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Downtown Miami enjoys mini-boom over cut-price condos

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CHARLES TRAINOR JR / MIAMI HERALD

Hamza Bozkir carries a picture from his home country Turkey, as he unpacks in his new condo at the Ivy at 90 SW 3rd Street, Miami. Monday, August 31st.

In April, Regan Marock and his fiancée, renters at 500 Brickell, had the run of the sprawling twin-tower luxury complex -- the pool, the gym, the spa and other amenities -- with relatively few neighbors.

But in a few short months, all that has changed.

The Related Group, the developer that rented the unsold unit to Marock, recently closed its on-site leasing office because nearly all of the available apartments had been rented. The rest were tossed back into the pool of condos for sale, but that stock is also quickly evaporating.

Over the past several months, a new wave of investors and home buyers -- almost reminiscent of the market's heyday -- has been pouring into Miami's downtown condo market and snatching up half-priced condos. Several Brickell area buildings, in fact, have sold out or are close to it.

``It's definitely a mini-boom,'' said Peter Zalewski, a principal of the Condo Vultures brokerage. ``In the mentality and psychology, there are a lot of the same characteristics you saw during the run up.'' The differences: No escalating prices. And investors -- primarily foreign nationals -- are paying in cash and are willing to rent or hold the units until the market recovers.

Analysts still say that could be at least three years away or more because of the oversupply of condos and hundreds, if not thousands, of pending condo foreclosures.

Marock said 500 Brickell has been crawling with agents and condo shoppers. And, for the first time since he moved into the two-bedroom unit in February, a Realtor showed his rental to a prospective buyer.

``My building is like night and day since we first got here,'' Marock said.

``There is very little developer inventory for rent on Brickell Avenue right now, that's partially due to the fact that the developer units are selling at a very rapid pace,'' said Jon Mann, an attorney and Realtor for Grove Town properties, which specializes in Brickell rentals.

Since June, more than 160 units have sold in the 500 Brickell building, according to Alicia Cervera Lamadrid, president of Related Cervera Realty Services, which represents the building.

Even though the units are selling, some battle weary developers are resigned to walking away from these sales pretty much empty-handed, albeit glad to have avoided foreclosure, bankruptcy and a soiled reputation.

Behind the new burst of sales activity are dramatic price reductions by builders, especially those who have been stuck with hundreds of unsold units in projects that were delivered after the market crashed in 2007.

In a way, their problems have mirrored those of thousands of South Florida homeowners stuck in properties worth less than the mortgages owed against them.

HUGE LOANS

Most condo builders took out huge construction loans to build the gleaming towers that changed Miami's skyline. Burned by the crash and plummeting prices, they, too, haven't been able to sell their units for enough to pay back their loans.

Now some lenders are deciding to cut their losses by allowing developers to sell the units for less than the cost to recoup their money, in what are essentially the equivalent of residential short-sales.

As far as lenders are concerned, the alternatives are none too attractive -- selling to bulk buyers and vulture funds looking to scoop up the unsold remains for cents on the dollar or proceeding with a costly foreclosure. That option could prompt a bankruptcy and tie up a developer's property in expensive litigation.

``When banks and developers enter into these short-sales, it's because they really don't have many options left. They realize the debt levels already exceed the value of the property and there is no other way out,'' said Raul Valdes-Fauli, president and chief executive of Miami-Dade County CNLBank. ``They're saying, `Let's take our lumps today rather than potentially bigger lumps down the road.' ''

The strategy appears to be working. Brickell on the River South, 41 SE Fifth St., dropped prices from $310, the lofty boom level, to $220 per square foot in January, sparking a flurry of sales during the deepest months of the recession. In May, prices were dropped a further $10 per square foot. That means a 981-square-foot unit that originally was listed for $304,110 might now be listed for around $206,000.

Although not a product of a short-sale arrangement, these price reductions helped the project sell out and usher in new downtown area pricing strategies, said Andres Asion, president of the Miami Real Estate Group, which represented the building.

That prompted a realization among lenders that troubled buildings could sell out if the price was right.

After lenders balked at bulk buy offers of between $120 and $170 per square foot at the 1060 Brickell project, the developer was allowed to slash prices to around $220 per square foot in May.

The result: More than 300 units flew off the shelf, closing or going under contract in 90 days, according to Walter Defortuna, chairman of Fortune International Realty, the building's exclusive sales agency.

JUMP IN SALES

A similar strategy also has led to a dramatic jump in sales at The Ivy, said Inigo Ardid, vice president of Key International, which built The Ivy and Mint, new condo projects along the Miami River. Some 140 units have been sold since June, Ardid said, and almost 90 percent of the building is now sold.

Ardid is negotiating with his lender to make similar price cuts at Mint, which is almost finished. The building was sold out during its pre-construction phase, but many buyers, who put 20 percent down, are reluctant to close in the sour market.

``I am much more confident on the outlook of that building than I was six or seven months ago,'' Ardid said. ``The lenders are smarter. I am smarter. In the end, we know what it takes to close these buildings. We've all learned a lot.''

``There is so much fierce competition among all those buildings that it's impossible for any single developer to raise their price to above $250 per square foot because he won't remain competitive,'' said Craig Studnicky, president of ISG, ``Right now price is the ultimate amenity.''

That also suggests current owners will be unable to sell until 7,000 unsold developer-held units in the greater downtown area, plus any more in the pipeline, are sold. That means prices will likely remain depressed.

Not all lenders are willing to accept drastic price cuts. That's why Everglades on the Bay filed for Chapter 11 bankruptcy last month, Studnicky said. Cabi Downtown, the project's developer, alleged Bank of America and its other lenders had refused to allow it to drop prices to the current market.

Around $250 per square foot appears to be the magic number, Studnicky said, even though that's lower than it would cost to build such units today.

``The good news is at a certain price there are a lot of buyers, more buyers than a lot of us expected,'' Cervera said.

Developers say foreigners are predominantly behind the new swell of investors.

At 1060 Brickell, Defortuna estimated that 80 percent of the buyers were from abroad and 98 percent had closed with cash. About half plan to use the condos as second homes; the other half will rent them out, he said.

Tight lending standards and the inability of some buildings, including 1060 Brickell, to obtain Fannie Mae approval have made it difficult for buyers to finance purchases.

It's not clear how deep the pool of cash buyers is or how long the boomlet will last, Zalewski said.

But once such sales taper off, developers will have to rely on buyers who need loans to buy their condos and must be able to come up with steep out-of-pocket down payments.
