

The New York Times

July 28, 2009

Circulation: 1,000,665

As Prices Plummet, Miami Condo Sales Perk Up

By TERRY PRISTIN

Despite a vast oversupply of new condos in downtown [Miami](#), sales have been brisk lately at 1060 Brickell Avenue, a twin-tower development with 570 units in the heart of the upscale Brickell neighborhood. The reason? Prices have been cut in half, to about \$200 a square foot.

We reset the prices at a sharp discount, and the units are flying off the shelves,” said [Gary Barnett](#), the president of the Extell Development Company, the New York-based developer of 1060 Brickell, which was completed last year. More than 200 units have closed since the discount program began in April, he said.

Mr. Barnett, who has developed several new condominium projects in Manhattan, including 535 West End Avenue and the Rushmore, acknowledged that he and his backers lost their entire investment in 1060 Brickell, which is situated at Southeast First Avenue. He said some, but not all, of the mezzanine financing was also wiped out. But because more than 40 percent of the units sold at full price, Mr. Barnett was able to repay his \$153 million first mortgage from TD Bank and iStar, a troubled finance company that bet heavily on the South Florida condo market.

Since 2003, nearly 23,000 new condo units have been added to the downtown skyline, from Brickell Avenue up through the more modest Biscayne Corridor — far more than this city of 400,000 people could absorb. About 9,400 remained unsold at the end of June, according to Peter Zalewski, the owner of Condo Vultures Realty, a local brokerage.

But Miami real estate brokers, lawyers and developers say the overbuilt condo market has entered a new phase. “Things are starting to move through the system,” said Adam Cappel, the president of [CondoReports.com](#), a Miami research service.

Until recently, many real estate professionals expected investment funds seeking opportunities in distressed real estate to swoop down on Miami and buy condo units by the hundreds at wholesale prices and then rent them out until the market recovered.

A few bulk purchases have occurred — in the dozens rather than the hundreds — but most buyers have paid the current market price, not a wholesale price. For example, an investor from Colombia recently bought 31 units at 1060 Brickell for an average of \$203 a square foot, according to Mr. Zalewski. Last week, however, a [private equity](#) group paid only \$63 a square foot for 51 oceanfront condo-hotel units at the Regent Hotel in Miami Beach, he said. Previous units there had sold for

The New York Times

July 28, 2009

Circulation: 1,000,665

\$1,100 a square foot. But condo-hotel units are considered riskier and harder to finance than traditional condos.

For the most part, bulk condo sales have yet to catch on. With the steep decline in values, developers of newer buildings are no longer in control of their projects and must defer to their lenders. “The lenders did not want to take the hit that the bulk purchasers were offering,” said Martin A. Schwartz, a partner at Bilzin Sumberg, a Miami law firm that represents developers.

Another obstacle is that under Florida law, anyone who buys seven condos in a building with 70 or more units may be assuming all the liabilities of a developer, Mr. Schwartz said. “There is an element of risk,” he said. Mr. Barnett, for example, was unable to arrange a bulk sale for 346 units at 1060 Brickell last year at \$200 a square foot.

Robert Kaplan, a principal of Olympian Capital Group, a Miami mortgage brokerage, said the focus had shifted away from bulk sales to retail sales because lenders were not willing to take \$100 to \$125 a square foot when they could get \$175 or more. “Every condo lender is considering market-rate sales,” he said. “They have no choice.”

Bargains are being offered for under \$200 a square foot at Brickell on the River South, near Southeast Fifth Street. At 500 Brickell, developed by the Related Group of Florida, the industry leader, prices for one-bedroom apartments have dropped to \$180,000, from \$260,000, said Lucas Lechuga, an agent for Keller Williams Realty in Miami. “The buildings that have slashed their prices are doing pretty well now,” he said.

If demand does not keep up, prices will have to adjust, Mr. Kaplan said. “But we’re not seeing that yet,” he added. “We’re seeing velocity at the new lower prices,”

According to Ronald A. Shuffield, the president of Esslinger-Wooten-Maxwell, a local brokerage, condo sales in new buildings increased to 82 a month, from an average of 50 a month, since April.

Jack McCabe, the chief executive of McCabe Research and Consulting in Deerfield Beach, Fla., said, however, that he thought prices were likely to drop a lot further because of the high volume of foreclosures. “There are a lot of buildings where 30 to 35 percent of the units are in foreclosure,” he said. He predicted that bulk sales at prices as low as \$100 a square foot would eventually occur, especially for inland properties. “It’s still early,” he said.

In newer buildings with many unsold condos, developers are negotiating uncontested, or “friendly,” foreclosures with their lenders, sparing them the expense of a protracted battle. Last month, the

The New York Times

July 28, 2009

Circulation: 1,000,665

Related Group surrendered its 420-unit CityPlace South development in West Palm Beach, Fla., where only 39 sales had been completed, to a group of lenders led by the [Bank of Nova Scotia](#). Related paid an undisclosed sum to cancel its \$119 million construction loan and other liabilities and won the right to continue to manage and maintain the project and run the sales operation — all for lucrative fees.

According to recent news reports, Related hopes to work out a similar arrangement within the next couple of months to retire about \$1.5 billion in outstanding debt on other South Florida condo projects, including the company's showpiece, Icon Brickell, where only 31 of 1,646 units have sold. Related executives did not return telephone calls.

Thomas R. Lehman, a Miami lawyer who has been negotiating several friendly foreclosures, said many developers had already quietly turned over the keys to their projects. "The wave has started," said Mr. Lehman, the managing partner at Tew Cardenas. "Public records are catching up to what's already been negotiated. Lenders are realizing that no one is going to buy their loans and they might as well get their projects back and put them on the market." He said developers often were trying to preserve other assets they might have put up as collateral for their construction loan.

But what has been a catastrophe for developers has been a bonanza for renters. According to a report commissioned by the Miami Downtown Development Authority, a quasi-independent city agency, 62 percent of the already completed new downtown condo units are occupied, split evenly between renters and owners. Monthly rents have declined 15 to 20 percent in Miami, with the median rate at \$1.64 a square foot, Mr. Zalewski said.

The Related Group has instituted an unusual rent-to-own program, in which no price is set in advance and all of the rental payments count toward a down payment, if the unit is purchased within a year.

Joe Higgins, the owner of Grove Town Properties, a local brokerage, said about one-quarter of his rental clients were [University of Miami](#) law students doubling up with roommates, but the rest were professionals working downtown.

With so many new buildings on the market, tenants have become choosy and now demand features like an updated kitchen, Mr. Higgins said. "Renters don't want the older buildings," he said. "They want the granite; they want the stainless steel."