

Miami Luxury Condos Revived With Buyer Cash Deposits: Mortgages

By Oshrat Carmiel

Gil Dezer, a Miami-area developer, five years ago had 850 unsold condominiums on his hands and almost \$500 million in loans coming due as credit markets froze and buyers disappeared.

Today, he's back in the market with what he sees as a safer bet: a 132-unit luxury project for auto enthusiasts called the Porsche Design Tower. Condos at the 60-story building, featuring an elevator that transports cars directly into the homes, range from \$4.5 million to \$32.5 million for a 17,000-square-foot (1,600-square-meter) four-floor penthouse.

While the oceanfront tower's foundation is still being poured, 113 of its 132 units have sold. All buyers placed deposits of 30 percent in cash -- seed money Dezer relied on to gauge interest in the project.

"We wanted to reconfigure and go after a buyer that is not as financially sensitive," said Dezer, whose previous condos started at \$900,000.

After the property rout left the Miami market with more than 25,000 unsold condos in 2008, developers have returned -- this time on different terms. With construction lending tight and memories fresh of speculators who walked away when mortgage financing dried up, builders are funding projects with cash commitments from buyers of as much as 60 percent of the purchase price. The strategy has jump-started luxury towers that are setting price records and luring investors such as Goldman Sachs Group Inc. Chief Executive Officer Lloyd Blankfein and Leon Black, founder of Apollo Global Management LLC.

Wine Storage

Developers are loading units with extras including wraparound balconies with views of the Atlantic Ocean, wine-storage rooms and cigar humidors.

"People started demanding large units, a lot more amenities, and price sort of went out the window," said William P.D. Pierce, a Coldwell Banker broker based in Miami Beach.

Last year, Pierce found the buyer for a penthouse at Ian Schrager's Residences at the Miami Beach Edition. The 16,000 square-foot triplex is under contract for \$34 million, making it the Miami area's highest-priced condo deal.

At least four units on the market are poised to surpass that benchmark. The most expensive -- an unbuilt penthouse at the Mansions at Acqualina on Sunny Isles Beach -- is listed at \$55 million, Pierce said. At all price levels, about 21,430 condos are proposed or under construction in Miami-Dade County, from downtown Miami to the coastal A1A route spanning Sunny Isles to South Beach, according to

CraneSpotters.com, which tracks development in South Florida.

'Real Buyers'

Institutional lenders are providing about \$2.7 billion to finance projects in all of South Florida, compared with \$11 billion during the last construction boom from 2003 to 2010. That suggests that buyer deposits back up much of today's building, according to Peter Zalewski, founder of CraneSpotters.

"It's a good way to measure real buyers," said Carlos Rosso, president of the condo division for the Related Group of Florida, which wrote down \$1 billion in losses in 2008.

Related has 15 Miami-area condo projects under construction, in pre-sales or going through land approvals. All are being funded with buyer deposits of at least 50 percent, he said.

"If we don't have those real buyers, we'd rather not build the building," Rosso said.

Less Risk

With traditional bank financing, the developer takes a huge gamble, said Gary Saul, co-head of the real estate division at law firm Greenberg Traurig LLP's Miami office.

"He's in the ground, he's borrowing money anywhere from two to five years to build these super-sized buildings," said Saul, who worked on offering plans for the Mansions at Acqualina and Faena House on Miami Beach. "And what we saw in the last cycle is that the buyers could not care that they had these contractual obligations to close."

A large cash commitment "lets you sleep at night" because a buyer is less likely to walk away, said Diego Ojeda, vice president of Rilea Group, which revived its Bond 1080 Brickell after shelving the downtown Miami project in 2007. "When the music stops, everything will be real and paid for."

Rilea broke ground on the British-themed project in January after 60 percent of the apartments had been sold to buyers who agreed to put down half of the purchase price. Plans call for a poolside lounge called the Parliament and a lobby with life-size images of famous Britons from Elton John to Twiggy by photographer Terry O'Neill.

City Appeal

Miami, in a state that doesn't collect income tax, ranked above Dubai, Paris and Beijing on a list of "cities that matter" to global high-net-worth investors, according to the 2014 "Wealth Report" by London-based consulting firm Knight Frank LLC. At No. 8 worldwide, Miami was the only U.S. city on the list after New York, which ranked second.

At the Porsche tower, the smallest apartment is about 4,500 square feet. Outdoor terraces spanning the length of the apartment are standard and all but 16 units have a plunge pool. Additional “man cave” space with ocean views is available on the building’s fourth floor, where a collector can display more vehicles.

“You can set up your cars like a museum -- a hangout with cigars and pool tables, for when your wife throws you out of the house and says, ‘Go play with your cars,’” said Dezer, who has a Lamborghini Murcielago and a Bugatti Veyron in his collection of 29 automobiles.

In September, once the tower reached more than \$500 million in pre-sales, Wells Fargo & Co. approved a \$214 million loan to help complete construction, Dezer said.

Tesla Included

In nearby Aventura, Property Markets Group is collecting 60 percent deposits from buyers interested in its 190-unit Echo Aventura. Every unit includes a terrace with an outdoor kitchen and maid’s quarters that are accessible through a separate entrance, said Kevin Maloney, principal of the New York-based firm. Buyers of the 18 penthouses, with prices starting at \$2.6 million, will receive a Tesla electric car.

