

## BUSINESS MONDAY



**Demand for rental  
units rises** *Experts predict a severe shortage  
of affordable apartments*



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Amparo Vargas took a big hit when the recession caused Miami's real estate bubble to burst. The \$241,000 North Bay Village condo she had bought for herself and her son in 2005 plummeted in value so quickly, her investment was wiped out and she struggled financially for the next six years.

Today, Vargas, 55, a contract administrator for an engineering firm in Doral, is back on her feet. She has also sworn off being a homeowner, opting instead to rent a three-bedroom townhouse near Northwest 87th Avenue and 10th Street in Miami for \$1,775 a month.

"I never want to buy another property again," Vargas said. "I feel like it's a waste of time and money. I prefer to rent. I'm a single mom and I make a middle-range salary, and I'm blessed to live in a nice little

place in a nice little community with peace and quiet."

Like 53 percent of all Miami-Dade County residents, Vargas is cost-burdened when it comes to housing: She spends more than 30 percent of her income on rent. But she's willing to devote the extra money for the flexibility renting buys her — mobility, fewer taxes and insurance bills, no repairs or maintenance to worry about — and her way of thinking is spreading.

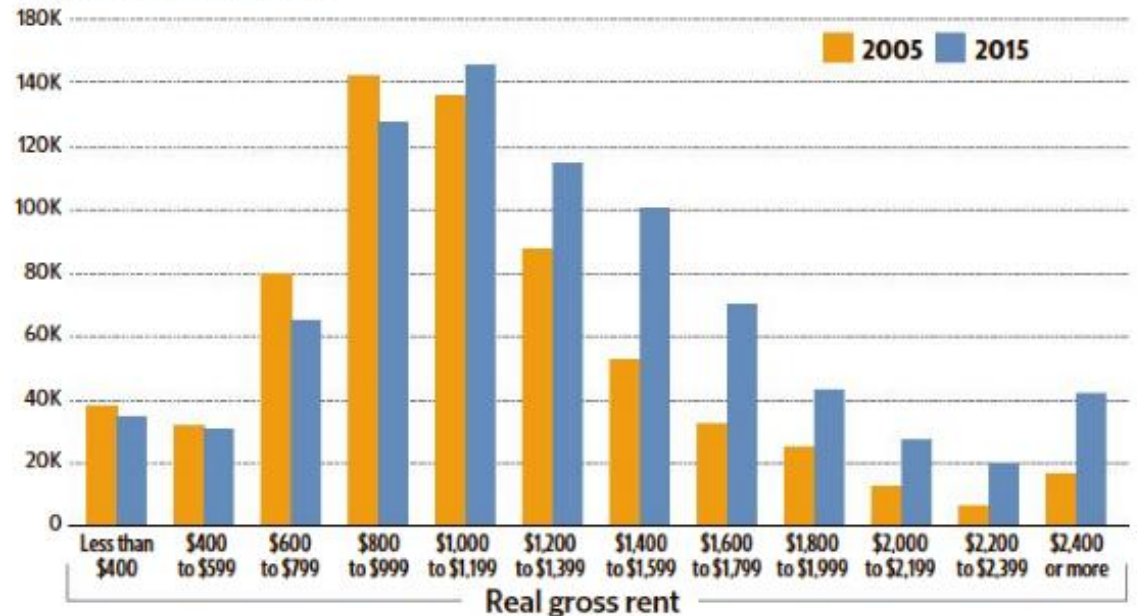
Several new studies show that despite the number of new multifamily (i.e. apartment) buildings under construction and condo towers that have been converted to rentals, there still won't be enough inventory to meet snowballing demand over the next 10 years.

"The stars have aligned for multifamily demand drivers in a way they've never aligned before," says Steve Patterson, president and CEO of Related Development for the Related Group. "Homeownership used to be at 70 percent

## High-rent units are outpacing low-rent units

The 2017 Housing Study by the Harvard Center for Housing Studies shows Miami is adding pricey rental properties at a much faster pace than more affordable rentals.

