

Market Segmentation: The Omaha Condominium Market

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Introduction

A highly visible and growing niche in the homeownership market is the condominium form of ownership, called by various names such as villa, townhouse, new- and conversion-condominiums. Cooperative sales are also generally lumped together in this market segment of the residential housing market. Condominium ownership represents an increasingly available alternative to both apartment rental and other forms of single-family housing ownership. This market has not only expanded in the traditional resort and recreational areas but also in the mature suburbs and central business districts of larger cities across the United States.

Condominiums as a distinct market class have only been in existence in the United States since 1960. Condominium development began about 1970, with the greatest momentum in terms of numbers having been realized only in the last five years. About 5% of the existing occupied housing supply is in the form of condominium or cooperative ownership. On a regional

basis, US Bureau of the Census shows the highest concentration of condominiums and cooperatives are found in the Western United States with the lowest concentrations found in the Midwest region.

On the demand side the condominium market has been fueled by a variety of buyer characteristics including speculative purchases by investors. On the supply side, condominium development and conversion have occurred at record paces, especially on the East and West coasts which have led to price declines in some of these oversupplied markets.

The Greater Omaha market has also experienced increased condominium development activity, which is especially visible in the Downtown market area where the bulk of marketing activity has been concentrated. While demand has increased in the Omaha market since 2000, the major distribution of condominium sales has occurred outside of the Downtown area.

Objectives of the Paper

This paper has the following objectives to:

- Identify and discuss characteristics of the condominium market which differ from other forms of owner-occupied residential housing
- Analyze the emerging Omaha Area condominium market with regard to comparative economic characteristics in three sub-regions of the Greater Omaha Housing Market

Condominium Defined

The term condominium refers to a legal ownership entity defined by state statute. A condominium regime is established according to state statute as a legal document among owners and sets operating procedures and requirements for such things as the Home Ownership Association (HOA), monthly association dues, dealing with common area maintenance and repair and election of a board of directors among others. This paper also includes cooperative ownership of multifamily units in the analysis due to the lack of data which separates the two types of ownership structures. Cooperative ownership involves a legal entity, usually a corporate entity, holding legal title to the real estate with claims on individual units provided by a share of stock in the corporation together with a proprietary lease which gives the shareholder the right to occupy (and responsibility for) a given unit.

The Condominium Regime.

Ownership of a condominium unit means a fee simple ownership of a specific unit and an undivided ownership interest in all of the common elements of the condominium regime. A condominium regime can be applied to any form of land and improvements. The condominium form of

ownership has been applied to recreational property, for example, recreational ranch land in which the buyer receives a small piece of land on the ranch in fee simple with an undivided ownership interest in the common elements which turns out to be most of the ranch proper.

Monthly Ownership Costs, Fees and Special Assessments.

Condominium ownership results in similar out-of-pocket costs experienced by other forms of homeownership. These costs include principal and interest payments on a mortgage, property taxes and hazard insurance premiums. Maintenance and repair expenses will also be incurred on the owned unit. Additionally, a major expense which buyers of condominiums become liable for is the monthly homeownership assessments which are collected to defray obligations of the HOA—recurring expenses such as common area maintenance and repair, utilities, property taxes, building liability and hazard insurance, license fees, on-site management fees, trash removal, water and sewer expenses or any other legally incurred obligation in the course of providing the required level of services to maintain the common areas. These expenses are budgeted annually by the HOA and will change depending upon needs to cover current expenses and to build reserves to defray capital expenditures such as roof replacement or parking lot resurfacing. These expenses are frequently charged based upon the square footage that an individual unit represents as a percentage of the total square footage in the complex.

For example, the Downtown Omaha condominium conversion complex, Farnam 1600 Condominiums, which contains 76 units, charges \$.22 per square foot for

monthly HOA dues. These dues defray accounting, common area maintenance and building insurance, elevator maintenance, exterior maintenance, exterminating, legal issues, mechanical maintenance, on-site management, secured entry, trash removal, water, sewer, and reserves for future expenses. Therefore, a 1,000 square foot condominium unit in this complex would require HOA monthly assessment payments of \$220, or \$2,640 annually. In addition, unanticipated expenses (for example, termite damage) which are incurred may be defrayed by the HOA collecting one-time additional special assessments.

The Greater Omaha Study Area

The Greater Omaha condominium market was analyzed using data organized by zip codes as shown in Map 1. Zip codes 68102, 68105, 68108 and 68131 were designated as **Downtown**. Zip code areas 68110, 68111, 68104, 68134, 68114, 68132, 68124, 68106, 68127, 68117 and 68107 were designated **Midtown**. All other zip code areas included in the study, both in Douglas and Sarpy Counties, were designated **Suburban**.

