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The deadwood is gone from banks' real estate portfolios

BY CATHERINE LACKNER

Anyone hoping to pick up distressed properties for pennies on the dollar had better choose another investment strategy, experts say.

"I think the bulk of the REO [bank-owned real estate] has been gotten rid of," said Hal Lewis, a partner in the Pathman Lewis law firm. "There's not a substantial amount of product being held by the local banks. The deadwood is gone."

Larger institutions, including Bank of America and Wells Fargo, might still have some foreclosures that haven't been cleared, "But no bank is in the property-management business," Mr. Lewis said. "They want to be in the lending business, and there are carrying costs associated with these properties."

Even if, as some maintain, banks are holding onto properties and waiting for the most opportune moment to put them on the market, it wouldn't have much effect, he said. "It's a strong, strong market now, and even if there were some properties introduced, it wouldn't have any significant impact on prices."

Mr. Lewis said that, during the height of the foreclosure crisis, he received calls every day from people looking to scoop up real estate bargains. "I'm not getting those calls anymore, and I haven't in a very long time now."

"In our recent experience, it appears that all of distressed properties have been forced through the system," said James Shindell, real estate chairman of the Bilzin Sumberg law firm. "There are occasional deals out there, but for a long time, we have been engaged in healthy real estate work. That puts a smile on our face, because it's not nearly as much fun working in distressed properties."

Disastrous as it was, the foreclosure crisis had the effect of filling downtown and Brickell condominiums with renters who have made those areas prosper, he said. What began as a coping strategy for developers to maintain their buildings and pay their carrying costs turned into a trend that has transformed Miami.

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"People discovered the live, work and play concept, and that has changed everything," Mr. Shindell said.

"When the market was in distress, in 2007 and 2008, luxury wasn't selling," said Peggy Fucci, president and CEO of One World Properties. "I started to sell lot of foreclosures, sometimes 80 units per month."

But times have changed. "That whole inventory has dried up," she said. By 2012 there were significantly fewer foreclosure sales, and Ms. Fucci cites a surprising reason.

"Banks were smart; they kept the owners in their homes longer," she explained. Rather than incur the expense of eviction and a lawsuit, banks worked with some homeowners to renegotiate mortgages, Ms. Fucci said.

"So in the end they were not as upside down as they had been," she said. "I'm sure there are some foreclosures out there, but we're not seeing many, and they get absorbed right away by flippers."