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INSIDE

MY VIEW

Excess inventory is the issue with condos

BY RICARDO WOLF
Special to The Miami Herald

In October of 2008 the Miami Herald published an article I had written tilled "The next shoe to drop in real estate" I explained how crippled condo associations would affect South Florida's condo values and marketability, as well as the importance of government intervention. Today, I am looking at South Florida's luxury condo market and watching the inevitable debacle take effect.



WOLF

In the city of Sunny Isles Beach, an area where I focus a good portion of my business thousands of new luxury high-rise residences were constructed. The lack of residents becoming painfully obvious as you drive by these exquisite towers at night and realize no one's ever home and, as a Realtor, you realize bow difficult this inventory will be to sell.

PROBLEMS AND RISKS

No experienced Realtor, educated investor or potential resident should ever consider recommending or purchasing in a "problem development," a title shared by many newly constructed Sunny Isles highrises. Simply, the risks associated with buying into these problem developments, or those whose revenues cannot support their massive operating expenses due to owner and/or developer maintenance defaults, is not a smart decision at any price.

FINANCIAL CONCERNS

Even though these new developments offer spectacular architectural designs, state-of-the-art amenities, superior construction and finishes, buyers will not consider them as a viable options because of the inevitable financial issues that come attached to the property, Last month I closed a sale in Ocean Two, a beautiful Sunny Isles development built in 2001, at a price just over $500 per square foot, which is considered pricey in today's market. However, if you look at the comps for Ocean Two you realize that the development is still selling well and demanding premium prices. Evidently, being in a well-established development, with a solid base of residents, has become a valuable selling point that helps set price supports and bolster market appeal.

Two scenarios exist when discussing the risks associated with purchasing in a "problem property." The first is when the developers are still running the association and paying the bills; the other is when unit owners operate the association and cover expenses through maintenance income. The risks include developers filing for bankruptcy protection and leaving owners with an expensive list of problems and an absentee owner, or owner-run associations being required to cover cash-flow shortfalls by levying pricey assessments. In either case, the final cost associated with these residences is open-ended, and there are no laws in effect to truly protect buyers in either scenario.

Our federal, state and city governments must look at this problem and try to figure out how to help "reintroduce" this inventory back to the market. Furthermore, most lenders recognize these issues and will not foreclose on delinquent borrowers, or provide new mortgages to potential buyers, in order to protect themselves from the risks associated with problem developments. While I applaud government for trying to repair our economy, I strongly believe that the funds provided as part of the massive bailout programs are being misdirected and will do very little to bring stability to U.S. real estate markets. Wthout a good strategy to get unmarketable inventory out of the hands of developers and Lenders and in the hands of residents and investors, we will continue to witness continued turmoil and further market deterioration.



RICARDO WOLF / FOR THE MIAMI HERALD

NO ONE HOME: Darkened condo towers at night show the problem of ownerless units.

ASSOCIATION LOANS

One solution was mentioned in my October article, where I proposed that some of the bailout money go towards stabilizing associations by working with our municipalities and industry to help cover operational costs, such as utilities and insurance, two of the associations' largest expenses. These funds can be provided as long-term, low-interest loans that are to be paid back by the associations once income shortfalls have been stabilized.

Government needs to also take a very serious look at the position lenders have taken with regards to foreclosing on bad loans and/or assuming responsibility over the assets. Lenders that insist on leaving bad assets on the back burner while unsuspecting owners are left holding the bag should suffer in the form of penalties and by forfeiting any legal protection regarding limitations on bank maintenance fees and related expenses.

IT'S THE INVENTORY

This overwhelming amount of unmarketable inventory is the single most tangible and psychologicly issue facing today's condo market. Pricing, even at its highest levels, would not have caused this dilemma, especially when considering the international appeal of South Florida's beachfront luxury real estate, its relative low cost when compared to other major metropoltian markets and the cost of reproducing these modern masterpieces, even at today's depressed construction and land costs.

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