

Condo confidence

New urban mentality seen as key to sustaining Miami's Downtown development boom

BY ERIC KALIS

This time, it's different.

That's the mantra from developers, brokers and other real estate professionals about the development flurry in Miami's urban core.

Skeptics point to last decade's devastating bust after an unprecedented wave of residential construction, and predict a similar result a few years down the line. The memory of thousands of condos sitting unsold from Brickell Avenue, the home of Miami's financial district, to Midtown, a neighborhood inspired by New York's SoHo, still lingers for some.

About 50 new condo towers housing nearly 14,000 units are proposed or under construction in a 60-block stretch from Brickell's entrance to the Julia Tuttle Causeway connecting Midtown to Miami Beach, according to Condo Vultures. That represents more than 65 percent of the construction pipeline for South Florida's entire tri-county area.

Anyone hung up on the last cycle might point to that statistic as a harbinger of trouble.

Proponents counter with a list of critical distinctions between the two eras. Most notable is the present deposit structure, which requires condo buyers to fork over as much as 50 percent of the purchase price before closing. That is expected to eliminate most of the flippers who wreaked havoc on the market between 2003 and 2007, as long as developers don't start lowering deposit thresholds. It also allows condo builders to avoid over-leveraging.

Such deposits are common in South America, where a large chunk of the early buyers in this cycle are from. But brokers and developers say more Europeans, and even a smattering of domestic buyers from the New York area, are getting comfortable with the model.

Instead of large bank loans, builders are using these deposits to finance condo construction. That approach, as Miami attorney Thomas Lehman puts it, "is the equivalent of crowdfunding."

Another key talking point for the optimists is how quickly the overhang of more than 25,000 unsold condos was gobbled up during the recession. Those units were supposed to take up to 10 years to be absorbed; by the end of 2011 only about 35 percent of the condos remained unsold.



Construction on BrickellHouse

Through the end of January, a mere 400 units were left from the last boom, according to Condo Vultures.

Miami still offers an extreme discount to comparable condos in major cities like New York, Los Angeles, Hong Kong and London. The \$1,200-per-square-foot average preconstruction price at the Zaha Hadid-designed One Thousand Museum in downtown Miami, for example, is a fraction of the price for a luxury unit in Manhattan. And that's a historically expensive price for the Greater Downtown Miami market.



The recently opened Perez Art Museum Miami, part of a spate of new cultural offerings in the area

'WE HAD NO CITY'

Perhaps the most important difference between the booms is unrelated to how the developments are being funded or supply and demand trends. Proponents say that unlike the last cycle, urban Miami is ready for the influx of new residents.

"The first time around, we had no city," Zilbert International Realty president and CEO Mark Zilbert said. "The vast majority of investors in the first cycle were amateur investors who were all about making a quick buck. What is happening now is, Miami is rapidly moving toward the status of a world-class city. There are more people around and more infrastructure for condo boom 2.0."

The world appears to be taking notice of Miami's evolution. In London-based Knight Frank's 2014 "Wealth Report,"

Miami ranked eighth on the list of "cities that matter" to wealthy investors worldwide. It was the only U.S. city to make the list besides New York, which ranked second to London.

Brokers like Zilbert can take a prospective client to South Miami Avenue in the Brickell area on a Friday night and show how the block is now an urban version of South Beach's Lincoln Road, one of the nation's busiest retail and restaurant streets. South Miami Avenue has a pipeline of at least 14 projects, which will bring about 4,700 units to a one-mile stretch, including the Jorge Perez-led Related Group's 1100 Millecento Residences, one of the first projects in the current cycle.

Greater Downtown Miami is also earning its cultural chops, thanks to the Adrienne Arsht Center for the Perform-



The 328-unit Bond at Brickell, the first condo project of the current cycle located directly on Brickell Avenue

ing Arts and the recently opened Perez Art Museum Miami near American Airlines Arena, home of the Miami Heat. A new science museum is also on the way.

Additionally, massive retail projects like Brickell CityCentre, which is under construction in the financial district by developer Swire Properties, and Miami Worldcenter, (a project by Forbes Company and Taubman Centers still in planning stages that has already landed Bloomingdale's and Macy's as anchor tenants), will bring much-needed shopping space to the city.

"The last cycle was really just condos with no restraint," said Rilea Group vice president Diego Ojeda. Rilea is currently building the 328-unit Bond at Brickell, the first condo project of the current cycle located directly on Brickell Avenue. "Now it's about a city coming together."



Steven Owens, president of Swire Properties





The Melo Group is building Bay House, a 38-story condo building in Edgewater

EMERGING NEIGHBORHOODS

To the north of Brickell and downtown Miami, urban pockets with unique characteristics, like Wynwood, Midtown and the Design District, are also drawing attention. These neighborhoods will offer residents homes, workplaces and entertainment in the same general area. For a city with a history of congestion and paltry public transit offerings, this is an overdue trend.

