THE WALL STREET JOURNAL October 20, 2013

Condos Are Going Back Up for Sale

'Reversion' of Units Rented Out in Downturn Is Fresh Sign of Housing Market's Strength

Miami, above, is a market where developers are satisfying demand with new condominiums or 'reversions' from rentals.

Many condominium developers who rode out the real-estate downturn by renting out their units are reverting to for-sale housing, in another sign of the market's continued recovery over the past year.

Take Amir Haber, a Los Angeles developer who opened his Universal Lofts project at precisely the wrong moment in late 2008, when the stock market was in free fall and home prices were declining at a double-digit pace. Instead of selling off the project's 67 lofts that range from 2,000 to 2,500 square feet and sit across the highway from Universal Studios, Mr. Haber converted them into high-end rentals that range from about $3,800 to $5,500 a month.

Today, things are turning around: Early this year a tenant asked if he could buy his unit. That deal, for $1.3 million, has since closed, and Mr. Haber said several more units will soon be in escrow. "I knew the market would come back," Mr. Haber said. "It was just a matter of when." During much of the recession and its aftermath, as condos fell out of favor and apartment rents rose in the wake of foreclosures, new apartments outpaced new condos. Now, in big markets from San Francisco to South Florida, "Condos for sale" signs are popping up at a steady pace as the improving housing market creates an opening for landlords to sell off rental housing. That hot market also is spurring new construction of condo buildings.

Last year, some 2,080 apartments were converted to condos from rentals. That is a pittance from the 152,206 conversions that took place in 2005 when the real-estate bubble was inflating, but it was the highest total since 2008, according to property researcher Reis Inc., which tracks only those buildings with 40 or more units. The numbers are muted because the apartment market remains strong and because the bulk of today's conversions are different from the boom years and should probably be called "reversions." That is, the developers had always planned to sell the units as condominiums but were unable to find takers during the real-estate bust.

"It's different from 2005 or 2006 when [investors] would buy an apartment building, kick everyone out and put a condo map on it," said Shlomi Ronen, managing principal of Dekel Capital in Los Angeles of today's conversions.

Reversions are being driven by a supply shortage in the single-family-home market, which has sent prices upward. There were 2.07 million existing homes for sale at the end of August, up 5.1% from January but still down about 6% from a year ago, according data from the National Association of Realtors and Trulia, a real-estate listings site. The data include both condos and single-family homes.

Condos aren't likely to perform as strongly as they did in the boom years. Mortgage-lending standards are still very tight. To sell units, developers have relied heavily on buyers that can pay cash and are often investing instead of living in the units full-time. Typically, developers need to sell out a certain share of units in a building before banks can make loans that are eligible for sale to Fannie Mae and Freddie Mac, the government-controlled mortgage-finance giants.

Many recent conversions have been in the San Francisco Bay area, where the booming tech sector and a dearth of homes for sale have led to a jump in home prices. The Bond, an Oakland rental project that recently started selling its units as condos, is one such reversion. Michael Reynolds, managing principal at Bond Street Advisors, which developed the project, said that with housing inventory tight, it is a good time to make the switch, and the company has already sold 40 of the 101 units this year. "There is no inventory," Mr. Reynolds said.

Few places have seen as big of a turnaround as South Florida. As of the second week of October, there were about 21,000 condos and townhomes for sale across Miami-Dade, Broward and Palm Beach counties. That was down 66% from the fourth quarter of 2008, according to multiple-listing-service data compiled by Condo Vultures Realty, but up about 14% from a June low of about 18,000 listings.

During the bust, buildings such as Miami's Nordica condo project, completed in 2007, took in renters while the prices were falling. At first, developer Astor Cos. had trouble even renting out the roughly half of the building's 130 units that hadn't been sold. Peter Torres, a vice president at Astor, says rental prices were around $1.50 a square foot before climbing to a high of about $3 as the overhang of unsold condos began to thin. Now, Astor is again selling condos, and building new ones. In May, Astor put the 59 remaining units on the market for between $300,000 and $600,000. Mr. Torres said Astor has sold about half of them. The company is putting up a new condo building in nearby Coral Gables with sale prices ranging from about $250,000 to about $1.2 million.

"What I don't think people envisioned is the pace at which the population is increasing and how quickly the units from the last cycle would be absorbed," Mr. Torres said. "People thought the recovery would be stretched out much longer, maybe 10 years, and it's obviously been sooner than a lot of us expected."

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