Miami Herald

October 2015

Miami's downtown building boom drawing to a close

HIGHLIGHTS

- A new report suggests the downtown residential building boom has reached its peak
- Developers are taking a more cautious approach as thousands of new condo units hit the market next year
- Despite slowdown, industry analysts say a crash is not in the cards

Condo buyer Simon Pinto looks at the scale model of Brickell Flatiron luxury tower inside the project's sales gallery in Miami. CARL JUSTE

The skyline of Edgewater, looking southwest from the Julia Tuttle Causeway, where developers are building a host of new rental and condo towers. **Emily Michot** - emichot@miamiherald.com

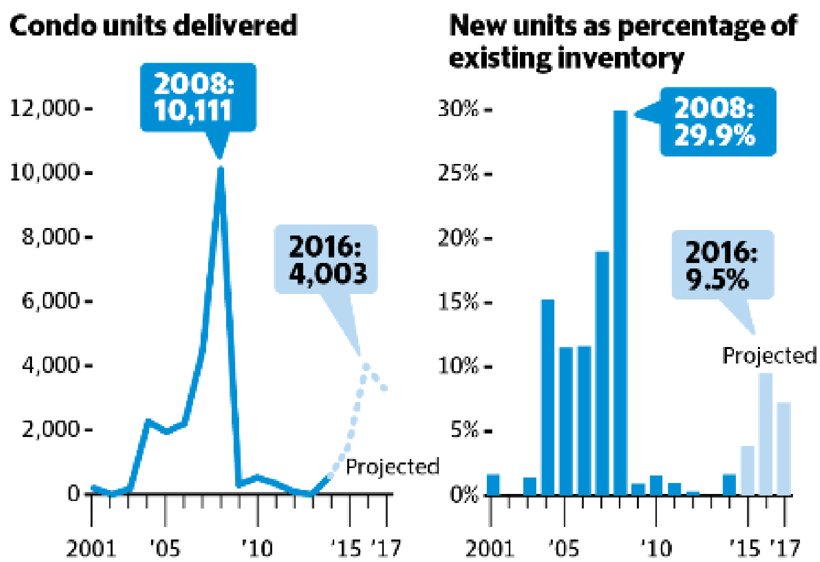
BY NICHOLAS NEHAMAS
nnehamas@miamiherald.com

The last time a building boom ended in South Florida, the region's entire economy crashed too. Now, as luxury condo sales slow and the dollar grows stronger, analysts fear the wheels of the current cycle are once again grinding to a halt.

But this time they're predicting a soft landing, in part because developers didn't have enough money to overbuild. And single-family homes and ultra-luxury Miami Beach condos may not even feel a bump.

New units won't flood the market

The bulk of new condo units built in the most recent real estate boom are scheduled to hit downtown Miami's market in 2016 and 2017. Unlike the last boom, the towers aren't expected to flood the market. The new condos make up a smaller percentage of existing inventory than in the past.



Source: Integra Realty Resources

KARA DAPENA kdapena@miamiherald.com

The problem slowing down today's cycle is simple: plummeting foreign currencies are hurting Latin American and European buyers. Those buyers have been driving a boom that launched in 2011 when the dollar was weak.

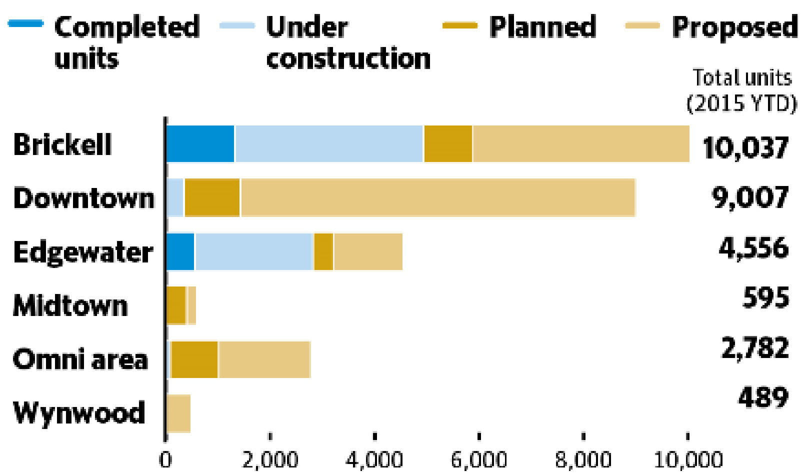
"From my perspective, what we're seeing is a marked slowdown tied to the strengthening of the dollar," said Alicia Cervera, managing partner at the brokerage Cervera Real Estate. "The foreign buyers responded to the stronger dollar by stopping in their tracks. That's fairly common when there's a significant adjustment in currency.

