

South Florida rents rise as international buyers continue to invest in local housing

As more homeowners turn into renters because of the foreclosure crisis, investors are buying distressed properties and converting them to rentals to meet the demand.

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By choice or by force, more and more people in South Florida's foreclosure-ridden housing market are renting, rather than owning, their homes.

In an ironic twist on economics, that dynamic is actually helping the resale market. According to sales reports released Thursday, South Florida is on track to set a new sales record this year.

The reason: investors.

The majority of today's homebuyers are not first-time owners or growing families, but opportunistic investors. International buyers and locals with cash are making money in the region's distressed market by buying up foreclosed homes and turning them into rentals.

Homeowners who have been foreclosed upon, and those who either can't or won't buy in this economy, are flooding the rental market with unprecedented demand.

"I talk to a couple investors all over South America and they tell me they buy these condos and it takes them about a week to rent them," said Craig Studnicky, principal of Miami real estate firm RelatedISG. "Each and every month, the rents are going up."

Spurred by investor activity, South Florida homes sales rose again in September, according to new data by the Miami Association of Realtors. Sales were down, however, compared to last month.

There were 848 single-family home sales in Miami-Dade County in September, up 46 percent from the same month in 2010, but down 10.8 percent from August. Existing Miami-Dade condo sales reached 1,319, up 58 percent on a year-over-year basis, and flat compared to the previous month.

In Broward County, single-family home sales reached 1,079, up 11 percent year-over-year but down 8.9 percent from the month before. Condo sales totaled 1,281, up 6 percent from the previous year and down 8.4 percent from August.

All-cash buyers, mostly investors, accounted for 63 percent of all sales. Those investors are gravitating towards distressed properties, which make up about 60 percent of home sales and trade at deep discounts.

In September, median prices for condos rose 17 percent in Miami-Dade to \$116,000 and rose 3 percent in Broward to \$71,900. Single-family home prices fell 6 percent in Miami-Dade to \$176,600 and fell 7 percent in Broward to \$188,800.

When the housing market began its historic descent four years ago, Miami-based real estate firm The Solution Group shifted its traditional sales model to a three-step investment model: buy cheap, fix up, rent out.

The company buys condos, townhomes and single-family homes that are bank-owned or headed for foreclosure, paying an average of \$60,000, said Camilo Lopez, CEO. After fixing up a home and securing a tenant, the company usually sells the property to an international investor looking to diversify portfolios with South Florida real estate.

“Before, [rentals] were zero percent of our business,” said RJ de Varona, chief operating officer of The Solution Group. “Now, they’re absolutely 150 percent. The biggest rental market is homeowners who have lost their homes in foreclosure.”

More than 100,000 South Florida homeowners have lost their properties to foreclosure since 2007, and many of them ended up as renters. Additionally, a cultural shift towards renting and the difficulty of obtaining financing in this economy have pushed occupancy rates up at apartment complexes and rental homes.

Occupancy rates in South Florida are now above 95 percent, and rent prices have risen between 3 and 7 percent this year, according to research by Texas-based MPF Research.

With at least 160,000 homeowners either in foreclosure or so far behind on payments that an eventual foreclosure appears inevitable, the region’s rental market is likely to see growing ranks of new renters for the foreseeable future. As a result, more so-called “vulture investors” will seek hefty profits by buying up distressed property and converting them to rentals.

“We bought a two-bedroom in Kendall in May for \$50,000. We invested \$10,000 in repairs, and then rented the unit for \$1,200 [a month],” said de Varona. “We just closed the sale of the unit for \$95,000.”

The international investor who purchased the home is making a 7.5 percent return on his investment, de Varona said.

In addition to the rising rental market, international investors are drawn to South Florida real estate because the U.S. offers greater legal protection for foreign land owners than many other countries, and because some homeownership can make it easier to obtain a U.S. visa.

Growing investor appetite is driving sales for condos and single-family homes back to the boom time levels of 2005 and 2006. In Miami-Dade County, for example, total sales are expected to reach 29,000 this year, more than 2005’s total.

Still, some warn that the housing market is undergoing a dangerous shift. In effect, international landlords are taking the place of would-be first-time homeowners and move-up families, said Jack McCabe, CEO of McCabe Research and Consulting in Deerfield Beach. “Many Americans that previously had the opportunity to build wealth through the forced savings involved in buying a home are not going to have that opportunity,” he said. “Prices have come down to where [homes] are affordable again, but many American buyers are not able to take advantage of current prices. They aren’t able to qualify for a mortgage, and it’s a cash-buyer market.”

Despite the recent value declines homeowners have experienced during the recession, homeownership has proved a smart investment over the last several decades, with home values rising about 5.4 percent annually on average. The growing crop of renters is not able to benefit from that investment.

Additionally, the idea of saving money as a renter so that you can put together a down payment in the future is not viable for many cash-strapped South Floridians trapped between high rental rates and low wages.