

## Condo Meltdown

Some developers slash prices below pre-construction level

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By: Paola Iuspa-Abbott

**C**ondo developers may finally be getting the message that it will take drastic action to get the attention of buyers.

Despite a glut of new units, a reeling economy and reluctant lenders who've slowed deals, many condo builders have resisted big price reductions, except to sell condos in bulk to investors.

Until now.

Two developers, including industry heavyweight The Related Group, last week slashed prices to below pre-construction levels.

Miami-based Related, dropped the prices on units in its 500 Brickell project. BCOM, developer of Miami's 1800 Club, also cut prices in that project.

The recent moves follow Groupe Pacific's January reduction of prices at its Brickell on the River. The new prices are "significantly below" pre-construction level, a representative said.

"Now their prices are getting closer to where the market is," said broker Samir Patel of Miami Condo Realty. "They are not attractive enough for investors, but they are for people looking to buy their first home or a vacation residence."

The moves are long overdue, according to Patel and other real estate experts.

Related executives, including chairman Jorge Perez, did not respond to requests for an interview. In a statement, however, the company said, "we are exploring all options currently available to the developer to increase sales activity to qualified buyers."

Sales agents with RCRS, who handle sales at 500 Brickell, did not return phone calls.

Prices of existing homes and condos in South Florida have fallen more than 40 percent since the housing boom peaked in 2005. Yet, condo developers had reduced prices reluctantly, preferring to dangle offers of cars, 100 percent financing and free furniture, said Miami real estate analyst Michael Cannon.

"It is natural for a developer to protect his prices," said Cannon, who years ago predicted that prices set in 2005, 2006 and 2007 would eventually be rolled back to levels of 2004 and earlier.

A number of developers across South Florida are each stuck with hundreds of unsold units in their projects. Some have sold blocks of condos to investors at prices drastically below pre-construction levels.

Now, individual buyers will have a shot at discounted units, although they still aren't priced as low as units in a multi-unit deal.

Many developers have no hope of making a profit on their projects. Instead, they're focused on paying off maturing construction loans, property taxes, insurance and condo maintenance fees.

Related is under pressure because 500 Brickell's approximately \$170 million construction loan with HSBC comes due in June, according to property records. Related also has nearly \$700 million of maturing debt due to mature in 2009 on other slow-selling projects.

Related is offering one-bedroom condos at 500 Brickell starting at \$180,900, according to a new price list. Before the repricing, similar units were listed at around \$230,000, said Lucas Lechuga, with Keller Williams Realty in Miami.

"The price cuts are going to help them close a lot more condos in the months to come," Lechuga said. "For the past year, a lot of developers have wanted to artificially keep those prices at — at least — pre-construction levels."

The new prices are more than abstract reductions on paper.

Related is offering Unit 3608 in the east tower for \$273,900, or \$337.73 a square foot. Last June, a similar 811-square-foot unit two floors below sold for \$350,900, or \$432.67 a square foot, according to Miami-Dade County property records.

The price difference between the two units is \$77,000, or nearly 22 percent.

Some brokers say the price cuts are too late, especially since Fannie Mae on March 1 made it more difficult for buyers to obtain mortgages for condos.



Yvette Naranjo

"If they had done this a while ago, they would have closed a lot more condos ... the financing was available a year ago. Now, it is very difficult to obtain financing," Lechuga said.

Fannie Mae buys and guarantees loans from lenders but only if the condos meet the government-sponsored company's new, tighter guidelines. Since January, Fannie Mae requires at least 70 percent of the units in projects be owned by primary or second-home owners, not multi-unit owners. That's up from 51 percent.

Also, no more than 10 percent of the condos can have the same owner.

seeking buyers, not investors

At the 1800 Club, Majestic Properties has taken over sales operations after BCOM agreed to make the units more affordable, said Majestic's Ivan Chorney.

There are 146 unsold condos at the 469-unit 1800 Club, according to Yvette Naranjo, a Majestic agent.

Condos are being offered for an average of \$240 a square foot, down from \$354 a square foot. That's a 32.2 percent reduction from before Majestic came on board.

Chorney said BCOM, led by Aslan Palachi, is trying to sell its excess inventory to individual buyers rather than bulk investors at even bigger discounts.