### Numbers of units added



Source: Harvard Center for Housing Studies

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during the last cycle. Homeownership was the great American dream. But that's no longer the case. A lot of people lost a lot of money owning homes. We turned a lot of good renters into bad

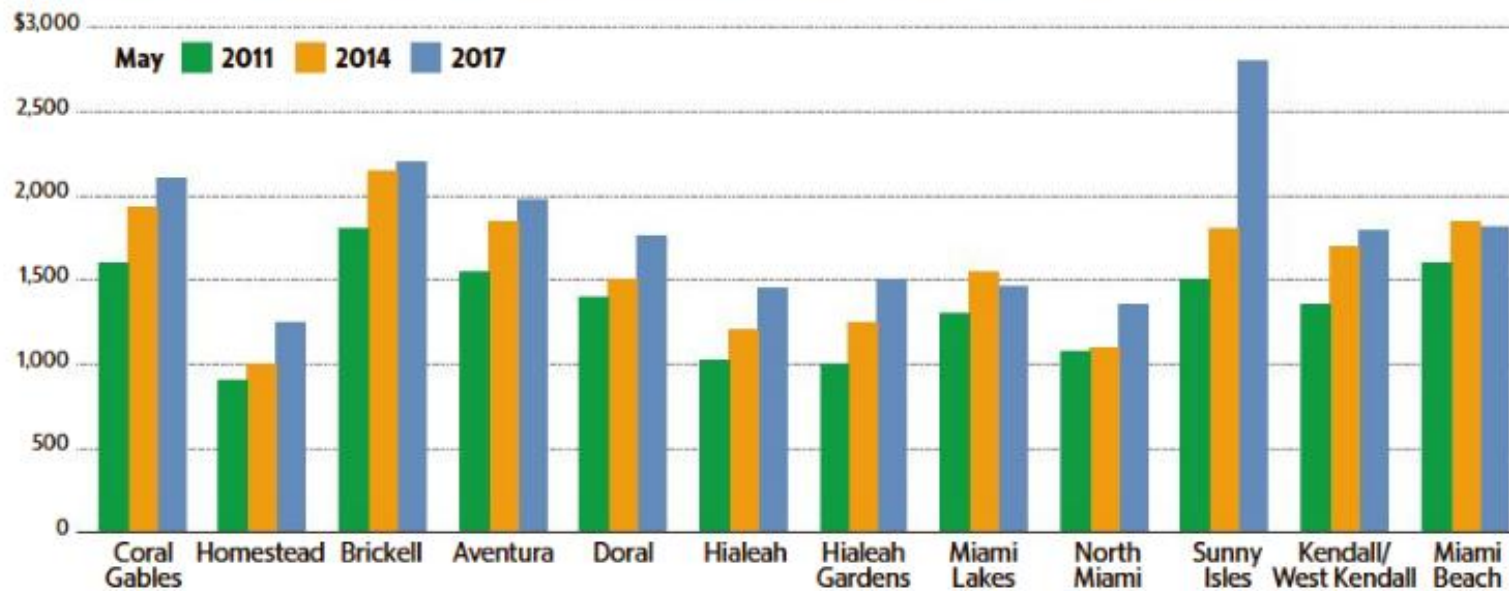
homeowners in the last cycle. People learned their lesson. That's driving the baby-boomer demand. We're seeing a lot more of them renting now."

But since so much of the

new construction — from Wynwood's upcoming micro-units to fancy rentals in Midtown and Brickell — is being priced at market rates, there is concern that the rental market could end up mirroring the overstocked

## Where the cheap rents are

Here's a rundown of how much the median apartment rents in various neighborhoods around Miami have gone up over the past five years. Figures are based on existing buildings, not new construction.



luxury condo market, with prices too high for the average household to afford.

An estimated 1.1 million people rent apartments in Miami, Broward and Palm Beach counties, according to the advocacy groups National Multifamily Housing Council and the National Apartment Association. The total number of rental households is projected to grow to 700,000 by 2030, which would require an additional 185,414 units to meet demand. But at the current pace, new construction would only reach 69,400.

Even more troubling: Most of those units will be beyond the reach of work-force salaries. A new report



by the Harvard Joint Center for Housing Studies that uses census data from 2005 and 2015 shows low-cost rental housing is disappearing around the U.S., replaced by pricier, less affordable units.

In Miami-Dade County, the situation is particularly dire. Research analyst Elizabeth La Jeunesse, who authored the study, says Miami ranks third in the nation in lowest percentage of rental units under \$800 a month — only 16 percent — and saw a loss of 20,000 rentals in that price range over the past 10 years, or a total decline of 13 percent.

The supply of high-cost rentals (\$2,000 and up) more than doubled, with more than 50,000 units coming to market — an increase of 148 percent over the past decade. Meanwhile, the median household income in Miami-Dade remains flat at \$41,913 — one of the lowest in the U.S.

