

Skyrocketing property values

Little to no cash down

Bidding wars drive prices up

Middle class gets the boot

The Real Estate Report

Houses upside down in value. Banks not lending. Foreclosures looming. It's dominated the national headlines for months, but what's the true story when it comes to the real estate market in South Florida? The experts weigh in.

JUST ABOUT EVERY GROWN-UP WHO OWNS PROPERTY IN SOUTH FLORIDA knows how the tale starts. Flashback to 2005, when sellers were king, their property values skyrocketing seemingly by the week, and buyers engaged in bidding wars over those properties. Buyers were in pretty good shape, too; they didn't exactly need to be flush with cash, since banks were practically handing out mortgages to unqualified buyers like promotional toasters to anyone opening a new savings account. Everybody was happy, especially Realtors, who were raking in commissions like there was no tomorrow. Speculators started doing what they do best: speculating. When will the "bubble" burst?

Fast-forward to January 2009. The headlines vary from day to day, but basically say the same thing: Foreclosure filings at an all-time high. (Even as far back as November 1, 2007, MSNBC.com featured a headline story entitled "Foreclosures jump 30 percent in 3rd quarter.") Properties are upside-down—homes that once rose in value by 50 percent over the course of a year are now worth less than what's owed on the mortgage. With unemployment at its highest rate in decades, homeowners are in peril of losing their houses and facing foreclosures at an alarming rate. It's a great time to buy, but banks aren't lending. Where and how will it all shake out? And what is really happening as we enter the second quarter of 2009 in South Florida?

According to Scott Patterson, a Realtor with Esslinger Wooten Maxwell in Aventura, the appeal of the South Florida lifestyle is still attracting buyers, and that's what he

is selling to his clients: a lifestyle. "There are Canadians, many South Americans, Europeans, Asians and Australians who are coming here for the lifestyle. Plus, we're seeing historically low interest rates. It's never been a better time to buy."

That's also because with inventory up, the highest in history, homes are extremely well priced today. So if you have cash to put down—and you do need the cash to put down—you're looking at some very attractive deals. "No seller can complain right now," Patterson says. "They had it good for such a long time, but now it's the buyer's turn. In April 2005, we were down to approximately two months' supply of inventory in both Broward and Miami-Dade counties. That's why properties were increasing by 30 to 40 percent per year or even less, and the sellers were laughing all the way to the bank. Now, that inventory is dropping,

Foreclosures up

Property value down below mortgage value

Unemployment

Credit crisis and restrictions

which is a good sign, but there is still too much inventory today. That means it's becoming more affordable and the median price homes have gone from approximately \$388,000 to below \$200,000. We pushed the middle class out of the market in 2005, and that's not healthy. Even in places like Aventura, we need to have affordable homes so that service people—valets, hotel staff, restaurant workers—can live in the area as well."

Aventura in particular hasn't felt the same level of pain as many other municipalities in South Florida, for several reasons, according to Clifford Schulman, an attorney with Greenberg Traurig and chairman of the board of the Aventura Marketing Council. "For one, there were very few properties left to develop in Aventura because the city is mostly built out, so a slowdown in development of new housing in other parts of Miami-Dade county does not

really affect Aventura," he points out. "Second, I would venture to say that due to the stability of Aventura—i.e., most of the development has been there for years—there are fewer foreclosures. Because of the residents' stability and income being relatively higher, most people are able to make their payments in timely fashion."

Although it's fairly new, Canyon Ranch Living in Miami Beach, a condominium community focused on a lifestyle based on wellness, health and stress management, has closed more than 200 units and is finding sales to be consistent so far this year. "In November and December, it was a little rough," says Eric Sheppard, a principal of Canyon Ranch. "But since January it's been a lot better. We're different because we have a hotel component; people stay there every day. Once they stay there, they get an idea of what our whole lifestyle is about and they feel comfortable. It's a high-end brand and a good product; when you have that, people buy. And these are end users, not investors." Sheppard points out that Canyon Ranch has doctors, nutritionists and physiologists on staff, a major bonus in these trying economic times. "How you cope with stress is by living in an environment that caters to managing it," he says.

THE BANKS & FORECLOSURES

When homeowners do get into a situation where payments become unmanageable, the worst thing they can do is wait. Action should be taken as quickly as possible if there is any chance of remaining in the home or coming up with a solution. Real estate attorney Robert Rosenwasser has been practicing in the field since 1992 and doing foreclosure defense for two years now. "Primarily, we help clients decide what's right for their situation, not just when it comes to foreclosures, but also if they own investment properties that cost more than they're making, if they're living in homes that cost too much but they don't want to lose, or if their house is not as valuable as what's left on the mortgage." He cites three viable options: loan modification,

"Real estate is tangible. You can touch it; you can feel it; it is something you need and can understand."



