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Return of the Sight-Unseen Market

Spurred by tight inventory, developers in cities like New York and Miami are demanding, and getting, millions for homes that have yet to be built

One real estate developer hired a drone; another displayed life-size sculptures of polar bears. A third charged potential buyers $100,000 just to take a peek at the floor plans. The common goal: selling something that doesn't exist.

Spurred by tight inventory and plenty of interest from foreign buyers, real-estate developers in cities such as New York and Miami are reviving the boom-era practice of pitching new buildings months—and even years—ahead of completion. Miami's Faena House, a planned 18-story tower, is still pouring concrete at the condo's basement level. Yet the project, part of a newly developed strip that will include a five-star hotel and an arts center by Rem Koolhaas's OMA design firm, already has 50% of its 47 units under contract, according to Alicia Goldstein of Faena Group. Buyers are required to put down a 50% cash deposit on the apartments, which range from $2.5 million for a one-bedroom to $50 million for the full-floor duplex penthouse.

At 56 Leonard in downtown Manhattan, which is being designed by Pritzker Prize-winning firm Herzog & de Meuron, 80% of the 145 units were under contract since presales launched in March. According to co-developer Izak Senbahar, a penthouse has gone to contract for $47 million, a record for downtown Manhattan if the deal closes. One57, one of the most expensive projects in Manhattan, won't be completed until 2014, but 70% of its 92 units are already taken, and total sales are expected to exceed $2 billion.

"Today we see presales as early as two to three years away from completion," says Kelly Kennedy Mack, president of New York-based Corcoran Sunshine Marketing Group, which runs marketing and sales for projects similar to 56 Leonard.

It is a contrast to the first years after the housing bust, when would-be buyers grew leery of presale offerings after some high-profile developments stalled during construction, leaving early buyers in the lurch. In Manhattan, the practice of selling out buildings on plans alone had all but disappeared three years ago, says Jonathan Miller, president of appraisal firm Miller Samuel.

But now that buyers are returning to the market, they are confronting historically low inventory levels, making presale offerings an increasingly attractive option. In the second quarter of this year, there were 4,795 units for sale in Manhattan, the lowest second quarter on record in at least 13 years, Mr. Miller says. Sales volume, on the other hand, has risen almost 19% compared with the same period last year. In a rising market, buyers are less fearful of a building going bust—and can look to presales as a way to "lock in" a lower price point.

At the same time, New York developers are contending with stricter criteria for securing loans. Lenders typically now require that a building sell at least 50% of its units or some comparable benchmark before a construction loan is completed, according to Frances Katzen, a managing director at Douglas Elliman. In South Florida, where few of the proposed towers have traditional lender financing because banks and big investors are still spooked from the bust, presales are even more critical. The large cash down-payments demanded of buyers are used to fund most of the development's construction.

That is where the marketing comes in. Michael Namer, the CEO of New York-based Alfa Development and the developer of Village Green West, takes a showman's approach. In March, his pop-up art gallery in Chelsea hosted artist Oscar Dotter's "Nordic Pop" exhibition, which included paintings and two life-size sculptures of polar bears. Mr. Namer says the goal was twofold: to raise awareness for the plight of the polar bear, and to showcase Chelsea Green, a 14-story, 51-unit green-energy building that he is developing. It is slated to open later this year, but was nearly sold out by the time of the exhibit. (Mr. Dotter, the artist, says he bought a two-bedroom unit in Chelsea Green for $2.1 million and says it would now list for $800,000 more than he paid for it.)

At 35XV, a condo to be built in New York's Flatiron district, the pitch includes a view from the top. While the 24-floor project is only built about halfway up, so a "little baby helicopter" was commissioned to snap photos of the city skyline from different levels of the planned tower, says Kenneth Horn of Alchemy Properties. The images are compiled into a video package played on loop at the off-site sales office, he says, where a model kitchen and bathroom also await prospective buyers.

The building is about 50% under contract, and Mr. Horn says it has already raised prices twice, with prices for one-bedrooms now starting at over $2.2 million, up from around $1.5 million. He says his firm expects the building to sell out before it opens in August 2014.

Marketers of the Porsche Design Tower in Miami, which is scheduled to open in early 2016, created an aura of secrecy. There was so much interest in the building's planned car elevator, which lifts tenants' cars directly to their units, that Dezer Development charged interested parties a $100,000 refundable deposit just to see the floor plans. (The ploy got them about 33 buyer commitments before the presale office even opened, says owner Gil Dezer.)

Once the off-site sales office opened, though, the company felt it needed a better way to help buyers visualize their apartments, which range from $4.8 million for a 4,800-square-foot unit to $32.5 million for a 17,000-square-foot penthouse. "When you start showing duplexes on floor plans, people get confused," Mr. Dezer says. So they made four replicas of different apartments and the lobby encased in four-by-six-foot glass boxes at a cost of $250,000. The décor and furniture was designed by Michael Wolk Design Associates and was crafted in miniature by MYP Maquetas, a Mexico-based model-making company. Currently 89 of the building's 132 units have been sold for a total of $535 million, Mr. Dezer says.

The Porsche Design Tower required a 30% down payment, which is lower than usual for Miami. This is because the developer plans to secure lender financing, taking some of the onus off buyers. While buyers can usually finance the balance of their purchase once their unit is completed, veterans say the vast majority of luxury presale buyers pay for their units in cash. The stiff cash requirements means buyers are betting, heavily, that their units will be completed to their liking—and that the development will be a success.

According to Jack McCabe, CEO of McCabe Research & Consulting, an independent real-estate analysis company in South Florida, buyers are only entitled to a fraction of their down payment if the project sours. Litigation can be onerous; many lawsuits from the last housing bust are still pending. The vast majority of new condo buildings after the bust saw individual or class action lawsuits from contract holders trying to recoup their losses, Mr. McCabe says.

Peter Zalewski, founder of the real-estate consultancy Condo Vultures, notes that foreign investors are more used to large cash deposits than U.S. buyers, so the large down-payment requirements are better tolerated. "Right now, it feels like 2003 in South Florida," he says, recalling the boom years.

Not all developers are on board with such an early presales strategy. "A lot of developers leave money on the table if they sell too soon," said Shaun Osher, CEO of CORE, a brokerage in New York. Mr. Osher says his company will only market a building a year out from completion, otherwise it risks underpricing the units. And should the still-fragile market take another drop, he warns that overly optimistic developers could end up with another bust-era dilemma. "Buyers would sooner lose their deposit than close on a devalued unit," he says.