

Condo Boom Cools: Not every condo project will be built if sales keep slowing

Don't let all the towering construction cranes fool you. The Miami condo market is no longer soaring to new heights. Recent surveys of new condo presales by Integra Realty Resources and ISG World show a slowdown of sales to start 2015.

In another sign of weaker demand, existing condo sales volume has been trending down in all three counties.

Nevertheless, the development pipeline is still enormous. CraneSpotters.com counts 43,004 new units in 357 projects east of Interstate 95 in South Florida. Of those, 13,962 have been completed or are under construction, so whether the majority of those proposed projects come out of the ground will depend on the strength of the market.

Some say the market is merely stabilizing. Others see it turning to a downward trajectory that will prevent some projects from moving forward. There are as many opinions about the future of the condo market as there are proposed towers. We talked to the experts. Here's what they think.

We asked the experts on the South Florida condo market:



Alicia Cervera Lamadrid — Managing partner, Cervera Real Estate

There was a slowdown in May and June, but that's not atypical for the summer months in Miami. Things should pick up in the fall after Art Basel and more projects will hit the market then.

“Certainly the currency change affected the volume, and when currencies shift there is a pause and, as people assimilate to the change, it becomes the new normal,” said Cervera Lamadrid, who is brokering sales at buildings such as Biscayne Beach, Bay House, Aria on the Bay, Centro and the Ocean Fort Lauderdale.

“The market has leveled off some, and that will continue to happen because it was rolling at a frenetic pace.”

Some projects that have been on the market for a long time are down to their last handful of units, so there’s not going to be a frenzy of sales volume. Some projects that aren’t far along in the sales process won’t go forward, but the developers might be able to sell the land for profit, instead of building.

The biggest challenge is that most local buyers don’t have access to the condo market because of restrictions on financing. Few new and existing condo buildings in South Florida qualify for Fannie Mae- or FHA-backed mortgages with lower down payments.

Regulators refuse to write conventional loans in buildings where investors have a high concentration of ownership, which is common in downtown Miami.

Cervera Lamadrid lost three BrickellHouse sales with local buyers who couldn’t qualify for loans with 25 percent down. That building’s association has solid finances and little risk because 85 percent of its units were bought with cash, but regulators refuse to approve it.

“It would be a travesty to continue to lock out the local buyers from being able to buy,” Cervera Lamadrid said.

Broward County is attracting more international buyers because its beachfront is a good value compared to Miami. Buyers there are accepting 50 percent deposits, but at a slower pace.



Ugo Colombo— CEO, CMC Group

The condo market is leveling off and headed in the right direction.

It’s not normal to immediately sell out a building after putting it on the market. Sales will come at a decent pace, and few buyers will look to flip a contract. Despite the problems in their economies, South

American buyers will continue seeking condos in Miami.

However, new developers might have trouble attracting enough buyers.

“Tens, if not hundreds, of buildings are planned, but if they will really happen is a different scenario,” Colombo said. “Money isn’t available like it used to be. Before they build, [there] must be a substantial basis out there. The market will correct itself before it gets overbuilt, contrary to last time, when banks were anxious to give people money and the market was overbuilt.”

CMC Group’s Brickell Flatiron is 40 percent presold and is expected to break ground near the end of the year. Colombo expects to be at 50 percent sales by groundbreaking. He doesn’t want to sell out the building so early. That way, he can increase prices of units as the building gets closer to completion.

“I want to be where the profit is,” he said. “You give someone a better deal in preconstruction. You need the buyer more.”



Edgardo Defortuna — President and CEO, Fortune International Group

The Latin American and European markets still have strong interest in the Miami condo market, despite weaker currencies.

Fortune International Group brokered \$1.3 billion in condo sales in 20 new projects in the first half of 2015, compared to \$1.1 billion in the same

period of 2014. It sold fewer units, but at a greater dollar amount because prices increased.

“The demand is still very strong,” Defortuna said. “You have to be a little more flexible to allow them to extend payments. They need more time to take their money out of the country.”

Latin American buyers are now interested in Hollywood and Hallandale Beach, in addition to Miami, Aventura and Sunny Isles Beach. Selling them condos in Fort Lauderdale remains challenging, but can work with name brands.

As long as developers stay disciplined with 50 percent deposits and don't begin construction until there is a significant amount of presales, the market will be healthy. Some projects may be delayed until the prices they can charge catch up to the rapidly rising cost of construction.

"The price curve has leveled off," Defortuna said. "We can't have the same pace of price increase we have had the last couple of years. That is not sustainable."

Many of the inexperienced developers without great locations will have issues and may not launch their projects, but they aren't likely to fail in the middle of construction.



Ignacio Diaz — General manager/owner, Group P6

There's a strong domestic market for Deerfield Beach and Boca Raton, where Group P6 is breaking ground on three boutique projects this year.