Analyzing the Data

Data used in the analysis was obtained from the Douglas County Assessor's office and the Great Plains Multiple Listing Service (MLS) of the Omaha Area Board of Realtors. By combining these data sources the analysts were able to obtain information on condominiums both sold by owners without assistance from brokers and those sold by brokers and other members of the MLS. A total of 2,401 sales data records were included in the period of 2000 through August 2006.

Overall Mean and Median Condominium Values

The Greater Omaha housing market has undergone expansion during the decade of the 2000's. The niche market for condominium development and sales has also increased dramatically. As shown by Table 1, the overall number of sales has trended upward from 245 recorded in 2000 to 428 sales through the first 8 months of 2006, averaging 343 sales per year. The average sale price has steadily increased from the \$125,000 range to a high of more than \$162,000 in 2006. The median value has also increased from \$105,000 to slightly more than \$145,000 in 2006. Wide variations continue to occur in the range of condominium values across time with minimum values less than \$20,000 and the maximum exceeding \$1 million. Over the 6 year 8 month period analyzed, the average sale price was \$143,584, with an average median value of \$132,000.

Distribution of Condominium Sales among Sub-Regions

Table 2 provides information on the distribution of sales in the Greater Omaha submarkets. Although the inventory of newly developed and proposed condominium developments in the Downtown area have been aggressively advertised in recent times, sales in that market continue to represent a relatively small part of the overall market. During the time period analyzed, the Downtown market ranged from 16% to 23% with an average 18% share of the market. In contrast, the Suburban market ranged from 55% to 64% with an average of 62% during the study period. The Midtown ranged

from 13% to 29% with an average of 20% during the study period.

Median Sale Prices in the Submarkets

Table 3 was compiled to analyze the median sale prices in the sub-regions. The data shows, not surprisingly, through 2000-2005 that the Downtown market has consistently produced the lowest median sale prices and the Suburban area the highest median sale prices. The 2006 data shows median values highest in the Downtown area and is consistent with the redevelopment renovation, adaptive reuse, conversion and supercession activities in that area targeting the up-scale condominium market. Whereas the median price of condominiums fluctuated widely between years (e.g., \$74,000 in 2005 and \$232,005 in 2006) the Midtown and Suburban areas were fairly consistent with much narrower year-to-year changes.

Average Sale Price in each Sub-Region

Although average sale prices for the overall Greater Omaha market trended upward over the study period glaring inconsistencies occurred in the sub-regions as shown in Table 4. The average sale price in the Midtown market was higher in 2000 than in three of the subsequent years. The Suburban area was more consistent but the 2006 average price paid fell below the 2005 Average price by some \$13,000. Clearly, the Downtown market has had the greatest year-to-year fluctuation with the largest spike occurring since 2005.

Average Condominium Size by Sub-Regions

The overall average size in square footage of all condominium units sold

during the study period has not changed substantially as shown by Table 5. Square footage was defined as total finished square feet per unit, and therefore could induce some bias in the data where some units have unfinished areas. The average square footage ranged from a low of 1,368 in 2001 to 1,448 in 2005 to an overall average of 1,412. Distinct differences occurred among submarkets however, with the smallest average size units sold in the Downtown area and the largest in the Midtown section. The greatest increase in size occurred in the Downtown area from 2005 to 2006 where the square footage increased by 18%, from 1,023 to 1,206 square feet. Even though Midtown had the overall largest average size units, in three of the surveyed years, the average size was largest in the Suburban market.

Median Sale Price per Square Foot

Table 6 provides data on the median price per square foot for all single family residential (SFR) sales of less than 5,000 finished square feet in the Greater Omaha market and for the three condominium market sub-regions. The median sale price per square foot for all SFR sales held constant or increased steadily from \$96 in 2000 to \$106 in 2005 and then dropped by 1% to \$105 during the first 8 months of 2006.

The median for all condominium sale prices analyzed increased steadily from \$82 per square foot in 2000 to a high of \$115 by August 2006. It is noteworthy that the annual median square footage sale price of all SFR was higher in all years until 2006 when luxury condominium units began to be developed and offered for sale in the Downtown area. Prior to 2006, the Downtown area had the lowest median

square footage sale prices of the three sub-regions. In four of the years studied, the Suburban area generated the highest median price per square foot while in the remaining three years the Midtown area prevailed with the highest prices.

