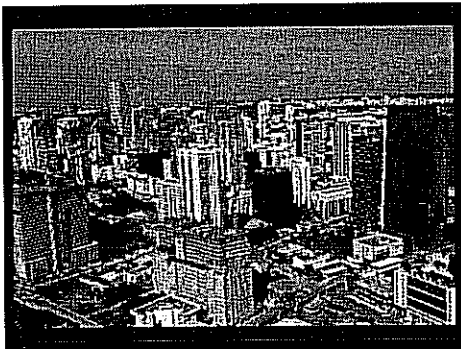




## Miami Condo Glut Pushes Florida's Economy to Brink of Recession

By Bob Ivry



[More Photos/Details](#)

July 20 (Bloomberg) -- In the middle of the biggest glut of condominiums in more than 30 years, Miami developers keep on building.

The oversupply will force prices down as much as 30 percent, the worst decline since the 1970s, and help push Florida's economy into recession as early as October, said Mark Zandi, chief economist at West Chester, Pennsylvania-based Moody's Economy.com, who owns a home in Vero Beach, Florida.

“Florida is the epicenter for all the problems that exist in the housing industry,” said Lewis Goodkin, president of Goodkin

Consulting Corp. and a property adviser in Miami for the past 30 years, who also foresees a recession. “The problems we have now are unprecedented and a lot of people will get burnt.”

Thirty-seven new high-rise condos and 20,000 new units are being built in Miami's 1,040-acre downtown, where sales fell almost 50 percent in May, according to the Florida Association of Realtors. The new units will join the 22,924 existing condos in Miami-Dade County that were for sale in April, according to Jack McCabe, chief executive officer of McCabe Research & Consulting LLC in Deerfield Beach, Florida. That's the most unsold units since McCabe began tracking sales in 2002.

“Have you been to Miami lately?” Florida Governor Charlie Crist said at a homebuilders' conference last week in Orlando. “It's like we have a new state bird: the building crane.”

### Construction Jobs

While the housing industry is responsible for 10.6 percent of the nation's jobs, in Florida it accounts for 20 percent, Zandi said. Florida construction jobs fell 2.9 percent in May to 626,200 from the peak in June 2006, according to the U.S. Bureau of Labor Statistics.

The national housing industry's weakness prompted Federal Reserve policy makers this week to cut their forecasts for U.S. economic growth for the next two years.

The economy will grow by 2.25 percent to 2.5 percent in the fourth quarter of 2007 from a year before, compared with a range of 2.5 percent to 3 percent the Fed predicted in February, the board said in a report to Congress.

Florida's robust economy of 2001 to 2005 was driven by the thousands of well-paying jobs related to the real estate market and homeowners who used home-equity loans to pay for items such as boats and big-screen TVs, McCabe said.

“All those jobs are going away now, and we're seeing the trickle-down effect in declining sales in big-box retailers and home-furnishing manufacturers,” McCabe said. “Florida is headed to a recession.”

### Influx of Retirees

A Florida recession could be averted and the state housing industry's “serious problems” solved by an influx of American retirees and foreign buyers, said David Denslow, a University of Florida economist in

Gainesville.

“The wave of baby boomer retirees is gathering momentum, and the weaker dollar makes Florida seem like a bargain to Europeans,” Denslow said. “With any luck at all that will sustain us.”

Downtown Miami developers already are offering incentives for brokers who connect them to buyers. John Rosser, president of the Key Biscayne, Florida-based John Paul Rosser & Associates Inc. estate brokerage, said he is usually paid a commission of as much as 5 percent when a sale is completed. For the Capital at Brickell, a block off Miami's Brickell Avenue, he was offered what he called “an unheard of” deal to steer buyers to one of the 832 units proposed. A salesman said Rosser would be paid 5 percent -- payable when buyers put down a deposit. The project has just broken ground and won't open until 2011.

#### Puig Bankruptcy

Puig Development Group, a closely held company that converted rental apartments to condos, filed for Chapter 11 bankruptcy protection on May 29. The Hialeah, Florida-based Puig and its subsidiaries controlled 2,900 units in Florida, including 980 condos, worth about \$210 million, said Ronald Glass of Atlanta-based GlassRatner Advisory & Capital Group LLC, chief restructuring officer for the Puig properties.

“Puig got a little overzealous and a little overly optimistic, and was caught when the market slowed,” Glass said.

Florida banks have already quit making loans to Miami condo developers, said Kenneth H. Thomas, a Miami bank consultant and a lecturer at the Wharton School at the University of Pennsylvania in Philadelphia.

