



The Silver Word

Analysis of the Miami Residential Condominium Pre-Construction Market July 2004

Miami Real Estate Outlook for 2004

The real estate markets in South Florida are either booming or on the verge of booming despite a tough economy, with predictions across the board for a robust 2004. While other regions have seen declines, the Miami-Fort Lauderdale area is still going strong. It not only has maintained its powerful appeal to buyers worldwide but has also seen significant appreciation in value over the years.

When it comes to real estate, everyone loves South Florida. Domestic and international buyers are reserving new condominium units as fast as developers announce new projects. Real estate investment trusts (REITs) are acquiring prime office and industrial properties. Individual investors are buying small shopping centers, warehouses, apartment buildings and condo hotel units. Lenders have plenty of money available to finance transactions at interest rates that remain near historic lows.¹

In the past, the best opportunities in Miami have been in buying the condo buildings. Property values in Miami area counties have gone up nearly 15-20% a year for the past five years. Over the next eight years the baby boomer flood will start to peak and demand is expected to be even greater.

Risks

The consensus among South Florida real estate experts is that 2004 will be another strong year. But after that, the bets are off. What could bring the good times to an end? Perhaps an unexpected rise in interest rates that will cause new homes and commercial properties to be more expensive to buy. Misjudgments by inexperienced developers could make new buildings tough to fill or a new terrorist attack could reduce the flow of international buyers. Other risks are more long term in nature:

- A dwindling land supply

¹ South Florida CEO Magazine, March 2004.

- Slow job growth
- Changes in consumer and business demand
- Rising construction costs
- Shortage of skilled labor

Buying at Pre-Construction

One of the hottest areas of Florida real estate is the preconstruction and new construction markets. Developers across the state are building at a dramatic rate.

In general, when a developer plans a condominium he has many hurdles to overcome, not the least of which is financial. Whether the developer is a local developer, financial backers want to gauge the interest in a project and in many cases, require the developer to have reservations on a certain percentage of condos before the project is given the go-ahead. The developer needs these presales to secure financing and he will give incentives to the early buyers by placing a deposit with the title company to hold a particular condo. In many cases the "first day" price will be lower than the price for the subsequent condo purchasers. To encourage further price increases, the developer will program increases at scheduled intervals throughout the condo pre-sale stage. This also encourages people to buy condos early, thereby creating more demand which may, in turn, increase the real estate value.

The preconstruction condo market can be a boon to investors who buy at low prices only to resell at closing for a profit. Bargain hunters long have been drawn to the preconstruction condo market because prices can be lowest for those who commit the fastest. Buyers are either people who intend to live in the buildings as soon as construction is completed or investors hoping to make a quick profit.

Selling a lot of units quickly to speculators can sometimes benefit builders. Developers usually have to presell a certain percentage of units in order to qualify for a loan to finance construction. In the meantime, deposit money from by buyers provides interest-free money.

Some developers make contractual commitments to raise prices when predetermined sales thresholds are passed -- a major motivation for bargain hunters to put down deposits in the earliest stages of a development. Contractual commitments to raise unit prices also provide some of the appreciation that can make flipping profitable.

Some facts about Miami condominiums:²

- Prices escalate drastically with new or pre-construction properties.
- Buildings without leasing and pet restrictions are generally higher priced than those with restrictions.
- A balcony can add as much as 30% to the price of a condo.
- The average 1 bedroom unit is between 730 and 960 square feet.
- The average 2 bedroom unit is between 960 and 1500 square feet.

² www.IWantMiami.com

- Full amenities usually include parking, laundry facilities, 24 hour lobby attendant, pool, gym, and may include valet, restaurants/bars or convenience stores.
- Property taxes are between 1.5% and 2% of the property value per year.
- Florida homestead exemption can keep property taxes from rising more than 3% per year and provides a \$25,000 deduction from the current value.