"Think of it this way: People were quoted the price of a dollar for a pen. They thought they were paying a dollar. But then with the currency adjustment, they're now paying $2. If you're offered the pen for $1, it's hard to come back and pay $2 for that same pen."

Already inventory is comparatively high — and expected to grow next year, with developers delivering the most units downtown Miami has seen in a decade. Industry watchers say we've reached a tipping point.

Plenty of new condo units in the pipeline

It might feel like Miami's construction boom has been going on forever, but the wave of new condo units downtown is only just starting to come to market. Brickell and Edgewater have been the most popular locations for developers so far in 2015.



Note: "Planned" includes projects in the "contract" and "reservation" phases

Source: Integra Realty Resources

KARA DAPENA kdapena@miamiherald.com

"The next six months are going to be a strong barometer of where we are in the market," said Anthony Graziano, senior managing director of Integra Realty Resources, which will release its latest study on the downtown condo market Thursday.

The Miami Herald was given exclusive access to the study, which was commissioned by the city of Miami's tax-funded Downtown Development Authority and covers the downtown condo market through August.

The report concluded that downtown developers have readjusted their sales expectations as "increased inventory, rising land and construction costs, and fewer international buyers changed local market dynamics."

> **THE NEXT SIX MONTHS ARE GOING TO BE A STRONG BAROMETER OF WHERE WE ARE IN THE MARKET.**
>
> Anthony Graziano, real estate market analyst

That means we've likely passed the peak of the cycle, according to Graziano.

Several planned towers in secondary locations off the water have been shelved or modified, and buyers at two projects by major developers are being asked to put down 30 and 35 percent deposits before closing, instead of of the 50 percent deposits that have become standard. (That's still well above conventional mortgage requirements.)

"We're getting to the point where developers, especially those in non-prime locations, are going to see how the new units are being absorbed and decide if they want to move forward," Graziano said. "That's not a bad thing. Prices are high and you could argue that the market has been getting a little overheated, so you want to see this kind of stabilization."

And the current slowdown isn't likely to spread beyond condos.

Across South Florida, prices for single-family homes are high and inventory is tight — and that probably won't change much. With development bound by the Atlantic Ocean and the Everglades, vacant land is rare.

Miami Beach's exclusive condo market also seems secure because it is driven by ultra-wealthy buyers looking for second or third homes on the water. Just last month, a buyer paid $60 million for a waterfront condo, smashing the previous sales record for residential real estate in Miami.

Downtown condo towers are more vulnerable because they tend to attract middle-market investors from abroad looking to rent out their units. Those are the types of buyers who pounced after the crash when Miami real estate was at an all-time low, helping absorb units in the city's core far more quickly than analysts predicted. They're also the ones hurt the most by a strong dollar.

"

WE SEE THIS AS THE MARKET TAKING A BREATHER.

Philip Spiegelman

Since 2007, the dollar is up nearly 200 percent against the Argentine and Venezuelan currencies, 164 percent against the Russian ruble, 119 percent against the Brazilian real, 35 percent against the Canadian dollar and 27 percent against the Euro, according to research conducted by EWM Realty International.

"Many Latin American buyers who have already put down deposits are choking on the additional costs of the stronger dollar and the difficulty of moving money into the U.S.," said Philip Spiegelman, principal of the International Sales Group, a preconstruction marketing and sales firm. "We see this as the market taking a breather while people adjust to the new situation."

Spiegelman said he expects many buyers will bank on the dollar eventually softening and seek financing to cover the remainder of their contracts.

"That shouldn't be too hard given the amount of mortgage money out there and how much the buyers have already put down in deposits," he said. Very few buyers will be willing to walk away from a 50 percent deposit, he noted.

SLOWDOWN, NOT A CRASH

Despite the slowdown, it's clear that no one is expecting anything like the chaos of the last crash when Miami's housing market hit rock bottom and imploded in 2009.

Developers have taken a more cautious approach this time around.

In the previous boom, speculators were able to put down 10 percent on a unit and then walk away when the economy tanked, leaving developers holding the bag. When the market started recovering in 2011 and an appetite for new construction emerged, developers adopted the Latin American business practice of demanding 50 percent deposits from buyers.

