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Hot ideas for a cooling housing market

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Real estate analyst Lew Goodkin appeared in The Miami Herald's first issue of Business Monday more than 25 years ago. The story said that when many of Florida's leading developers want to know what to build, ``they ask Goodkin."

That has not changed. Miami-based Goodkin Consulting has conducted market studies in Europe, Latin America and more than 40 states. Locally, it's advised on everything from the planning of Weston to luxury condominiums on Key Biscayne.

But Goodkin, 68, has taken on a different role in recent years. As real estate prices jumped to new heights and South Florida development boomed, Goodkin has become a cautionary voice, asserting that the market -- and particularly the condominium market -- is dangerously overheated because of speculators and investors. He's warned that prices are inflated because too many purported buyers are actually flippers.

In recent months the real estate bull run has finally slowed, and many wonder what direction the market will take. Goodkin contends South Florida's future is very bright, but he says the condo market will get much worse before it gets better.

The veteran analyst is so convinced that he's now advising clients who are pooling money to form so-called vulture funds. The aim: Buy land and condo units at depressed values to taking advantage of a tanking condo market.

Q: You have seen up and down cycles in the South Florida real estate market during your career, what happened in this latest boom cycle?

A: What happened is that real estate became an investment vehicle as opposed to shelter. There was speculation in some projects where more than 60, 70, 80 percent of the 'buyers' were speculators. Many of my clients were shocked by all the speculation. The closings would come and there was a substantial amount of flipping.

The single-family home builders put things in place. They didn't want to sell to people who will later be competing with them in trying to sell units to an end-user. I remember one developer

saying he was giving a good deal to a buyer but that buyer got another unit for less from a flipper. So, many of the home builders wrung it out.

But multifamily builders didn't do anything. Why would they? It's sort of like saying, do we want to say no to 60, 70, 80 percent of our buyers? And the speculator has justified their existence with the developers' need for presales.

Single-family is a different kind of picture. We have a land supply issue for new single-family homes -- there is not much new land to build new houses. We are not talking about a tremendous amount of completed, unsold inventory -- the kind of things that generate the big pricing drops. If pricing drops, it will be because a lot of speculators and investors bought stuff and will be selling it at lower prices. But this won't be so much in the single-family.

Q: *What will be the result of all this speculation you say has occurred in the condo market?*

A: The multifamily [condo] market will have some projects that do well because they are located well. But for the most part, multifamily is in the process of taking a big hit. It will be more than 10 percent in terms of price declines. The reason is that so much of the condo market sales were not based on real users. And if it's not affordable to user demand, the demand will be so off that it will have to be reflected in significantly lower prices.

You can't have something like this when there is not true demand, a run-up in prices like this will come back to haunt you.

In addition to the economic issue, I think there will also be real bad market psychology. It will go from the urgency we saw before to a whole different thing where more and more people say, I will wait around. We are at the early stages of what, to me, is the obvious. As we go through the balance of this year into next year it will happen.

Q: You are now advising a so-called vulture or opportunity funds. Why?

A: I am not shy in saying that there's no question there will be a lot of price opportunity out there. Value for consumers, value for the groups forming opportunity funds.

I think you will see opportunities for land and for condo. I think a significant number of units will be able to be purchased on a wholesale basis. I am working with a group whose idea is to buy that stuff and put it up for auction. Auction the units to individual purchasers. Auctions create a much greater sense of urgency. My clients have not bought anything yet, we are at the early stages.

This is a different environment than we had before [in other condo busts.] We are not talking about the whole real estate market being in bad shape. The office market, industrial market, retail market are very strong right now. And the underlying economic fundamentals are good. Good job growth, good population growth, tourism is strong. But we don't have particularly strong wage growth, that is why we cannot support the condo prices that have gone higher and higher.

There will be many opportunities.

Q: What about those who say the South Florida's real estate market is different from other parts of the country? The fact South Florida draws buyers from Latin America or Europe. That South Florida, particularly Miami, has grown in international prominence. And increasingly the aging baby boomer population in the United States is moving to warmer climates.

A: I believe we have all of those things. But the punch-line is that is not what created this boom. What, did everyone just discover Florida in the last 15 minutes? South Americans buying in South Florida is something new? Florida has always had this appeal. That is why the demand potential remains very good in the future. And that is why I think there will be many people ready taking advantage of lower values when it surfaces, and it will.

Q: What about your role as someone warning about the excesses of the latest bull market and predicting a downturn. Any regrets?

A: Regrets? I wish I didn't have to say the things I do but the reality is you can't be subtle in this business. Some friends have cautioned me not to be that voice. But I have been in this business too many years, I have been rewarded by honesty. Lenders and others see someone who had the gumption to call it early and it says you can depend on this guy to say what he really feels about the market. That to me is critical.

A lot of people made a lot of money by listening to us giving recommendations on where to build, what to build and how to price it. I like to believe that we helped a lot of people by discouraging them from doing things that would have cost them money.