

Luxury Homes - 29 October 2007

Luxury homes skirt U.S. mortgage meltdown

MIAMI – Oct. 29, 2007 – All is not disaster in Florida, U.S.A.

Thousands of houses for sale are sitting empty across the southernmost state, and there have already been auctions of hundreds of foreclosed homes.

But, in a situation typical of wealthy enclaves across the United States, the glistening waterfront glass towers on Miami Beach, the sprawling estates of Palm Beach and the clustered mansions in Naples continue to sell.

Indeed, Florida homes and condos with price tags of \$1 million or more are still changing hands at roughly the same price, albeit not as briskly as they did a year ago, according to real estate data. And the rate of foreclosure for lower-income homes is far greater than for homes over \$1 million.

"The very, very high end of the markets in communities such as the Bay area, Los Angeles, Manhattan, and Miami and to a lesser degree Chicago, Seattle and Washington that have global appeal have held up much better the rest of the housing market," said Mark Zandi, the chief economist at Moody's Economy.com. "The top end runs on its own dynamic that tends to be more immune to the ups and downs of the global economy. A recession would certainly not help the high end but it would not undermine it. And much of their buying is done with cash and is not affected by the global financial turmoil and its impact on the availability of mortgage."

The Florida market continues to appeal to wealthy retirees and to second-home buyers, particularly from the Northeastern United States. The state's temperate climate and low taxes have also for years drawn well-heeled foreign buyers, which have helped buoy the market's upper end.

Ten percent of all foreign buyers bought homes for \$1 million or more, according to the National Association of Realtors' (NAR) study of homebuyers in Florida in 2006. The study also showed that of the foreign buyers 21 percent are from Britain. The next major group is from Latin America: principally Venezuela - 11 percent, followed by Colombia at 4 percent.

On Fisher Island in Miami Beach, a tiny private island that has its own golf course, tennis courts and spa, half the island's residents are French, Russian and South American and the balance are U.S. citizens.

The market's higher end remains healthy. In the Miami area, the median price for condos over \$1 million is still holding steady at \$1.5 million so far this year, according to the Realtor Association of Greater Miami and the Beaches. And the median price for single-family homes has in fact risen to \$1.51 million from \$1.46 million.

Farther north on the exclusive island of Palm Beach, the median prices for both condominiums and single family homes have risen this year, according to data compiled by the Palm Beach real estate lawyer Leslie Evans.

In Naples, on Florida's west coast, at the very high end of the market, over \$3 million, there have already been about 40 sales so far this year, compared to 46 sales for all of 2006, according to Tom Campbell, sales associate at Premier Properties.

But there are serious signs that even those markets are cooling. While median prices have held up, the number of units sold has dropped significantly in both markets.

In the greater Miami Beach area, for example, the number of condos and single-family homes sold through Oct. 3 fell 17.8 percent to 958 units from 1,166 units a year earlier. In Palm Beach the number of units sold has fallen 14.5 percent to 223 properties.

"Prices are not coming down, but there is more inventory in all price ranges," said Deborah Boza-Valledor, the chief operating officer for the Realtor Association of Greater Miami and the Beaches. The high price points "are clustered in certain areas," she said. "They are waterfront properties, they are exclusive and people are willing to pay the price for those types of homes on Alton Road and Collins Avenue, for example. Buyers have a lot more choice, but sellers are not dropping their prices. They are less willing to take a discount and the buyers will pay for what they want."

Behind the rosy closing price figures, there are some other signs of weakness. List prices do not tell the whole story. Not only are there more homes on the market, but sellers "are making concessions," Boza-Valledor said. "They will offer a year's worth of paid maintenance fees to the buyer - or they will pay for the parking space or they will throw in country club fees that might be part of the expense of buying a home in a gated community."

In Aventura, north of Miami Beach, there are condos that have the golf course and equity arrangements in the golf club. And on a \$2 million condo, the maintenance can be \$1,500 a month."

Those savings may not be enormous, but just a year ago, with buyers bidding against one another for properties, such deals would have been unusual. And in another sign that the feeding frenzy has slowed - if not ground to a halt, the highest price paid for a Miami- area condo last year was \$16.9 million. So far this year it is \$13.9 million.

Kevin Thomlison, a broker with EWM Realtors, an affiliate of Christie's, estimates that inventories are up by one-third and he thinks sellers are starting to get more realistic. "They are coming off their 2005 prices and are more in today's market," Thomlison said. "Two years ago, if you sold something at \$3.5 million, the next listing in that building came at \$4.2 million. Now it is more reasonable. It would come at \$3.6 million."

More broadly across the state, the president of Coldwell Banker, Clark Toole III, said his firm had sold 1,222 condos worth at least \$1 million through the end of September, and the average sales price is off by less than half of 1 percent from last year.

Eager foreigners, checkbooks in hand, are still showing up, according to the National Association of Realtors. Foreign buyers have buoyed the Florida market and they are more likely to be cash buyers than are Americans, according to Toole, who said that 29 percent of his firm's foreign buyers paid cash, while only 8 percent of U.S. buyers did.

The picture while relatively rosy, is somewhat uneven. On Fisher Island, Lars Eckdahl, an agent who has worked on the island for 13 years, said that business has slowed drastically.

On the island where tennis player Andre Agassi visits and Oprah Winfrey once owned a home, 96 of the island's 700 units are for sale. At one point the offerings were down to 39 units.

"The market has changed dramatically," Eckdahl said. "I didn't think it would affect us so much at Fisher Island with the dollar so weak and the euro so strong."

One problem may be that cost of living on the island has risen substantially because of island dues and other expenses, and in a market where buyers have more choice, they may be getting pickier.

Meanwhile the schizophrenia of a two-tier housing market where foreclosures are at record rates but the top end still appears to be healthy is particularly evident in Palm Beach County. The island of Palm Beach itself has only 8,000 units and Evans said that his research shows 80 percent of transactions are for cash.

But just across the bridge in the somewhat less exclusive West Palm Beach, "there are buildings with 200 units and 80 of them are for sale and others where the building is nearing complete and sales will never close."

Florida's richer realms seem relatively impervious. The question is: Will it last?

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