Invest:
Miami 2016
An in-depth review of the key issues facing Miami-Dade's economy featuring the exclusive insights of prominent industry leaders

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Peak performance:

Despite a strong dollar and a saturating condominium market, the industry saw high spending and much foreign investment

Spending and growth

South Florida construction spending grew in the first three quarters of 2015 by 19 percent but began to dip in the last quarter, signaling a shift from high growth toward stabilization, particularly in the real estate sector. According to construction intelligence firm Dodge, Data & Analytics, awarded contracts between January 2015 and November 2015 amounted to $8.9 billion, exceeding figures from the same period in 2014 by about $200 million, a growth of about 2 percent. Residential development continued to dominate the market, even with the fourth-quarter decline, with over $405 million in new residential contracts in November compared to $289 million in non-residential contracts awarded throughout South Florida. However, an emerging trend, particularly toward the end of 2015, was divestment from residential housing—dropping 53 percent year-to-year from $758 million to $354 million in October 2015, and 60 percent year-to-year from $1.01 billion to $405 million in November 2015. Challenges for developers present in 2015 likely to affect development in 2016 include labor shortages, rising property costs and a resurgent dollar eroding an important foreign financing base.

Rising residential and non-residential markets

Post-recession construction continued an upward trend with residential construction its primary driver. McGraw Hill Financial estimated that in the first nine months of 2014, residential developments accounted for almost 70 percent of South Florida construction projects—a ratio that remained static until at least October 2015. According to county records, Miami-Dade issued 4,100 residential building permits in the first quarter of 2015, compared to 9,000 for all of 2014, indicating a trend toward pre-recession levels of 5,000 per quarter. Since 2011, developers have announced over 400 new condominium towers for South Florida, delivering 56 by end of 2015. According to CraneSpotters.com, 3,050 condominium units were delivered, with an additional 12,600 units under construction—7,800 of which are scheduled for delivery in 2016. The Miami Downtown Development Authority (DDA) reported that, by August 2015, condominium deliveries increased 33 percent since the beginning of the year in the downtown area. Congruent to this increase in deliveries was a 34-percent decline in awarded contracts during the same period, suggesting the market may be nearing a cyclical peak. Integra Realty Resources' (IRR) 2016 report describes the real estate market at the tail-end of an expansion period nearing "hyper supply" with moderate to high levels of new construction expected in 2016 as units are delivered.

Non-residential construction spending throughout South Florida grew 25 percent from September 2014 to September 2015—even during the fourth quarter residential dip—according to Dodge, Data & Analytics. A second quarter JLL report indicated nearly 30 percent of Florida retail construction was in Miami-Dade, featuring large, billion-dollar projects such as the 565,000 square feet of retail in Brickell City Centre by Swire Properties and the 765,000-square-foot Miami Worldcenter, managed by Art Falcone and Nitin Motwani. In a 2016 outlook, IRR noted that the planned retail supply—including the $4-billion American Dream Mall, slated to be the largest U.S. mall at 6.2 million square feet—placed retail construction at a peak, also nearing "hyper supply." In a 2015 third-quarter market analysis, JLL highlighted that rising occupancy rates—up 30 basis points year-to-year—and retail rents—up 6.5 percent year-to-year in the second quarter, according to CBRE data—are spurring the 1.9 million square feet of retail construction, 1.2 million of which was slated for delivery by the end of 2015. Similarly, office construction, historically less active than other construction sectors in Miami-Dade, ended 2015 with 664,199 square feet under construction, reported by JLL, indicating a rising market. Notably, JLL reported no major office construction deliveries for 2015. Developers have embraced mixed-use projects, pegging office construction to retail and residential spaces, such as the Brickell City Centre's two 12-story office towers and Brightline's 9-acre MiamiCentral station, which will feature more than 100,000 square feet of mixed-use space. Despite these increases, Ezra Katz, CEO of the Aztec Group, Inc., tells Invest: Miami, "Office construction has been the least robust of all the sectors, and, even with some growth, will remain difficult to finance."

Construction of MiamiCentral is accompanied by the $275-million Frost Museum of Science, the $430-million Miami Cancer Institute at Baptist Health South Florida and the $400-million Sun Life Stadium renovation as large non-residential or commercial developments underway in 2015 and 2016. Similarly, the $478-million Miami Beach Convention Center's renovation and 60,000-square-foot expansion by Clark Construction Group is a major non-residential development slated for completion in 2018. These developments include anticipated projects such as development of 2.6 acres at Miami Dade College's downtown campus, which took bids in early 2016, and the Miami Innovation District, which, if approved, will be a tech hub with over 3 million square

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Miami is a progressive market when it comes to construction and development. The proof can be seen in the amazing projects that have gotten approvals and are under construction. Buildings in Miami are getting more complex. They are not just functional, but they are making bold statements. This is a testament to the creative environment that Miami fosters. This creativity allows for a broad diversity of products to be developed. You don't see much conformity here like you might in other cities.

