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Downtown Kansas City's on sale — make that for rent

Kansas City Business Journal - by [Rob Roberts](#) Staff Writer

Brenda Clevenger, an agent with **Platinum Realty**, said there might as well be a blue light over the Kansas City skyline, signaling the 10 percent to 25 percent discounts on most downtown condominiums.

But it will take more than discounts, an \$8,000 first-time-buyer tax credit and historically low mortgage rates to make a dent this year in the **Downtown Council of Kansas City's** goal of doubling Downtown's population.

Adding significantly to that population, currently about 17,000, will rely most heavily on the growing number of downtown apartment projects that developers and downtown home shoppers are gravitating toward, sources said.

Mike Hurd, marketing director for the Downtown Council, said the rental trend is reflected in the lineup for the ninth-annual Urban Tour, which will feature 23 downtown residential projects. Six of the properties to be toured by prospective downtown residents on May 2-3 will be rental properties, an increase from last year, Hurd said. In addition, the tour will feature information on the largest downtown housing project in recent history, the 323-unit Market Station apartments, which Houston-based developer **The Morgan Group Inc.** will open in August in the River Market.

"I think one of the litmus tests (for downtown residential growth) will be how fast Morgan Group leases up Market Station because those are going to be \$1.25-, \$1.30-per-square-foot-per-month rentals, which is kind of top of market," said George Birt, a longtime downtown residential developer.

Birt, who built several for-sale units in the River Market during the recent downtown condo boom, said he expects rentals to account for a great majority of Downtown's residential growth for at least the next couple of years.

"We're certainly going to shift from for-sale product back to our old bread and butter, which is income property," Birt said of his development firm.

St. Louis-based **Blue Urban LLC** shifted to the rental market midstream during its recent efforts to rehabilitate two Kansas City historic structures, both of which are in the Crossroads Arts District and on this year's Urban Tour.

Blue Urban CEO Kevin McGowan said upscale condo-conversion work was under way at the former H.D. Lee building at 117 W. 20th St. and the former J.I. Case building at 380 W. 22nd St. when the condo market began to sag in spring 2008.

"We saw the market starting the change; we could sense credit markets starting to tighten," McGowan said. "So the decision was made last summer to go ahead and convert these to apartments."

Leasing at the Case building, dubbed Windows Lofts, began on Jan. 1, and 40 percent of the 105 units have been rented. The project, which features 18-foot ceilings and a rooftop pool, includes apartments ranging from 916 to more than 1,500 square feet, with rents between \$990 and \$1,700 a month.

McGowan said he expects similar success at the H.D. Lee building, now called the Piper Lofts, where leasing has just begun. It includes 108 units ranging from 800 to 2,200 square feet and rents from \$875 to \$2,200 a month.

Blue Urban has identified 16 other downtown buildings that McGowan said he would like to buy and convert into market-rate apartments. But no conventional financing is available for market-rate condos or apartments, he said. So Blue Urban's redevelopment efforts will be limited by its ability to acquire Section 221(d)(4) apartment financing from the **U.S. Department of Housing and Urban Development**, McGowan said.

Blue Urban expects confirmation of its first HUD financing in June for an apartment project in Springfield, he said.

One advantage of converting historic buildings into apartments rather than condos, McGowan said, is that projects retained by the developer and rented for at least five years qualify for federal and state historic tax credits.

"Because of that, we are able to make (the Piper Lofts and Windows Lofts) cash-flow as apartments," he said.

After the five-year holding period, he added, Blue Urban can and may convert the apartments into condos.

John Bennett Jr., regional director for Master Realty Properties, said the company has followed that business model for years. Doing so allows Master Realty to sell only as many units as the for-sale market is ready to absorb while taking advantage of the continuing revenue

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streams from the rental units.

One entry on this year's Urban Tour will be the new **Board of Trade Condominiums**, 127 W. 10th St., which actually are the first 15 units of Master Realty's 110-unit Library Lofts apartment project to be offered for sale.

"This will be our seventh project that we've done (apartment to) condominium conversion on," Bennett said.

Some of the 14th-story penthouse units at the Board of Trade project are listed in the \$600,000s, Bennett said. But studios start at \$115,000, evidence that "Master Realty understands the downtown marketplace better than anyone," he said.

One reason the condo market is stagnant, Bennett said, is that there are too many pricey projects like One Park Place and The Reserve. But Clevenger of Platinum Realty said that's not the only problem.

Although she has high-quality downtown condos listed as low as \$89,000, Clevenger said, only 407 condos sold last year in the downtown area, including the River Market and Plaza. And during the first 90 days of this year, only 62 of 700 listed condos sold, she said.

The numbers leaped to 24 sales and 865 listings for the first 17 days of the second quarter, a sign that the condo market might heat up with the weather, the recent opening of a downtown grocery store and the coming of a new performing arts center.

But for every plus in the downtown for-sale market, developer Birt can find a minus, such as the three-quarters-of-a-percentage-point premium some lenders have started charging for condo mortgages and the 20 percent down payments that few would-be buyers have saved for. Therefore, he's skeptical of this Downtown Council projection: 25,000 downtown residents by 2012.

"That means adding another 4,000 housing units," Birt said. "We might do half that."

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