The cash in hand allowed builders to launch projects in the absence of bank lending. Most important, it prevented the massive overbuilding that doomed the market before the last crash.

With what seems like a crane on every street corner downtown, it's easy to imagine a glut of condo inventory headed our way. But the number of new units developers plan to deliver over the next 2 1/2 years is about half of what they pumped into the market during the last boom.

Only about 1,450 condo units are expected to hit the downtown market this year, followed by 4,000 in 2016 and 3,300 in 2017, according to the DDA study. That's a total of 8,750.

8,750 Number of units projected to hit downtown market in peak of current cycle

Compare that to the peak of the last boom when nearly 16,900 units were delivered between 2006 and 2008.

16,900 Number of units delivered downtown in peak of last cycle

The Miami market should be capable of absorbing most of the new units, even though existing inventory is high at 8.7 months of supply. The number of people living downtown has more than doubled to 80,000 over the last 10 years, the DDA found. Many of those new arrivals moved in at a time when there were hardly any new units being delivered. That pent-up demand from the lean years means the downtown market will be able to absorb about 8,500 units through 2017, according to the DDA.

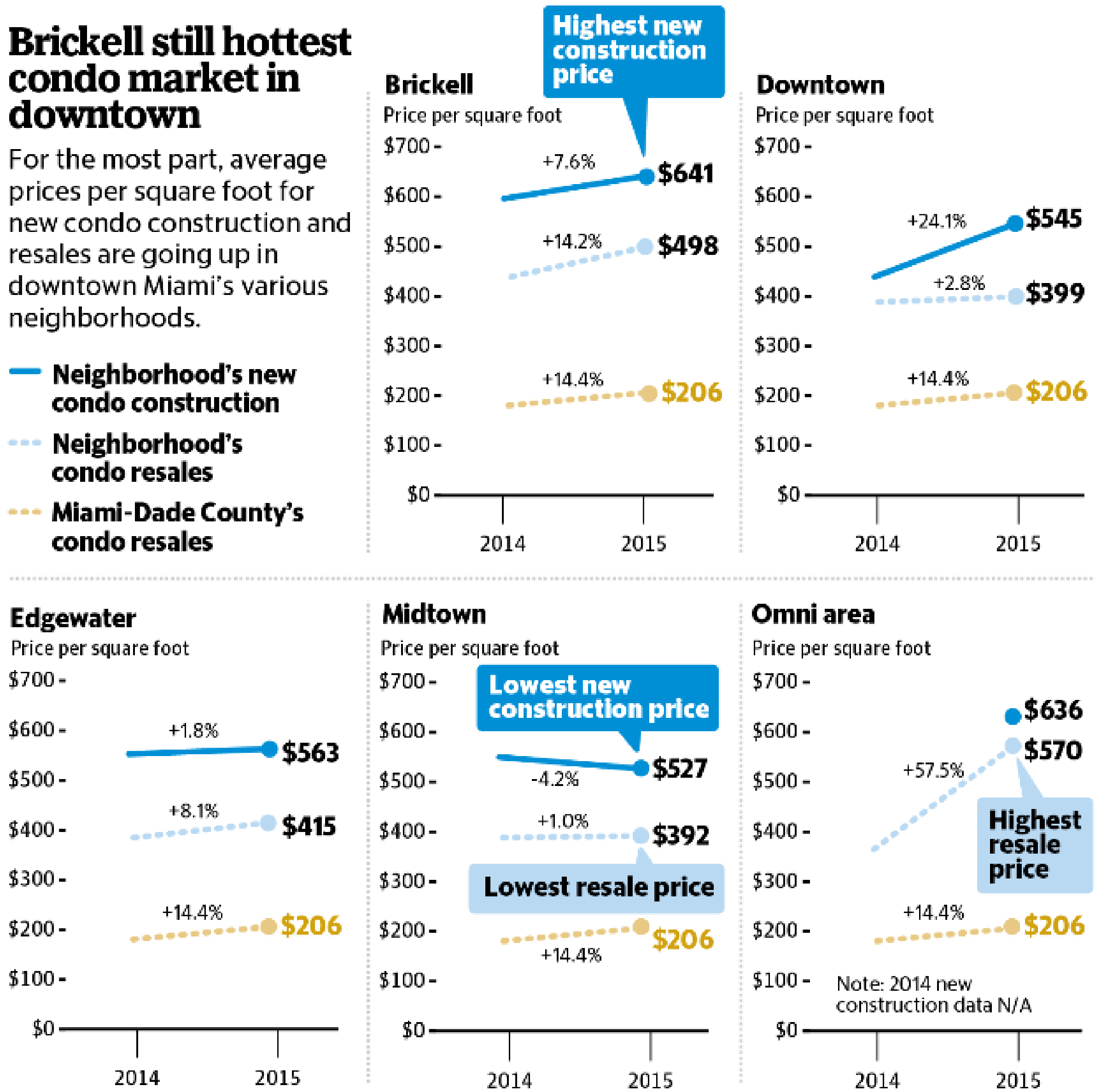
"I like where we are in the market," said developer Ugo Colombo, who has launched sales for the 64-story Brickell Flatiron where units average $700 per square foot. "We're selling at a normal, steady pace. Too much demand creates too much supply, which in turn leads to oversupply."

