The Miami Herald

Posted on Tuesday, 04.21.09

REAL ESTATE

Miami condo corridor's woes create boon for renters

BY MONICA HATCHER
MHATCHER@MIAMIHERALD.COM

It's not hard to get Regan Marock to gush about his rental unit in a twin-tower luxury building in the heart of Miami's high-rise corridor. The two-bedroom condo has stainless steel appliances, a jetted tub and dazzling views of the city -- not to mention the two pools, gym, spas, movie theater and game room in the building.

Renting straight from the developer, The Related Group, Marock pays $1,450 for the plush, spanking new digs at 500 Brickell. Monthy mortgage payments for the roughly $350,000 unit, bought with 20 percent down, at today's interest rate would run about $1,482 -- not including taxes, insurance and association fees, which could add a thousand dollars or more to the bill.

"It's the most incredible thing," said Marock, 24, a sales director at a Coral Gables property management company.

As the dust settles from a condo construction frenzy that has dumped some 23,000 new units on the downtown Miami/Brickell market, renters are being courted with cut-rate deals to fill buildings where homeowners have failed to materialize. The main reason: Those who bought into the boom were overwhelmingly speculators hoping for a quick profit rather than people who actually planned to live in their units. Now many of these speculators must rent their condos. Many more are walking away from pre-sales contracts because they can't get loans to close or don't see the point since prices have fallen so low. That's forcing developers to become rental agents for their own properties in a bid to wring some revenue from their half-empty buildings as they wait for the market to recover.

A new market analysis from Condo Vultures, a Bal Harbour brokerage and advisory firm, found that of the 13,000 condo sales that have closed in projects built since 2003, nearly 60 percent were sold to investors and second-home buyers.

Developers still hold another 10,000 condos they have yet to sell.

The report is the first attempt to quantify the level of speculative buying in Miami's greater downtown area. Thousands of condos built or converted from apartments throughout South Florida not included in the study likely face a similar predicament, though.

"Everyone knew investors were critical to the condo boom," said Peter Zalewski, a Condo Vultures principal, but ``investors and to a lesser extent second-home buyers are essentially why the boom even occurred."

Once all planned units are completed by the end of the year, he estimates two-thirds of the sales will be to investors.

GROUND ZERO

The woes of Miami's new condo corridor has earned it a reputation as ground zero for the region's real estate blowout. But it also has created a renters' paradise.

Many developers have already established on-site leasing offices in buildings and started rent-to-own programs in an effort to lure residents.

"The speculators brought all the foreclosure problems, but the silver lining is there are tremendous deals for renters," said Jonathan Mann, who with his twin brother has built a thriving leasing company specializing in developer-controlled rentals in the Brickell area.

Renters, he said, are able to live in units they could never have afforded to buy. As more units enter the market, rents could fall even more.

Whether renters alone can help restore health to the beleaguered market remains to be seen, though, because developers based their profit projections -- and ability to repay construction loans -- on selling units at boom-era prices.

Jack Winston, a principal with Miami-based Goodkin Consulting, predicted many investor-owners won't be able to charge enough rent to cover their loan payments, taxes, association fees and insurance and may choose to default.

Alyce Robertson, executive director of the Miami Downtown Development Authority, said opening the luxury condo market to new, middle-income renters may not have been developers' intent, but it certainly was not a bad thing.

Renters are generally younger and can provide the kind of energy the fledgling community needs to grow, she said.

However, critics of the development boom said Zalewski's report vindicates their arguments that reckless overbuilding by developers would eventually lead to a collapse in real estate values and disastrous results for the local economy.

"It defeats the perception that all these people were going to be new residents of downtown," said Miami Commissioner Tomás Regalado, who has long been critical of policies that led to the explosive growth in downtown Miami.

"Everybody knew there were a lot of speculators that wanted to make money flipping condos," he said. ``Developers knew and accepted it; the city knew and accepted it. Everybody is at fault here."

OVERBUILT MARKET

The nearly 23,000 units built since 2003 or nearing completion in the downtown corridor are more than double the number built in the previous 40 years. Developers scaled back from the 85,000 units they had originally planned to build but still overshot the market.

The reason: They relied heavily on pre-sale contracts and deposits as a gauge of market strength, according to Adam Greenberg, a managing director with BayBridge Real Estate, a commercial brokerage firm in Miami.

Then the frenzy of speculative flipping pushed prices to unsustainable levels.

Now the fallout from an overbuilt market continues with sinking prices, anemic sales, surging foreclosures and thousands of empty units.

Winston predicts a growing number of bankruptcies among builders may be coming down the pike as well.

Zalewski also points out that super bargains downtown may lead to a mass movement of people from traditional rental communities such as Aventura, Miami Beach and Kendall, emptying apartments in those areas.

"This rental pool is brand new and offers all the bells and whistles and will create tremendous competition for more traditional rental markets on pricing and quality," Zalewski said.

http://www.miamiherald.com/business/story/1009665-p2.html