Alan Faena, an Argentine developer who transformed the derelict Puerto Madero section of Buenos Aires into a residential and entertainment district, is making over a Miami Beach stretch better known for budget hotels. Fifty percent cash deposits are required at his 47-unit Faena House, where Blankfein and Black are among the buyers, two people familiar with the deals said in December.

New Yorkers

The 18-story project, which broke ground in January 2013 and was marketed privately for much of last year, has sold all but three of its units, at an average price of \$3,000 per square foot, said Alicia Goldstein, executive vice president of sales and marketing at Faena Group. Ninety percent of the buyers have a primary residence in New York.

The building is “similar to how we live in Latin America,” said Faena, clad in white with a loose-fitting, button-down shirt and wide-brimmed hat. “It’s all based on big, open terraces, 360-degree movement around your apartment.”

The building is slated to be completed next year. Prices start at \$2.5 million for a 1,300-square-foot one-bedroom unit and reach \$50 million for an 18,000-square-foot penthouse.

The condo tower is part of the \$1 billion Faena District, with plans for two luxury hotels and an arts center designed by architect Rem Koolhaas, on a six-block stretch along Collins Avenue. HSBC Holdings Plc (HSBA) provided a \$300 million loan for Faena House and the renovation of the adjacent Saxony Hotel in January, she said.

Builders are helping to replenish the Miami area's condo supply after cash-paying investors, mostly from South America, snapped up units in bulk starting in 2009 at prices discounted by as much as 75 percent, according to CraneSpotters' Zalewski.

Argentine Model

The glut of empty condos that reached its peak of 25,424 in 2008 had been largely absorbed by the end of 2011, when 8,938 units remained on the market, according to data from the Miami Association of Realtors.

That year, Argentine developers Carlos and Martin Melo decided it was time to start building again. They funded a condo tower in downtown Miami's Edgewater neighborhood entirely with cash deposits, a practice that's popular in their home country, they said in an interview.

Within a month of starting sales, more than 70 percent of the units were under contract to buyers who put down half of the \$250,000-plus purchase price, Carlos Melo said. Melo Group broke ground on the project, 23 Biscayne, in August 2011, hoisting the first construction crane in Miami in three years.

As builders turn to wealthy buyers for funding, much of the region's new construction is out of reach for local residents, said Jack McCabe, CEO of McCabe Research and Consulting, which advises developers and lenders on the South Florida market.

'Money Losers'

With more than 20,000 units on the way, just three years after investors absorbed a similar number, McCabe said he questions if there are enough multimillionaires in the world who want to buy condos in South Florida.

"Miami is a kind of a boom-and-bust market," he said. "When things are good, everyone in the world wants to build here. They eventually realize they're overbuilding. The ones that are finished later in the cycle a lot of times end up as huge money losers."

In Miami-Dade County, at least 1,304 units are listed for re-sale at \$1 million or more, with an average asking price of about \$3.02 million, or \$1,114 a square foot, according to Zalewski.

Buyers seeking a mortgage for new luxury units in Miami have limited options. Mortgage financiers Fannie Mae and Freddie Mac don't allow banks to approve loans for apartments in buildings where more than 30 percent of apartments are owned by investors, said Orest Tomaselli, CEO of National Condo Advisors LLC, a White Plains, New York-based consulting firm.

Downtown Record

Luxury developers sometimes form private partnerships with lenders to assist buyers seeking financing. Those loans almost always require purchasers to have 50 percent equity in the deal, he said.

In downtown Miami, where prices are generally lower than beachfront locales, One Thousand Museum has sold about a third of its 83 units at an average of \$1,200 a square foot. That price is a record for downtown, according to Pierce of Coldwell Banker. All buyers agreed to put down 60 percent. The planned 709-foot (216-meter) tower, designed by British architect Zaha Hadid, has yet to break ground at the site of a BP station that's still peddling gas.

The property, with a rooftop helipad, includes eight almost 10,000-square-foot full-floor units, and three of them have been bought, said Louis Birdman, the tower's co-developer. The most expensive apartment, a 16,000-square-foot duplex penthouse with a private indoor pool, is priced at \$45 million.

Crystal Staircase

On Sunny Isles Beach, a buyer interested in the Mansions at Acqualina's Palazzo D'oro penthouse would have to put down half of the purchase price, listed at \$55 million, said Michael Goldstein, who oversees sales and marketing for the project, built by local developers Jules and Edmond Trump.

Plans for the 17,000-square-foot unit include a Swarovski crystal staircase, sky garden with a water wall, black travertine floors and \$5 million of Fendi Casa furnishings. Swimmers in the glass-bottom pool, jutting 12 feet out from the building, look down onto Collins Avenue 47 stories below.

All but six of the 79 units at the project, slated to be built to its full height this week, are spoken for at prices averaging \$1,750 a square foot, according to Goldstein. By contrast, condos at a sister property next door sold for an average of \$489 a square foot when it was completed in 2006, he said.

More than half the buyers at the Mansions of Acqualina are from Canada and the U.S., including hedge-fund managers and two owners at Manhattan's 15 Central Park West, according to Goldstein. That dual-tower complex holds New York's price record for a completed apartment purchase, at \$88 million.

"We looked at all the most expensive units that have ever been sold" and decided to top them all, Goldstein said. "We built a trophy product where a select few people can buy it."