

REAL ESTATE



LUCRATIVE: William Holly, who owns 18 apartment buildings, sold out his first conversion, Keystone Bay in North Miami, at prices from \$180,000 to \$280,000. Staff photo/Angel Valentin

RENTAL SQUEEZE

Developers profit from condo conversions, but at a high price to South Florida's apartment dwellers

BY ROBYN A. FRIEDMAN
SPECIAL CORRESPONDENT

Real estate analysts are comparing it to a "land grab" or a "shark feeding frenzy."

South Florida apartment buildings, where rents had stagnated and occupancy rates had sagged for the past few years, are being snapped up and finding new life—as condominiums.

Condo converters like William Holly, a commercial real estate broker who owns 18 apartment buildings in Florida, are taking advantage of a sizzling real estate market. He plans to convert three apartment complexes in North Miami and Miami that he recently bought.

"We saw it as an opportunity to limit our

risk and see a good upside potential," Holly said.

Swarms of condo converters have entered the South Florida market. For developers, the high costs of land and construction make it easier to buy and convert than build from the ground up. But the escalating number of condo conversions is depleting South Florida's rental stock, making it more difficult for low- and middle-income tenants to find affordable rental units.

In Broward County, 47 percent of all apartment building sales in 2004 were for conversions, according to **Cushman & Wakefield of Florida Inc.** Palm Beach County was close be-

MAKING MORE CONDOS

The number of apartments being converted to condominium units in South Florida has more than quadrupled since 2001. Statistics are for apartment complexes of at least 100 units that are not in an affordable housing program. Figures for 2005 are through March 15.

Year	Palm Beach	Broward	Miami-Dade	Total
2005	2,663	2,291	2,450	7,404
2004	4,857	4,873	6,624	16,354
2003	1,890	2,432	2,938	7,260
2002	1,088	1,844	2,094	5,026
2001	831	1,241	1,520	3,592

SOURCE: MCCABER RESEARCH & CONSULTING LLC

■ CONVERSION CONTINUES ON 12E

12E SUNDAY, MARCH 20, 2005 • C

BUSINESS

sun-sentinel.com • SOUTH FLORIDA SUN-SENTINEL

Condo developers benefit, but renters feel squeeze

CONVERSION

CONTINUED FROM PAGE 1E

hind, at 43 percent, and Miami-Dade County much higher, at 82 percent.

There have been plenty of buyers for the units. Holly has sold out his first conversion, Keystone Bay in North Miami, at prices from \$180,000 to \$280,000, and has more than 400 people on a waiting list to buy the 200 units at his next project.

The competition among converters has made bidding wars commonplace, and buildings often sell for more than what they were listed for sale. Apartment building prices are surging. The price paid per South Florida apartment unit in 2004 averaged \$124,507, up 45 percent, according to **Cushman & Wakefield of Florida Inc.**

"The competition has increased dramatically," said Jack McCabe, a Deerfield Beach-based apartment industry analyst. He expects as many as 17,000 apartment units to be converted to condominiums in the tri-county area this year, more than double the figure of two years ago. "It's like a land grab, with local guys, national developers and international developers all vying for properties."

In fiscal year 2002, Florida developers filed 45 notices with the state indicating they intended to convert apartment buildings to condominiums. That ballooned to 232 notices by fiscal year 2004, and already nearly that many notices have been filed for just the first half of this fiscal year.

MAKING CONVERTS

Experts say a number of factors are driving the conversion frenzy. For one, with interest rates still near historical lows, tenants find it easier to afford mortgages to own their own homes. And condo converters benefit too, from the lower cost of capital.

Also, as vacant land dwindles in South Florida, developers are looking for new ways to make money other than new construction. Rising land values and construction costs also have put a damper on many new construction projects. Converting an apartment complex often costs less than building from the ground up.

"A conversion might be a building that was built three years ago on land that was purchased five years ago," said Louis Birdman, CEO of **SunVest Communities LC**, a Hollywood firm that has converted more than 8,000 apartment units in Florida. "That's less expensive than if you went out and bought a piece of land today to build, whether it's a one-story building or a 50-story building."

Developers also know they can turn around a conversion faster. It takes three to four years for a developer to see the profits from a newly constructed condominium—from signing the contract to buy the land to the last closing, said Frank Schnidman, a senior fellow at FAU's Center for Urban and Environmental Solutions. With conversions, however, a developer can be in and out within a year.

"Conversions give us a great string of revenue growth faster than ground-up development," said Jim Cauley, president of **Tarragon South Development Corp.** in Fort Lauderdale, the converter of several South Florida apartment complexes. "We have faster access to units to sell with conversions because it's existing product."

RENTAL MARKET TIGHTENS

The intense competition for suitable buildings has made converters less selective. At one time, newer, upscale properties east of Interstate 95 were all the rage. Now, converters are looking west of I-95, at older projects and apartment complexes with unfavorable financing. Some buyers are even offering to pay prepayment penalties on the seller's mortgage to get deals done.

"There is no place we won't look for a property," Birdman said. "Right now we're even con-

tracting to buy projects that are still being built."

The rental market is starting to tighten because of the wave of conversions.

"It's a great time to be an apartment owner in South Florida," said David Santee, executive vice president of **Equity Residential**, a Chicago-based firm that owns more than 11,000 apartment units in South Florida. As the supply of rentals shrinks, "there's more stability in occupancy levels and rental

rates."

After years of flat rent growth and increasing vacancy rates, the apartment industry is recovering, according to the National Multi Housing Council. At year-end 2004, South Florida rental rates averaged \$962 per month, an increase of 4.1 percent from the year before, according to **Cushman & Wakefield**.

Landlords are not making as many concessions to new renters, such as tossing in a free month's rent, and occupancy

rates have increased slightly in Miami-Dade and Palm Beach counties, while Broward has been holding steady.

Those trends are not so great for tenants who can't afford to buy condominiums. "We are seeing an affordability problem in rental housing because of the decreasing supply," said FAU's Schnidman.

Most experts say the current conversion boom won't last. "Everything is cyclical, and I don't think too many folks think this

will go on forever," said Rosendo Caveiro, a director in the apartment brokerage services group at **Cushman & Wakefield** in Miami. "We expect interest rates to increase at some point, and when they hit a certain threshold, some folks will get stuck holding the bag."

Robyn A. Friedman is a freelance writer. She can be reached at rafriedman@att.net.

J.C. WHITE
QUALITY OFFICE FURNITURE
www.jcwhite.com

Perpetual
20,000 Sq. Ft. Showroom Desks
Lowest Prices

HON
Showroom & Offices at:
1361 Commerce Pkwy., Miramar, FL 33025
Broward: 954-499-6677
Miami: 305-477-5817