FEATURE Window closing for bottom feeders as profit potential moves upmarket and into prime locales

Best U.S. housing buys

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Since the crash of the U.S. housing market five years ago in the wake of the subprime mortgage crisis, Canadians have been finding spectacularly low-cost homes across the Sun Belt. In Phoenix, Arizona, Las Vegas, Nevada, and parts of southern Florida and California, average home prices plunged 40 per cent to 50 per cent from the peak.

But according to Canadian developers and realtors familiar with America, the real action – and potential profits – is now in high-end housing as the world's biggest economy suddenly awakens.

Even those who have swept up foreclosed bargains in Nevada and Arizona say the window is closing on super-low prices.

"It is a feeding frenzy now in Phoenix," said **Janet LePage**, the 30-year-old principal of Vancouver-based **LePage Property Investments Ltd.**, who has gone elbow-to-elbow in the foreclosure mosh pits that have characterized the Phoenix arena for the past four years. "Now I'm often outbid on properties."

But, she said, there are still Phoenix bargains to be had and leverage to be gained for other Gen-Xers willing to tough it out: "You can still buy condos for $50,000."

LePage bought her first Phoenix house in 2008. Today her Arizona real estate portfolio includes houses, condos and an apartment building with a total value of $2.3 million and a capitalization rate of 9 per cent. She – and many other Canadians – still see Arizona as a great buy. "Interest rates are at the lowest level in history, the dollar is at par and Phoenix has both a strong rental market and rising real estate prices," she said. "This is an historical opportunity."

Bosa Development's Madrone condo project in San Francisco: now selling fast at more than $700 per square foot. U.S. recovery is based on high-paying jobs, developer says.

In Phoenix, one out of every 259 homes is in foreclosure – one of the highest rates of all U.S. cities – but the default rate is falling. A year ago, nearly half of all sales were foreclosure properties. Now that percentage has dropped to 24 per cent. By March, Phoenix house sales had jumped 22 per cent from a month earlier, average prices were up 6 per cent and the inventory had fallen to 11,200 units – half of what it was two years ago.

Meanwhile, Phoenix has generated more than 42,000 new jobs in the past year, ranking it seventh in job growth among U.S. cities.

U.S. upturn

A sudden end to the low-baller market will be seen right across Sunbelt, according to Vancouver-based **Ross McCredie**, president and CEO of **Sotheby's International Canada**.

Sotheby's concentrates on the top 40 per cent of the residential market and McCredie claims such U.S. sales are seeing a "significant increase" this year.

McCredie said sales of high-end homes are soaring in the U.S. Sunbelt and it is already "too late" to get a real deal in prime southern Florida. "Miami prices have shot up by $200 a square foot this year and it happened fast," he said in an interview with *Western Investor*.

Forget the $50,000 Phoenix condos, he said. The real value is upmarket Arizona. Alberta and B.C. high-rollers are buying in toney Scottsdale, where you can find luxury houses at the exclusive Pinnacle Creek Country Club for $995,000.

"A house like that would be twice the price in Canada," he said. According to McCredie, Canadian buyers are responsible nearly one-third of the Phoenix homes that sold for $1 million or more in the past year.

"The U.S. recovery is already underway," McCredie said. "And there are a lot of wealthy Americans."

McCredie said Las Vegas, which has among the highest foreclosure rates in the U.S., is now becoming a prime high-end housing market.

He points to the luxury condominiums in Las Vegas' City Centre project, which was completed for $11 billion just as the condo market tanked. "Super luxury" suites in the Mandarin or Veer towers – part of the 57-acre development right on the famous Strip – are being sold from $500 per square foot, less than half the price when they were finished four years ago by **MGM Resorts**.

"There is not a single crane working in Las Vegas now," McCredie noted, which means that luxury competition is not in the cards.

San Francisco

For **Nat Bosa**, president of Burnaby-based **Bosa Developments**, the lack of competition represents an opportunity in prime U.S. housing markets such as job-rich San Francisco and Seattle.

"I gambled on a $300 million project in San Francisco," Bosa said of his luxury Madrone condominium development, which he began just as the 2008 recession gutted the U.S. housing market. The gamble is now paying off. The Madrone is the only large new condominium tower being built in California's second-largest city, and the second-largest in the U.S. since 2008, Bosa said.

The Madrone's 329 condos were selling for $900 a square foot when pre-sales started four years ago in the Mission Bay district. Now rebranded, they are priced from $710 to $750 per square foot, with the average home selling for around $725,000.

When Bosa re-launched pre-sales last year, 49 units sold within weeks and the project now has 120 sales with 40 pending.

"We were going to close the sales office in August," Bosa said. "But sales suddenly just took off. I caught the wave. San Francisco is the best market to be in right now. It is all based on job growth and San Francisco has tremendous job growth."

According to the latest quarterly *Anderson Forecast* from **University of California** economists, San Francisco's thriving tech

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