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BY ALAN J. HEAVENS | INQUIRER REAL ESTATE WRITER

Condos coming to fruition

Even with the slowing market, many Center City projects are still rising.

It's a Saturday, just past 7:30 a.m., a beautiful day in early September. Quiet time in Center City, especially in Washington Square West, where you can almost hear the breeze rustling the leaves.

Suddenly, the relative stillness is broken by the roar of huge trucks bound for The Ayer at 210 W. Washington Square, brimming with construction materials.

The 13-story Art Deco-style limestone structure, built in 1929 for the N.W. Ayer advertising agency, is undergoing a \$60 million conversion by the Goldenberg Group and Brown/Hill Development to 56 condo residences, including four penthouses, priced from \$850,000 to \$5 million.

Work began in March, and completion is set for next summer, said Greg Hill, a principal at Brown/Hill.

It is likely that the real estate market in which The Ayer debuts won't be the same one in which it was conceived in November 2005, but that doesn't seem to bother Hill. Or, for that matter, other developers with projects still under construction.

"The residential market in Philadelphia has slowed considerably, and there is an abundant supply of midlevel condominium units," Hill said. "Despite lower sales activities on many projects, there continues to be strong interest in The Ayer."

Twenty units are under agreement, and there's a reservation on the 21st, meaning that 35 percent of the building is spoken for, Hill said. He cited the location and its "place at the upper end of the market" as reasons for his confidence.

These new units are competing with an inventory of existing townhouses and condos in Center City and adjacent neighborhoods that is almost 60 percent higher than 2005 levels.

Yet, other developers whose projects are under way or nearing completion seem to see the state of the Center City market in the same positive way Hill does.

Among their reasons: Even as the length of time homes spend on the market increases, median prices in this region continue to rise at what many experts consider respectable levels.

A study of sale prices by the mortgage insurer PMI showed that metropolitan Philadelphia prices went up 11.24 percent between the second quarters of 2005 and 2006, compared with 15.64 percent between the same periods of 2004 and 2005.

By comparison, San Diego's appreciation dropped to 5.46 percent from 19.55 percent in the same period.

The PMI survey has an index measuring the risk of price declines over two years. The Philadelphia metro area has a 17.9 percent risk of such a decline; San Diego's risk is 60.3 percent.

While downward price pressure appears to be focused on the million-dollar-plus market, prices for condos in the upper end are still setting records.

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Two weeks ago, a unit at 10 Rittenhouse Square, Arc Wheeler's long-delayed \$200 million, 33-story luxury high-rise now under construction at 18th and Walnut Streets, sold for \$4.1 million.

"Lifestyle is the key component as to whether somebody will buy, not economic market conditions," developer Hal Wheeler said.

Only two projects – Old City 205 and Marina View Towers – have officially been canceled, with their developers citing the slowing market.

As for his project, Wheeler said, "The only time that we questioned whether 10 Rittenhouse would be built was when we were under zoning appeals by local neighbors [for three years]. The silver lining was that the market for our product increased dramatically over that time."

Last month, Center City District executive director Paul Levy argued that despite the canceled projects, the current pace of residential construction downtown is sustainable – "a healthy market equilibrium between supply and demand that has been sustained by new residents moving in."

More than 11,000 new housing units (condos, rentals and single-family homes) have been built in Center City since the 10-year tax abatement began in 1997, Levy said, with 3,100 of those due this year.

Symphony House, the luxury condo building under way at Broad between Pine and Lombard Streets, marked a construction milestone in celebratory style on a gray and drizzly evening in September.

"Nine more floors and just six months to go," Carl Dranoff chirped as he ushered Mayor Street and hundreds of other invited guests around the 22d floor of his 31-story project.

"The statistics speak for themselves," Dranoff said almost a week after that event, as the 25th floor was being poured. "With less than six months to go, we've sold 123 of the 163 units – 75 percent." (Prices range from the mid-\$500,000s to \$4 million).

Dranoff is so confident, that he's ready to start a mid-rise condo project at 777 S. Broad St. "to accommodate a different market than the one that Symphony House attracts."

Right now, rising construction costs, not a slowing market, is the chief problem Center City developers face. Costs per square foot since Symphony House was planned almost three years ago have risen from \$400 to \$700, and that can often derail a project.

"Costs are lower when you rehab than when you build from the ground up," said Jon Orens, a partner in Orens Bros. Real Estate, which is nearly finished redeveloping the old Daily News Building at 2200 Arch St. as 160 build-to-suit midrange (\$250,000 to \$750,000) condo units.

Work began on the \$60 million project off Logan Circle in 2004, and completion is expected after the first of the year, Orens said.

Another condo-conversion project, the \$45 million Residences at the Western Union at 11th and Locust Streets, reports 50 of the 100 condos – priced at \$340,000 to \$2 million – have been sold.

Bruce Lang, of the Coldwell Banker Realty Group, which is handling sales there, acknowledged that the market was slow in the late spring and early summer. But since July 15, he said, "business has been the best ever."

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Although some predicted Isle of Capri Associates' 9.4-acre Waterfront Square condo development, just north of Market Street on Columbus Boulevard, would be too far off the beaten path to succeed, the first two of five planned towers are selling well, spokeswoman Karen Bruderle said. Of the 968 units in all five towers, more than 470 are sold and more than 130 are reserved.

Construction of the two towers in Waterfront Square's second phase is due to begin in 60 days, said Doron Gelfand, Isle of Capri president and codeveloper.

Despite the delays at 10 Rittenhouse, 106 of the 159 units, ranging in price from \$500,000 to a \$13 million penthouse, have been reserved, Wheeler said.

"Of the 106, we expect that 80 percent will convert to contracts, a process that is under way [and includes the \$4.1 million sale]," he said.

Steel for the project has arrived, and the renovation of the Rittenhouse Club building at 18th and Walnut – which will serve as the entrance, through a courtyard, to the high-rise – is targeting a January 2009 occupancy.

"We are benefiting from the confidence of the consumer," said Lang, of Coldwell Banker Realty Group. "There is a lot of public concern on project timing, but the good news for the consumer is that there are choices."