The crucial moment will come in the first half of 2016, when about 2,000 condo units are delivered, in addition to 1,000 rentals, according to the DDA study.

Developers are watching to see how quickly those units are snapped up.

"I don't think anybody's rushing to market right now," said Ryan Shear, a principal at Property Markets Group.

Echo Brickell, an ultra-luxury PMG project under construction with 180 units, will likely be the first downtown Miami project to break the $1,000-per-square-foot sales barrier. (Prices for new construction downtown average between $600 and $750 per square foot, compared to between $1,200 and $1,500 per square foot in end-user markets such as Coconut Grove and Coral Gables, and $1,700 to $2,000 per square foot in Miami Beach.)



Sources: Integra Realty Resources and EWM Realty International KARA DAPENA kdapena@miamiherald.com

PMG is also in the planning stages for a larger, 500-unit project with retail and restaurants at 300 Biscayne Blvd.

"It's a complex design with a lot of units," Shear said. "We want to watch the market like everybody else. But if sales stay at the current pace, we'll come out of the gates and go to market and I think that's true of almost all the high-end projects."

> “
> **I DON’T THINK ANYBODY’S RUSHING TO MARKET RIGHT NOW.**
> Ryan Shear, developer

That’s because buyers who can still afford Miami’s higher prices are still eager to invest downtown.

“Downtown is growing so fast,” said Simon Pinto, a Venezuelan-born businessman who owns a car rental company at Miami International Airport. “All the restaurants, all the shops. Everyday I see places opening around here.”

Pinto and his father, who still lives in Venezuela, recently bought two 1,500-square-foot apartments. The units cost just under $1 million each. Pinto will live in one unit year-round. His father will use his apartment as a second home.

Capital flight from Latin America has been a key driver of Miami’s real estate boom as foreigners seek to extricate their money from unstable home countries.

“Miami is a safe investment,” Pinto said. “What is happening in Venezuela, it’s not easy to deal with.”

Domestic buyers are also making a bigger impact on the market than in past years. The buyer of the most expensive residential property in Miami’s history, a $60 million penthouse on Miami Beach that sold last month, was Chicago-based hedge-fund mogul Kenneth Griffin.

That’s a good thing because the number of foreign buyers, who tend to make deals with cash, is falling. Cash deals made up about 53 percent of home sales in Miami-Dade County in June, down from highs of 65 percent last year, according to CoreLogic.

TIME FOR A BREATHER

As developers eye the market, some smaller players have already pulled the plug.

The team behind Ion, a planned 36-story tower in Edgewater, announced this spring it wouldn’t move forward with its project. Last month, planning for a 32-story tower in Midtown called Six Midtown was also scuttled. And the owners of a small parcel on the Miami River, who had planned to build a tower called Edge on Brickell, sold their land to another developer for $18 million.

Farther north, developers canceled sales at Gulfstream Park Tower, a 27-story tower planned for Hallandale Beach.

Even some larger developers are feeling the heat. Don Peebles, a prominent national builder, announced in August that he planned to sell a lot in North Beach where he had said he would build a 13-unit tower called Bath Club Estates.

“We’re effectively entering the fifth year of this cycle,” said Peter Zalewski, a South Florida-based condo market analyst. “Generally a real estate cycle is going to last between seven and 10 years. You’ve got the pent-up demand, then you build it, then you deliver it, then you realize you built too much and then you have the hangover where properties are discounted and buyers gain an advantage. Once it’s cleaned up again, then you get the next cycle.”