“South Florida lenders were the first to put money into the condo market, they were the first to see the oversupply and they were the first to get out,” Thomas said.

Because of the lag time between making construction loans and closing sales on completed condos, loan problems showed up for Florida lenders in first-quarter bank statistics from the Federal Deposit Insurance Corp. in Washington, Thomas said.

#### Overdue Bills

Florida banks posted a 43 percent jump in the first quarter in loans no longer paying interest compared with the last three months of 2006, while the number for banks nationwide rose 13 percent, according to the FDIC.

Loan payments that were one to three months overdue to Florida banks increased 30 percent in the first three months of 2007 from the fourth quarter of last year. The same number for banks nationwide fell 1.8 percent, the FDIC said.

Angel Medina Jr., who runs the Southeast Florida operations of Regions Bank, a division of Birmingham, Alabama-based Regions Financial Corp., said Regions has financed projects by two of Miami's biggest condo developers: Related Group of Florida, headed by billionaire Jorge Perez, and Ugo Colombo's CMC Group.

The bank hasn't financed any Miami condos in the past 18 months because development is “too aggressive,” Medina said.

#### Chicago Lender

That leaves the business to lenders such as Corus Bank, a division of Chicago-based Corus Bankshares Inc. Corus has lent a total of \$1.07 billion to eight condo developments in downtown Miami, according to the company's Web site.

Corus's net income in the first three months of 2007 was \$26.4 million, a 39 percent drop from a year earlier, according to a company regulatory filing.

`` It would not surprise us to see an even greater impact on earnings over the next several quarters, or even years, depending on when" the national housing market improves, Chief Executive Officer Robert Glickman said in a statement.

Miami condo sales fell to 599 in May, a drop of 46 percent from a year earlier, according to the state realtors association. Condo sales in Orlando, home of Walt Disney World, have plummeted 80 percent, said Zandi of Moody's Economy.com.

`` The statistics are scary," said Michael Wohl, a partner in the Pinnacle Housing Group, a Miami developer that has stayed out of the condo market. `` There's going to be a lot of blood in the water in the next 18 months."

#### Hedge Funds

With prices falling, international investors, hedge funds, private equity firms and Wall Street banks are beginning to shop for deals, said Peter Zalewski of Condo Vultures Realty LLC, a consulting firm in Bal Harbour, Florida. Miami lags only New York in the number of foreign visitors to U.S. cities, attracting 5.3 million in 2006 from Europe, Canada and Latin America, according to the Greater Miami Convention & Visitors Bureau.

`` Bigger and bigger funds are coming to me wanting to buy," Zalewski said. `` Prices have yet to hit bottom because the bulk of Miami properties won't come on the market for another six months."

Cement dust swirls at 10 high-rise condo construction sites on Biscayne Boulevard, with its prime locations overlooking the waterfront; at six sites on Brickell Avenue, home to the glass and steel offices of Banco De La Nacion Argentina, Banco Industrial De Venezuela and Banco Santander Brazil International; and at eight locations on the Miami River, which splits the city into north and south. That's according to data collected by the Miami Downtown Development Authority.

#### Covering Costs

Since it can take up to four years for a condo project to travel from conception to completion, many of the towers rising from the coral rock of Miami were planned and financed during the Florida housing boom, which lasted from 2001 to 2005.

Lenders typically require enough advance sales to cover the cost of a construction loan. Customers' deposits, however, don't always mean the sales will close, said Ian Bruce Eichner, a developer whose latest Miami Beach condo tower is scheduled to open in November.

`` The market is as close to a depression as Miami has seen in 30 years," Eichner said. `` There's a gargantuan supply of homes and the overwhelming preponderance were built for speculators, not for people who are living there."

As much as half of those putting down deposits for Miami condos are speculators looking to flip units, or sell them quickly for a profit without living in them, said McCabe of McCabe Research.

#### Buyers Walking Away

With sale prices falling, McCabe said he expects up to 50 percent of them to walk away from their deposits in the next 18 months rather than complete the sales.

`` What's going to happen to all those units?" Eichner asked. `` God only knows. You couldn't give me a piece of property in Miami for nothing. I like sleeping at night."

Condo developers encouraged short-term investors, whose deposits helped them secure funding, Goodkin said.

`` The developers didn't get to start building until they had a certain number of contracts signed, so anyone putting down money was good for them," Goodkin said.

