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How one billionaire - and America's housing market - came back from the brink

By JOANNA SLATER

In Miami, condo king Jorge Perez is back from the financial abyss that he was thrown into after the collapse of the market in 2008. Across the U.S., builders are getting back to work, eager to capitalize on rising home values and pent-up demand

On a recent sunny Friday morning, Jorge Perez, the ruling magnate of Miami real estate, strode into the living room of his waterfront home and settled into an overstuffed chair with a view of Biscayne Bay. A small, fluffy white dog named Samson jumped into his lap.

The developer was in casual mode – jeans, a blue-and-white striped shirt, slip-on shoes – and preparing to leave for a vacation in Tuscany. In conversation, he had the expansive air of someone who has veered close to disaster and lived to tell the story. After all, it wasn't so long ago that his company was nearly crushed in the real estate collapse.

Mr. Perez was the biggest builder in the largest condominium bubble in the United States and the most prominent developer in Florida, a state that epitomized the frenzy of overbuilding and speculation during the boom years.

"They say the bigger they are, the harder they fall, right? That's true. So we fell," said Mr. Perez, 63. "You're God's gift to the world, you're the golden boy – and then nobody wanted to talk to me. You go from being the hero to being the goat."

Now the chastened mogul is facing the most improbable outcome of all: Business is roaring again as the U.S. housing market pulses back to life. Mr. Perez's firm – Related Group – has more than forty projects in the works in the region. Next month, the company will complete its first condominium built since the crash, a sold-out tower in Miami. In the past two weeks alone, it announced two more brand-new condo projects.

Across the country, there are variations on the same story as builders get back to work, eager to capitalize on rising home values and pent-up appetite. After six long years of destruction – housing prices nationwide peaked in 2006 and hit bottom in 2012 – the U.S. housing market is mounting a comeback. In the twelve months through April, home prices in the country's 20 largest metropolitan areas rose 12 per cent, the fastest increase in seven years, according to the widely-followed S&P/Case-Shiller Index.

How Mr. Perez managed to haul his company out of the abyss is a tale that shows the unexpected vigour of the U.S. housing recovery but also its limits. While Mr. Perez is building again, the way he's doing it bears little resemblance to the credit-fuelled construction of the bubble years. And every day he reminds himself of the perils of too much optimism.

So Mr. Perez is moving carefully but also quickly. "Will there be a bust?" he asked, looking out at his swimming pool and the shining sea just beyond it. "Yes. The question is when. People used to say there are three important things in real estate: location, location, location. Now I say, it's timing, timing, timing."

Already, the real estate recovery has provided a concrete lift to Mr. Perez's fortunes: Earlier this year, he returned to the annual list of billionaires compiled by Forbes magazine, his first appearance there since 2008.

"Most guys in his position would have gone under," said Jack McCabe, who heads a real estate research and consulting firm in Deerfield Beach, Fla. "Now he's back and primed and ready to go – and may end up being bigger than he was before."

The long road back

When the housing market in South Florida collapsed, it was common to hear predictions that it would take 10 or 15 years to work through the glut of properties built prior to the crash. It didn't turn out that way.

In Miami and elsewhere, the rebirth of the housing market has had an untraditional midwife: investors. Across the country, an array of players – private equity firms, hedge funds, wealthy individuals – have snapped up properties at rock-bottom prices, which helped put a floor under the market at a time when regular buyers remained fearful.

Miami is a turbocharged version of what happened nationwide: From their peak in 2006 to their nadir in 2011, home prices in the city fell 51 per cent, S&P/Case-Shiller figures show. Since then, they have risen 17 per cent to levels equivalent to what prevailed back in 2003.

For now, housing remains a relative bargain. Jed Kolko, an economist at Trulia Inc., an online real estate site, noted that U.S. home prices are about 7 per cent below fair value, judging by their historical relationship with personal income and rental rates.