After building in Venezuela for 35 years, Group P6 came to Broward and Palm Beach counties because land in Miami was too expensive.

It positioned its Fordham and Elysian projects for snowbirds buying second homes, and is asking 30 percent down. Its 327 Royal Palm in Boca Raton, for empty-nesters looking to downsize, requires 50 percent down.

All its buyers are from the U.S. except one. It's not even marketing in Latin America.

"They aren't buyers with a bag of cash from a foreign country. They are very price-sensitive," Diaz said. "They are thinking of getting a mortgage when it comes to closing."



Anthony Graziano — Senior managing director, Integra Realty Resources

The Miami condo market is at a point where many developers are considering whether to launch sales now or wait.

Both new unit sales and resale volume are leveling off, and that's an indication of lower demand.

“It's a healthy correction,” Graziano said. “Developers are delaying their plans. That is good for the market. It has allowed existing inventory to burn off and allowed pricing to be more transparent.”

The exception is the ultra-luxury market, with prices near \$2,500 a square foot, which is very strong. That is why high-end markets like Miami Beach and Coconut Grove are performing better than downtown Miami.

He predicts a slowdown in new project announcements for six months as developers take a wait-and-see attitude.

“There is still a long tail to this market, provided there are no major debt or equity shocks,” Graziano said.

The question is how high prices can go in downtown Miami. Many investor owners rent the condos out and expect values to appreciate, but the local economy could limit that.

“Are there enough jobs for pricing in the \$850-a-square-foot range? The answer is clearly no,” Graziano said.

The properties with water views, such as in Miami's Edgewater, and strong developer branding are selling better. Projects off the water are selling slower and could be more likely to fall away.

The pricing situation in Broward and Palm Beach counties isn't as dramatic because fewer buyers are willing to put down 50 percent.



Arnaud Karsenti — CEO, 13th Floor Investments

Supply and demand have started to meet at an equilibrium. The huge overhang of supply during the recession was absorbed faster than expected, and now developers are working to meet the demand.

“The days of selling 30 or 40 units a day are over, but very few industries in the world move at that pace,” Karsenti said. “Today, sales are being earned the old-fashioned way. People are being more selective in what they buy.”

With so many condos under development in the Brickell area, amenity packages will help differentiate the buildings. That’s why 13th Floor’s 1010 Brickell,

now under construction, has a two-floor amenity deck.

In the less-crowded North Miami Beach market, 13th Floor’s The Harbor project has presold 80 percent of its condos by offering waterfront units with plenty of amenities and lower pricing than in downtown Miami or the beaches.

“The condo business in Miami will continue; I just don’t know at what pace,” Karsenti said. “The pace will probably slow, but then you will see demand pick up and more product.”

The currency fluctuations have removed many of the foreign speculators hoping to flip units, and now many buyers plan to actually live in their units or rent them out.

He’s willing to make another condo site acquisition, but only at the right price.

“For condos, you have to be very careful,” Karsenti said. “The land in Miami has been priced up for condo development, and it has created a problem to acquire a lot of land parcels.”



David Martin— COO, Terra Group

Terra Group has focused on areas with a high barrier to entry, such as Coconut Grove and Miami Beach, and prefers to build a smaller number of high-end units, as opposed to packing as many condos onto a site as the zoning allows.

With the right location, you don't need to depend on foreign buyers. Grove at Grand Bay has sold out with 60 percent domestic buyers, including many empty-nesters from Coral Gables and Pinecrest who love the Coconut Grove lifestyle. Its international buyers come from 17 countries.

In Miami Beach, Terra Group sold out the 10-unit Glass, and most buyers were American. However, Terra Group has not returned to downtown Miami, where it developed during the last boom, as that is where the bulk of the condos are being proposed now. Developers must be mindful of the prices they are asking, compared to their location, because buyers are more educated than ever.

“With Miami, how do you assess its demand? Over the last 10 or 15 years, it has become more difficult to look at it based on population, employment and job growth,” Martin said. “The amount of new homes being built in Miami-Dade County is extremely low compared to 30 years ago because of limited land supply.”



R. Donahue Peebles— CEO, Peebles Corp.

The condo projects under construction will be completed, but most of the others that have been announced will not move forward.

Domestic buyers won't put down 50 percent deposits. Not when so much of their money is at risk with the developer funding construction with it. The capital stack for developers isn't favorable when the bank financing is so small.

“This market is in for a leveling off, and it will get quieter,” Peebles said.

It will be hard to find local users for those condos because the job market can't support it.

“In Miami, we have all this luxury development going on, and the per-capita income is the lowest of the Top 10 cities,” Peebles said.