Many `` flippers" closed on their units and now can't sell them, said Michael Cannon of Integra Realty Resources-Miami Inc., leaving completed condo towers with floors of dark windows and empty

balconies.

The Jade Residences at Brickell is an example, Cannon said. The 338-unit, 48-story waterfront tower, a block from the Brickell Avenue financial district, opened in August 2004 with buyers willing to pay as much as \$5 million snapping up all the units. Now, the new owners have listed 112 condos for sale and 17 units totaling \$15 million are in foreclosure.

#### Trade Center

Jade Residences developer Edgardo Defortuna, president of Fortune International Realty, didn't return calls seeking comment.

The desire to strengthen Miami's position as a center of international trade is spurring the growth, said Dana Nottingham, executive director of the Miami Downtown Development Authority.

``We want to be a premiere urban center, not just nationally but globally, and downtown residential development is part of the formula for a great city," Nottingham said.

Mayor Manny Diaz said he's happy about what he calls ``the unprecedented flurry" of residential development because it reduces sprawl and brings more people and money into Miami.

``We will continue to build because I see more and more interest from foreign investors coming into Miami," Diaz said in an interview. ``I don't think we're done."

#### Island Skyscrapers

For Rosser, a former Air Force and airline pilot who's been working in the South Florida real estate industry for 19 years, a puzzling transformation is taking place on Brickell Key, a 44-acre island made of dredged bay sand connected to the rest of Miami by a 1,000-foot four-lane bridge.

On Brickell Key, 10 high-rises loom over the island's two tree-lined streets. The development is the product of a ``building frenzy," Rosser said.

The island's master builder is Swire Properties Inc., a Hong Kong-based developer that's a subsidiary of Swire Pacific Ltd. Swire is building a \$140 million tower on Brickell Key called Asia, which is slated to open in December, according to Stephen Owens, president of Swire Properties Inc.

``Anyone who says they're not concerned about the oversupply of condos is practicing the ostrich theory," said Owens, who lives and works on Brickell Key.

All of Asia's 123 units are sold, with the average size of the units, 2,800 square feet, and the top sale price of \$6 million discouraging speculators, Owens said.

#### Prices Fell

In the 1970s, when condos were a new product, Florida developers built 500,000 units and prices fell 50 percent, said Brad Hunter of MetroStudy, a research firm in West Palm Beach.

``The difference is, back then they were two-story condo buildings that had \$50,000 units," Hunter said. ``Nowadays they are \$700,000 units in 20-story buildings. Instead of building too much stuff that people could afford like we did then, this time we built too much stuff that people can't afford."

A lot of the inventory 30 years ago was sold off and converted to rental apartments, Goodkin said. That solution won't work now because prices have soared and properties coming on the market will compete with existing condos whose prices have plummeted, he said.

Goodkin said opportunistic investors will buy construction loans from banks at a discount of 30 percent or more.

``The vultures are in the trees," Goodkin said. ``Reality has become the new pessimism."

#### Holocaust Survivor

Developer Tibor Hollo, for one, isn't worried about Miami's condo glut. Hollo, 80, was born in Hungary

and spent his teenage years in two World War II-era Nazi extermination camps, Auschwitz and Matthausen.

Hollo started building in Miami in 1956 and now his Florida East Coast Realty Inc. has two high-rises under construction, the \$603 million, 787-unit Villa Magna, and the \$120 million, 635-unit Opera Tower.

“Residential buildings, if they are well-located and top of the line, they will sell,” Hollo said in an interview in his Biscayne Boulevard office, where the east-facing windows offer a vista of about a dozen new condo constructions.

Well-to-do Central and South Americans like Miami because of its Hispanic culture, while the dollar's weakness against the euro has made Miami attractive to Europeans who seek second homes in the Florida sunshine, Hollo said.

“We sold 38 units of the Opera Tower's 635 units to Russians,” Hollo said, his eyes widening. “I would never have dreamed it. I would understand 38 Venezuelans, not 38 Russians.”

The skyline of Miami is visible from Key Biscayne, the barrier island where John Rosser lives. Some nights the real estate broker scans the new buildings and sees more dark windows than lighted.

“This is dumbfounding to me,” Rosser said. “It's a building boom in the middle of a housing bust.”

To contact the reporter on this story: Bob Ivry in Miami at [bivry@bloomberg.net](mailto:bivry@bloomberg.net).

*Last Updated: July 20, 2007 00:10 EDT*



©2008 BLOOMBERG L.P. ALL RIGHTS RESERVED. [Terms of Service](#) | [Privacy Policy](#) | [Trademarks](#)