Of course, there is no shortage of reasons to worry. Mortgage rates are rising, though over all they remain low. Land prices have spiked, suggesting a return to speculation in some parts of the housing market. The investors who have piled into real estate will not wait forever to realize a return, creating a sizable contingent of future sellers.

But the combination of relatively cheap prices and a potential return by more traditional buyers suggests that the housing market has room to run. "I think we're in the fourth inning of a nine-inning baseball game and we're winning," said Robert Kaplan, a principal based in Miami for Ackman-Ziff Real Estate Group, an advisory firm.

The hurricane

For anyone who went through the crucible of the housing collapse in Florida, the current revival feels slightly unreal. "I knew it was going to come back," Mr. Perez said. "I didn't know it was going to come back so fast."

Four years ago, Mr. Perez stood at the front of a packed ballroom at the cavernous Miami Hilton Downtown and made a plea to save his company. Lehman Brothers had collapsed four months earlier and the global economy was in a tailspin. Sitting in the audience were the representatives of the lenders to whom Mr. Perez owed more than $2-billion (U.S.) on projects gone bad.

"My God," he recalled thinking, in an interview earlier this year with a real estate publication. "Everything I worked for could be gone in a matter of minutes if these people say 'We're not going to work with you.' "

It was a rare moment of crisis in a stellar career built from scratch. Born in Buenos Aires to Cuban parents, Mr. Perez spent the first part of his childhood in Havana. Later, after Fidel Castro came to power, his family moved to Colombia. Mr. Perez came to the U.S. for college, earned a master's degree in urban planning and took a job working for the city of Miami.

He never expected to go into business, but gradually it drew him in – first as a consultant, then as an investor in affordable-housing projects. By chance, he met Stephen Ross, a New York developer, and the two forged a friendship that endures to this day. In 1979, they started Related Group, the Florida arm of Mr. Ross's Related Cos. Today Mr. Perez owns 75 per cent of the privately-held company.

Mr. Perez is "probably one of the smartest guys I've ever met," said Mr. Ross, whose firm is currently developing the Hudson Yards megaproject on the west side of Manhattan. "We have a great time together. We have similar interests. Art, sports, travel – in the old days, women."

In the mid-1990s, Mr. Perez spied a new opportunity – building high-end condominiums in downtown Miami. His bankers told him he was crazy: The neighbourhood was fine for work, the thinking went, but no one wanted to live there. After 5 o'clock on weekdays, the city's core emptied out.

"You could come in with a machine gun and shoot down Flagler Street" – a main thoroughfare – "and you would hit nobody, unless you aimed low and there was a homeless person," Mr. Perez recalled.

After his first downtown condominium launched, Mr. Perez proved the naysayers wrong. That helped ignite a construction boom that transformed the city's skyline. In the four decades leading up to 2002, there were just 11,500 units constructed in the neighbourhood, said Peter Zalewski, who heads Condo Vultures LLC, a Miami consulting firm. By contrast, between 2003 and 2009, there were 22,000 units built – a quarter of them by Mr. Perez.

Greed, speculation, overoptimism – this is how Mr. Perez describes his mistakes today. Well before the crash, he was uneasy. He knew that nothing could expand forever and that Florida had always been a place where developers made and lost fortunes. But the speed and the force of the collapse took him by surprise.

One project called the Icon Brickell would prove iconic in ways Mr. Perez never intended. A splashy $1.5-billion hotel-condo complex on the water, it features giant coppery and silver pillars inspired by the statues on Easter Island. It was home to 1,650 condos. Nearly all of them were sold in advance to buyers in exchange for 20 per cent deposits. By 2008, prices started to fall, banks stopped lending and the buyers – many of whom had intended to flip their properties – simply disappeared.

"We had done models saying, 'What if 40 per cent of the people don't close, or 50 per cent?' " remembered Carlos Rosso, the head of Related Group's condo division. "Nobody imagined that it would be 97 per cent."

