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The number of new downtown Miami condos will surge this year — and then fall

By Patricia Mazzei

Downtown Miami's real estate market is slowing fast, just as developers are preparing to deliver the most new condos in a single year since the last bubble — a dynamic that will mean good deals for cash-rich investors and for young professionals, who might finally be able to rent units at decent rates.

Nearly 3,500 downtown condos will be delivered this year — a surge since the Great Recession. But the numbers are expected to drop to about 2,800 in 2018 and less than 2,000 in 2019 as developers push back plans to start new projects. That's according to an annual report by Miami's semi-autonomous, tax-funded Downtown Development Authority.

The DDA had predicted a slowdown in its 2016 report, blaming weak currencies in Latin America and Europe — and a stronger U.S. dollar — for effectively making units more expensive for the foreign buyers who drive Miami's market. But while the sliding demand will limit financing for some new projects, it's also a sign of a market stabilizing after five years of continuous growth that some analysts had worried might lead to another condo glut.

"A lot of people ask me, 'When do you think the market's going to crash?'" said Anthony Graziano of Integra Realty Resources and one of the lead authors of the report, which covers the period from July 2016-January 2017. "And I tell them, there's no distress in the market right now. I think a lot of this pricing correction right now is really just a function of good old supply and demand — and I think that's good for buyers."

This year's supply boost has already led to a decrease in the prices of existing condos — the first drop in eight years in the urban core, the report found. The average resale price went down to about $426 per square foot, a decline of nearly 7 percent from 2015.

But prices may not go much lower, said Graziano, as the Federal Reserve has announced it intends to increase interest rates.

Despite the forest of cranes in downtown, the total number of condo units is far lower than during the boom prior to the Great Recession. About 12,300 new condos are expected to be completed in downtown between between 2014 and 2019; between 2004 and 2009, more than 21,000 units were delivered.

Most of the new downtown condos this year will be in Brickell, where three major projects — The Bond, Cassa Brickell and SLS Brickell — will be completed. Some 6,200 units remain under construction in the six sub-markets studied in the report: Brickell, Edgewater, Midtown, Wynwood, the Omni area and the downtown urban core.

"It's not that suddenly all the units are done and nobody's going to be developing in Brickell," said Carlos

Rosso, the condo division president for Related Group. “We just think the market needs a breather to absorb all these new things.”

Including, he said, the new administration in Washington.

Henry Torres of the Astor Companies, which has developed projects outside downtown including the newly launched Merrick Manor in Coral Gables, agreed. The U.S. presidential election made some South American buyers — the top clientele for downtown condos — wary.

“I think we’re in a little bit of a slump, but I think we’ll come out of it shortly,” Astor said. “There’s just a little bit of uncertainly. Everybody likes clarity when they invest. In Coral Gables, we don’t have that issue. We have a lot of locals here that are buying.”

High land and building costs have also slowed the pace of downtown condo development.

“I said last year the developers were making decisions based on the timing of the market,” Graziano said. “This year, their bankers are.”

Land prices appear to have stabilized, Graziano added. Eventually, construction costs should ease as fewer projects leads to more competition among subcontractors.

Up until now, development had still been catching up from the down economic years, when building came to a near-halt.

On the rental side, about 4,900 rental apartments are under construction downtown — which, combined with the 1,000 rental apartments that were delivered last year, should slow rent increases, according to the report. The asking prices for rentals have declined, the report found, though rental rates have remained steady overall thanks to slight increases in year-over-year rates.

Developers of rental projects still hope to target millennials and young professionals, Graziano said, given downtown’s increasing amenities, such as the under-construction MiamiCentral train hub next to Government Center.

On Tuesday, the developers of the nearby Paramount Miami Worldcenter, a $2 billion mixed-use project expected to be completed in 2019 in the Park West neighborhood, announced they closed on a $285 million loan, in spite of the slowing market pace and tight bank lending. The project is one of only a few that will open in 2019, which makes Paramount’s principal master developer, Nitin Motwani, feel bullish.

“The slowdown in absorption has allowed for the projects with strong sponsorship, strong locations and strong pre-sales to move forward, and has gotten other projects to wait,” he said. “So we have a finite competitive landscape for when we develop. It certainly helps.”