50 PERCENT DEPOSITS HAVE BECOME THE NEW STANDARD FOR MIAMI REAL ESTATE AFTER DEVELOPERS WERE BURNED IN THE LAST CRASH

Zalewski said another sign that the slowdown is affecting developers was the decision of major players to lower their deposit requirements for buildings that have made a certain amount of sales. “I think the increased competition from a variety of different sources is creating a little bit of an urgency among bigger developers,” he said. “If you have all these units you need to move, you’d rather move them out the door today.”

Fifty percent deposits have become the holy grail of Miami real estate. But last week, the Related Group confirmed that deposits at its Brickell Heights project had been lowered to 30 percent. In the spring, Swire Properties said it had lowered deposits for Rise, one of two condo towers at Brickell City Centre, to 35 percent.

Stephen Owens, president of Swire, said the decision was made at a time when the tower was 83 percent sold. “We’re completing this project and we’re ready to move forward,” Owens said.

Carlos Rosso, president of Related’s condo division, offered similar reasoning, saying the company had sold about 85 percent of the 550 units at Brickell Heights, enough to acquire construction financing from lenders.

“We have everything that we need between our own equity, the capital from the buyers and our lender,” Rosso said. “We’re happy to lower our deposits, sell the remaining units and move on to the next building.”

Related has delivered more than 1,400 units across Miami-Dade and Broward counties during this cycle and plans another 3,640 by the end of 2017. Rosso said the overall slowdown in the market did not concern him.

“I think Miami has its obsession with peaks and valleys and that has hurt us a bit,” he said. “I am seeing a much more mature market with much more retail and restaurants and mixed-uses where the highs are not so high and the lows are not so low.”

Others say the weeding out of less well-conceived and financed projects will help bring down construction costs, which developers say are going up about 2.5 percent a month amid a shortage of skilled workers.

“You have to take the long view, and that’s ultimately that this is a healthy correction for the market,” said Shahab Karmely, whose KAR Properties just launched sales for an ultra-luxury project on the Miami River called One River Point. “We’re here for the long haul. I’m a believer in Miami, not for this cycle but for the next 30 years.”

Already, long-term investors are looking ahead to the next cycle, said Neisen Kasdin, managing partner of the Akerman law firm.

“The residential market in the downtown area has clearly reached a peak and there will be a slowdown until all the inventory is absorbed and demand restarts,” Kasdin said. “Then we’ll see a drop in land prices, which will lead to the next wave of investment. The funds I work with are thinking it will be in the five- to seven-year range when residential building really picks up again.”

> **THE RESIDENTIAL MARKET IN THE DOWNTOWN AREA HAS CLEARLY REACHED A PEAK.**
>
> Neisen Kasdin, attorney

But other kinds of building activity are picking up. Condominium development creates a need for services for the new residents, especially the wealthy buyers driving the condo boom, said Jon Cardello, senior principal at architecture firm Stantec in Miami. Nonresidential building activity is up 19 percent year-over-year, according to Dodge Data & Analytics

“We’re seeing a whole lot of interest in retail, office and hospitality work,” Cardello said. “Look what’s happening with Brickell City Centre, with Miami World Center, with the Design District, with Wynwood.”

VIEW FROM THE BEACH

The waterfront real estate market, which was the first to recover after the crash, hasn’t been immune to the overall slowdown.

"Anyone who tells you they're not feeling the slowdown is lying," said Gil Dezer, who's developing the Porsche Design Tower in Sunny Isles Beach where units start at $6.5 million. But he added that the beach market is more resilient to the shifting winds of economic fortune.

For one, projects on the beach are much more expensive and offer fewer units. New construction in Miami Beach starts at an average of about $1,550 per square foot compared to $570 per square foot downtown, according to Cranespotters.com. And there are fewer than 500 units under construction on Miami Beach, compared to 6,300 under construction downtown.

500 Number of condo units under construction in Miami Beach

"It's an ultra-luxury market here," Dezer said. "You see the closing at our buildings or at Faena House or Acqualina, and they're all in the $4- to $6- to $8 million range. Those buyers have enough capital that they aren't as affected by foreign currency drops."

Developer Jason Halpern added that the lack of vacant waterfront land means it's hard to overbuild on the beach.

"We have a totally different buyer from downtown," Halpern said. "They're looking for big units that can be second or third homes."

