

## Buying in Bulk

As prices fall and sales rise, Miami real estate brokers, lawyers and developers say the overbuilt market has entered a new phase

By TERRY PRISTIN  
The New York Times

Despite a vast oversupply of new condos in downtown Miami, sales have been brisk lately at 1060 Brickell Avenue, a 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.



Prices have been cut in half, to about \$200 a square foot at the 1060 Brickell Avenue condo building in Miami.

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"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 Co., developer of 1060 Brickell. More than 200 units have closed since April.

Barnett, who has developed several new condo projects in Manhattan, acknowledged that he and his backers lost their entire investment. But because more than 40 percent of the units sold at full price, 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 market.

Since 2003, nearly 23,000 new condo units have been added to the skyline, far more than this city of 400,000 could absorb. About 9,400 remained unsold, says Peter Zalewski, the owner of Condo Vultures Realty.

But Miami real estate brokers, lawyers and developers say the overbuilt market has entered a new phase. "Things are starting to move through the system," said Adam Cappel, the president of CondoReports.com.

Until recently, many real estate professionals expected investment funds seeking opportunities in distressed real estate to swoop down and buy units by the hundreds and then rent them out. A few bulk purchases have occurred -- in the dozens rather than the hundreds -- but most buyers have paid market price, not wholesale. An investor from Colombia bought 31 units at 1060 Brickell for an average of \$203 per square foot.

Recently, a private equity group paid only \$63 per square foot for 51 oceanfront condo-hotel units at the Regent Hotel in Miami Beach. Previous units there had sold for \$1,100.

For the most part, bulk 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 Miami law firm Bilzin Sumberg. 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, Schwartz said.

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 per square foot when they could get \$175 or more. "Every condo lender is considering market-rate sales. They have no choice," he said.

Bargains are being offered for under \$200 per square foot at Brickell on the River South, near Southeast Fifth Street. At 500 Brickell, developed by the Related Group of Florida, prices for one-bedroom apartments have dropped to \$180,000, from \$260,000.

If demand does not keep up, prices will have to adjust, Kaplan said. "But we're not seeing that yet," he said.

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

In newer buildings, developers are negotiating uncontested, or "friendly," foreclosures with lenders, avoiding a protracted battle.

Last month, the Related Group surrendered its 420-unit CityPlace South in West Palm Beach, where only 39 sales had been completed, to a group of lenders led by Bank of Nova Scotia.

Thomas R. Lehman, a Miami lawyer negotiating several friendly foreclosures, said many developers already had quietly turned over the keys. "The wave has started. 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."

What has been a catastrophe for developers has been a bonanza for renters. The Miami Downtown Development Authority says 62 percent of the already completed new downtown condo units are occupied, split evenly between renters and owners. Rents have declined 15-20 percent.

The Related Group instituted an unusual rent-to-own program, in which no price is set in advance and all of the 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 one-quarter of his clients were University of Miami law students doubling up with roommates, but the rest were professionals.

With so many new buildings on the market, tenants have become choosy, Higgins said.

"Renters don't want the older buildings. They want the granite; they want the stainless steel."