

More Apartments Coming to Miami Than Condos

by Carla Vianna

Luxury condominium developers step aside. Apartment builders are flooding downtown Miami.

The rental pipeline in Miami's central business district, including downtown, Brickell and surrounding areas, is poised to surpass its condominium supply for the first time in history, according to the Downtown Development Authority. Over 3,500 apartment units are slated for delivery this year compared with 2,774 condos.

Yet Peter Mekras would not categorize South Florida's residential market as overbuilt.

The senior vice president at CREC said the total number of units added to the South Florida housing market over the past few years pales in comparison to 2004 and 2005 when over 60,000 residences were built in Miami-Dade and Broward counties.

The two counties generated about half of that in 2014 and 2015. He said 28,000 apartments, condos and single-family homes were completed in the two-year period. South Florida added about 500,000 residents in the past five years.

Mekras predicts the next couple of

years will be "rocky fundamentally," but he does not foresee a steep market crash, especially not in the multifamily sector. The influx of apartment inventory in places like downtown Miami will simply make the leasing process less efficient. When thousands of apartment units deliver at the same time, developers will be fighting over the same consumers.

"There's no question of the depth of demand in Dade and Broward," he said.

Rent growth won't be as robust over the next two years, and leasing velocity will slow. For example, a newly completed 300-unit project that would have stabilized in 10 months last year may now take about double the time to reach full occupancy.

As leasing periods expand, new projects will take longer to trade.

The bulk of apartment developers are in the business to quickly build and flip the finished product following its lease-up. But as pricing trends fluctuate, Mekras said multifamily owners may become more apprehensive about selling.

This may dampen transaction activity in 2017.

What we can expect to see is projects that broke ground three to four years ago begin to trade.

"The business plan of 2012, 2013 and 2014 was to sell in 2016, 2017 and 2018," Mekras said. "That will still happen."

Alliance Residential Co. plans to open two luxury apartment complexes this year, the Broadstone at Brickell in Miami and the Broadstone Harbor Beach in Fort Lauderdale with a combined unit

count of nearly 800.

Pre-leasing efforts at the Brickell project, which is nearer completion, started off slow in December but gained traction this month, said Robert Hall, who manages the company's South Florida operations.

The developer expects to lease about 25 units per month at each project, which would bring them to stabilization in 2018.

"At that time, we'd be in a position to take it to market or just continue to hold the asset," Hall said. "As of right now, we don't know what our long-term strategy will be for the asset."

Hall said some apartments went to market last year but haven't traded yet, and while additional Class A product will be up for sale this year, he still expects to see more transaction activity in 2018.

TOWER SALE

The sale of the Amaray Las Olas project in Fort Lauderdale, which hit the market earlier this month, should "set the tone" for 2017, Hall said.

While the luxury apartment tower is being marketed without an asking price, buildings of similar stature across the Southeastern U.S. have traded at \$500,000 to \$700,000 per unit, said Robert Given, who leads the Cushman & Wakefield team tapped to market the property.

The recently completed 254-unit apartment tower is expected to lure impressive offers as it's the first urban high-rise to hit the South Florida market in the current real estate cycle. The

30-story building at 215 SE Eighth St. was recently developed by a joint venture of the New York-based Rockefeller Group and Fort Lauderdale's Stiles Corp.

Its 2016 completion was met with high demand: The tower opened last April east of U.S. 1 and is now 96 percent leased. The complex's website lists a three-bedroom unit for \$4,800 a month.

"It's one of the nicest assets to become available in the Southeast U.S. in over a decade," said Given, a vice chairman with Cushman & Wakefield. "It's a high-rise luxury apartment community. There's just not very many of those that get built in South Florida because it costs a lot to build these projects."

His team has received a high level of interest from institutional owners and life companies, and some interest from foreign capital. Given expects to bring three additional apartment projects in Miami-Dade to market this year.

He is about to close on the Montage at City Center in Pembroke Pines, which is under contract. The 700-unit community built by Mill Creek Residential Trust is expected to change hands during the first quarter.

"Core institutional and foreign buyers have reemerged in January after taking a third-to-fourth-quarter hiatus from the market," Given said. "They've reemerged and have a high interest level in South Florida."

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