

MIAMI TODAY

WEEK OF THURSDAY, APRIL 12, 2007

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South Florida isn't ready for (sub) prime time in housing market

Feb. 27 and March 13 were not happy days. The Dow Jones Industrial Average plummeted 416 points and 240 points, respectively – the first being the index' biggest fall in more than five years triggered by rapid deterioration of the subprime mortgage-lending market. Clearly, something is rotten in the state of real estate, and the nation – especially South Florida – is in for a rough ride.



Jerry Haar

Nationwide, housing activity is 28.5% down from a year ago and headed downward. The home foreclosure rate jumped 42% from 2005 to 2006. Nearly 1.5 million people could lose their homes and more than 100,000 housing and industry-related jobs could be lost.

As South Floridians know, from 2001 to 2006, real estate was not just hot but red-hot. A combination of low rates of interest, inflation and mortgages spurred unprecedented home financing and construction. Lending institutions jumped in with adjustable rate-mortgages – a good bet, it would seem, because low interest rates and rapidly rising home values made these mortgages seem like a safe deal – and home equity loans to mortgages for the subprime market.

The latter category has been the catalyst for the meltdown. Subprime borrowers, commonly referred to as NINJAS (No Income, No Jobs or Assets), were able to secure 100% financing of a home's value without having to show a tax return or other evidence of income. Irresponsible lenders, like drug dealers in a schoolyard pushing free crack to get kids hooked, zeroed in on the subprime market and hoodwinked borrowers with no or low upfront fees and hidden balloon-type mortgage instruments as well.

The Writer

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Over 100 subprime mortgage companies could go under this year. Lenders including New Century Financial, Accredited Home Lenders Holding, GM Acceptance and Ameriquest Mortgage have filed for bankruptcy or are close to collapse. There is even a Web site that tracks the carnage in the subprime market – www.lenderimplode.com.

Investment banks that bought and repackaged these higher-yield "securities" also have taken a bath. This includes big players such as Morgan Stanley and Deutsche Bank.

What about South Florida? The rapid and relentless deflation of the real estate bubble has affected homeowners and developers here big time. The entire state is one of the worst victims, and it is especially bad in the tri-county area.

Past-due mortgage payments were up nearly 5% in the last three months of 2006, and foreclosures tripled in Broward and Miami-Dade in January and February. Especially troublesome is the fact that 23% of mortgage loans in Miami-Dade are subprime.

With our spendthrift and speculative mentality, homeowners have used their houses as credit cards, taking out second mortgages not to pay down interest and principal but to buy stuff of principal interest (cars, vacation packages). With existing-home prices expected to decline by possibly 6% in the tri-county area, according to Moody's, this reckless behavior could prove very costly.

Combine this with speculators and flippers (70% to 80% of condo buyers) who have taken advantage of cheap money to

play the condo market, flipping and re-flipping units quickly in a game of hot potato, each player hoping not to get caught holding the bag. (Many do, and contract cancellation rates are up 40%.)

Developers, each believing their projects would be immune from a downturn, have pulled the plug on some of Miami's most anticipated condo developments – such as Onyx 2 and Ice. City officials say 15 condo projects, representing nearly 1,900 units, have been pulled from the waning market. The city of Miami alone has more than 77,000 units in nearly 300 projects under construction or in planning. Some analysts estimate five to 10 years before prices bottom out and rebound.

The nationwide real estate slump will probably produce a contagion effect on the retail sector in South Florida as homeowners tighten belts. Add to the excess condo inventory the high property taxes and insurance rates, transportation gridlock, fear of hurricanes and competition from North Carolina and Arizona for retirees, and the picture is pretty grim.

Nevertheless, there are silver linings. If one has bought or seeks to purchase a home or condo in an excellent location, holds a manageable mortgage, intends to live in the dwelling as a permanent residence and maintains a good job – no problem. Additionally, the salutary effect of our traffic mess is that more and more people who work downtown will want to move there (home to most of the condo development) to avoid commuting.

Europeans, including a growing number of Euroboomers seeking a second home, will continue to come here, as will Latin American families jittery about political developments in Venezuela, Ecuador, Bolivia and Nicaragua as well as those whose strong economies (Colombia, Panama, Brazil) have afforded

them the luxury of a second or third home in the US.

Finally, the national real estate crisis has garnered the attention of Congress. Christopher Dodd, chairman of the Senate Banking Committee, plans to introduce legislation to protect homeowners from foreclosure and to crack down on predatory lenders who pushed high-risk loans on unsuspecting borrowers. (Expect a Sarbanes-Oxley law for mortgage lenders combined with debtor relief.)

The slow-motion train wreck that is the housing market has been apparent to South Floridians who love our community but do not fall prey to irrational boosterism. Lennar Corp., a bellwether among homebuilders, announced late last month that first-quarter profits plunged 73%. All the sunshine, Calle Ocho festivals, South Beach glitz and Art Basel events cannot obscure this reality.

The party is over. It's time to nurse a massive hangover and promise ourselves that next time, we will imbibe responsibly – even though we know we probably won't.

MIAMI TODAY

miamitodaynews.com

FOUNDED JUNE 2, 1983

VOLUME XXIV No. 46

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MIAMI TODAY (ISSN: 0899-2296) is published weekly for \$80 per year; airmail: to Europe \$190 per year, the Americas \$140 per year. Individual copies \$2. Published by Today Enterprises Inc., 710 Brickell Avenue, Miami, Florida 33131-2810, USA. Periodicals postage paid at Miami, FL. POSTMASTER: Send address changes to MIAMI TODAY, 710 BRICKELL AVE, MIAMI, FL 33131-2810.