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## Living the high life

**With a surge in popularity, condos are appreciating at a faster pace than houses for the first time.**

By KRIS HUNDLEY, Times Staff Writer  
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[Times photo: Chris Zuppa]

Nick Martinez of Tampa checks out the balcony, complete with a backdrop of clouds, in a model condo at The Place at Channelside. With him is his daughter, Emily, 5, who delivers her verdict: "This is like a home."

### ► Condo owner profiles

Buyers camped out for two weeks to reserve high-priced condos last year at the Belle Harbor project on Clearwater Beach.

At Tampa's ParkCrest on Harbour Island this spring, 336 condos still under construction sold out in six weeks. In Tampa's Channel District, groundbreaking for the Towers of Channelside isn't until January but all 257 units were reserved within 13 days.

And in downtown St. Petersburg, an investor who bought a unit at McNulty Lofts sold it again before the place was built, and made a 25 percent profit.

**A condominium sampler**  
New condo projects clustered along Tampa Bay's coastal fronts are adding thousands of high-rise homes to the region. Three distinct markets, Clearwater Beach, downtown Tampa and downtown St. Petersburg have been especially active. Here is a quick look at some projects.

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Condo fever, fueled by historically low interest rates, a double-barrelled demographic boom and scarcity of open land, is raging in the Tampa Bay area. Once considered the stepchild to single family homes as a sound investment, condominiums are appreciating faster than houses for the first time.

What's more, demand for condos in the Tampa Bay area is largely being driven not by out-of-staters, but by locals looking to change their lifestyle, giving this spurt an air of durability.

Consider Joe Martin, a 63-year-old retired commercial builder. He lives in a townhouse in downtown St. Petersburg, owns a condo downtown as an investment, plans to close on a loft in Tampa's Channel District by year end and has reserved a unit in a project across the street.

"I'd rather have my money in condos than in the stock market," said Martin, touching upon yet another powerful force propelling the real estate market. "It's not like a tech stock, which can go bankrupt."

In addition to being a condo investor, Martin has launched a second career as a condo salesman with Grand Central at Kennedy, the Tampa project in which he has reserved a unit. There, he has a ringside seat at one of the hottest condo markets in the region, with more than 3,000 units expected to come on line in Tampa's downtown - from the Channel District to Harbour Island to Bayshore Boulevard - within the next three years.

The Grand Central's sales office beckons buyers with a big striped balloon; inside is a model two-bedroom condo decorated in art deco. The project's web address says it all: [www.notthesuburbs.com](http://www.notthesuburbs.com)

Around the corner, The Place invites buyers into its sleek "Discovery Center," with a one-bedroom model designed for the urban sophisticate. Next door, a banner on nearly completed Victory Lofts touts "Only 4 Left!" A billboard above the fray promotes yet another project, Ventana, with the tagline "More refined than lofts."

Market forces are more subtle but no less powerful in downtown St. Petersburg and on Clearwater Beach, where mid- and high-rise condos planned or under construction will permanently change the region's landscape, creating a well-heeled, tightly packed populace demanding everything from parking spaces to pedicures.

Ralph Stone, until recently the assistant city manager of Clearwater, said the transformation of Clearwater Beach from low-rent mom-and-pop motels to high-end condos will impact restaurants and retail on the beach's commercial strip for years to come.

"There's going to be a lot more wealth on the island than historically," said Stone, who is now city manager of Treasure Island. "And it's slowly going to be converting to a more permanent place for people as they retire. How many people can afford a \$750,000 condo that sits empty?"

## **Dramatic appreciation**

Though condos remain less than 20 percent of the nation's housing stock, their boom in popularity is echoing nationwide, particularly in high-demand housing markets on both coasts. Sales of existing condos set a record in the second quarter, nearing an annualized rate of almost 1-million units, according to the National Association of Realtors.

Once considered an affordable alternative to traditional housing, condos have surpassed single-family homes in median sales price nationwide.

More importantly, condo prices are appreciating faster than single-family homes, moving up at an annual average rate of 13.9 percent for the past three years, compared

to 6.9 percent for single-family homes.

And it's not just new condos that are seeing appreciation; existing condos in the Tampa Bay market are also enjoying a startling price increase as demand booms. Paul Traxler, an agent with Re/Max Metro in St. Petersburg, said that even 30-year-old units are selling at 25 percent above a year ago. "All the new stuff is so much more expensive, they're way beyond a lot of people's reach," he said.

Such appreciation has led to a giddy feeling among many buyers and developers that the sky is the limit. It has also led observers like Jack Phelps, regional research manager for the Federal Deposit Insurance Corp. in Atlanta, to warn that an adjustment in housing prices is inevitable.

Phelps said condo development in Florida is of particular concern.

"We think it might be a leading edge, sort of a canary in the coal mine," he said. "We have reports that condo activity is becoming very frothy. A lot of people are investing in Florida real estate who are not living in the state. Some want second homes, some are buying retirement homes in advance and some are speculating on price increases."

Though there is speculation in Tampa Bay's condo market, developers and others say it's to a much lesser extent than in a market like South Florida's Broward County, which leads the state in condo development.

Local market optimists are buoyed by the fact that the vast majority of people buying condos here are coming from the immediate market. Buyers in Tampa's Channel District are mainly young professionals and longtime homeowners from South Tampa. Downtown St. Petersburg projects attract a large number of empty nesters from the Northeast section of town. Clearwater Beach appeals primarily to locals looking for a second home on the water.

Those bullish on the region's market also say that although the current burst of condo construction looks unprecedented - with about 1,000 units coming online on Clearwater Beach, about 2,000 in downtown St. Petersburg and more than 3,000 in Tampa - it is small compared to earlier building booms.

