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Miami's Downtown Comes Alive as Condos Fill with Young Renters

By Prashant Gopal

(Bloomberg) -- Brandon Klein has done what few Floridians can: go weeks without driving his car.

The 26-year-old tax accountant walks three blocks from his condominium tower on Biscayne Bay in Miami to his office at Deloitte LLP. On weekends, he and his friends hang out on the pool deck or share a cab to a local Irish pub.

He lives in Downtown, a neighborhood where young people are renting condos built during the 2004 to 2008 boom to attract second-home buyers. Thanks to the housing crash, Klein and two roommates pay about \$900 a month each for an obstructed waterfront view, a wraparound balcony and access to a gym, spa and steam room.

"Five years ago you wouldn't have kids fresh out of college living in luxury like this," said Klein, sitting in front of the 24-hour concierge in the three-story lobby of his building at 50 Biscayne Boulevard, coordinating happy-hour plans by text message. His friends are concentrated in nearby Met I, which has 447 luxury units and a steakhouse on the first floor. They refer to the building as "Deloitte Dorm" because it's home to so many employees of the accounting and consulting firm.

The 7,000 unsold condos in Miami's core -- a symbol of a building boom that collapsed and dragged the city into recession -- are filling up and giving life to neighborhoods that previously closed after dark. New, year-round residents are cramming into restaurants, nightclubs and bars that didn't exist a few years ago, and enjoying a lifestyle made possible in part by developers and banks seeking to recoup losses by renting luxury dwellings until the market recovers.

Creating A City

"I'm a big city person, and I always thought Miami didn't have a real city," said Dejan Krsmanovic, a 39-year-old biomedical engineer who was on a first date at Segafredo, a busy Italian restaurant and bar that opened in 2008 in the adjacent Brickell neighborhood, where the same trend is playing out.

"Miami Beach is not a city, it's a resort," he said. "This is beginning to resemble a city."

The unsold condos represent almost a third of the 22,079 units in 75 buildings, mostly opened after 2004, tracked in a study released in March by the Miami Downtown Development Authority. The report focused on central neighborhoods including Downtown, Brickell and Wynwood/Edgewater.

Occupancy rates in the new buildings, including owner-occupants and tenants, increased to 74 percent in February from 62 percent in May 2009, the study shows.

Price Cuts

The development authority estimates that the population of Miami's urban core jumped to about 70,000 from 40,000 since the 2000 census, said authority spokesman Robert Geitner.

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"For us, it doesn't matter whether they rent or buy," said Miami Mayor Tomás P. Regalado. "The more people, the more business, the more safety, the more progress."

The influx of college students, young professionals and empty nesters from the Coral Gables section of the city and the suburbs intensified about 18 months ago when banks that financed the condo projects agreed to let developers slash sales prices by as much as 40 percent, said Peter Zalewski, a principal with consulting firm Condo Vultures LLC in Miami. That spurred demand from foreign buyers and all-cash investors, many of whom are renting out their units until prices rebound, he said.

The Miami metro rental market is one of the strongest in the country, according to Ron Johnsey, president of Axiometrics Inc., an apartment-research firm in Dallas. That's the case even though unemployment is more than 11 percent, compared with 9.5 percent nationally, and developers are adding to supply by leasing units built for purchase.

Rents Rise

Effective rents, the amounts actually received by landlords, rose 4 percent in the first five months of the year after falling 2.9 percent during the same period in 2009, according to Axiometrics, whose data tracks professionally managed rental building. Nationally, rents increased 2.75 percent from January to May.

The occupancy rate for Miami climbed to 95.1 percent in May from 93.8 percent a year earlier, Johnsey said.

Condos are being purchased by investors and rented out in Phoenix, San Diego and Las Vegas, where thousands of units also went up during the boom, according to Ross Moore, chief economist for Colliers International, a Seattle-based real estate services firm.

"It's something we're seeing in many markets," he said. "Miami is an absolute extreme example."

Holding Out Hope

While the city is heading in the right direction, it will take years to fully recover, said Michael Fratantoni, vice president of single-family research and policy at the Mortgage Bankers Association in Washington.

