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Condo Fever Turns Buyers Into Early Birds

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THE BUYING GAME

Hopeful shoppers lined up last fall to see new condos in Brooklyn.

NGELINA UMANSKY, a 39-year-old spa owner from San Francisco, was visiting a friend in Miami two weeks ago when she heard about a new condo development downtown. Hoping to find a vacation home, but worried that others were interested, too, Ms. Umansky arrived at the sales office at 8 a.m. the day after seeing some model units.

About 50 other buyers were already in line. Two hours later, a sales agent summoned her and said she had four minutes to decide which unit to buy. She acted fast, offering \$350,000 for a two-bedroom, two-bathroom unit.

Ms. Umansky thinks she got a bargain; when she called on behalf of a friend less than eight hours later, she was told the asking price on a unit like hers had climbed to \$380,000, a nearly 9 percent price increase.

Just when it seemed as if the real estate market couldn't get any barmier, it has. With inventories lagging behind demand and prices for new homes rising seemingly by the hour in destination cities like New York and second-home markets like Miami and Orlando, home buyers are camping out overnight in front of sales offices, pestering brokers and developers and scooping up multiple units in the real estate version of scalping. "This is a perfect storm for a frenzied housing market," said Susan Wachter, a professor of real estate at the Wharton School of the University of Pennsylvania. "The economy is strengthening, the restrictions on development are increasing and long-term mortgage rates are still historically low." Ms. Wachter added that as interest rates start to creep up, more buyers tend to pile into the market, trying to lock in good rates.

Across the country, according to the National Association of Home Builders, the number of new condos sold jumped 32 percent to an estimated 115,000 in 2004 compared with a year earlier. And in New York the number of condo sales in the three months through December 2004 increased 8.2 percent over the same period a year earlier, and average condo prices were up 11.1 percent to \$1.29 million, according to Miller Samuel, a New York real estate appraiser.

The gold rush mentality has some economists concerned. Some buyers of new condos and houses are behaving like day-traders before the dot-com crash, said John Vogel Jr., a real estate professor at the Tuck School of Business at Dartmouth College.

In some cases, developers are actually creating the frenzy. In central Florida, Transeastern Homes, which builds subdivisions, asks prospective buyers to put down a refundable deposit of \$500 to \$5,000 to reserve a time slot to buy a house that has yet to be built, sometimes without knowing more than the general location of the subdivision and a price range.

Buyers review floor plans and maps first at a Web site or in a brochure. When they arrive at the sales "event," typically at a hotel or a convention center, they spend five minutes looking at a map and choosing a home before the next buyer moves to the front of the line. Price increases - up to 16 a day- are announced over loudspeakers.

"People get excited and get caught up in it," said Joel Lazar, a Transeastern vice president. "Even if they weren't planning on buying a home, they convince themselves to buy a home."

Last Sunday, Jeanette Gomez, a banquet server at a resort hotel, drove her mother, Maria Gomez, to her 11:12 a.m. appointment at a hotel in west Orlando. Although the senior Ms. Gomez wasn't planning to buy, she ended up making an \$18,500 down payment on a two-bedroom town house. "I pushed her," her daughter said. "I said 'Just do it.' I think it's a good buy because the sales agent told us the price already went up \$20,000 since yesterday."

What's lost in the giddiness is a sense of history. "People have a belief that's not true: that you can't lose money in real estate," said Joseph Gyourko, a real estate professor at Wharton. "We know from the late 80's and early 90's that you can."

In New York, for example, median sales prices - the exact middle of all sales prices - peaked at \$375,000 in 1987 before plunging 45 percent to a low of \$205,000 in 1995. Median prices did not climb back up to their 1980's levels again until 2000, according to Miller Samuel. In the Northeast, the National Association of Realtors said median sales prices fell 11 percent from 1988 to 1989, and did not return to 1988 levels until 2001.

That doesn't stop some buyers from making impulsive down payments on condos that don't yet exist. In October, Anne Marie Alexander, then a broker with Prudential Douglas Elliman, took some brochures and parked her BMW 740 in front of a hole in the ground on 17th Street in Chelsea. She proceeded to sell five luxury condos - at prices above \$1 million each - from the back seat of her car. "I showed them the site through a hole in the fence," Ms. Alexander said.