Palachi didn't return phone calls.

"Some of the new prices are below what we would consider foreclosure or short-sale prices but these are not foreclosures," said Chorney, standing in an empty unit with broad views of Biscayne Bay.

The 2,200-square-foot, three-bedroom corner unit is now selling for \$580,000, or \$263.63 a square foot, down from \$847,500, or \$385.22 a square foot. The new price represents a 32 percent cut. In 2004, the pre-construction price of that unit was \$740,000, Chorney said.

Developers may benefit from the slashed prices, but owners who bought condos at inflated prices will see their condos depreciate even more. Yet, owners could eventually benefit from the developers' latest strategy, said appraiser Philip Biber, managing partner of Watermark Valuation Services in Fort Lauderdale.

"It is better, in the long run, to take the pain, let the developer sell the units cheap and have people [living] there," he said. "Nobody wants to live in a building that is empty because that's going to bring the value down, too."

Help in reducing inventories

Fannie Mae spokeswoman Amy Bonitatibus said new round of price reductions could be a good step toward reducing the large inventory of new condos in South Florida.

Bonitatibus said Fannie Mae could make exceptions its tighter ownership guidelines.

"We will waive this requirement if we determine that the project still has a strong chance of success even if the pre-sale level falls below the prescribed 70 percent threshold," Bonitatibus said. "Fannie Mae has granted more than 50 such exceptions since the guideline went into effect on March 1."

Most new condo buildings in downtown Miami don't meet Fannie Mae standards, so the few sales taking place are mostly cash deals, according to several brokers.

Since Groupe Pacific lowered prices at Brickell on the River South Tower in mid-January, all the sales have been cash, said Marian Alberto, the project's sales director.

Alberto said executives of Groupe Pacific were not available for comment.

Alberto, who attributed a jump in sales in February to the price reduction, said one-bedroom units are now priced at \$180,000, down from \$199,000, which was already below the pre-construction price. Groupe Pacific had a first price cut in May 2008, Alberto said.

Groupe Pacific still owns 155 units in the 334-unit Brickell on the River South, according to Adam Cappel, president of CondoReports.com. The project opened in 2006.

"As people reduce their prices, more demand will be there, especially with some of the favorable interest rate available," analyst Cannon said.

"What we have now is the great pay-back period. If they didn't raise those prices [during the boom years] based on what I call the-expectation-it-would-never-stop, we wouldn't be in this financial mess."

**SLOW SALES**

500 Brickell

Address: 500 Brickell Ave., Miami

Developer: The Related Group

Closings started: April 2008

Condos: 633

Condos sold: about 118

Recent closings: 9 in February; 2 in January, 9 in December and 7 in November.

1800 Club

Address: 1800 N. Bayshore Drive, Miami

Developer: BCOM Inc.

Closings started: November 2007

Condos: 469

Condos sold: 323

Recent closings: 0 in February; 2 in January, 0 in December and 0 in November.

Brickell on the River — South Tower

Address: 41 SE Fifth St., Miami

Developer: Groupe Pacific

Closings started: February 2006

Condos: 334

Condos sold: About 219

Recent closings: 8 in February; 2 in January, 4 in December and 2 in November.

Sources: Miami-Dade County property records and CondoReports.com

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***Yvette Naranjo photo by A.M. Holt***

**Reader's comments**

**Jack McCabe said:** "It is natural for a developer to protect his prices," said Cannon, who years ago predicted that prices set in 2005, 2006 and 2007 would eventually be rolled back to levels of 2004 and earlier. So....Michael Cannon predicted years ago that prices would "roll back" to 2004 and earlier levels, eh? What a joke! I suggest this reporter needs to spend more time researching the market and past events before making erroneous statements in future articles. As most all real estate development community insiders knows, Michael Cannon (along with Manny Diaz, Ron Shuffield, and others) was and has been one of the big cheerleaders for the overdevelopment of condos in Miami. He claimed for years that there was not an overdevelopment of condos, and the massive construction in Miami was a "good thing". Now, this "reporter" wants to give the impression he was "ahead of the curve" in his predictions when nothing could be further from the truth. Misinformation. Period. *mARCH 23 at 8:54 a.m.*

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