

## 11,000 more units east of I-95 to fill need near urban core

By CATHERINE LACKNER

Multi-family properties, including those identified as affordable housing, continue to be prime investment vehicles, observers say. “Every day, you hear of new multi-family projects popping up,”

said Jason Katz, vice president of the Aztec Group. About 11,000 new units are being planned or built east of I-95 in Miami-Dade County, he added.

“The reason is that most work-

ing, middle-class citizens cannot afford to buy a home and, with traffic so prohibitive, they want to be as close to work as possible. There is a need for these properties near the urban core, near offices.”

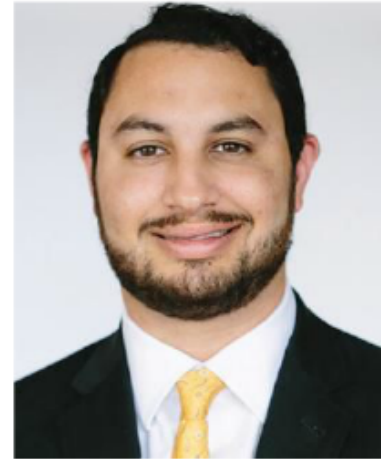
Successful developers of these properties typically purchased land during the recession and “did not have to justify the cost by charging higher price points,” he said. At minimum, a developer or multi-family building owner must be

able to charge \$2 per square foot per month for a market-rate apartment and \$3 per square foot per month for a luxury product, he said.

“It’s difficult to make money as an apartment developer at rents less than that,” Mr. Katz said. “We found that, when you’re building a project, if you have a strong balance sheet and hold the land for a long time, that’s a good basis for success. You’re building something the market is asking for.”

Some developers are interested in building multi-family dwellings because “they’re able to exit in three years and move on to the next project,” while some hold their rental projects for years. “Rental projects retain their value over time because there is less land to build on,” Mr. Katz said.

“Rental markets in Miami, New York and San Francisco since 2010 have just exploded,” said Marcus Christensen, a senior associate at Avison Young. “We are seeing the lowest home ownership rates in the country since the 1960s. That, along with the



**Jason Katz: rentals retain value.**

year, he said, “which is why so many investors want to get in; it’s a secure return.”

The frantic pace of investment might slow down, especially if the Federal Reserve Bank raises the prime rate, as its governors have threatened.

“Rents are unbelievably high, but transaction volume is down,” Mr. Christensen said. “Existing properties are trading hands at a lower clip, which leads us to believe people are being more cautious.

tenants, you’re in a difficult situation. But there is always a pent-up demand for affordable rental housing.”

Many conventional developers are entering the affordable housing market, especially when there are government subsidies both to build and to maintain the properties.

“When you are a developer, you have to pay attention to absorption rates, but with affordable housing, that is taken out of the equation,” as there are almost al-

cheapest borrowing costs we've ever seen, has created a perfect storm for multi-family development. A lot of people don't have money to buy, so have to rent." Some spend more than 50% of their income on rent, he added. "It's a huge windfall for multi-family developers."

"Land and construction prices have appreciated drastically, but capital is coming in from all over the place," said Rafael Feroselle, also a senior associate at Avison Young. "Capital is coming to park in Miami."

Because of all the available capital, "investors have to move quickly," he said. "We're seeing multiple offers on properties and investors are getting more aggressive as rents continue to appreciate." The multi-family sector has seen a 3% growth rate year over

"It all comes down to the Fed and how it drives monetary policy," he said. "If it embarks on a series of rate hikes, that could cause a cooling. If they decide to cut rates, you might see the market heating up. It's all about the Fed, and that's all investments, not just real estate."

Even as the economy improves, spiraling rents have fueled demand for reasonably priced housing, said Kevin Morris, who leads Colliers International's affordable housing division. "This marketplace is very robust; if we have problem in the economy, that benefits the marketplace."

"From an investment standpoint, it's a very attractive vehicle when you compare it to other options, such as retail. Big-box stores are going out of business, and if you own a strip mall and lose a few

ways more applicants than units available, Mr. Morris said.

Affordable housing used to be seen as a low-end product that "left a bad taste in people's mouths," he said, but there is such demand now that tenants have a strong incentive to remain in the units. "That gives landlords a lot of leverage. It's a safe return."

Colliers International, he said, is creating a national network for affordable housing developers and those who want to get into the marketplace. "We can analyze a property and see where it could be situated," including what opportunities exist for tax credits and government subsidies, and what the potential is going forward. "In these properties," Mr. Morris said, "developers are well-compensated and, at the same time, can do good."