"Miami has been one of the areas most deeply impacted by the crisis," he said. "But the backstop of foreign-buyer demand is going to help Miami do better than the rest of the state."

Builders haven't given up on finding buyers for their condos. At the Axis on Brickell, developed by Brack Capital Group, about 85 percent of the 718 units are rented, said Albert Piazza, the project manager. The firm has sold about 239 condos at the complex, which features poolside cabanas, a theater and a billiards room, and is allowing tenants to direct 50 percent of their rent toward purchase. Once credit for mortgages frees up, Piazza expects many of them to act, he said.

"The goal is still to sell out," Piazza said.

Occupancy Rates

T. Sinclair Jacobs, 87, who founded the Brickell Homeowners Association 20 years ago, watched the developments go up. The group's original residents lived south of Southeast 15th Road, along Brickell Avenue,

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in decades-old condo towers, some of which appeared in the "Miami Vice" television series, according to Geitner. Developers then pushed north 13 blocks, putting up about 25 projects along Brickell Avenue, known for its bank buildings.

Development crossed the Miami River to connect with Downtown, adding glass-and-steel residential towers to the area's mix of courthouses, hotels, warehouses, homeless shelters and stores. The American Airlines Arena, where LeBron James will play next season with the National Basketball Association's Miami Heat, opened there in 1999.

While Jacobs believes the projects needed better planning, he said they are making Miami a better place to live.

"With the greater concentration of residents, there'll be a beneficial effect on traffic because we'll have better public transportation," he said. "We didn't have the residents before to support mass transit. In the long run, this is going to be one of the great cities in the world."

Softening Recession's Pain

The new vitality can be seen at Juan Chipoco's sleek Peruvian restaurant, CVI.CHE 105, on Northeast 3rd Avenue off of East Flagler Street, in the heart of the old Downtown shopping area. ChipPAC, who finished expanding to 220 seats from 65 seats three months ago, said lines sometimes form on weekends even with a \$10 valet fee and limited parking. The restaurant also draws customers from Miami Beach and the suburbs.

Diners can choose from a dozen and a half restaurants north of the Miami River that stay open after 7 p.m., compared with two or three a few years ago, said Jose Goyanes, 42, a longtime Downtown business owner who, with his partners, converted a luggage store into Tre Italian Bistro a year ago.

The flood of new residents has softened the impact of the recession, he said. "Instead of falling down a precipice, it's like a bungee cord pulling Downtown businesses up."

The area's fledgling success comes after a lot of financial pain endured by developers, banks and foreclosed homeowners throughout Miami. Developers that didn't unload their units by the end of 2008 faced the most serious problems, Zalewski of Condo Vultures said.

Buying in Bulk

The bulk sale of condos in the Marina Blue high rise in December 2008 depressed prices, Zalewski said. Hyperion Development sold 60 units in the 516-unit building for about \$200 a square foot, about half of the original price, the South Florida Business Journal reported at the time.

The complex, featuring two outdoor pools, a volleyball court and sand-filled "Sky Beach" on the 14th floor, is now sold out, said Carolyn Van Gorder, vice president of sales and marketing for Hyperion Group. Many units are rented.

In early 2009, lenders began allowing developers to cut prices on individual units, rather than sell them to bulk buyers who would flip them one by one for a profit, said Robert Given, executive vice president at broker CB Richard Ellis Group Inc. in Miami.

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Corus Loans

Struggling projects include the 56-story Infinity at Brickell, about a quarter of which has sold, and Mint, which is empty. A team of investors led by Barry Sternlicht's Starwood Capital Group LLC took a stake in the portfolio of failed lender Corus Bankshares Inc. that includes the Mint and Infinity loans. It plans to relaunch the projects in coming months, said Jonathan Pertchik, chief operating officer for ST Residential, the company managing the former Corus assets.

Corus, based in Chicago, had \$977 million in condo loans on properties in Miami and southeast Florida as of March 2009.