SCOTT PATTERSON



HAWKS LANDING

which lowers the payment on the loan but not the principal; a short sale, which allows a homeowner to get out of debt because the bank accepts the current market value of the house; and foreclosure defense, which allows the foreclosure action to be disputed for up to two years, thereby keeping the homeowner in his or her home until there is an improvement in his or her financial situation.

But, Rosenwasser notes, it's important to have an experienced attorney working on your behalf to help you determine the best path to take given your specific circumstances. "Homeowners can be negotiating in good faith with the loan modification department of a bank, but in the meantime, the legal department of that bank will be moving forward with foreclosure proceedings, because the two departments are located in different cities and they each don't know what the other is doing," he says. "Unless you have an attorney who works with both sides, you can end up shortchanged. Many people come to us after they have run out of time. It's so easy to defend them from the beginning, when there is a window of opportunity to negotiate. I have an office of 14 people who do nothing but talk to the banks all day. I work with two other attorneys,

and we also have a team of negotiators that has worked with every bank, so we know what each one wants and we can tell each client what they have to do to get approved. There's a lot we can do, and the worst-case scenario is that we keep them in the house for 18 months and the bank can't kick them out."

That's reassuring news for homeowners, but what about buyers who are finding it difficult to get loans in the first place? Randy Rose, a broker with Rose and Rose Realty in North Miami Beach, has been steadily showing properties to buyers in Golden Beach, Sunny Isles Beach and the surrounding areas, and selling as well. Still, he says, "It is tough, because the banks are not lending the money. They're real cautious right now, but we're hoping that within the next six to nine months, they'll start lending again and just be smart about it. There are lots of buyers out there; they just aren't all cash buyers."

Jeff Sanders, a mortgage broker with the Aventura office of Illinois-based First Choice Bank, says that banks are indeed lending now and that there is a range of mortgages available, but that the days of the "liars' loan" are over. "Banks still want to lend money," he says. "However, they

are not going to do it in a careless manner. We are now in a full-disclosure society. The days of stated income and stated assets are over. Lenders want to verify actual income and stability of those they are giving money to. They want to make sure the borrower is not getting in over his head, especially given our nation's current economic condition."

The types of mortgages that individuals are seeking range from your conforming conventional mortgage to FHA mortgages right on up to your \$10,000,000-plus residential mortgage. As long as the individuals qualify, Sanders says, the banks want their business.

Regarding the conventional conforming mortgage, a borrower can purchase a primary residence or a second home with 10 percent down and finance 90 percent, all on one loan, with applicable mortgage insurance. On an FHA mortgage, a borrower can purchase a home with 3.5 percent down and finance 96.5 percent, all on one loan as well, again with mortgage insurance. "We have private wealth management lines that will allow for the wealthy borrower to purchase \$10,000,000-plus homes with as little as 10 percent down," Sanders says. "However, there are specific guidelines that need to be met regarding each scenario."

Which, Scott Patterson says, is how it should be. "It's still easy to find financing for people with a job, cash and a good credit report," he says. "But it is difficult if you don't have at least 10 to 20 percent to put down and a good credit report. Also, a property must appraise in today's market." Patterson contends that real estate is still one of the safest investments anyone can make right now. "Very few trust stocks and bonds or even their banks," he says. "Real estate is tangible. You can touch it; you can feel it; it is something you need and can understand."

FORGING AHEAD

In Broward County, at Hawks Landing in Plantation, a high-end community of custom homes, Betsy Rauch, vice president of Robinette Homes, builder and developer of Hawks Landing, says that they have spec homes in various stages of construction that they plan to sell, and as of March 19th, there were a little more than \$4 million in homes under contract. "We knew there was still always going to be a demand for a quality single-family home with the amenities we offer," Rauch says. "We've had to adjust pricing a little bit, but we're pleased; we're moving ahead."

Peripheral industries are also feeling the effects of the real estate downturn, to an extent. Alice Harry, with K2 Design Group in Bonita Springs, reports that the company saw a slight drop-off in interiors projects for new construction at the start of 2009. However, she says, "We are seeing a resurgence of homeowners wanting to give a facelift to their existing condos and homes. They've run the numbers and discovered that staying put and doing a complete remodel makes more economic sense." Harry adds, "In the past couple of weeks, though, we are beginning to get calls to come out and look at new construction again. We attribute this to the new construction prices dropping to realistic levels." Harry believes 2009 will be "healthy" and says K2 looks forward to expanding in 2010 and beyond.

In the end, while it may be a slow road back, the consensus seems to tilt toward the positive side. As Clifford Schulman says, "If I were to inject a ray of hope about our situation in Florida, I'd tell you that I've lived through probably three or four recessions. Florida always went in last and came out of it first. It's a beautiful place to live, and when it comes to the quality of life and the lifestyle here, others don't take that for granted, even if we do." ■



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