percent of occupied condos and co-ops, compared to 25 percent of non-condo/co-op homes. While 4.9 percent of all households lived in condo or co-op units, the share among males living alone was 7.0 percent, and the share among females living alone was 9.4 percent (see Table 2).

Among married couples without children, 4.5 percent lived in condos or co-ops, but only 2.0 percent of married couples with children lived in condos or co-ops. For households other than married couples or people living alone, the share living in condos or co-ops was 4.4 percent. Those "other" households include single parents, unmarried couples, groups of roommates, etc.

Figure 3. Median Sales Price for Existing Condos



Note: 2000 data based on the first 3 quarters of the year.
Source: National Association of Realtors.

Households headed by people 75 years of age and over were more likely to live in condos or co-ops than younger households. The condo/co-op share for that age group in 1999 was 7.8 percent. Moreover, the share of condo/co-op residents in that age bracket who owned their units was 83.4 percent, well above the homeownership rate of 67.5 percent among all condo/co-op dwellers. The high incidence of condo/co-op residence among seniors is related to the large share of older households consisting of women living alone, but empty-nest married couples also account for a large share of elderly condo and co-op dwellers.

Data from the 1990 Census indicated that the share of middle-aged households living in condos⁵ was quite a bit lower than the share among households headed by people under age 35. That implied that the movement of the baby boom into middle age would mean weaker condo demand. Comparing the 1999 AHS data with the 1990 Census, however, indicates that the share of middle-aged and older households living in condos and co-ops increased during the 1990s, while the share among younger households showed little change, so that there is now less dif-

ference between young and middle-aged households.

The 1999 AHS data show that the household cohort with lowest condo/co-op share were aged 35 to 44 (4.1 percent). That is partly attributable to the fact that a large share of households in that age group consist of married couples with children.

With the share living in condos or co-ops progressively higher among households over age 45, the continued aging of the baby boom should help to support demand for condos or co-ops in the years ahead. Moreover, the share of condo/co-op occupants that own their homes is also progressively higher at older ages.

The share of middle-aged condo/co-op residents living in single-family structures is higher than the shares among younger or older age groups. Among condo/co-op residents aged 55 to 64 in 1999, 42 percent lived in single-family structures, according to the AHS. The highest shares in multifamily structures were found among the relatively-small group of condo/co-op households headed by people under 25 years old, 76 percent or whom live in multifamily structures, and among those aged 75 years or more, 69 percent of whom were in multifamily structures.

Conclusion

Over the coming decade, the number of households headed by people over age 45 is expected to increase, while the share headed by people under age 45 will decline. The share of households consisting of people living alone will also increase.

Moreover, there will be continued, and possibly expanded, efforts to extend home ownership. Many of the households most likely to benefit from such efforts will find apartments and town houses to be more suitable to their needs than detached single-family homes.

These factors should all bode well for condominium and cooperative housing demand, and suggest that builders should give more attention to that market. In the past, however, the condo market has been subject to periodic overbuilding, as builders have turned to condos in herd-like fashion and created a glut in what is still a niche market. Thus, while the condo/co-op market offers opportunities, it should be approached cautiously.

¹ Limited-equity cooperatives, generally designed for lower-income occupants, are an exception. They have restrictions on the gains from resales.

² The Census Bureau defines a single-family attached home as one that is separated from adjacent units by unbroken ground-to-roof walls, with no shared facilities, such as HVAC systems, or interstructural utilities, such as water or sewer lines. Townhouse units that do not meet those criteria are classified as components of multifamily structures.

³ The American Housing Survey reports data for metropolitan areas and for central cities as they were defined in 1983.

⁴ Data on the number of co-ops and condos in the 1997 American Housing Survey are faulty and cannot be used to measure the change during the latest 2 years.

⁵ The 1990 Census did not ask about co-ops.

Table 2. Households in Condos and Co-ops—1999

	All Households	In Condos & Co-ops	Share
Age:			
15-24	5,731	221	3.9%
25-34	18,795	879	4.7%
35-44	23,503	967	4.1%
45-54	20,047	892	4.4%
55-64	13,298	626	4.7%
65-74	11,041	634	5.7%
75+	10,382	807	7.8%
All Ages	102,797	5,026	4.9%
Household Type:			
Married w/ Children	24,621	503	2.0%
Married, No Child	29,177	1,303	4.5%
Living Alone	26,901	2,249	8.4%
Other	22,098	971	4.4%

Source: 1999 American Housing Survey.