

Report: Downtown condo market to cool down

By Nicholas Nehamas



*Construction is ongoing at Brickell City Centre, which will offer two condo towers with nearly 800 units.
Peter Andrew Bosch Miami Herald staff*

A new study confirms the latest chatter from real estate watchers: Miami's sizzling downtown condo market is cooling down.

Skyrocketing construction costs, overheated land prices and falling foreign currencies have finally caught up with a housing market that boomed after the lean years of the recession.

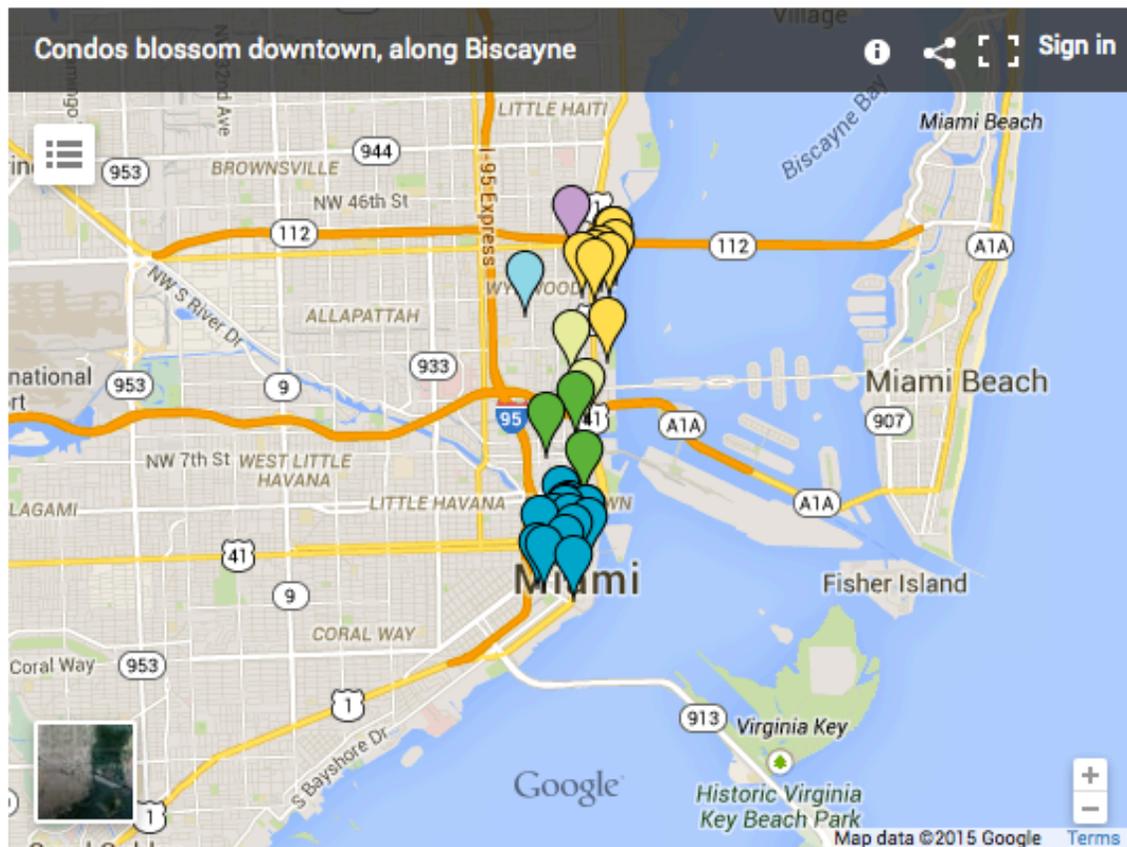
But unlike the last go-around, when highly leveraged projects brought the house of cards tumbling down, few observers expect a crash.

One sign of the current cool-down: the growth in resale prices for downtown condos is slowing.

The average resale price went up to \$431 per square foot in 2014, a 16 percent increase from the year before, but still down from jumps of 22 percent in 2013 and 27 percent in 2012. Those numbers come from

a report by the semi-autonomous, tax-funded Downtown Development Authority.

“It’s important to know where we are and where we’re headed,” said Alicia Cervera, managing partner at Cervera Real Estate and a board member of the DDA. “A significant amount of new condo units are coming onto the market in the next two to three years, and everyone needs to be very strategic and cautious about what they’re offering.”



“We can’t just throw stuff into the market and hope it sticks,” Cervera said.