Jorge Pérez — CEO, The [Related Group](#)

Three factors have caused a mild decline in condo sales in Miami this year: the strong U.S. dollar hurting foreign purchases; more competition from other projects; and the increase in prices.

“I welcome this because I think it will prevent a sharp drop,” Pérez said. “It will take away people who shouldn’t be developers who are building in secondary areas or have no experience, so it will clear the market.”

New condo sales volume in Miami is still good compared to other major metro areas. Unlike in the last boom, the buyers are not flippers and speculators. The 50 percent deposits and conservative construction financing will safeguard against a big fall.

While the devaluation of currencies in Latin America has hurt, especially in Brazil, those investors still want to buy in Miami.

“The U.S. is seen as a way of hedging against monetary fluctuations, political upheavals and economic downturns,” Pérez said. “A lot of South Americans are buying, particularly in the urban core, to rent long term and just have a small return.”



Ryan Shear — Principal, Property Markets Group

The developer of condos such as Echo Aventura, Echo Brickell, Sage Beach and Muse, generated about \$25 million in presale deals in June.

PMG was selling 15 units a month last year, and now it’s 10. But the prices are holding steady.

While foreign investment has fallen, domestic buyers have picked up and are now PMG's second-largest market after Brazil.

"I don't think this time it is cyclical," Shear said. "We are headed toward a normal market."

However, he said some competitors probably won't sell enough to break ground now.

"Going to market sometime next year will be a great time for a lot of people," Shear said. "The American dollar will come down a bit. Condo developing will be better in 2016 than in 2015. This year, a lot of the smaller players will get washed out because financing is not readily available."

PMG focuses on high-value sites where there aren't many units with comparable views and locations. Shear said it avoided Edgewater for this reason.

PMG is crafting its development plan for the 2-acre site at 300 Biscayne Blvd. It will break ground on a luxury rental tower in the fourth quarter, and launch sales for a condo tower in spring 2016. It's expected to be one of the tallest buildings in Miami.

"We are not purposely holding back 300 Biscayne because of the market," Shear said. "If the market was on fire, maybe I would rush it a little faster. But we need time with this type of property."



Athena Rossano — Director of market research, ISG World

New condo sales have slowed a little, mostly because of the strong U.S. dollar, but that won't last forever.

Research by brokerage ISG World shows about 65 percent of the new condo inventory on the market has sold. Prices in Miami Beach, Sunny Isles Beach, Brickell and Edgewater continue increasing. Prices are stable in Aventura.

"I don't see the market being slow," Rossano said. "It's just not as quick as it was the last couple years."

Most developers are sticking with 50 percent deposits for buyers, although some require as little as 30 percent when

the project is near the closing date. That's because the previous deposits have funded construction. Many developers are letting buyers make deposits incrementally over many months, instead of all at once.

"Developers are holding back to see what happens with the market, and to develop the best product they can," Rossano said. "They want to see what happens with Brazil and Venezuela because they depend on these international buyers."

Doral is another hot spot for foreign buyers, especially Venezuelans, and prices for new product are being driven up to \$450 a square foot there. Codina Partners has nearly sold out one tower of Paseo at Downtown Doral, and is 70 percent presold on the other.



Carlos Rosso — Executive VP, The Related Group

The market is solid and a few months of slower sales shouldn't shake buyers' confidence in Miami as a desirable market.

The Related Group presold 1,000 units in seven active projects in the first 22 weeks of 2015. In the same period a year ago, it sold 750 units in four active projects. Since it has more projects selling at once, it's taking longer to sell the majority of the units.

"This is a great way of making sure the market clears itself of developers who can't wait," Rosso said. "You need to be well-capitalized because the sales period will take longer."

Related can afford to hold the office building at 444 Brickell Ave. and launch another condo there when the time is right. Once Brickell City Centre, with its high-end retailers, is open, demand should increase in the area.

"The secret here is patience," Rosso said. "Most of these guys are very wealthy individuals and believe in the long-term success of Miami, and they don't mind waiting."



Bob Vail— President, Kolter Urban

There's a strong market for domestic buyers at great waterfront sites.

Kolter Urban, which is building the Water Club North Palm Beach, has sold 111 of its 162 units, which is 20 percent ahead of its expected sales pace. Most of the buyers are from the Northeast, Midwest or other parts of Florida. Often, they are downsizing from country club houses or nearing retirement and want a second home in a fun place.

Case in point: Kolter is seeking approval for a 17-story, 50-unit condo on the beach in Singer Island.

The Water Club buyers are making 25 percent deposits and often expect to obtain financing at closing. Kolter won't ask for 50 percent down.

"The U.S. buyer is not accustomed to buying a condo with that much money at risk, so we don't build our financial model to require that," Vail said. "For our buyers, there is no benefit to putting that additional deposit down. They would rather have the money working for them and eliminate the extra risk of the deposit."