One challenge to this market's growth potential is labor costs. We have seen these surge tremendously, and it is a concern for the industry at large. Fortunately, we at Suffolk have a consistent group of trade partners that we work with on many of the larger projects that draw the most labor, allowing us to come up with the most efficient design and make decisions that are calculated, rather than reactive. Intensive planning is key. Part of our strategy is to get people involved as early as possible so that we can make the best plans and begin assembling our teams and allocating labor before construction begins.

The South Florida market continues to show strong potential. High-end luxury residential product remains viable, mostly because there is a limited number of the super high-end units, and these projects are intended for a select group of buyers. So long as the balance remains consistent, that market will continue to see strong performance. Another high-performing area is retail. The fact that there are two giant mixed-use projects—Brickell City Centre and Miami Worldcenter—with massive retail components being built so close to each other speaks to the level of demand for more shopping options in this city. When people think of Miami they think of style; they think of high-end brands. All of these things speak to the fact that Miami is an international city—a true global destination. There is a certain energy here. And because of these factors, people continue to come in droves.

feet of office space and 2.4 million square feet of residential space.

Related to Miami's robust tourism market is the hotel industry; 19 hotels opened in 2014, with 17 scheduled for delivery in 2015. By October 2015, the total number of rooms rose by 4.3 percent year-to-year according to STR, Inc. Hotel developments, much like office space, are increasingly being built into mixed-used spaces such as the 236-room EAST Miami in Brickell City Centre and 1,800-room Marriott Marquis Hotel and Expo Center in the $1.75-billion Miami Worldcenter.

Foreign capital

Post-recession construction in Miami-Dade has been dominated by condominium towers that, in lieu of loans from wary domestic banks, were largely financed by buyer investment via the informally adopted 50-percent deposit rule. Common in Latin America, the practice requires buyers to invest 50 percent of the unit cost, 90 percent of which can be used to finance construction. The practice is not a regulatory obligation, and in 2015, Swire and The Related Group opted to temporarily reduce deposits to 30 percent at select properties. Reasons for reducing the rate and raising commission rates indicate difficulty in selling, perhaps due to devalued foreign currencies, and could sway developers away from a saturated condominium market sitting on over eight months of inventory as reported by the DDA.

Despite a strengthening dollar, foreign real estate investment represented 36 percent of South Florida real estate investment at $6.1 billion, according to Miami Association of Realtors—including condominium deposits. However, with a struggling Latin American economy and the Panama Canal expansion, the dynamics of foreign construction investment are changing, particularly with increased Asian interest. CBRE reported $913 million in foreign commercial real estate investment in Greater Miami for the first half of 2015, dramatically raising its global ranking as a foreign commercial capital recipient from a top 50 recipient to a top 10. A 2015 Marcus & Millichap report highlights that though data is limited, a substantial number of foreign condominium buyers are transitioning to income-generating retail properties valued below $50 million, demonstrated partially in a 17-percent year-to-year rise in transaction velocity for this type of retail properties. If the condominium market experiences an expected cyclical plateau, foreign investors may transition to income-generating retail and commercial real estate markets.

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Increasing loans

Lending from regional and local banks has increased from original pre-recession lows as evidenced by record-breaking transactions and lending volumes, but developers have continued to embrace alternative financing tools. Overall, commercial lending volumes in Miami-Dade, as measured by lending firm BridgeInvest, have risen significantly between 2009 and 2014, increasing from $3.5 billion to $11.4 billion. Stringent post-recession lending conditions in local and regional banks drove developers to alternative financing sources, including the aforementioned 50-percent deposit practice and increased reliance on out-of-state specialized real estate development firms.

In 2015, major condominium loans included $118 million for Related's ONE Paraiso in Edgewater and a nearly $134-million loan to the Property Markets Group and S2 Development for Muse, a 47-story residential tower in Sunny Isles Beach. Florida East Coast Realty's 83-story Panorama Tower, slated to be the tallest building in Miami-Dade, secured a record $340-million loan in May 2015 and is also receiving Chinese investment via the EB-5 visa program to help complete the $800-million project. In early 2016, the Miami-based Terra Group acquired a $91.2-million loan for Eighty Seven Park from United Overseas Limited, a Singapore-based bank.

Going green and embracing multi-use

Two trends of major residential and retail construction projects are mixed-use and environmentally conscious designs. The $4-billion mega projects—American Dream Mall, headed by the Triple Five Group and scheduled to begin construction in early 2017, and 183-acre SoLe Mia, headed by LeFrak and Turnberry Associates, which broke ground in June 2014—embrace a combination of office, retail and hotel space with the latter including residential as well.

The mixed-use $1.05-billion Brickell City Centre incorporates LEED certification into its residencies while its retail section will include a Climate Ribbon. Other major developments with LEED certification include a part of Dacra's growing 1.2-million-square-foot Design District and Lionheart Capital's 2.8-hectare Ritz-Carlton Residences in Miami Beach. Reasons for developers to be environmentally-conscious include marketability, reduced energy expenditures and the incentive of an expedited county review processes. LEED certification can also increase asset value as energy consumption savings can be significant to buyers; the U.S. Green Building Council reported in 2015 that LEED certification increased office property values an average of 6 percent when adjusted for occupancy rates and, on average, raised

Compared to major global cities, Miami is an infant. When folks look back on this market, they will say that this is the moment when Miami matured from a vacation destination to a city with strong cultural offerings and business opportunities. Many people in our industry are coming to Miami because of the growth opportunities, not just because their families are rooted here. The more highly trained and educated entrepreneurs that come here, the better "fertilized" this market will be.