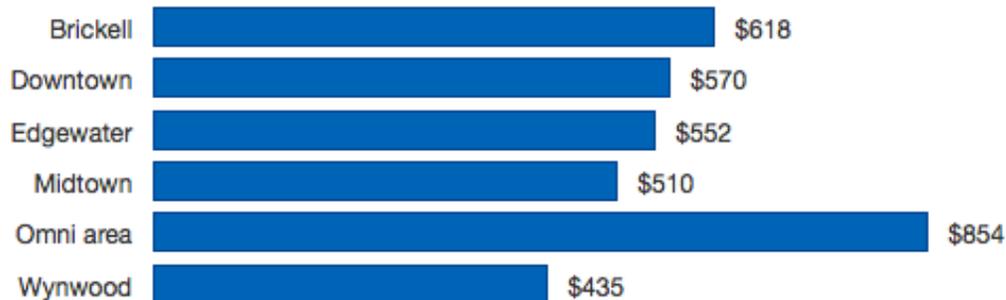
As land and construction costs go up — and condo prices slow down — developers won’t be able to hit their profit targets. That, in turn, is expected to slow the pace of new projects. Some proposed projects likely won’t get off the ground, according to the study, which was conducted by Integra Realty Resources, an independent real estate consultancy.

Downtown-area developers currently have more than 22,000 condos units in development, with the majority slated for Brickell and the downtown urban core. Some projects are nearing completion, while others are still in the planning stages.

The average price per square foot, excluding ultra-luxury projects such as 1000 Museum and Echo Brickell, is \$563, according to the report. Prices are higher on the water in Brickell and Edgewater and lower further inland.

Brickell has most consistent high prices

The ultra-luxury 1000 Museum project in the Omni area drags up the average price per square foot for that neighborhood, but current selling projects near the water in Brickell and Edgewater are generally the most expensive.



Source: Integra Realty Resources [Get the data](#)

Carlos Rosso, president of the condo division for Related Group, which has 15 projects selling around Miami-Dade County, said his firm's construction costs have been going up by one percent per month because of high labor costs and the limited availability of subcontractors.

"It is a cause for concern for all developers," Rosso said.

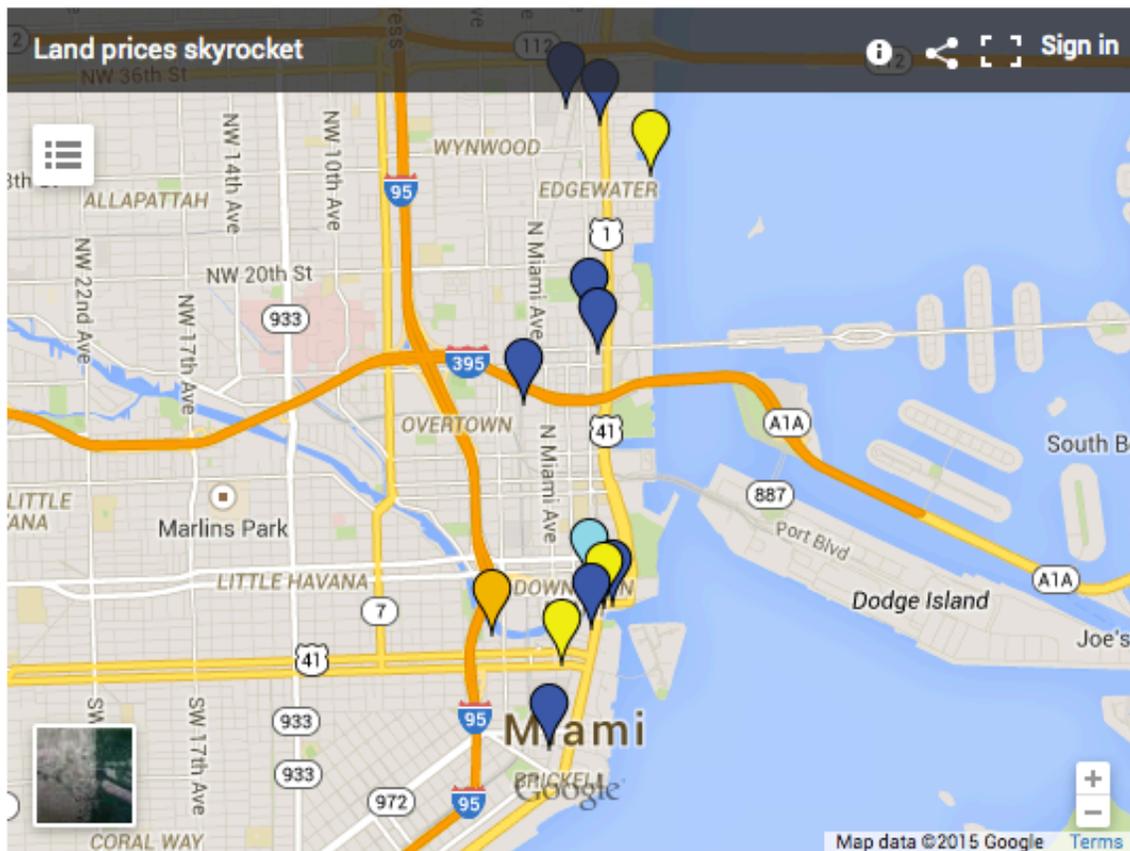
Miami's real estate market has become a victim of its own success, said Brad Meltzer, president of Plaza Construction Group Florida.

