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Miami market settling into slowdown in 2017: real estate players

Ezra Katz: "Underwriting standards are changing and lenders are becoming more conservative"

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Jay Parker, Mika Mattingly, Arnaud Karsenti, Ezra Katz and Taylor Collins

Miami's real estate market experienced the first wave of a slowdown in condo sales at the start of 2016, with some experts warning it could lead to a recession by the end of the year. Twelve months later, South Florida real estate didn't implode, but the industry is beginning to feel the pinch of a bear market. As we head into 2017, developers, brokers and investors believe construction financing for new projects will be harder to come by and condo sales will continue at a snail's pace.

The Real Deal spoke to major players in South Florida's real estate game to weigh in on what to expect from now through next December.

In downtown Miami, a saturation of projects marketed to buyers looking for units as investments has created too much inventory, said Dan Kodsi, developer of Paramount Miami Worldcenter and Paramount Bay.

"I really don't believe in cycles, but I do think we are going to see some dips," he added. "You will not see a mass sellout because these are not people who can't make their mortgage payments. You will likely see these investor buyers taking their units off the market and renting them out."

Arnaud Karsenti, 13th Floor Investments managing principal, also believes the condo market is oversupplied. "I don't think it is dead by any means, but it will soften," Karsenti said. "We remain bullish on anything that is residential or mixed-use. We like properties that benefit from Florida's greatest trend, which is its population growth."

Miami's urban core currently has so much inventory, it is going to take three years to sell all those units, said Mika Mattingly, executive vice president for Colliers International South Florida.

Still, she believes downtown Miami is poised for strong growth compared to Brickell. "You will see more movement in downtown Miami," Mattingly said. "For example, Centro Lofts has no parking and no waterfront. Yet, they are basically almost entirely sold out at close $500 a square foot. You are really going to see an urban dweller who wants to live in downtown."

Although some observers believe 2017 will be the beginning of a new cycle on an upward trajectory. Jay Parker, Douglas Elliman's Florida brokerage CEO, said the slowdown in 2016 was heavily influenced by the presidential election. "All the hostility and volatility caused buyers to pause," he said. "People who would normally be in the market for real estate, whether for investment or transitional move, put the brakes on."
Parker said he expects the market will benefit from pent-up demand in the first two quarters of 2017. "I don't think anyone has a crystal ball, but an anticipated continued rise in interest rates will force the hand of those who otherwise don't feel a necessity to buy," he added.

Taylor Collins, a partner with Two Roads Development, said the first two quarters of 2016 were slow, but there was steady growth in the third and fourth quarters that will carry over into the coming year. "The market took a deep breath in 2016," Collins said. "I don't think you are going to see any of these mega projects with 800 to 1,000 units happen in 2017. I don't think those can keep up with the absorption. But you will see more of the smaller, high-end boutique products."

However, construction financing is going to get tighter in 2017, Collins warned. "Lenders are requiring you to be 50 percent sold before you can start drawing on a construction loan," he said. "They are very aware of what happened in the last cycle in 2008 and 2009. Those days are gone."
Ezra Katz, founder and CEO of Aztec Group, said he foresees construction financing slowing down dramatically next year.

"Underwriting standards are changing and lenders are becoming more conservative," he said. "Lenders have a lot of loans on their books. I think projects that are contemplated as new construction and have not been financed will find it very challenging, particularly the Johnnies-come-lately or new kids in town."