These new developments will draw suburban residents to relocate to urban Miami, said ONE Sotheby's International Realty managing partner Daniel de la Vega. "You now have a vibrant nightlife where you can go out to dinner, have a nice time and walk back home, versus having to get in a car and drive around. People aren't buying only to be in a building, they are buying into these new developments that are taking place in the center of new cultural venues. Whether it's Brickell, Edgewater, downtown or the Design District, people are buying a lifestyle."



Martin Melo,
Melo Group director

Edgewater is attracting the most interest from developers and land investors. The stretch along Biscayne Bay from Northeast 17th to 37th streets has at least seven major condo towers proposed for the area, and most available sites have been gobbled up.

"Edgewater was a place a couple of years ago that no one thought about," Ojeda said.

The neighborhood was the setting for the unofficial beginning of the current development cycle. In 2011, the family-run Melo Group introduced the now-popular 50 percent deposit structure for its 23 Biscayne project. It sold out in eight months.

"At the time, no banks were willing to lend because of the crash in 2008 and 2009," said company director Martin Melo. "My father had built 12,000 units in Argentina and we knew in all of South America, the idea of having to put that much cash in advance is normal. We brought that matrix to Miami."

Melo then pressed forward with additional residential projects in Edgewater. The company completed the 250-unit Skyview Luxury Residences, a rental building one block away from 23 Biscayne. Skyview was fully rented in 120 days. Now Melo is building Bay House, a 38-story, 165-unit condo building at 600 Northeast 27th Street.

Edgewater has since attracted a herd of condo developers, including Eastview Development and mckafka Development Group. Eastview formed a joint venture with investment firm GTIS Partners for the 51-story, 399-unit Biscayne Beach luxury tower. To distinguish itself from neighboring developers building high-rise towers with between 150 and 300 condos, mckafka is constructing the 20-story, 90-unit Crimson.

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—Zilbert International Realty president and CEO Mark Zilbert

The Related Group is also in Edgewater, constructing the 42-story Icon Bay and planning the two-tower Paraiso Bay, which is attracting celebrity buyers like basketball star Manu Ginobili, musician David Guetta and former tennis champion Arantxa Sanchez Vicario.

Even though Edgewater is getting crowded, Melo said his family has at least two more projects in the works, a condo and a rental.

Immediately northwest, the Wynwood neighborhood stands out as one of two Miami urban enclaves, along with the Design District, that is not being saturated with high-rise development. Over the last decade, many neglected industrial buildings in Wynwood were purchased and repositioned as art galleries, restaurants and mixed-use facilities. That is making the neighborhood attractive to artists, retailers and creative entrepreneurs, according to Tony Cho, president and CEO of Metro 1 Properties, for whom Wynwood is a primary focus.

"Interesting cities are comprised of unique and distinct neighborhoods," Cho said. "We are starting to see a lot of independent brands from New York coming here and wanting to do business in these neighborhoods."

But residential developers are taking notice. Two rental projects and one condo building are in the works in Wynwood.

Prominent developer David Edelstein, through a partnership that includes New York real estate heavyweight Robert Futterman, wants to build a mixed-use project with 264 units, possibly rentals, at 2801 Northwest Third Avenue.

Don't expect Wynwood to mirror South Miami Avenue or Edgewater, however.

"What has limited development in Wynwood is the zoning, unlike Edgewater," Cho said. "None of the stakeholders want aggressive upzoning. For the Greater Downtown area, it's fine to concentrate there and allow other neighborhoods to develop organically."

LOOMING CONCERNS

While most real estate observers say Miami is in a better position to handle thousands of new condos now, some still see potential problems.

Lehman, the attorney, wondered how long condo buyers can be expected to keep funding the majority of the city's developments through cash deposits.

"The real question is what happens if a few people drop out?" he asked. "The problem comes when there is no more demand for other units. People get cold feet about the direction the market is going and everything comes to a halt. What happened in 2007 down here is the cost of construction went out of sight, which hurt a lot of projects. Inevitably it happens."

Developers like Rilea's Ojeda note the deposit structure is forcing buyers to "scrutinize the hell out of" projects before making the commitment. Thus, they are less likely to walk away from a preconstruction purchase.

"A 50 percent deposit is a big chunk of change," Ojeda said. Buyers are asking tough questions about developers and sales teams. "They won't take a leap of faith on someone they don't know."

That won't stop inexperienced developers, or developers with no track record in Miami, from trying to get a piece of the boom,

Zilbert said. An influx of unfamiliar players could drag down the market.

"I'm always a little leery of bringing clients to an unproven developer's project," he said. "We will see a scattering of new projects look impressive, but never get built in Miami. Unfortunately it's the buyer who suffers."

On a broader level, Miami still lacks reliable mass transit. Options are limited for commuters who live in the suburbs and work Downtown. And Downtown residents must drive or navigate a convoluted bus system to travel the short distance to Miami Beach.

The local real estate sector is also trying to get its arms around the continued threat of climate change-induced sea level rise, which could have a devastating impact on property values in the future. "To me, the biggest problem is that the city is not willing to face the issue," Miami attorney Hal Lewis said.

Of course, providing residents with enough cultural, retail and entertainment options is another big goal. "If Miami is willing to dedicate itself to a proper urban core, then it can move toward being a world class city," Lewis said. **TRD**