

REAL ESTATE BUBBLE SERIES

And the condos keep on coming

There is one planned condo unit for every 19 people in Sarasota. But does that constitute a glut?

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SARASOTA -- Miami is often held out as the most condominium-crazed town in the nation. But looking at it in proportion, Sarasota is even crazier.

Developers have plans for 25,000 units in Miami's city center, or one for every 24 of its 600,000 residents. Sarasota -- population 55,000 -- gets you one planned condo for every 19.

Understandably, the big question on the minds of market players and observers is whether Sarasota's torrid condo construction will eclipse demand and drive the city's upward-spiraling prices back to earth. It is another aspect of the much broader debate about whether Southwest Florida and the nation are in a real estate bubble.

The fact that real estate agents have been having trouble selling Sarasota condos priced at \$1 million or more for some time is a good indication that the high-end market is overbuilt.

Condos priced from \$400,000 to \$800,000 have been flying off the shelf, but real estate agents warn that sector might cool next year when construction is completed on nearly 1,000 new units.

No one knows precisely how many of these condos have been bought by investors, but if the level of speculation is high, and a large percentage of those units find their way back onto the market, the natural economic give-and-take could depress prices.

Still, the general consensus among buyers, real estate agents and analysts is that the Sarasota condo market is in far better shape than those in other places across the country.

Just ask Paul Yoder.

With his wife, Mandy, Yoder paid more than \$1 million for two condos in the freshly constructed Courthouse Centre on Main Street. The couple are now living in one and are about to sell the other at a profit.

The Yoders, who have accumulated eight other properties in Sarasota County during the past four years, aren't stopping there. They're so bullish about downtown that they're looking to buy two or three more condos before year's end.

"The boom in downtown Sarasota is just beginning," Yoder maintains. "The longer it takes for people to drive from one side of the county to the other, the more people will

want to live in the city center."

They aren't the only optimists.

Investors have been snapping up condos during the pre-construction phase and bidding up prices by flipping the properties as construction proceeds.

Two-bedroom units at The Plaza at Five Points, for example, started selling for around \$650,000. They're now being resold for as much as \$760,000, a 17 percent increase, when the certificates of occupancy haven't been issued yet.

At the same time, condo fever is encouraging more developers to enter the city. About 800 units have come on line since 2003, and more than 2,900 are either planned or under construction.

Even real estate consultant Jack McCabe, who is generally pessimistic about the condo market, has encouraging words to say about Sarasota.

"Percentagewise, Sarasota may have more condos per capita than Southeast Florida, but the city has garnered tremendous positive publicity, resulting in one of the highest appreciation rates of any market in the country," he said.

"There's no doubt a lot of flipping has been going on, but eventually the buildings will get filled."

Past and present booms

More than 600 condo units were added to the northern Sarasota County market last year. That's two or three times more than in any single year since 1990.

But the level of construction in 2004 pales in comparison to the 1970s and 1980s.

In 1973, 1,758 units were completed, and 1,568 were added in 1981.

Both those building booms ended in a bust as sharply higher oil prices and rising interest rates put an end to speculative fever.

"Developers back then had the same 'build-it-and-they-will-come philosophy,'" said McCabe, who runs McCabe Research in Deerfield Beach.

"There was easy credit and heavy speculator involvement. When interest rates jumped, people stopped buying, and 20 of the largest home builders in the country went under."

The current boom in Sarasota began with the construction of Sarabande and Tessera in the late 1990s. The development of those towers proved that local millionaires would be willing to abandon beach homes for city life.

But it wasn't until Sarasota approved plans for the Ritz-Carlton hotel, the Tower Residences and Beau Ciel that the city's condo market took off, attracting a much broader range of buyers.

"The Ritz put Sarasota on the map in certain circles," said Kevin Daves, one of the Ritz developers. "I would say about 75 percent of the ultimate buyers came from outside the area."

Despite the fact that most of the units to hit the market had \$1 million-plus price tags, they were gobbled up during the pre-construction phase.

Many buyers were speculators who put the units back on the market as soon . . . construction was completed.

"Forty units at Ritz and Beau Ciel came on at the same time, and the market got saturated," said Rod Phillips, a real estate agent with Waterside Realty.

Most people investing in high-end properties were hoping to flip them before construction was complete, added Phillips, a development partner in the Kanaya and Majestic Bay condo projects.

"A lot of people weren't happy when they had to hold their purchases."

One of those high-end investors is Gary Wood, a financial planner with Sarasota's Wood Asset Management.

Wood bought two condos at the Ritz-Carlton, another in the Tower Residences and a fourth at the Beach Residences. He was able to sell the condos in the hotel for a small profit, but Wood has had to hold on to the other two properties longer than expected.

He is beginning to question his judgment.

"The units came out at a heady time and attracted a lot of speculators," Wood said. "Most hoped they would be able to flip before closing and not have to come up with down payments."

Another big buyer was Donald J. Carter, a multimillionaire real estate investor and former owner of the Dallas Mavericks NBA basketball franchise. He remains the biggest single investor in Ritz properties.