"The subcontractors are incredibly busy and when they're bidding projects, they're going to include a greater profit margin in their bids," Meltzer said. "If they don't get the job it's not as important to them because they have enough work on their plate."

A shortage of skilled workers isn't helping either. The number of construction workers in South Florida has fallen from about 168,000 in 2006, at the peak of the boom, to 106,000 last year.

And land prices are going up, up, up. Recent eye-popping sales include \$125 million for the 1.25-acre [Epic Marina site](#) last July and \$80 million

“The prices are very high, but we’re still not sure if the market has topped out,” said Suzanne Amaducci, a real estate lawyer with the Miami firm Bilzin Sumberg. “Land is scarce in the very attractive areas like Brickell.”



The condo market began to slow last summer when commodity prices like gasoline started to tumble and the U.S dollar strengthened, according to Peter Zalewski, principal with the Miami consultancy Condo Vultures. After a year of record-setting growth, condo sales county-wide fell [15 percent](#) in January compared to the previous year, according to reports by the Miami Realtors association.

Those changes weakened the ability of foreign investors to buy in Miami, leaving domestic buyers — who often can’t afford the 50 percent deposits most local developers now require — struggling to pick up the slack. And though lending requirements for individual buyers have eased, that may not be enough to dent the growing supply.

(Zalewski said buyers may be turning to Broward and Palm Beach, where foreign investors can find better values per square foot and Americans can take advantage of less strict deposit schedules.)

“Rents are still going strong downtown, but I don’t know how much

But few observers, Zalewski included, expect anything like the devastation that accompanied the financial crisis.

“As opposed to the last cycle, there’s very little leverage in the market,” said Neisen Kasdin, Miami office managing partner for the law firm Akerman and a member of the DDA board. “Most of the purchases are being made in cash. There’s not going to be a crash, that’s for sure. There’s going to be, at best, a softening.”

In fact, a slowdown is actually a sign of a healthy market, said Anthony Graziano of Integra Realty Resources, one of the report’s lead authors, echoing the opinion of other real estate experts.

“We’re likely to see some projects shelved over the next 12 to 18 months as developers realize they may not make the profit they want,” said Graziano. “That’s especially true of projects in secondary markets that are further away from the water.”

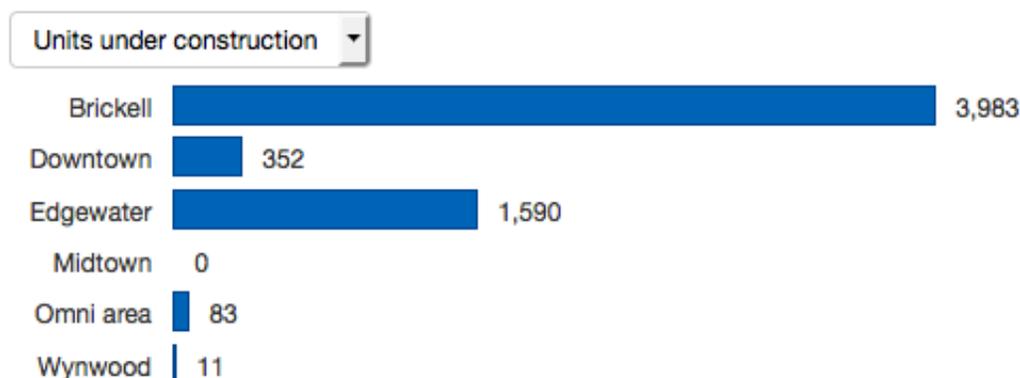
If development slows down, construction costs will stabilize as subcontractors start fighting for work again.

And Graziano said condo prices will grow even more slowly as new units hit the market and satisfy the pent-up demand that built up during the recession. Condo development stalled completely during the down years.