Taking drastic measures

Mr. Perez invited his lenders to Miami in 2009 to start the arduous process of restructuring his loans. A day before the presentation at the Hilton, his advisers had organized a bus tour of Miami for some of the lenders, which included institutions from Germany, Austria and Holland. As they pointed out the legion of largely vacant condominium towers, the message was clear: We're not exaggerating how bad it is.

Over the next two years, Mr. Perez dealt with all of his troubled loans, a process that entailed losing four of his projects – including two of the towers at the Icon Brickell – to lenders, who foreclosed on the assets.

"A lot of developers, mainly because of ego, can't come to terms with the fact that they are going to lose this property or that property," said Troy Taylor, president of Algon Group, an investment bank that advised Mr. Perez on the restructuring. "But if you have to chop off the arm to save the rest of the body, that's what you do."

Related wrote down $1-billion in losses on soured projects. It slashed half of its roughly two hundred employees and those who remained took a pay cut. At the same time, Mr. Perez said he poured hundreds of millions of dollars of his own fortune back into Related to keep it afloat.

At points, he considered calling it quits – after all, he thought, whatever happened, he had enough money for himself and his family. In 2010, doctors found a tumour the size of a golf ball in his pancreas. It turned out to be benign, but the surgery to remove it involved a long recovery.

"I just couldn't go out a loser," Mr. Perez said. "I couldn't go out a failure."

Hope From Latin America

Even as Mr. Perez was wrangling with lenders over his own troubled projects, he went on the hunt for distressed assets, recognizing a buying opportunity. "He was buying land and making deals at incredible prices when nobody else was," said Mr. Ross of Related Cos. One characteristic transaction: a downtown plot purchased for $3-million that is now the site of Apogee Beach, a nearly finished, sold-out condominium tower. The price for such land has since quintupled.

Like elsewhere in the U.S., the catalyst that helped turn the Miami market around was investment money, and in particular, money from wealthy Latin American buyers. While the U.S. economy tanked, a commodity boom was under way in places like Brazil. Such buyers were interested in a safe place to park their cash – for instance, an apartment in Miami that could be rented out, producing a regular return.

So people like Related's condo chief Mr. Rosso packed their bags and their brochures and began making trips to Brazil, Argentina and Colombia. In the process, they learned a different way of doing business. These potential buyers didn't blink at the idea of putting down a 40 per cent deposit on a condominium ahead of construction.

Such practices have now become the norm in Miami's new condominium projects. Before the boom, buyers put down 20-per-cent deposits and Related would borrow upwards of 90 per cent of the cost of a project from banks. The current trend for the company is deposits of around 40 per cent prior to construction, while bank borrowing represents only 30 per cent of the total cost. "It's a much healthier market as a result," said Matt Allen, Related's chief operating officer.

The previous glut of condos is almost gone: Mr. Zalewski of Condo Vultures said that of the 22,000 boom-era units, only 600 remain unsold, and he expects them to be purchased within months.

Related is hiring again and the number of employees is climbing back up toward pre-crisis levels. Mr. Perez has embarked on a deliberate strategy to diversify. He recruited people to head divisions focused on affordable housing and multifamily rentals and expanded internationally, linking up with partners to build projects in Brazil, Panama, Mexico and India.

But he remains the condo king. Last year, Mr. Perez announced a new 382-unit building in Miami's downtown Brickell neighbourhood with a swanky launch party featuring a parade of Ferraris and Maseratis (Pininfarina, the Italian car design firm, is doing the project's interiors). "Miami is back!" he shouted, according to a newspaper account.

Back at his home in Coral Gables, Mr. Perez showed a visitor around his outdoor sculpture garden – he is a major art collector – and talked about his love for food, tennis and Scandinavian mystery novels. A publisher wants him to write a book about the turnaround, but Mr. Perez declined. He is looking forward to doing more things with his family and taking a slight step back from the day-to-day running of the business.

He plans to spend future weekends in a seaside penthouse in Miami Beach with its own rooftop pool. Construction on the ultra-luxury building is due to begin any day. Naturally, it is a Related Group project.