A trend in the residential segment is a movement toward larger units. Luxury buyers want more space while out-of-town buyers are bringing their families here, not simply using units as investment property or vacation homes/rentals. Another key development is the 50-percent deposit requirement for pre-construction sales. This has strengthened the buyer pool and validates the market.

Though there is a labor constraint, it is not localized at the general labor level. The volume of development has dramatically increased and the industry is stressed, from general contractors to architects, engineers and developers. In addition, city inspectors are stressed, affecting our ability to get timely inspections needed to maintain schedules. To keep pace, we recruit qualified staff from outside South Florida, while firms in the market are routinely poaching labor from one another.

For a long time, South Florida was stigmatized as an unsophisticated market for construction and design. As an increased level of savvy buyers entered the market, and projects started to command higher prices, the quality of developments and design improved. Today, world-class architects are designing sophisticated and innovative projects here. Additionally, South Florida is emerging as a leader in green buildings. LEED requirements spur builders to integrate eco-efficient, low-voltage systems, temperature and climate control and glazing materials, to name a few.

Brad **Meltzer**
Southeast President, Plaza Construction

Downtown Miami saw a marked increase in condominium construction in 2015.

construction costs by less than 2 percent. A 2014 CBRE report identified Miami as a top-10 U.S. city for green building adoption for its high rate of LEED certification.

Just as builders are considering the environment in terms of preservation, they are also coping with South Florida's subtropical weather. In anticipation of Tropical Storm Erika in August 2015, construction projects were halted and precautions were taken to secure sites to prevent damage that would delay project delivery.

Related to environmental concerns is traffic congestion, which has increasingly become a construction issue in Miami-Dade. On the construction side, developers are building mixed-used spaces that allow residents to limit driving and are seeking to build around emerging transportation hubs in what is known as transit-oriented development (TOD). Projects such as MiamiCentral, or the smaller Metrorail-based 184-unit Grove Station Tower apartments, developed by Grass River Property, LLC, are demonstrative of TOD. The City of Miami is also promoting TOD by seeking proposals for developments near Metrorail stations and the Omni bus terminal. Proposals to upgrade and develop around the Douglas Road Metrorail station ranged from $191 million to $310 million, indicating that these are substantive projects. Despite the rise of TODs, the city is improving current transformational infrastructure for the long-term. As Miami Parking Authority CEO Arthur Noriega tells Invest: Miami, parking will continue to be a challenge alongside mass transit as Miami grows, requiring thoughtful problem solving. "The Miami Parking Authority has begun the process of 'smart planning,' integrating both technology and infrastructure design in order to find the most efficient solutions to accommodate the city's growth," Noreiga says. "In the future, we will employ such methods as creating higher parking structures, increasing parking rates at peak times, along with other strategies to ensure that the city runs smoothly from the perspective of parking."

Looking ahead

Condominium and commercial developments were credited with creating a skilled construction labor shortage as early as 2013. Even with job fairs and federally sponsored construction training programs, labor shortages persisted throughout 2015. Swire reported a labor deficit for Brickell City Centre in June 2015 despite offering competitive pay. Miami Worldcenter is slated to create 10,000 jobs but has faced community criticism while negotiating with city officials and unions for subsidies developers claim will create labor opportunities in economically depressed neighborhoods. Another challenge to construction projects is financing as Latin America's economic growth is projected by the International Monetary Fund to hover around 1 percent. Economists cited by the Miami Herald in January 2016 reported that Latin American economies already negatively impacted county-wide employment growth. With a high condo inventory and slated deliveries for 2016 and 2017, Alicia Cervera Lamadrid, managing partner at Cervera Real Estate, noted in July 2015 in the South Florida Business Journal that some developers may opt to sell properties rather than develop. These transactions create fiduciary benefits for development companies—especially with property values as high as 15 percent in Key Biscyane and Sunny Isles Beach according to the county's property appraisal office—but delay actual construction.

Another challenge to construction is county impact fees, which have steadily risen according to a county schedule. The fees increase upfront development costs as they must be paid before construction and have base rates as high as $14,000 for single family homes and $10,000 per condominium unit depending on location and square footage. Projects such as NR Investments' Canvas, a 513-unit, 36-story tower, show that these fees can be as high as $4.85 million.

With the projected plateau of the condominium market and scarcity of both land and labor, construction costs in 2015 have risen, but so has spending. In 2016 and 2017, major challenges will include transitioning a skilled construction labor force into more diverse projects and away from a saturated condominium market, securing domestic financing from cautious banks and addressing local infrastructure concerns.