

# *South Florida* **Sun-Sentinel**

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## **Profit and peril: Is S. Florida's housing market ready to stall?**

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Everywhere you go these days, it seems people are talking about the fortunes being made in South Florida real estate.

But is it too late to jump on the bandwagon?

"I'm getting my hair cut last week, and the owner tells me she and her husband just bought two condo conversions in Boynton Beach by giving them \$50,000. Now she's frightened and wants to know if I think she'll be able to sell them in a year or so and make a killing," said Anthony Trella, president of Meranth Co., a Deerfield Beach consultant for developers, builders and investors. "I'm thinking there aren't enough buyers and renters to go around to feed this monstrosity we're creating."

On the other hand, Jeff Merlin, 57, a car salesman turned real estate investor from Coconut Creek, plans to buy two townhouses in Wellington with the \$71,000 profit he just made on the sale of a Coral Springs townhouse he purchased last year. "I don't believe" there's a housing bubble, he said.

In the same way the stock market's bull run in the late 1990s seduced investors, South Florida's sizzling housing market of the past five years has created a feeding frenzy, pushing prices to a record median of \$300,000. There is such demand for new homes that buyers often must enter a lottery for a chance to purchase. Resales move quickly, frequently with multiple offers on them.

To get in the game, buyers say they are cashing in retirement funds, selling stock and using their primary homes as sources of cash through home equity loans or refinancing. They're also turning to interest-only and adjustable rate mortgage loans, which offer low initial payments.

If you're thinking of taking the plunge, consider this: If you buy with the intention of holding, chances are your adjustable-rate mortgage, homeowners insurance and property taxes will go up.

If you plan to resell quickly, economists say, higher housing costs could shrink the pool of potential buyers and lead to a slight drop in prices, or smaller increases. Or you might have to hold on longer than you wanted.

If you plan to rent out a unit, you may have stiff competition finding a tenant. Thousands of new condos are being built in Miami-Dade, Broward and Palm Beach counties, and speculators who can't sell their units may flood the rental market.

If you do find a tenant, the rent might not cover your expenses. Say you buy a \$300,000 home and put down 20 percent. If you take out a five-year, interest-only loan, your monthly payments would be about \$1,675 with taxes and insurance.

But according to McCabe Research and Consulting in Deerfield Beach, monthly rents average only \$948 in Miami-Dade, \$1,003 in Broward and \$1,059 in Palm Beach County.

"People buying have to be concerned about their monthly costs going up, and if they can't at some point sell the place or lease it, can they cover their expenses by letting it sit empty for six months or longer?" asked Scott M. Kahan, a certified financial planner in New York who specializes in housing.

Burton E. Brenn, 67, a retired carpenter in Boynton Beach, got into real estate in January and has since bought and

fixed up four rundown houses in Lantana. He now rents them out.

Investing comes with risks, he said, so "you need to do your homework, figure out what a home can rent for. ... If you put the time and effort into anything, you can accomplish almost anything."

Knowing your market is crucial. Right now, real estate experts fear an oversupply of luxury condos, particularly in Miami-Dade, will drag down other sectors of the market throughout the region.

"Everyone is watching the Brickell [Avenue] market, and it's inevitable there will be a domino effect," said Marcia Snyder, executive vice president of Fort Lauderdale-based BankAtlantic.

Real estate consultants estimate investors make up about 70 percent of the new condo buyers in Miami. In Broward and Palm Beach counties, they make up between 20 percent and 40 percent of buyers.

"The market for condos has become flooded," said Orlando-area economist Hank Fishkind, who thinks the region's housing market has peaked already. "If you're an investor, you have probably missed the window by a year or so."

He also cautioned against investing in apartments being converted to condos, saying they offer less chance of profit as they compete with newer ones being built.

The potential oversupply of condos has some investors forming "vulture funds" to capitalize on looming bargains as interest rates increase and speculators can't sell, rent or afford to hold their units.

David Dweck, a real estate agent with Re/Max Advantage Plus in Boca Raton, said he thinks the days of quick "megaprofits" may be history, but there are still some deals to be made in all price ranges -- just not as many as before.

Still, Dweck, founder of the Boca Real Estate Investment Club, said he expects a flood of foreclosures by 2007 because of buyers who overextended themselves. In South Florida, about 40 percent of mortgages issued at the end of last year were adjustable rate, or ARMS, economists said, which could spell trouble when interest rates, and therefore monthly payments, rise.

Gary Mozda, 21, a Lynn University senior from Boca Raton, has delayed plans to join the Air Force so he can study the housing market and determine whether to make his first purchase.

South Florida's "real estate market is very hot right now. But we're in some pretty unclear economic conditions," he said. "I want to make sure I have thorough knowledge" before making any deals.

Historically, the housing market has ups and downs. In the 1980s and early 1990s, developers overbuilt South Florida's multifamily market. Entire projects went into foreclosure, and most individual sellers lost money, as well.

Today, South Florida's housing market is outperforming the national market with double-digit appreciation, in part because of high demand from immigrants and retiring Baby Boomers. But some economists say the market can't continue at this pace. They cite the bloated federal deficit, higher gas costs, signs of a weakening economy and overbuilding as reasons for less appreciation.

Jason D. Brown, 26, is undeterred. He quit his \$30,000-a-year job as a waiter after earning about \$80,000 last year doing four real estate deals part time.

Now, the Sunrise resident spends six days a week searching for homes to purchase by knocking on doors in Sunrise, Lauderhill, Tamarac and Margate. Once he contracts to buy a home, he usually sells it to a network of outside investors.

So far this year, Brown, earned about \$30,000.

"I don't plan on going back to working a regular job," he said. "I'm doing great."