“We’re beginning to see equilibrium between supply and demand,” he said.

Brickell most popular market

Brickell has the most condo activity of the greater downtown neighborhoods and will continue to have the most units if all proposed buildings come to market. But Edgewater has the second most units in the immediate pipeline and Downtown has the greatest number of proposed units.



There are now more than 6,000 units under construction in the six sub-markets — Brickell, Edgewater, Midtown, Wynwood, the Omni area and the downtown urban core — studied in the report. Nearly 70 percent of the new units are going up in Brickell. Developers expect to deliver most of them by 2017.

Overseas investors, especially those from Latin America, have largely driven the new projects.

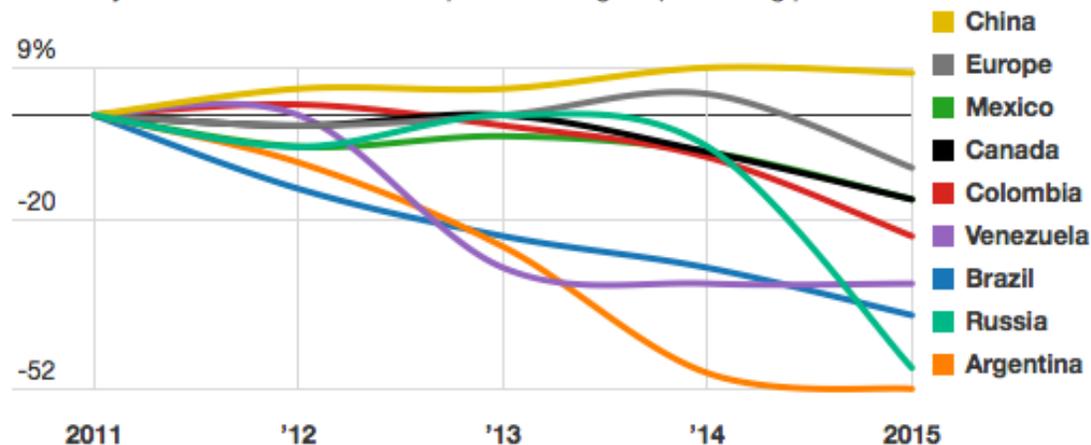
But the DDA report concludes that the gush of foreign money into Miami is already slowing down.

Between 2011 and 2015, purchasing power in major foreign markets plummeted against the dollar, including Argentina (down 51.9 percent), Brazil (down 37.6 percent), and Venezuela (down 31.8 percent).

Only the Chinese yuan made gains against the dollar, going up 7.7 percent during that time, as Chinese buyers begin to [show an interest](#) in Miami.

China's purchasing power increases

Foreign investors drive Miami's real estate market, but their buying power has diminished significantly since 2011 with the exception of China. The Euro hasn't fallen as much as the crucial South American currencies, but its downward slide vs. the U.S. Dollar is expected to continue over the next year. The chart below shows percent change in purchasing power since 2011:



Percent change in purchasing power since 2011

Source: Integra Realty Resources [Get the data](#)