Jack Winston— Principal, Goodkin Consulting

The condo market has reached its peak and is now slowing. The inventory in the downtown Miami pipeline could take five or six years to sell off.

The demand for downtown apartments led many wealthy Latin Americans to purchase units there and rent them out, but increasing prices and construction costs could stall that trend. Now, 7,800 conventional apartments are under construction there, and they could undercut the rents of new condo units. If condo investors can't obtain high rents for their units, they'll have a difficult time selling them for a profit in a few years.

Few domestic buyers will buy new condos with 50 percent

deposits because they're used to putting down about 20 percent. So there won't be much of a local market.

In Broward and Palm Beach counties, projects on the water can attract wealthy domestic buyers, but they need to ask for deposits of about 35 percent.

"You are in for a slide, and the slide is going to be reflected in a significant slowdown in the Latin American and offshore buyers," Winston said. "A lot of proposed projects may not go forward because they see what is starting to happen in the market."

The developers at most risk of stalling are those with higher prices than their competitors for similar or worse projects, often because they overpaid for the land or construction costs escalated. Some condo projects will move forward as rentals.

"I'm concerned about newer developers because they are listening to what the brokers tell them, they haven't done their homework and they are just following the hype – which is exactly what happened last time," Winston said.



Peter Zalewski — Principal, Condo Vultures LLC/CraneSpotters.com

Miami is in the late innings of the condo development game, but the game is just getting started in coastal Fort Lauderdale.

With their currencies devalued, foreign investors still want to buy South Florida condos, but are more price-sensitive. The average price per square foot for new condos in Miami is \$949, compared to \$481 in Fort Lauderdale, according to CraneSpotters.com, which tracks buildings east of Interstate 95.

"The foreign buyers still want to buy in Miami, and they are increasingly looking to Fort Lauderdale because the dirt is cheaper," Zalewski said.

With prices so high in Miami, investors will struggle to make a decent return by renting their condos. Smaller units with lower maintenance costs could work as rentals, but large units in expensive, amenity-packed buildings won't.

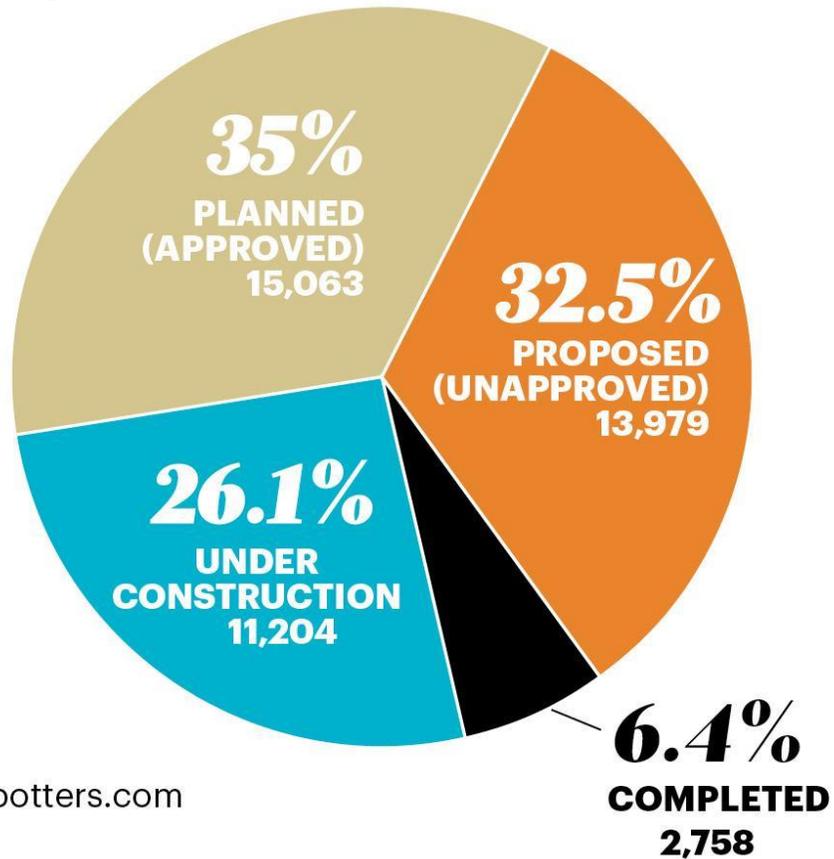
The local renter can't buy those units because there's no financing available in most of those buildings.

Developers who bought Miami property in 2013 or earlier and are ready to build should be fine, but those who purchased land later at a premium could have a problem.

"The currents are changing," Zalewski said. "It's kind of like New Orleans where the river meets the gulf."

Progress report

The **43,004** condo projects planned or created in South Florida



SOURCE: CraneSpotters.com