Carter paid nearly \$39 million for 17 units in the Tower Residences. So far, he has sold eight for a total of \$21 million, making about \$5 million in profits on the transactions.

Soft top

Most real estate agents acknowledge that the upper end of Sarasota's condo market remains soft.

The number of \$1 million-plus condos far exceeds demand, and every development is struggling to sell penthouse units.

Still, real estate agents say market conditions are improving. A report by Michael Saunders & Co. shows that 314 units priced at more than \$1 million were listed on the Sarasota County market between the end of July 2004 and the end of July 2005. A total of 157, or half, sold.

During the same 12-month period a year earlier, there were 353 condos listed in the same price range, and only 108, or 30.5 percent of them, sold.

Given the more rapid pace of sales in 2005, the Saunders report concludes that it would take 5.5 months to work off the existing supply priced from \$1 million to \$2 million, compared to 11.8 months at last year's supply and pace. Similarly, it would take 14 months to sell all the units priced from \$2 million to \$3 million, . . . mpared to 25.9 months the year before.

"Inventory is moving faster at the high end," said Linda Page, a real estate agent with Prudential Palms Realty who also invests in downtown property. "Beau Ciel had 14 sales of more than \$1 million in 12 months. That's fabulous."

Yoder, the speculator who bought two units at the Courthouse Centre, is now looking to buy a unit at the Ritz. In his view, the condos represent a tremendous value relative to others on the market.

"The lower end of the market has boomed bizarrely," Yoder said. "That's made condos of \$1 million and up more attractive. The value is so much greater that you're bound to see more interest in them in the future."

Feeding frenzy

Only 92 units priced above \$1 million are under construction in Sarasota right now, leaving real estate agents expecting that demand will catch up with supply before the next wave of high-priced condos is built.

It's the lower end of the market that is now causing more concern, with nearly 1,000 units priced under \$1 million about to be completed.

Those units, in projects such as Rivo, One Hundred Central, The Plaza at Five Points, San Marco, 1350 Main and Broadway Promenade, have been selling like crazy in the pre-construction and construction phases.

Tony Polito, who regularly polls Sarasota condo sales agents, estimates that only 20

percent of the city's condos have been bought by speculators. That's compared to as much as 75 percent in Southeast Florida.

"The Sarasota market appears to be well balanced," said Polito, the director of Metrostudy's Tampa division. "But we won't really know until some of the big projects are finished and units come back on the market."

Some local real estate agents, however, believe the percentage of speculators in Sarasota is much higher. They should know because many of them are doing the speculating.

"Realtors are the first ones to see a project," said Steve Ivan, a Coldwell Banker real estate agent. "If a good one comes along and we believe in it, we'd be foolish not to practice what we preach."

Ivan would not venture to guess the level of speculation in the Sarasota condo market, but fellow Coldwell agent Barbara Ackerman, who sells dozens of ultra-high-end homes every year, believes speculation is rampant.

"I would say a large percentage of buyers are speculators and will never live in the units," Ackerman said. "I think condos in the . . . 00,000-to-\$700,000 range are even more overbuilt than the high end."

Marc Rasmussen, a Re/Max agent, worries that prices of those units have been bid up so high by speculators in the pre-construction phase that potential long-term buyers will be limited.

"Demand for downtown property is still pretty hot, but it's getting very expensive. Even though there are plenty of people coming here with money, it will take a while before all the units get absorbed," Rasmussen said.

Sales of condos under \$1 million in Sarasota County are already slowing, the Michael Saunders report shows.

Of the 2,207 condos listed during the 12 months ended July 31, 1,669, or 76 percent, sold. That compares with 1,869 sales, or 90 percent of listings, the year before.

If there's a downturn in the economy, the market could get ugly.

"There are a lot of weak hands in the game," said Wood, the Ritz speculator. "Everyone has been raiding their piggy banks to come up with deposits, thinking they can flip before closing. If they can't, they'll have to come up with \$700,000 fast, and some won't have that much money in their piggy banks. That will create problems in the market."

Some observers are saying the looming downturn is what caused Ersa Grae Corp. to pull up short on plans to develop 111 units in two towers between Palm and Pineapple avenues.

Ersa Grae project manager Andy Dorr says there has been no change in plans.

"We are trying very hard to convince the city to let us move forward on both buildings. At the same time, we're actively looking for additional building sites," he said.

The Sarasota condo market will remain strong for years to come, said Dorr, whose company developed The Plaza at Five Points.

"We don't have nearly enough residences to accommodate the 5 million to 7 million people expected to move to Florida over the next 10 years. We're not building fast enough."

Joe Hembree, who recently announced two condo projects with a total of 115 units in downtown Sarasota, said he feels the same way.

"As long as we have this volume of people moving here, we'll be fine," Hembree said. "I think there's pent-up demand to live in Sarasota."

Still, Hembree wants to hurry and beat the competition to market. He's hoping to complete at least one of his towers by early 2007.

Yoder, who's still looking for more units to buy in the downtown area, scoffs at any notion of a bubble, saying . . . that the future of Sarasota is brighter than most people believe.

He is confident the condo craze and the influx of new residents is going to make the city a much more dynamic place.

"Sarasota just won't be Sarasota in five years."