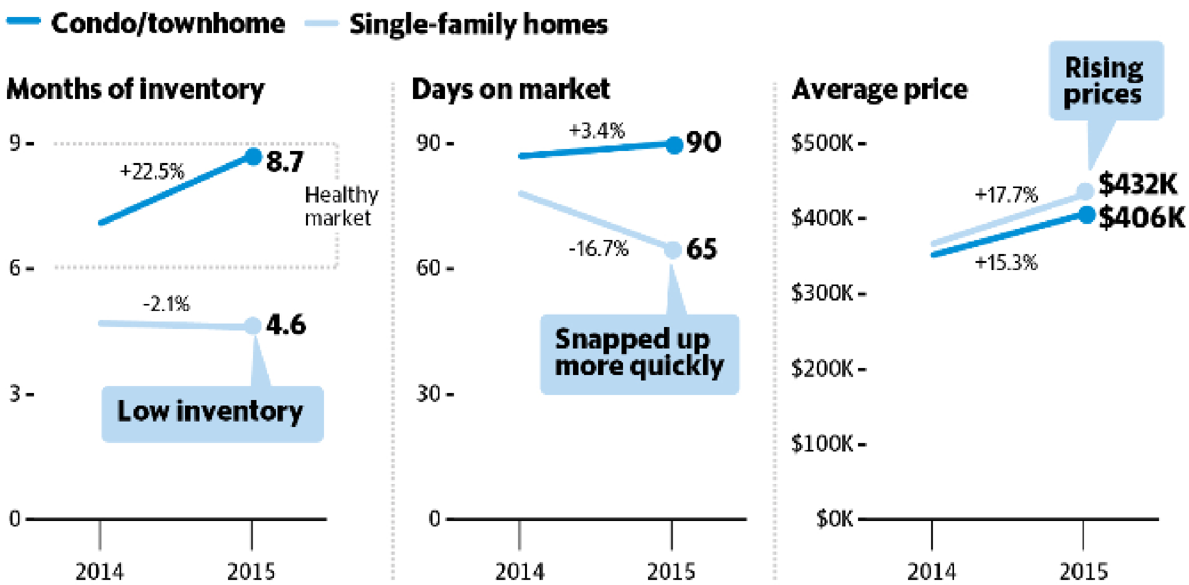
Halpern's boutique 300 Collins project, where the average price is about $1,700 per square foot, has sold 10 of its 19 units. "There will always be enough wealthy buyers to purchase 19 units of quality new construction," he said.

Existing condo values are up in Miami Beach, too, hitting $363,000 in August, according to online real estate company Zillow. That's up 11 percent year-over-year. Waterfront condos are going up by as much as 15 percent annually, well above the county average of 8 percent, Zillow found.

Meanwhile, the single-family market is showing few signs of slowing down.

Inventory tight for single-family homes

Inventory remains tight for single-family homes in Miami-Dade County as prices rise and homes get snapped up quickly. Condos are seeing a similar price rise but are staying on the market longer as inventory gets higher. A healthy market is generally considered to have between a six- and nine-month supply.



Source: EWM Realty International

KARA DAPENA kdapena@miamiherald.com

Inventory stands at 4.6 months across the county, according to EWM. A healthy market is generally said to have between six and nine months of supply. (The condo and townhome market, in contrast, is at the upper limit of healthy at 8.7 months of supply.)

“There is so much demand compared to supply and that’s why the prices are so high,” said Duff Rubin, regional senior vice president at brokerage Coldwell Banker. “I really don’t see that changing.”

Houses are staying on the market about 65 days, down from 78 days last September, EWM found.

“There are 60 million condos on the market but the single-family homes are just getting snapped up,” said Sue Honowitz, a Realtor at Golden Beach Real Estate.

MORE RENTALS IN THE PIPELINE

The area where locals may see fastest price relief is the downtown rental market. There are about 3,200 conventional rental units under construction downtown, with at least another 7,000 in the pipeline, according to the DDA study. Most are going up in Brickell and the central business district.

The demand from young professionals who want to live near downtown restaurants, shops and bars is growing, developer Carlos Melo said.

"These are people who aren't ready to buy but who have good jobs and want to be close," Melo said. "We really see so much room in this market because many developers have focused on condos." In May, the Melo Group plans to open a 500-unit in the Omni area called Melody where two-bedroom apartments rent for about $2,000.

The new inventory could help constrain rising rental rates.

3,200 Number of rental units under construction in downtown Miami

Carly Bloomberg, a Brickell renter, would be glad for the help. Her rent for a two-bedroom apartment, which she splits with a roommate, has gone from $2,450 to $2,700 in four years.

"I think it's the best place in Miami to live," said Bloomberg, a saleswoman for Tesla. "I love being able to get home from work, park my car and walk everywhere ... But just I don't understand how they can keep raising the rent in Brickell and expect people to keep paying it."