## CRISIS IN MIAMI

"There's a real crisis in Miami," La Jeunesse said. "In principle, the new high-end supply would help to ease the market and free up older, more affordable units. But there are so many people in Miami dealing with cost burdens that low-rent units are in greater demand now, so

projects rents in that area will go down after the completion of 5,100 units currently under construction. But the Marcus & Millichap 2017 second quarter multifamily market report shows that despite the addition of thousands of new units around the city, rents climbed seven percent over the same period in 2016.

Manuel Armada, attributes the dearth of reasonably priced rentals to various factors, such as a lack of available land (which drives up construction costs), conversions — more than 35,000 rentals were turned into condos over the last decade — and Florida's population boom, with the state attracting an estimated 1,000 new residents every day.

Rents on existing buildings have crept up steadily in most neighborhoods around the county since 2011, taking a toll on residents. According to the Zumper National Rent Report for July, Miami continues to rank as the ninth most expensive city in the U.S. to rent a one-bedroom apartment (median rent: \$1,800).

The 2016 Q4 Miami-Dade County Residential & Commercial Real Estate Profile released in June shows that sales of single-family homes fell 1.3 percent to 3,193 over the same





landlords can raise their rents. There's a vacuum on units in the \$600-\$1,000 price range. Low-income people can't afford to live in the communities they serve."

The prognosis varies by neighborhood. For example, the Miami Downtown Development Authority

period in 2015, while condo and townhome sales were down 17.5 percent, to 3,129. The report also states that the median rent of single-family homes in Miami-Dade ate up 64 percent of median household incomes — 200 percent higher than the national average. The median

one-bedroom apartment rent ate up 50 percent of the median household income; two and three-bedrooms each consumed 65 percent of median in-

comes.

But developers are still finding plenty of takers for their swanky rental projects. Jerome Hollo, executive vice president of

Florida East Coast Realty, says the company held onto several units at its 56-story Opera Tower at 1750 North Bayshore Dr., near the Arsht Center. The

apartments are always leased, at prices ranging from \$1,400 for studios (\$30 per square foot) up to \$3,000-\$4,000 for two-bedrooms (\$25-\$43 per

square foot).

The firm's latest project — the mammoth Panorama Tower at 1101 Brickell Ave., which will be the tallest building in Florida — topped off in April and will be completed by year's end. The building was originally intended to be condos, but will be rentals when it opens its doors.

"You have a lot of developers who came out with condo projects and converted them into rentals because they saw the sales

market was softening," Hollo said. "Another factor is that the Brickell and downtown areas are attracting a lot of younger people who don't necessarily want to buy a unit but want to live in an urban environment with shops and restaurants and cultural events and public transit. People realized there were few true rental units in this neighborhood, so they decided to fill the void."

Those rentals are attracting people such as Alex

Needelman, a 26-year-old CPA for the downtown Miami office of the global accounting firm PricewaterhouseCoopers. The Florida State University grad says he and two former college buddies looked at several apartments near work before scoring a three-bedroom, two-bath corner unit with a wrap-around balcony on the 17th floor at 1200 Brickell Bay Dr. for \$2,900 a month.

"Everything we looked at was really pricey, but this is

an older building so we were able to get a cheaper deal," Needelman says. "I wouldn't be able to afford a place like this by myself at this point. But we're three single guys and we all like to party, so I don't mind."

## MERCHANT BUILDERS

Hollo says some companies opt to operate as "merchant builders" — developers that prefer to build and sell off their projects to larger institu-

tions upon completion for a profit. In June, developers Estate Investment Group, Fortune Capital Partners and Mattoni Group sold a 196-unit apartment building for \$61 million — a record for West Miami — a year after it was finished, with 95 percent of the apartments leased out. Rents there range from \$1,680 to \$3,475.

But for those with deep enough pockets, hanging on to a multifamily or mixed-use building can

reap long-term windfalls.

"It's a little harder to do that because you have to have the staying power to stabilize the project after it's completed," he said.

The Melo Group has been one of the city's most prolific developers of rental apartment towers, with a total of 2,173 units in 10 buildings completed since 2003 and another 1,815 units under construction or planned. Those include the

**SEE RENTALS, 18G**



Melody Tower at 245 NE 14th St. in downtown (rents range from \$1,700-\$2,500); the Oak Plaza at 1415 NW 15th Ave. in Allapatah (\$1,400-\$1,730); and the Flagler on the River at 340 W. Flagler St. (\$1,600-\$2,350).

"There's a huge demand for them," said Carlos Melo, principal of the Melo Group. "We are seeing three types of people interested in these units: from other countries, from other U.S. cities and then people whose parents live in Kendall and they want to live in Edgewater or Midtown. There's a lot of movement toward the urban core."