"I don't think it had anything to do with the caliber, quality and foresight" of the developers, Zalewski said. "Ultimately, what it came down to was timing. It was a matter of which developers could finish off their project, take it to market, close and take their cash before the market collapsed."

The Miami-Fort Lauderdale-Pompano Beach metro area had the highest foreclosure rate among large U.S. cities in May, with one of every 134 units receiving a filing, according to RealtyTrac Inc., an Irvine, California-based data seller. The average rate for the U.S. is one in 400 units.

Condo 'Masterpiece'

"We were trying to build a city in perhaps what was too fast a time period," said Jorge Perez, chairman and chief executive officer of The Related Group in Miami, which built more than 6,500 units in the greater downtown area.

The closely held firm, which is 20 percent owned by Stephen Ross, founder of New York-based Related Cos., broke ground in 2001 on One Miami, the first major condo project on the north side of the river. Perez said his masterpiece is the \$1.25 billion Icon Brickell, completed in late 2008, a 1,800-unit project with a boutique hotel and an Alice-in-Wonderland feel. There is a two-acre sundeck, 140 feet above Biscayne Bay, featuring three pools, an outdoor fireplace and an oversized floor chess board.

The Related Group lost between \$50 million and \$100 million on Icon, Perez said. The firm handed back two of Icon's three towers to a syndicate of lenders led by HSBC Holdings Plc in May after winning bank approval late last year to slash prices by about 30 percent. The price cut has spurred sales, which increased to about 640 as of this month from 38 closings at the end of the second quarter of last year.

Seizing Opportunity

"Over the long run, what we did in building those buildings, was it wrong?" Perez said. "I wish there wasn't the suffering on a personal basis, on a banking basis and individual basis. But have we made Miami a much better city? Absolutely, yes."

John Guarin, a 34-year-old real estate broker who rents a one-bedroom apartment in one of the Icon towers for \$1,800 a month, said he recognized early that the Miami rental market would explode. Guarin's ApartmentsLLC.net specializes in finding rentals for students from the University of Miami.

Guarin, who earned a Master of Business Administration from the school in late 2008, said the idea for the

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business began with a paper he wrote for a marketing class about the greater downtown area's underserved rental market.

"I knew something had to be done with the buildings," he said. "Nobody was buying them."

'Sickest View'

This is Guarin's busiest time because it's when students look for apartments. He recently took two 22-year-old graduate students, Jean Chang, a Los Angeles native, and Elizabeth Lombardi from New Jersey, on a tour of properties renting for about \$2,200. Chang's first choice was Everglades on the Bay, which has a four-story fitness and spa center with a jogging track circling the roof and the "sickest view" of the bay, Chang said.

The condo was gone the next day before she could put down a deposit.

Guarin also showed them Axis, where for \$2,075 they could share a two-bedroom, two-bath condo of almost 1,200 square feet, with a wraparound balcony on the 36th floor. While they put down \$100 to hold the unit, they later chose a place with more evenly sized bedrooms on South Beach, a neighborhood world famous for its nightlife and celebrity sightings.

The broker said it's a matter of taste: many clients are looking to escape the noise of South Beach, which is about 5 miles (8 kilometers) east of Downtown across Biscayne Bay.

Toning Down Parties

Axis, which attracts students from the University of Miami because of its easy access to public transportation, is implementing new rules to keep partying to appropriate levels. The building has received complaints from residents about crowds by the pool, loud music and women taking their tops off, according to Piazza, the project manager. Starting July 4, no more than four guests are allowed for each apartment, and boom boxes are barred by the pool.

"If you want to have something like that, you have to go to the beach," he said.

Miami is turning into something that Florida has never had: a densely populated city where professionals live and work, said Alan Ojeda, whose Rilea Group recently finished 1450 Brickell Avenue, one of three new office towers in the city's urban core. The \$270 million building has 35 stories, 585,000 square feet of rentable space and 1,200 parking spaces.

"It's what's missing in Florida," Ojeda said of Downtown. "Look, it's 9 p.m. on a Thursday. It's not Saturday night fever and the bars and restaurants are full."