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As Condos Rise in South Florida, Nervous Investors Try to Flee

By ABBY GOODNOUGH

MIAMI, May 25 — As dozens of condominium towers conceived during Florida's real estate boom near completion, investors who snatched up units in the preconstruction phase in hopes of turning a quick profit are increasingly trying to break contracts, even walking away from fat deposits.

“Motivated” sellers are flooding online forums like Craigslist with advertisements for condo units still months or years from being finished. And lawyers have been inundated with calls from people hoping to avoid closing on units they bought during the speculative craze of 2004 and 2005.

“I get two or three of these calls a day,” said James Ryan, a lawyer in Boca Raton who said he had 40 clients looking to get out of condo contracts. One, Mr. Ryan said, abandoned a \$340,000 deposit rather than close on a \$1.6 million unit that lost its appeal as the market faltered.

The numbers suggest that it will only get worse. In Miami-Dade County alone, 8,000 new condo units will be completed this year and nearly 12,000 more in 2008.

But demand has dropped markedly, and people who thought they could “flip” condos — buying, then selling for a steep profit before construction is done — are parting with that fantasy. After years of stunning price increases — 25 percent in the West Palm Beach-Boca Raton area, for example, from March 2005 to March 2006 — condo prices have started dropping.

Condominiums in West Palm Beach and Boca Raton sold for a median price of \$211,800 in March, down from \$224,600 a year earlier, according to the Florida Association of Realtors. And in Fort Lauderdale, the median price in March was \$195,500, down from \$202,600 the previous year.

As a result, many buyers want out — not an easy prospect unless they are willing to forfeit the

10 percent or 20 percent they put down, from \$15,000 for an inexpensive studio unit to hundreds of thousands of dollars for a waterfront penthouse.

“I see buyers unleashing all possible means to try to get out of contracts,” said Gary Saul, a lawyer in Miami for developers, adding that in some projects, 20 percent of buyers want their money back.

Frank Scarfone, a retired engineer who bought two preconstruction units at Hollywood Station, a complex going up in Hollywood, is seeking to cancel his contracts. Each unit is priced at \$300,000. The developer promised a city view from both units, Mr. Scarfone said, but now another building in the complex is blocking it — a change that he said made the contracts unenforceable.

He sent a letter demanding his total deposit of \$120,000 back, and after getting no reply, picketed the developer’s office. Then Mr. Scarfone called a lawyer, Matthew Schlesinger, who has been unable to recoup the deposit so far.

“If we have to sue,” Mr. Scarfone said, “we’re planning on suing.”

Tom Leon, a retired business executive who moved here from Illinois, said he planned to give up \$200,000 in deposits on two condo units in Miami, priced at \$500,000 each, after finding “no loopholes” in his contracts. He said he was not especially bitter, since he had made money flipping other properties at the height of the boom.

“I’m of the frame of mind that you have to be prepared in business or investments to take a loss,” said Mr. Leon, 72, adding that he never had any intention of living in either of the units. “There are some people that mentally can never bring themselves around to that, especially in real estate. But there’s a time to hold and a time to fold, and in my opinion, this is a time to fold.”

The condo mania of recent years also beset cities like Las Vegas, Phoenix and Washington, but while those markets are also full of resales, analysts say South Florida drew the most investors.

“Between the Latin American influence and the out-of-state buyers who have a love affair with Miami because of its ambience,” said Jack McCabe, a consultant in Deerfield Beach who tracks the South Florida housing market, “they flocked to it and pushed it to the point where about 70 percent of all sales were to investors.”

Real estate analysts say South Florida’s housing market peaked late in 2005, and would-be

flippers stopped buying in 2006. People who bought condos before 2005 might still make money or at least break even if they sell soon, the analysts say, but those who bought at the height of the mania stand to lose a bundle.

Ann Nortmann, a sales associate with Majestic Properties, said one of her clients, a New Yorker, bought 11 condo units in Miami starting in 2004 and has sold six — the last at a \$40,000 loss. Ms. Nortmann and others said that with the glut of properties for sale, it might be more prudent to lose a deposit than hold onto a condo indefinitely.

Many speculative condo buyers were foreigners, especially Latin Americans looking to shelter their wealth from precarious economies in their home countries. Mr. Schlesinger said he was trying to help some Colombian investors get out of contracts in a project on the Miami River, a hot area during the boom, where prices are now languishing.

Getting out of real estate contracts is hard, Mr. Schlesinger said, because under state law, buyers have to prove that developers “materially” changed a project in a way that is “adverse” to the buyer. Many buyers want soaring property insurance rates to fall into that category. But a new state law says they cannot.

“About half the time I have to tell people, ‘Listen, there’s nothing I can do,’ ” said Mr. Schlesinger, adding that 20 percent of his clients end up forfeiting deposits.

Gregg Covin, a developer building Ten Museum Park, a downtown high-rise overlooking Biscayne Bay, said that none of his buyers had lost down payments, but that 45 out of 200 had resold their units before closing, often at the same price they paid in 2003 and to so-called vulture investors looking to scoop up multiple units at pre-boom prices.

Like many other developers, Mr. Covin requires original buyers looking to resell to do so through an in-house program, and keeps a 6 percent commission. Because his is one of the first boom-time buildings to be finished, he said — closings are taking place this month — he has had no problem finding replacement buyers.

“Right now, today, there is no shortage of end-users in Miami for finished, nice product,” Mr. Covin said.

Still, the few new buildings that have opened report many units up for resale. In Blue, a downtown high-rise that opened last year, 87 of the 330 units, or 26 percent, are back on the market, according to the Multiple Listing Service. In One Miami, which also opened downtown last year, 155 of the 800 units, or 19 percent, are for sale.

“When you drive by in the daytime, they are gorgeous,” Mr. McCabe said. “But when you drive by at night, there’s no furniture on the patios and only one light on out of 10.”

This being South Florida, some are figuring out how to profit from the downturn.

Mark Zilbert, a real estate agent, recently started CondoSuperCenter.com, a clearinghouse for people willing to resell preconstruction units at their original price. He said he expected thousands of listings.

“I ask if they’d be willing to sell at their 2003 price and walk away with their deposit back,” Mr. Zilbert said. “A lot of people are saying, ‘Yes, please, yes, please, yes, please.’ ”

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