

## Where is Miami in the current real estate cycle?

*Richard LeFrak, Alicia Cervera, Phillip Spiegelman and more weigh in*

*January 08, 2015 02:45PM*

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*Clockwise: Gregg Covin, 1000 Museum; Richard LeFrak, LeFrak; Philip Spiegelman, ISG; Reid Boren, Eastview Development; Alicia Cervera Lamadrid, Cervera Real Estate; and Jake Roffman, 13th Floor Investments.*

Miami is still experiencing an unprecedented real estate boom fueled by a robust pool of wealthy out-of-town buyers and projects built by experienced, well-financed developers, according to prominent real estate insiders.

Yet, big drops in November condo sales and the weakening buying power of foreign investors could mean the boom is in for a slowdown in the coming year, some economists and real estate analysts say.

Developer Richard LeFrak told *The Real Deal* last month that he doesn't see Miami's current cycle slowing down soon. "I'd be worried if interest rates go up and consumer confidence drops," LeFrak said, [speaking at a sales party](#) for his 1 Hotels & Homes South Beach. "But the U.S. economy is doing well and the stock market is high."

LeFrak cited the dramatic increase in the number of buyers from the northeastern U.S. over the past two years as evidence of a continually bullish Miami market. "These are the people paying the big prices in Miami Beach... They all like Miami because it's an exciting place to have a home," he told *TRD*.

Reid Boren, a partner at Eastview Development who is co-developing the [Biscayne Beach tower](#) in Edgewater, said more than half of the people who have bought units at his project hail from New York City. "In Miami, you can buy a unit for a third of the price and the cost of living is half of what it is in New York," Boren said. "Miami has also grown culturally and has infrastructure in place that didn't exist in the last cycle, making it a more attractive place to live."

Miami is also benefiting in this cycle from a diverse mix of buyers from South America and Europe. Gregg Covin, a principal developing 1000 Museum, said the building has sold 50 percent of its units to a mix of people from Brazil, Venezuela and Europe, in addition to New Yorkers. Covin also pointed to buyer deposit requirements of 50 percent or more as a stabilizing factor this time around.

But other signs point to a slowing market. Sales of existing condos in Miami-Dade County plunged 15.5 percent in November from a year earlier to 1,077 units, according to the Miami Association of Realtors. And an analysis of data from the Southeast Florida MLXchange comparing the [top 10 priciest condo listing resales](#) in the first 11 months of 2014 compared to the top 10 in the same period in 2013 shows those listings are trading eight percent less per square foot.

At the same time, the U.S. dollar has gained 30 percent against Argentina's peso, 11 percent on Brazil's real, and eight percent against the Euro. Meanwhile, dropping oil prices has resulted in the near total collapse of Russia's ruble and Venezuela's bolivar. Both countries are headed for long, hard recessions.

Not by coincidence, luxury home sales of \$1 million or more in seven foreign investor-heavy U.S. markets, including South Florida, only rose five percent in the third quarter compared to the previous year, when there was a 46 percent spike, according to a November report by brokerage firm Redfin Corp.

John S. Hekman, an economist with Los Angeles-based Berkeley Research Group, said while it may appear that South Florida's condo frenzy has yet to reach its zenith, there is evidence of a bubble. "This happens a lot in real estate," Hekman said. "The economics look very good when you are about to begin construction, but how many people down the road are going to close or hold on to those units?"

Hekman said it is difficult to gauge if foreign buyers are only buying condos in order to own hard assets in a stable economy as opposed for rental income. "As soon as prices stop going up, the pendulum can swing the other way very quickly," Hekman said. "Even if someone has put down a significant deposit, if the economics have changed when a building is done, a lot of buyers may not want the units anymore and decide throw them on the market."

Indeed, owners of existing condos buoyed by the hot market are listing properties for high prices even as new towers have increased the supply to the market, said Cranespotters.com founder and *The Real Deal* contributor Peter Zalewski. However, sales for million-dollar-plus condos in South Florida's tri-county area declined 8.7 percent from January through November 2014 compared to the same 11 month period of 2013, Zalewski said.

Cranespotters.com recently [noted the announcement of the 300th new condo tower](#) of the current cycle for the tri-county region east of Interstate 95. In the previous cycle from 2003 to 2010, fewer than 250 new towers were built in the same region, according to Zalewski.

Overall, developers have announced plans for 311 new condo towers with more than 40,500 units during this real estate cycle, he said.

As the supply rises, the pool of foreign buyers who are fueling the demand is diminishing. "The developers keep talking about foreign buyers," Zalewski said. "Well, they are going to be harder to come by."

Another problem is that rental rates are hitting a plateau, he said. "If rents stall and start to fall, the market will contract or pull back."

But the consensus seemed to be that the industry need not be worried about a collapse on the scale of what was seen in the last cycle.

Jake Roffman, principal of 13th Floor Investments, said that as a result of the significant equity required in this cycle, nontraditional lenders such as hedge funds and investors will only back projects by experienced developers. "You don't see a newbie developer who has never paid back a loan get financing," he said. "No one is taking the crazy risks that occurred in 2005 to 2007."

Roffman does not think the market seems to be peaking or trending downward. "There is no catalyst that we see shutting things off like it did in 2008," he said.

Phillip Spiegelman, a principal with International Sales Group, said his firm just released its annual South Florida economic report showing the real estate market remains strong.

"The evolution of Miami as a global market has the potential for more growth," Spiegelman told *TRD*. "We can make a strong argument that the current product is being absorbed at a pace where there is room for more development and also demand for new development."

Alicia Cervera Lamadrid, managing director at Cervera Real Estate, had a slightly more tempered view. "I believe we are close to half-way through the current cycle," she told *TRD*.

"Although this cycle the fundamentals are much stronger than the last one, so whenever the wind down occurs, the landing will be much softer," she added.