Average Sale Price per Square Foot

Average sale price per square foot for the three sub-regions is presented in Table 7. Also included for comparison were the SFR averages for the same time periods. For the time period 2000 through 2005 the SFR averages in each year were higher than the condominium averages. In 2006, the average square footage prices of condominiums were higher by 15% (\$121 versus \$105 for SFR) due to the relative mix of new more costly units being offered in the Downtown and in the Suburban areas. In contrast, the average for 2006 in the Midtown market showed the lowest prices in the last three years.

Percentage Change in Average and Median Condominium Sale Prices

Change in property values over time is important to buyers and sellers as well as those who provide service to the residential real estate market such as lenders, appraisers and insurance representatives. Table 8 presents the percentage change in average and median condominium sale prices by sub-region for the time periods studied.

For the condominium market analyzed, median sales prices increased an average of 5.4% annually from 2000 through 2006 but declined by about 1% from 2005 through August 2006. Within the sub-regions, the largest increase was experienced in the Downtown area where

median prices advanced about 44% annually over the study period and increased, due to changed product mix, a dramatic 214% between 2005 and August 2006. In contrast, median sales prices advanced less than 2% annually in the Suburban area and recorded a drop of 13% between 2005 and August 2006. The Midtown area fared slightly better with just over 3% appreciation noted from 2000-August 2006, but recorded a drop of 2.4% from 2005-August 2006.

Average price changes followed median price changes rather closely. The overall average price increase for all sub-regions was 4%, with a price decline recorded of 6.1% from 2005 through August 2006.

Square Footage Price Changes

Residential housing unit sale prices not only vary over time by location and type, but also with regard to size and amenities. Table 9 provides change information in median and average square feet sale prices by sub-regions and for all single family residential units of 5,000 or less total finished square feet in the study area.

The results showed that median square footage sale prices increased by about 5.7% over the study period and a sizeable 15% from 2005 through August 2006. Similarly, the average square footage price of all units sold increased by 6.1% during the study period and increased a dramatic 17.5% from 2005 through August 2006.

Results of the increase in square footage prices in the condominium market segment are in direct contrast to changes in SFR square footage prices. Overall, the median SFR square footage prices advanced

1.7% annually during the study period and actually dropped 1% from 2005 through August 2006. Average square footage prices fared even worse by increasing just 1.2% annually during the study period and dropped about 1% from 2005 through August 2006.

Individual condominium sub-markets produced some surprising and mixed results with regard to square footage price appreciation. While the Downtown area benefited from sales within new condominium developments which resulted in an average square footage sale price increase of 27% annually over the study period, the results were more typical of the overall Greater Omaha housing market. In the Midtown section average square footage sale prices increased by a modest 1.8% over the study period and declined 2% from 2005 through August 2006. The Suburban area fared slightly better by annual average increases of 5% over the study period, and realized a healthy 9.5% increase from 2005 through August 2006.

Summary and Conclusions

The condominium market in Omaha is well established in the Midtown and Suburban areas and just undergoing development in the Downtown area. Based on past documented demand trends in other markets across the United States, successful markets will continue to be located in areas with household formation in the 25-29 age group who are looking for alternatives to renting. New entrants to this market may be looking for “rent-ready” units, an alternative to renting. Similarly, the baby boomer segment will be increasingly demanding retirement- and second-homes as this group matures. Moreover, areas with population, income and job growth should sustain the

condominium market. Other economic and financial factors will also influence market demand. A major component will be the ability to maintain a price spread between single family detached housing and comparable condominium units when the added mandatory expense of the monthly homeowner association fee is considered. This spread is important as the mandatory monthly HOA fee represents a fixed cost which involves a legally binding obligation, subject to being increased as cost considerations change, and foreclosed upon via lien status on the individual unit if not paid when due. For example, a HOA obligation of \$2,400 per year is the equivalent of paying \$40,000 more for the unit at a capitalization rate of 6%.

The research examined over 2,400 condominium sales occurring between 2000 and August 2006 in the Greater Omaha Area comprised of Douglas and Sarpy Counties. As the number of units and characteristics varied significantly by region of the city, the data was analyzed by dividing the area into three regions—Downtown, Midtown and Suburban locations as shown in Map 1.

The findings showed that the average sale price increased from \$127,249 in 2000 to \$162,486 in the first 8 months of 2006. The average square footage during the same period of time held almost constant at about 1,400 square feet per unit, although the largest average unit size of 1,517 square feet occurred in the midtown section of Omaha. The most significant changes in median price per square foot occurred in the downtown area where prices averaged \$201 per square foot, more than doubling from the \$80 per square foot average levels of 2005. This dramatic change resulted from the expanded development and adaptive reuse

activity which occurred near the central business district location of the Downtown area. This rapid increase in prices in the Downtown area may be difficult to sustain as the data showed that this market segment is priced substantially above prices found in competing submarkets. This is especially troublesome when reviewing condominium markets in other areas of the country where a rule of thumb indicates that condominium prices are typically positioned in the market at prices below that of comparable single family detached housing price in the neighborhood in which they compete.