(And while glitzy condo towers draw attention, they account for just a fraction of new housing in the Tampa Bay area, which has nearly 75,000 new single-family homes either on the drawing boards or actively selling.)

Marvin Rose publishes Rose Residential Reports, which tracks new home construction in the Tampa Bay area.

"For all the condo proposals you read about, there are still not a lot of cranes downtown," said Rose, who warns that many more projects are proposed than ever come to fruition. "Along the Pinellas beaches in the early 1980s, there were 10,000 units going up."

During previous condo booms, Rose and others say, banks and savings and loans were too eager to throw money at projects and too lax about presale requirements. Speculators, with little if any money at stake, created an illusion of demand. When interest rates zoomed to 20 percent, investors walked away. The building boom suddenly went bust and, for many years, condo prices stagnated or declined.

"There were very few abandoned buildings," Rose said of previous condo building cycles. "Because if something gets built, someone will live in it. But the original developer can lose a lot of money."

## **Lesson from the '80s**

Though interest rates are edging up, most people predict a soft landing rather than a bust this time around.

For one thing, economists believe mortgage rates would have to reach about 8 percent before they have a significant impact on home purchases, and they aren't expected to climb that high for at least a couple of years.

Lenders also are tougher now than they were in the 1980s, demanding a higher percentage of a condo development be presold - with nonrefundable contracts - before a project breaks ground.

In addition, local developers say they try to limit the number of investors in a project to about 20 percent, favoring buyers who intend to make the condo their home.

To dampen speculation, most developers now require contract holders to close on the property, prohibiting them from selling the contract for a profit before the project is complete. There is nothing, of course, to prevent sales immediately after the close.

Nick Pavonetti, whose Beck Development is developing Victory Lofts in Tampa's Channel District, said he learned firsthand the dangers of letting investors run amok in the reservation line. His project, which will have 89 units in two buildings, was an instant hit with speculators, who could reserve up to five units each.

But when the developer tried to turn those reservations into hard contracts with nonrefundable deposits, about 60 percent of the reservations evaporated. But new buyers came along and the project will be complete by Christmas, with all but four units under contract.

Pavonetti is now working with the developers on the nearby Grand Central at Kennedy project. "I recommended they put more controls in place," he said of the project, which is now 75 percent reserved. "We weren't as worried about speculators as we should have been."

Mark Vitner, senior economist at Wachovia Corp. in Charlotte, N.C., thinks simple laws of supply and demand will keep propelling condo sales, particularly in Florida. While supply is constricted by the scarcity of land, especially in desirable urban or waterfront areas, demand continues to grow.

The baby-boomer generation, which has accumulated value in the family home and often inherited wealth, wants to downsize and eliminate yard work. After years of raising kids in the suburbs, they're often eager to live in an urban area where they can walk to restaurants and movies.

At the same time, baby boomers' children, young marrieds or singles in their 20s and 30s, are demanding the same low-maintenance lifestyle. And low interest rates are making homebuying, rather than renting, a viable option.

"The demographics are very favorable, not just now, but over the next decade," Vitner said. "And there's a much broader, stronger base of support for the current boom than in the past. Florida's population has tripled since 1975."

Vitner said he's further encouraged by the timing of this real estate boom - in the early stages of an economic recovery with job growth strengthening.

"If we were seeing heightened signs of condo development in the latter stages of a recovery, that would be different," he said. "But we have a long way to go."

The wide range of condo products and prices in the Tampa Bay market is also seen as a plus. A tiny penthouse in St. Petersburg's converted-to-condo Snell Arcade sold for about \$100,000. A few blocks down the street on Beach Drive, a penthouse at Parkshore Plaza, now under construction, went for \$3.5-million.

In Tampa's Channel District, the entry price for loft space is under \$200,000, but rising quickly. Across Garrison Channel on Harbour Island, developers just announced a 20-story tower with \$2-million penthouses.

## Finding the soft spots

If pressed hard enough, some market watchers admit there could be weaknesses in certain segments of the market. Housing specialist Rose said he has some concerns about an oversupply of smaller, low-end condos, which typically have been slower to appreciate in price.

Jerry Shaw, senior vice president of Opus South Corp., which is developing St. Petersburg's Parkshore Plaza, said he worries about inexperienced developers proposing too many grandiose projects.

"Not everybody can afford a \$1-million home," he said, adding that his project is 90 percent sold. "There is some softening at the higher end in some markets like South Florida and Naples."

And Ken Cherven, chief executive of First Community Bank Corp. of America in St. Petersburg, thinks investors are driving condo prices to unsupportable levels.

"I was born and raised here and I've seen bubbles before," said Cherven, who said his bank has declined to do several condo financing deals. "When I see condo values go up 30 percent a year, I just don't think that's sustainable."

As if to underscore his concerns, Cherven recently sold a waterfront condo he had owned since 1986. "The guy who bought it paid 25 percent higher than the appraised value," he said. "I banked the money and paid the tax."

Cherven believes condos won't work as investments at current price levels because they won't generate enough cash if rented out. "Investors would never be able to carry the debt load at current valuations," he said. "They'd have a negative cash flow."

That's true, says Joe Martin, the St. Petersburg resident who owns two condos and is in the process of buying two more. Though he fully expects to have a negative cash flow while renting out his Channel District condos, he thinks he'll more than make it up when they're sold.

"If you go in needing your money in a year or two after the project is finished, that's not a good way to look at it," he said. "But if you can hang on in there, you're not going to get hurt. Condo prices may not go up as dramatically as they've gone, but I don't expect them to go down or level off at this point."

-- Times staff writers Sharon Bond, Shannon Breen, Helen Huntley, Judy Stark and Clearwater assistant city editor Katherine Lee contributed to this report.

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