Challenges

According to Branon A. Edwards, a Florida realtor with Coldwell Banker, the biggest challenge is getting into the project early enough (or at least at the right price) in order to realize the maximum gains. In most cases, just walking in off the street into the developer's office or sales center doesn't put one in the most optimal position. By the time most developers open their sales center, they're already more than 50% sold. It is best to establish relationships with a number of developers early in the game so investors are lined up before demand escalates.

Another challenge is the potential for overbuilding. There is a lot of development going on in Miami-Dade County, however, there is also a huge need for housing. According to census figures, Florida's population will double in the next few decades, so it doesn't look like there's any end in sight for development or what most would consider overdeveloping. The best indicator seems to be that whenever a new development is announced, the fact that they sell out in record time appears to support the idea that there is still a tremendous appetite for condominiums in the market.

What the Miami Real Estate Experts Are Saying:

"There are two key trends affecting the 2004 condominium market. First is the continuing influx of buyers from Latin America and Europe. Today, we are seeing a strong influx of buyers from Mexico, as well as Europeans who benefit from the strong euro. The second trend is continuing low US interest rates, which make buying a home more attractive than renting. Combine that with South Florida's ongoing population growth, and you have a very powerful residential combination.

Is the market in danger of being overbuilt? If you are just looking at the primary residence market, the answer is yes. But so many buyers are coming to Miami or Fort Lauderdale from all over the world. That makes a real difference in demand.

We expect the redevelopment of South Florida to continue in 2004. The high-growth areas are likely to be the Edgewater district north of downtown, the west Brickell neighborhood and the Miami River district."

Willy A. Bermello
President/CEO, BAP Development, Inc., Miami

"Demand for high-rise condominiums remains very strong. A lot of buyers from the United States are spending money again, and we're seeing interest from the Midwest and other domestic markets.

On the international side, Mexico is one of the strongest Latin American markets. With major Mexican airlines now flying direct to Miami, a growing number of visitors and buyers are being introduced to South Florida residential products. And wealthy buyers from Venezuela, Colombia and Argentina continue to invest in South Florida homes. Since the first of the year, we've also seen a real upsurge in interest from Europe, including countries like Turkey, Switzerland and Greece. Wherever the euro is circulating, people are buying here.

As long as interest rates stay low, both domestic and international buyers will continue to purchase South Florida residences. Today, it's a matter of matching the market with your particular project and setting price points that make sense."

Gil Dezer
President, Dezer Development, Sunny Isles Beach

"We're very bullish on Florida's condo market. We saw a pickup in the luxury segment in late 2003 with the upturn of the stock market, and that trend has continued into 2004.

Demand for condominium residences depends on the nature of a particular project, its location, and the lifestyle factors. For instance, the market in Miami is heavily influenced by foreign buyers, while Palm Beach County brings buyers from the Northeast who enjoy going to the beach or playing golf during the winter season. Every year we can't wait for the first snowstorm to be broadcast on CNN; a few days later our sales centers start getting a lot more calls.

While there are concerns about the Miami condo market being overbuilt, I don't believe that is the case, especially in the \$200,000 to \$750,000 segment. Another issue is the shrinking supply of land in prime locations. There are still a lot of opportunities for redevelopment on the eastern coast, such as teardowns – more than many people think."

Paul Drummond
Regional President, East Coast Tower Division, WCI Communities, Sunrise

"Assuming rising interest rates and lower appreciation gains, the South Florida residential market in 2004 will be good, but not fantastic. Every time interest rates go up, even by one percentage point that takes buyers out of the market. After so many years of a hot market, there is not much pent-up demand any more, and many baby boomers are trying to pay down their debt and get ready for retirement."

"With the double-digit appreciation rates of the past few years, South Florida has moved upward into a higher national pricing tier. We are still priced below Manhattan, San Francisco and Los Angeles, but we've moved ahead of places like Pittsburgh."

