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Miami condo market faces moment of truth in 2008

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By Jim Loney

MIAMI (Reuters) - Workers are painting, patching stucco and peeling protective plastic from gleaming panes of balcony glass at a new 1,000-unit condo called The Plaza, two towers that rise 43 and 56 stories over Miami's bank district.

A mile to the north, the exotic stonework at a new 500-unit downtown tower known as 50 Biscayne has been polished and the first residents closed on their contracts this month.

Prices in Miami's condominium market -- a poster child of the real estate boom that swept much of the United States until 2005 -- seem to have held up relatively well to date.

But the opening of a raft of big complexes has analysts predicting the market -- fueled by a frenetic construction spree that saw cranes sprout like mushrooms on the skyline -- is edging toward a cliff.

Values may be poised for a wrenching tumble in the next year as thousands of units in the downtown and Brickell banking districts are readied for residents, analysts say.

As a result, the vultures are circling. Hedge funds and private equity pools are busy scouting locations where they can snap up dozens or hundreds of units at sharp discounts to hold as rentals for up to 10 years, until the market turns.

"Everybody thinks south Florida is on sale," said Peter Zalewski of real estate consultancy Condo Vultures, who is advising private equity buyers. "They're all coming to kick the tires."

Futures traders on the CME Group exchange are predicting Miami will be the worst U.S. regional housing market over the next four years with prices falling nearly 30 percent.

Experts have been predicting a fall for Florida condo prices since the market peaked in late 2005. In Miami, sales figures have been falling for months but prices have been resilient as sellers refuse to budge.

In August, for example, condo sales in Miami-Dade County dropped 44 percent while the median price rose 5 percent to $262,000, according to the Florida Association of Realtors.

But the number of condos on sale has climbed to 25,000, a 36-month supply, compared to six to 12 months in a healthy market.

Market analysts say vulture funds could move on a stone-cold market in the next year.

"We have $200 million to acquire distressed condo conversion projects in Florida," said Matthew Martinez, point-man for a Connecticut-based private equity fund. "We're looking at purchases of $7 million and up, all-cash."

Some analysts believe 2008 will be the turning point, when pre-construction buyers are forced to pony up the full purchase price or walk away from deposits, speculators feel the pain of holding too many properties and developers need to dump excess units at discounts of 30, 40 or even 50 percent.

"In May or so, the true blood is going to flow," Zalewski said. "Many of the hedge funds are looking for a minimum of 100 units in the same building."

UNPRECEDENTED BOOM-BUST

Miami's condo-building spree was the biggest in its history -- a history replete with booms, busts, and swampland scams.

At the peak some 60,000 units were under construction, planned or permitted in the city of Miami, whose 400,000 people represent only 16 percent of Miami-Dade County.

Some of those projects have been canceled. But the ones already underway and soon ready for residents are shrouded in uncertainty as buyers look to back away from contracts, unable to get mortgages or fearing they are paying too much.

"We have definitely not seen the bottom yet. In the next six to 12 months we'll see the beginnings of that moment of truth," said Brad Hunter of Metrostudy, a housing research firm.

"It could be 2012 to 2014 before this market needs to build more condos."

Between 2006 and 2009, one analyst said, developers will drop 28,000 new units into the Miami market. The downtown buildings are part of a daring plan to revitalize the city's dingy core, a few years ago a haven only for the homeless.

In just eight prominent buildings in the downtown and banking districts more than 6,600 units are nearly ready.

The Related Group, Florida's largest condo developer, expects The Plaza to be finished next month. The first tower of its 1,700-unit, $1.25 billion bayside Icon complex is scheduled for August of next year with the second following in December.

Another developer's 516-unit, $360-million tower called 900 Biscayne Bay is expected to be ready next spring. Down the street, the twin-tower, 870-unit Everglades on the Bay, is expected to be finished in the fall of 2008.

While conceding the market is tough, Related chief executive Jorge Perez said he is willing to join the hedge funds and private equity pools and has upward of $100 million to snap up unwanted units to hold as rentals.

"There isn't a city where I can see the type of growth Miami is going to experience," Perez said. "Given that, do we have a blip, whether it's two years or four years, where we're going to have it rough? No question about it."

A smaller Miami-area condo glut in the 1980s took six years to correct, analysts say. This one could be worse.

"I think we've only seen the tip of the iceberg in terms of the pain the market will see," Martinez said.