

## Developers target apartments for less expensive condos

By Susan Stabley – South Florida Business Journal  
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Conversions of older and cheaper apartment complexes into condos are feeding the growing appetite for inexpensive housing.

The trend is particularly prevalent in Miami-Dade and Broward counties and a welcome relief for buyers left out of the region's home ownership frenzy by soaring prices.

Three out of every four apartment complexes sold in Miami-Dade County in the last 18 months were intended for conversion to condos, said Rosendo Caveiro, director of Cushman & Wakefield's apartment brokerage services.

More than a third of the units sold in Broward County were slated for conversions, he said.

And about 75 percent to 80 percent of those units will be priced in a more affordable range than the region has been seeing, he said.

"The sweet spot is in one-bedrooms in the \$125,000 to \$145,000 range and two bedrooms in the \$150,000 to \$180,000 range," Caveiro said.

The trend is hot in Kendall, Hialeah and Airport West's Fontainebleau Park area, and is growing in Doral, he said.

"There isn't enough product to satisfy the hunger of this market," Caveiro said.

There has been a proliferation of luxury and upscale units hitting the market, but not inexpensive housing, according to Jack McCabe, president of Boca Raton-based McCabe Research & Consulting.

McCabe advocates the conversion of older, less glitzy apartments into units attainable by the working class.

"The one real sore spot in housing is we just don't have enough affordable residences for people to buy," he said. "It remains an underserved niche."

McCabe and others expect sales of units less than \$200,000 to do well, even if the real estate market takes a downturn.

At least 17,283 units have been taken out of the rental market since 2003, according to McCabe's research.

Recreating older properties

Frequently, developers buy older, well-located properties, gut them and install luxury upgrades. Then, those units hit the market for \$250,000 or more, McCabe said.

That's a risk, he said, because he predicts there will be an oversupply of high-end condos within the next 30 months. New construction and conversions will spill an estimated 25,000 units into the local market. McCabe says it is largely speculators - buyers who intend to flip the property for a profit - who have driven the recent upswing in sales. McCabe estimates that anywhere from 40 percent to 80 percent of buyers are speculators.

"There's a lot of luxury development," said David Luther of Fort Lauderdale-based Marcus & Millichap. "The average person really can't afford those places."

Conversions sell well when geared for the middle market, said Luther, who represents sellers of apartment buildings. Of the 20 transactions he handled during the past year, Luther said about 80 percent of the sales were to condo converters.

He cites a recent conversion of a Coral Springs apartment complex with 88 two-bedroom units as an example of this trend.

The purchase price was \$85,000 a unit and the developer spent up to \$6,000 on upgrades in each unit, Luther said. The developer then sold the newly dressed-up units for about \$135,000 to \$160,000 each.

#### TRENDING

##### TRAVEL & TOURISM

Hard Rock ceremony marks near completion of \$1.5B hotel

The Seminole Hard Rock Hotel and Casino in Hollywood tops off its new guitar-shaped hotel on July 11.

##### COMMERCIAL REAL ESTATE

Panorama Tower opens as Florida's tallest building (photos)

The eighty-five story Panorama Tower is the tallest residential building on the East Coast, south of New York City.

#### COMING EVENT

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"He sold these out within two months after closing the deal," Luther said.

An apartment building in Pompano Beach with boat docks sold last November for \$110,000 a unit, and then was flipped to another developer for \$145,000 a unit. The new owner plans to convert the units to condos and sell them for \$225,000 to \$235,000 a unit, Luther said.

In South Beach, converters are selling efficiencies and studio rentals for \$160,000 to \$170,000, he said.

The conversion pace has picked up "somewhat aggressively," driving up the value of condos while making the rental market more competitive, Luther said.

"A company could go in and buy a complex for \$70,000 to \$100,000 a unit and sell at \$140,000 to \$150,000 and make a profit. The problem we have now is that the average median price of a house is over \$300,000," McCabe said. "For a teacher or a police officer, he or she may be part of a combined income of only \$60,000 to \$70,000."

McCabe said The Belmont in North Lauderdale is one success story in terms of affordable conversions.

Interested buyers were in line as early as 4 a.m. on the opening sales day, gobbling up 100 units in six hours. Prices were \$100,000 to \$200,000.

Afterwards, EB Developers of Boca Raton still had more than 1,300 people on a waiting list for the next phase of 202 units.

'Excellent success'

GREC Conversions, a partnership with General Real Estate Corp. of Miami, is also positioning itself to serve this market.

"We've had excellent success. Our sales have been very strong," GREC Managing Partner Miguel Poyastro said. "We don't see any signs of a major slowdown."

GREC has completed nine conversions and is finishing three more, all in Miami-Dade. It has closed deals on 2,238 units and has an inventory of 2,000 more to sell.

A contract is pending for the company's first project in southwest Broward.

Poyastro described his buyers as "middle-class working people." They are often first-time homebuyers, who are single or young, married and with small children, he said. GREC typically prices one-bedroom apartments from \$117,000 to \$150,000 and two-bedroom units from \$135,000 to \$195,000, he said.

"That's our niche," he said. "If you have both spouses working, making \$13 to \$14 an hour, they can buy an apartment from me."

Poyastro said that 10 months ago, a Kendall project was the only conversion in that area.

Today, there are at least seven more nearby, four of them the handiwork of Miami-based RB-GEM.

On Oct. 27, RB-GEM closed on a \$10.15 million contract to buy the 90-unit Poinciana Apartments at 600 N.W. 32nd Place. Two days later, the company paid \$32 million for the 375-unit Water View Apartments at 14900 S.W. 82nd Terrace.

Poinciana's purchase price breaks down to \$112,777 a unit. The company plans to resell them at asking prices of \$139,900 to \$150,900.

The average price for a unit at Water View was \$85,333. The apartments will soon have asking prices of \$117,800 to \$179,000.

RB-GEM, led by Rolando Benitez and Luis Alonso, also bought the 264-unit Park Hill Apartments for \$27.8 million in August. In June, it bought the 200-unit Sherwood Cove Apartments for \$20 million.

All four deals were handled by James F. Perry & Co. of Miami, which secured loans from Ocean Bank for RB-GEM.

James F. Perry & Co. has handled more than \$200 million in loans for conversion projects in the past few years, Senior VP Michael Perry said.

New construction has been hit by soaring prices on critical materials such as concrete, drywall and steel. Work can begin on a construction loan six to nine months in advance, but by the time the developer sits down with a general contractor, those budgets may be unrealistic, he said.

"There is a lot of product on the market and that's the concern," Perry said. "If I were to place money at risk, I'd rather go with conversion than new construction."

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