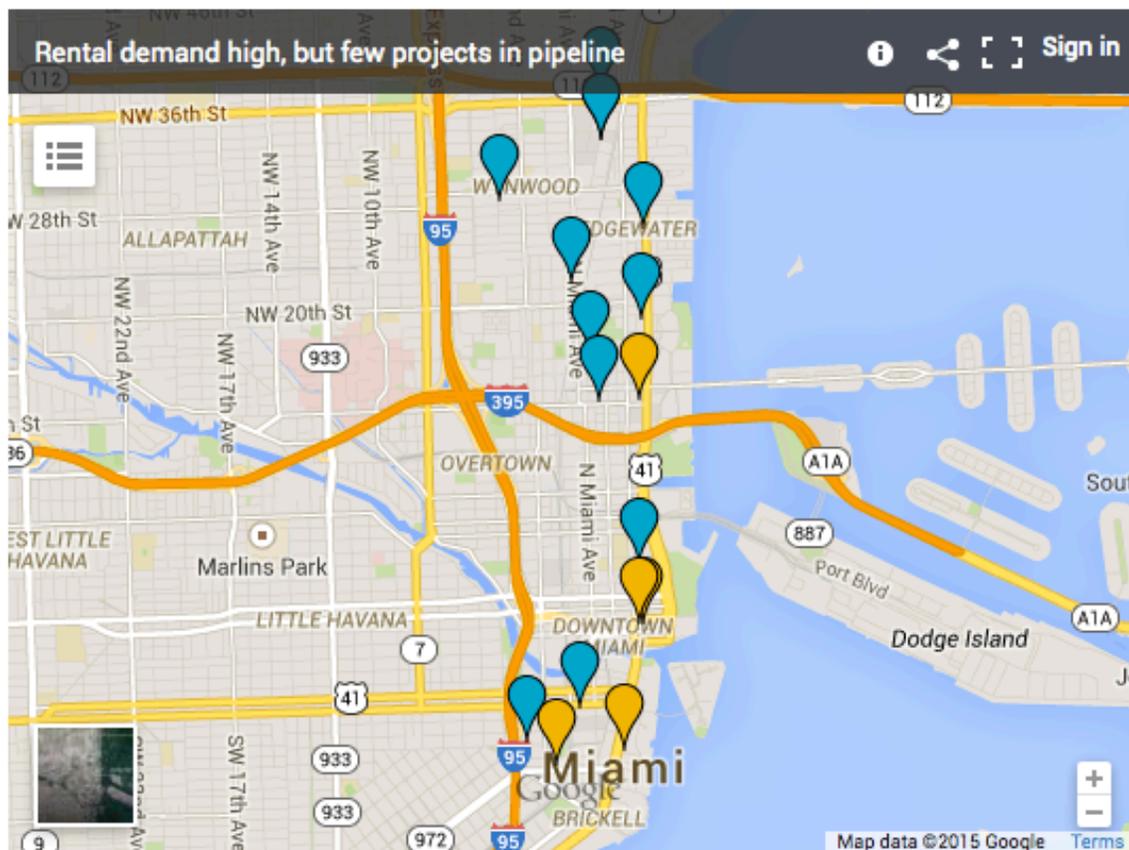
"The downturn isn't going to affect someone from South America who can cut a check for \$5 million," said William Hardin, a professor and the director of the Hollo School of Real Estate at Florida International University. "It's the mid-tier investors who will face a problem. This will reduce the price points less wealthy investors can afford and they do make up a significant chunk of the market."

The slowdown may have a more serious affect on the rental market, where margins are thinner than they are for condos. Developers expect to complete fewer than 900 rental units in 2015.

But Carlos Melo of the Melo Group said Miami needs more apartment buildings. And he sees a potentially lucrative market for them: Young people who can't afford to buy a condo but want to take advantage of the new restaurants, arts and nightlife available downtown.

"It's impossible for a city to have only Aston Martins and Rolls Royce in the streets," Melo said. "You have to have Fords and Hondas too."

The Melo Group is building nearly 500 rental units at the Melody in the Omni area. It has proposed another 1,500 rentals near the Arsht Center for Performing Arts.



Affordable housing is the key to keeping young, talented people in the downtown, said Stuart Kennedy, senior programs officer at the nonprofit Miami Foundation.

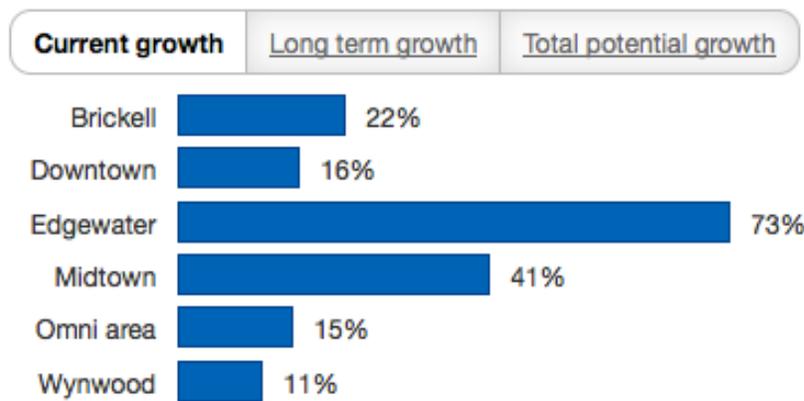
Miamians already spend more on housing as a percentage of their income than residents of other major cities such as New York, Chicago and Houston, according to a [study](#) conducted by the foundation.

The average downtown rent is now approaching \$3,000 per month, according to the DDA report.

“We saw some affordable housing being built during the recession,” Kennedy said. “But now that the good times are back it seems many of the new buildings are luxury condominiums and therefore bring a luxury price point.”

Edgewater growing fastest

In comparison to existing inventory, Edgewater is growing faster than the other downtown neighborhoods in terms of units under construction, contracted and reserved. Because of the number of proposed units, Downtown has the most potential for long term growth.



Source: Integra Realty Resources [Get the data](#)