Ideally, new apartments would lure renters away from their older, cheaper units, which would be freed up for a new, low-income tenant.

But Harvard's La Junesse said the opposite is happening in Miami-Dade.

"That process, which is called filtering, has been reversed because of the sheer of magnitude of demand across the income spectrum," she said. "But

toward the urbanization and creation of more neighborhoods in Miami that merit opportunities for rental housing," he said. "It was unheard of to live in an area like Dadeland 15 years ago, and now it's a common destination. It still has a lot to go, but it's already established."

13th Floor is also partnering with the Adler Group on the \$464 million Link at Douglas Station project, a mixed-use development on a seven-acre site at the Douglas Station Metrorail Station on U.S. 1 and Southwest 37th Avenue. Karsenti said the project will take advantage of Miami-Dade County's Workforce Housing Development Program, one of the incentives the county has created to encourage developers to include affordable rentals in exchange for density, parking and zoning bonuses.

"We're exceeding the mandated amount of workforce housing, because that program doesn't just satisfy the city: It's also good business," Karsenti said. "It attracts the demograph-



KOBI KARP

An architectural rendering of Wynwood 25, the micro-unit apartment building developed by the Related Group that will add 289 rentals to the apartment-starved area. Groundbreaking on the project is scheduled for July 10 — today.

ing," said Manuel Armada, the chief of Miami-Dade County Department of Regulatory and Economic Services' Planning, Research and Economic Analysis Section. "But if you have a fast and cheap way of getting to and from work, that plays a big part in opening new possibilities for people to afford housing."

"We need apartments for everyone," said Kristi Novak, the legislative committee chair of the South East Florida Apartment Association. "There is a lot of demand for luxury, but there is also a huge demand in Miami-Dade for affordable. Micro-units are a good fit for Wynwood. But Kendall? No."

the property.

Brian Gordon, executive vice president of Magellan, says the leasing has been so vigorous, with more than 200 apartments already rented, that the company is planning to break ground on a second tower, the \$150 million, 447-unit Midtown 6, this summer at Northeast First Avenue and 31st Street. That build-

husband Dana, 69, decided to sell their longtime five-bedroom home in Palmetto Bay last year and move to a three-bedroom rental in the Hammocks, a few miles west of Kendall, because they realized their days of hosting and entertaining were over.

"We realized we were in this giant house and weren't really using it,"



the demand is so great that landlords can afford to raise those low rents or improve the unit and put it back on the market at a higher rent level."

Some developers are looking beyond the downtown corridor and into the suburbs for mixed-use projects close to transit hubs. Arnaud Karsenti, the managing principal of 13th Floor Investments, says there are neighborhoods emerging all around Miami-Dade County with personalities as distinct as Wynwood or South Beach.

"We're seeing a shift

ic we want for that project."

County planners hope that as public transportation links become more efficient, such as the Brightline rail system due to open this fall connecting Miami to Fort Lauderdale, they could help reduce people's reliances on their cars — money that could go toward a monthly rent payment.

"If you move to Homestead and you work in Doral or downtown, the cost of transportation could be significant and that increases your cost of liv-

But the demand for affordable apartments is an issue that won't keep for several years. The Related Group is experimenting with micro-units — smaller apartments, some the size of a two-car garage — with two new projects in Wynwood, the first of which breaks ground July 10, that will add 464 rentals to the apartment-starved area. But the concept of selling a neighborhood as an amenity, which is a traditional way of life in cities such as New York and San Francisco, is still untested in South Florida.

## DEVELOPERS DRAWN TO MIAMI

The need for rental housing continues to attract developers to Miami. Out-of-state buyers plunked down nearly \$1 billion for 11 multifamily buildings in South Florida over the last three months alone.

The Chicago-based Magellan Development Group successfully delivered the 400-unit, \$100 million Midtown 5 tower at 125 NE 32nd St. earlier this year. Magellan, which also has buildings in Minneapolis and Nashville, manages

ing was originally conceived as condos. A Midtown 7 tower is also in the planning stages.

"We examined the market and saw there was a big shortage of rental properties in Miami," Gordon said. "If you look at the national average, home ownership has declined since the recession. More people are renting by choice because lifestyles are more mobile today."

Even people with retirement in sight are choosing to let go of their homes and become renters. Maria Drew, 62, says she and her

said Drew, who works as a freelance leadership coach for human resources. "We discovered we love renting. We pay \$2,000 a month, but there are a lot less headaches. There's no maintenance involved. My husband says he'd rather live under a bridge than buy a home again. People tell me I'm throwing my money away, but I tell them I'm investing in my life."

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