Based on the current number of listed properties in the Multiple Listing Service and the average sales rate over the last seven years, there is approximately a 3-year supply of condominiums in the greater Omaha market currently available for sale. Recently announced condominium developments in the downtown area could add substantially to that inventory of unsold units. This rapid increase in prices in the Downtown area may be difficult to sustain as the data showed that this market segment is priced substantially above prices found in competing submarkets. This is especially troublesome when reviewing condominium markets in other areas of the country where a rule of thumb indicates that condominium prices are typically positioned in the market at prices below that of comparable single family detached housing price in the neighborhood in which they compete.

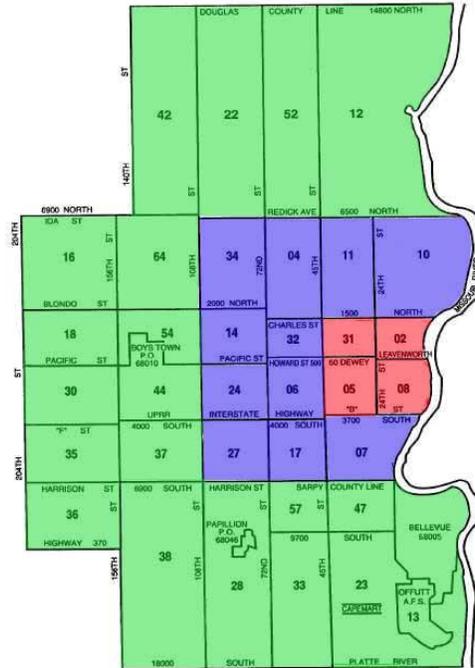
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Map 1. Delineated Areas of the Condominium Market Analyzed within the Douglas and Sarpy County areas of Greater Omaha*



*NOTE: Zip Codes 68102, 68105, 68108, and 68131 are designated as **Downtown**. Zip codes 68110, 68111, 68104, 68134, 68114, 68132, 68124, 68106, 68127, 68117, and 68107 are designated **Midtown**. All other Zip Codes are designated **Suburban**.

Table 1. Select Data for Condominium Sale Prices in the Greater Omaha Area 2000 through August 2006*

Year Sold	Number	Minimum	Maximum	Mean	Median
2000	245	\$19,000	\$585,000	\$127,249	\$105,100
2001	258	21,100	1,200,000	125,632	103,000
2002	296	22,000	600,000	136,665	128,900
2003	391	17,800	697,500	136,320	129,900
2004	422	18,000	950,000	148,322	143,688
2005	361	13,200	564,000	153,089	146,150
2006	428	16,900	446,382	162,486	145,179
All	2401	13,200	1,200,000	143,584	132,000

*Source: Authors' calculations using Douglas County and Sarpy County Assessor's Data combined with the Great Plains Multiple Listing Service. Data for the period indicated. This data was derived from Douglas and Sarpy County information.

Table 2. Condominium Sale Distribution (Number and Percentage) in the Greater Omaha Area by Sub-region, 2000 through August 2006*

Year Sold	All	Downtown Percentage	Downtown Number	Midtown Percentage	Midtown Number	Suburban Percentage	Suburban Number
2000	245	0.16	40	0.29	70	0.55	135
2001	258	0.17	43	0.21	54	0.62	161
2002	296	0.16	47	0.21	61	0.64	188
2003	391	0.18	70	0.18	70	0.64	251
2004	422	0.23	99	0.13	55	0.64	268
2005	361	0.18	64	0.19	68	0.63	229
2006	428	0.18	77	0.23	98	0.59	253
All	2401	0.18	440	0.20	476	0.62	1485

*Source: Douglas County Assessor's Data combined with the Great Plains Multiple Listing Service Data for the period indicated.

Table 3. Condominium Median Sale Prices in the Greater Omaha Area by Sub-region, 2000 through August 2006*

Year Sold	All	Downtown	Midtown	Suburban
2000	\$105,100	\$57,250	\$105,050	\$127,000
2001	103,000	64,900	98,450	114,000
2002	128,900	71,500	117,500	138,313
2003	129,900	58,500	115,375	147,500
2004	143,688	102,000	125,000	155,450
2005	146,150	74,000	131,075	162,000
2006	145,179	232,005	127,950	141,000
All	132,000	85,750	120,000	145,550

*Source: Douglas County Assessor's Data combined with the Great Plains Multiple Listing Service Data for the period indicated.

