

## High foreclosure rate trumping signs of 'stabilization'

By MARILYN BOWDEN

Residential sales volume continues to grow, but observers are ambivalent about what that means in terms of market stabilization.

Leo Zabezhinsky, manager of business development and real estate for Miami's Downtown Development Authority, says he's cautiously optimistic about the area the authority covers, which includes Brickell, Park West and the emerging Media and Entertainment District along Biscayne Boulevard from Northeast 12th to 24th streets as well as the Central Business District.

"We're seeing some encouraging signs of stabilization," Mr. Zabezhinsky said, "in that projects are continuing to have steady sales and leasing activity every month, totaling 300 to 400 transactions a month for the past 12 months."

Most of those buyers and renters, he said, are end-users attracted by the ease of access to public transit and downtown jobs.

The velocity of sales has certainly turned a corner countywide, said David Dabby, principal of the Dabby Group, a valuation and consulting firm, and prices seem to be bottoming out. But the reasons behind that activity may not add up to market stabilization.

"When we use the word 'stabilization' in real estate," he said, "we're talking about a normal market, and we don't have a normal market in South Florida. One of the primary reasons sales are up is that prices are so low, and 50% of sales are foreclosures."

In a stabilized market, foreclosures are under 10% of sales, Mr. Dabby said; "50% is an historical high, based on 50 years of data. So we are at an unprecedented time in terms of foreclosure activity."

Given the high percentage of foreclosure sales, said Roman Pavlik, principal of Pavlik Real Estate Group at Keller Williams in Aventura, "more sales doesn't so much mean the market is getting better as that the decline is slowing down."

Last month, he said, the multiple listing service showed 1,277 single-family homes under contract in Miami-Dade. Of those, 543 were bank foreclosures, 398 were short sales and 336 were straight sales.

"That doesn't tell the whole story," Mr. Pavlik said, "because in the under-\$150,000 price range, out of 479 sales, 328 were bank foreclosures, 117 were short sales and only 34 were neither."

In the \$150,000-\$500,000 range, he said, the 680 sales were split about evenly among foreclosures, short sales and normal sales; the 118 homes under contract at over \$500,000 included just seven foreclosures and 21 short sales. The spreads for the condo market, he said, are similar.

"The way I read this," Mr. Pavlik said, "is that the first wave of foreclosures were the result of subprime mortgages, which are usually given to those



Photo by Marlene Quaroni

**Roman Pavlik sees increased home sales as a sign of a slowing decline rather than of market recovery.**

who cannot afford to get a normal loan. There are two more waves that haven't hit yet."

The next wave, he said, will come from the adjustable-rate mortgages taken out for mid-range

and expensive homes; "the final wave will be the option-ARM loans taken out three to seven years ago that will start adjusting in the next 12 to 24 months."

The federal moratorium on

new foreclosures, during which banks were directed to attempt a loan modification before foreclosing, recently expired and will probably create a new surge in foreclosures at the low end

of the market, Mr. Pavlik said.

"We estimate that over 90% do not qualify for a loan modification," he said, "and historically, 50% of those who do get a loan modification go back into foreclosure."

Inventory, Mr. Pavlik said, is another important indicator of stability. In a normal market, one in every six or seven homes available would be under contract. In May, one of four of the single-family listed for under \$150,000 was under contract. In the \$150,000-\$500,000 range, the ratio was about one in nine, but among homes listed at \$500,000 or more, it was only about one in 28.

"That's more than two years' inventory," he said, "and means a heavy buyers' market."

Mr. Dabby estimated it will take a few years for real recovery to kick in.

"Right now," he said, "it's judgment day for developers — the final judgment of foreclosure in a court of law."