Last summer, arguments erupted when 50 prospective buyers spent the night in front of a 16-unit building in Park Slope, Brooklyn, before an open house. As a result, the Corcoran Group, which marketed the property, now sells new condos only by appointment, said Jay Schippers, head of new development for Corcoran in Brooklyn.

Now buyers and their brokers are quarreling over viewing dates. Security guards at 56 Pine Street, a 90-unit condo in Manhattan, called the police to escort two brokers out of a sales office last month. "They said they were not leaving until they got an appointment," said Andy Gerringer, a managing director of Prudential Douglas Elliman, which is helping to sell the condos.

If all else fails, some buyers try bribery. When 3,600 people showed up for a party showcasing a 419-unit condo project in Arlington, Va., last September, the developers booked appointments through the end of January. Afterward, those who had missed out were "offering us lunch and tickets to baseball games," said David Klimas, a broker with McWilliams/Ballard, which was marketing the development. (Mr. Klimas said the buyers' tactics did not work.)

Hoping to beat out the crowds vying last fall for apartments in the Toy Factory Lofts, a new condominium in downtown Brooklyn, Jason Lynn showed up at 11 p.m. - 14 hours before the sales office opened. He was carrying a fold-up chair, his iPod, some tennis balls (for pick-up handball) and a book. Before long there were enough other early birds to start a card game.

Mr. Lynn says he was happy to stay up all night. He landed a 700-square-foot loft for \$314,000 - 15 percent more than he would have paid at an open house two days earlier.

"There is always a frenzy at the beginning of a development because the prices are lower," said David Behin, an executive vice president at the Developers Group, which handled sales at the Toy Factory.

Some excited buyers aim to get a jump on property before it is advertised. Kenneth Horn, president of Alchemy Properties, which is developing a 67-unit condo on 19th Street in Chelsea,

said he already has more than 200 individuals and more than 300 brokers on a waiting list for the development, which has yet to receive approval from the attorney general's office, which regulates new real estate.

Brokers field calls from people poised to sign a contract the minute one is available. Some check in three times a day, said Michael Klein, an agent with Liberty Realty in Hoboken, N.J. A couple of times last year, he said, he called clients at 11 p.m. to share floor plans fresh from the printer. The buyers signed deals the same night.

Hoping to manage the crush, the developers of Maxwell Place, a luxury condominium project in a renovated coffee plant on the Hoboken waterfront, told interested buyers in November that they would need appointments, available only to 77 people and only by calling an 800 number at exactly 1 p.m. on a Tuesday. Within an hour, all 77 appointments were taken.

Mr. Vogel, the real estate professor, said the sales hysteria has troubling parallels. "We've now moved past the stage of people saying we've got to get in before it's too late," said Mr. Vogel. "Now we're at the speculator stage."

Indeed, Harold Gallo, director for marketing of the Related Group, a developer in Miami with a 1,000-unit condo that sold out in 36 hours last spring, said that about 50 percent of the buyers were investors - in other words, people who will never live in the apartments and often sell them before anyone moves in. Mr. Vogel said that the frantic buying was characteristic of the tech bubble before it collapsed, adding, "It speeded up."

The biggest threat to the housing boom is a sharp increase in mortgage rates. "That will quickly knock the wind out of these housing markets and the psychology will reverse as quickly as it appeared," said Mark Zandi, the chief economist at Economy.com, a private research group. For now, interest rates are expected to rise modestly throughout the year.

None of the naysaying bothers Kathleen Gillman, an interior designer, and her son Patrick, a real estate agent, who bought a \$200,000 town house in Orlando at a Transeastern sales event last Saturday. Four months ago Mr. Gillman bought another house nearby, his mother said, adding that it is now worth \$50,000 more. "It is interesting how many different viewpoints are out there about whether it's going to level off now, go on for 10 more years or one more year," she said. "Right now we're going to take the viewpoint that it's certainly not over yet."