"On the other hand, this winter's tremendous cold front in the Northeast and Midwest has stimulated sales, along with continued immigration from South America and renewed interest from Europe with the strong euro. We are also selling more land in

Homestead, which is fast changing from an agricultural community to one with affordably priced homes."

Michael Pappas
President, The Keyes Company, Miami

"South Florida's residential market is stronger so far in 2004 than it was last year. With our population growth, some analysts suggest that we need 100 new living units per day in Miami-Dade and Broward alone. With those numbers, a new 400-unit condo would only satisfy a four-day demand. And we continue to see buyers with disposable income purchasing a second or third home here."

Ron Shuffield
President, Esslinger Wooten Maxwell, Coral Gables

"Perennial talk of a glut has failed to materialize after years of record building, mainly because the development of luxury units as compared to the overall condo market appears to still fall short of demand. There is also a wide array of choices, which developers say adds further attraction to Miami's high-end market. Potential buyers can choose from properties in Miami Beach, Coconut Grove, Coral Gables, Key Biscayne or on Brickell Avenue."

"The U.S. economic slowdown is not affecting the Miami real estate market. Money leaving the stock market has to go somewhere. Miami's economy doesn't depend on anybody to prosper. The biggest challenge, as always, is in developing the right product for the area."

"Another factor driving the popularity of South Florida's super-luxury condo market is value. \$2 million will fetch much larger units in Miami than in cities such as New York or Boston."

"International buyers are also active in the luxury market, buying waterfront condominiums and single-family homes in South Florida. Many Latins, in particular, are transferring at least some of their investment funds to Florida. There is a potential for overbuilding the luxury condo market, but that hasn't occurred yet. One reason is that the availability of land to build waterfront condos has decreased markedly in the past 10 years, and that tends to hold down the supply."

"South Florida is considered one of the nation's hot housing construction markets, according to the Harvard University Center for Joint Housing Studies."

Steve Zeitz
CEO, Zeitz Properties, Inc.

"Developers can hook themselves into some uniqueness of their product, whether they brand with a Four Seasons, whether they brand with a hotel or whether they brand with some unique other scenario. There is a synergy that is going to be the key to moving forward in our market."

Leslie Evans
 CEO, Esq. Leslie Robert Evans & Associates

Price Chart

Below is a chart that provides price per square foot guidelines for the Miami condo market, by location and by view.³

Price Chart - Miami Condominiums

	South beach South pointe to 29th street	Millionaires row 45th Street -- 59th	Normandy Isle 60th Street -- 79th Street	Surfside 80th Street - 93rd Street	Bal Harbor 94th Street -- 137th Street	Aventura 138th Street -- 207th Street
Beach front direct ocean view full amenity with balcony	355 \$ per Sq Ft	330\$ PSf	325\$ PSf	315\$ PSf	375\$ PSf	330\$ PSf
Beach front side ocean view full amenity with balcony	328\$ PSf	300\$ PSf	293\$ PSf	280\$ PSf	355\$ PSf	310\$ PSf
Beach front city view full amenity with balcony	260\$ PSf	245\$ PSf	215\$ PSf	250\$ PSf	290\$ PSf	255\$ PSf
Bay front direct water view full amenity with balcony	280\$ PSf	264\$ PSf	249\$ PSf	N/A	279\$ PSf	272\$ PSf
Bay front partial water full amenity with balcony	260\$ PSf	244\$ PSf	237\$ PSf	N/A	252\$ PSf	246\$ PSf
Bay front city views full amenity with balcony	235\$ PSf	215\$ PSf	208\$ PSf	N/A	232\$ PSf	230\$ PSf
Between the Beach and the Bay. (Mostly obstructed views and very few amenities)	220\$ PSf	N/A	190\$ PSf	205\$ PSf	215\$ PSf	210\$ PSf

Note: This chart gives average minimum prices. Prices may vary due to extraordinary circumstances.
 Views vary depending on floor and proximity to other buildings.

³ www.IWantMiami.com