Table 4. Condominium Average Sale Prices in the Greater Omaha Area by Sub-region, 2000 through August 2006*

Year Sold	All	Downtown	Midtown	Suburban
2000	\$127,249	\$68,470	\$149,779	\$132,983
2001	125,632	78,906	147,611	130,740
2002	136,665	103,095	162,391	136,710
2003	136,320	79,019	145,703	149,684
2004	148,322	98,968	176,206	160,832
2005	153,089	98,679	158,899	166,569
2006	162,486	214,457	145,722	153,162
All	143,584	111,671	154,071	149,678

*Source: Douglas County Assessor's Data combined with the Great Plains Multiple Listing Service Data for the period indicated.

Table 5. Average Condominium Size in Square Feet by Sub-region in Omaha, 2000 through August 2006*

Year	All	Downtown	Midtown	Suburban
2000	1,411	1,049	1,551	1,445
2001	1,368	1,143	1,515	1,378
2002	1,443	1,246	1,593	1,443
2003	1,391	999	1,442	1,486
2004	1,443	1,045	1,553	1,567
2005	1,448	1,023	1,426	1,571
2006	1,378	1,206	1,542	1,367
All	1,412	1,094	1,517	1,472

*Source: Douglas County Assessor's Data combined with the Great Plains Multiple Listing Service Data for the period indicated. Square footage was defined as total finished square footage.

Table 6. Median Price per Square Foot, Condominiums and All Single Family Residential Units Less Than 5,000 Square Feet by Sub-region in Omaha, 2000-August 2006*

Year Sold	All	All SFR	Downtown	Midtown	Suburban
2000	\$82	\$94	\$58	\$84	\$81
2001	83	94	63	77	84
2002	89	96	62	85	86
2003	95	99	63	93	92
2004	102	104	98	99	97
2005	100	106	80	95	104
2006	115	105	201	89	117
All	97	101	77	89	96

*Source: Douglas County Assessor's Data combined with the Great Plains Multiple Listing Service Data for the period indicated. Square footage was defined as total finished square footage.

Table 7. Average Price per Square Foot, Condominiums and All Single Family Residential (SFR) Units Less Than 5,000 Square Feet by Sub-region in Omaha, 2000-August 2006*

Year Sold	All	All SFR	Downtown	Midtown	Suburban
2000	\$85	\$97	\$60	\$89	\$85
2001	87	97	63	87	89
2002	91	98	71	95	89
2003	95	100	72	95	96
2004	102	104	93	106	102
2005	103	106	89	102	105
2006	121	105	174	100	115
All	100	102	95	96	99

*Source: Douglas County Assessor's Data combined with the Great Plains Multiple Listing Service Data for the period indicated. Square footage was defined as total finished square footage.

Table 8. Percentage Change in Average and Median Condominium Sale Prices by Sub-region in Omaha, Selected Years*

Median Sale Price	All	Downtown	Midtown	Suburban
Ave. Annual 2000-2006	5.4%	43.6%	3.1%	1.6%
2005-August 2006	-0.6%	213.5%	-2.4%	-13.0%

Average Sale Price	All	Downtown	Midtown	Suburban
Ave. Annual 2000-2006	4.0%	30.5%	0.0%	2.2%
2005-August 2006	6.1%	117.3%	-8.3%	-8.0%

*Source: Douglas County Assessor's Data combined with the Great Plains Multiple Listing Service Data for the period indicated.

Table 9. Percentage Change in Average and Median Condominium and All Single Family Residential (SFR) Units Square Foot Sale Prices by Sub-region in Omaha, Selected Years*

Median Sq. Ft. Prices	All	All SFR	Downtown	Midtown	Suburban
Ave. Annual 2000-2006	5.7%	1.7%	35.2%	0.9%	6.35
2005- August 2006	15.0%	-1.0%	151.3%	-6.3%	12.5%

Average Sq. Ft. Prices	All	All SFR	Downtown	Midtown	Suburban
Ave. Annual 2000-2006	6.1%	1.2%	27.1%	1.8%	5.0%
2005-August 2006	17.5%	-0.9%	95.5%	-2.0%	9.5%

*Source: Douglas County Assessor's Data combined with the Great Plains Multiple Listing Service Data for the period indicated. Square footage was defined as total finished square footage. The data for SFR units included all sales with 5,000 or less total finished square feet.