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Miami Condo Market Cools, but a Big Project Gets Financing

Paramount Miami Worldcenter has closed on a \$285 million construction loan

By Peter Grant and Laura Kusisto

A sprawling, \$2 billion mixed-use real-estate development in what was a gritty part of downtown Miami is lining up financing despite signs the city's real-estate market is softening.

In the latest step forward, the signature condominium and retail project on a 27-acre development that has been planned for more than a decade has closed on a \$285 million construction loan. The tower, named Paramount Miami Worldcenter, is expected to cost a half-billion-dollars. It is already under construction and expected to be completed in 2019.



The loan took more than a year to secure, as banks have virtually frozen financing for new condominium construction in the city. Only one other downtown Miami condo project is expected to be completed in 2019.

“Financing has gotten harder. This cycle has not been one of euphoria where lenders are giving out easy money,” said Nitin Motwani, managing principal of the joint venture dubbed Miami Worldcenter Associates, the master planner and developer.

In late February, Miami Worldcenter Associates also obtained \$74 million for infrastructure improvements from a bond sale by a special taxing district set up for the project. The improvements include sewers, sidewalks, landscaping, transit station improvements and other upgrades.

Meanwhile, the developer of a 444-unit rental residential tower on the site, a venture of Falcone Group and CIM Group, has obtained a \$90 million construction loan from Fifth-Third Bank and Banco Santander. Construction began on that 42-story tower last year and is slated to finish in mid-2018.

The site of the development, one of the largest private projects under way in the U.S. and about the same

size as the Hudson Yards project on Manhattan's west side, used to be an area of warehouses and parking lots. The development partners started cobbling together properties for the site in the early 2000s. Their master plan was approved by Miami's City Commission in 2014.

Miami Worldcenter, which also will include a hotel, public spaces and other uses, is rising when it is difficult for developers to obtain construction financing from banks and other lenders because of stricter regulations and concerns about risk.

The downtown Miami market is expected to see the most new condos delivered this year since 2008, roughly 3,500 new units in all, according to a report commissioned by the Miami Downtown Development Authority. That number is expected to decline below 2,000 by 2019.

Miami condo resale pricing fell 7% year-over-year, the first decline in eight years, and could fall as much as an additional 6%, according to Anthony Graziano, principal of Integra Realty Resources, a real-estate tracking firm that conducted the research for the report.

"Construction financing is definitely deteriorating," said Aaron Kurlansky, a principal at FM Capital, a commercial real-estate investment firm. Mr. Kurlansky said that while at the peak, developers could finance up to 75% of the cost to build a project, now that is down to about 50%.

The Worldcenter developers have solved this problem partly by putting up a lot of equity. For example, the Paramount developers so far have used equity to finance that tower. They also turned to a federal visa program known as EB-5, which grants green cards to foreigners who invest at least \$500,000 in businesses or construction projects that create American jobs.

Project officials say that nearly 60% of its 562 condo units have been sold, raising about \$300 million.

Mr. Motwani said they are selling about 10 units a month, whereas a few years ago developers were often averaging about 20 sales a month. Roughly 1,000 rental apartments were delivered in 2016, with an additional 4,900 rental apartments now under construction, according to Mr. Graziano. Rents are essentially flat.

Mr. Motwani said the project's location near transportation will help attract younger renters. "Will there be some projects that have some bumps along the road? Probably, but I don't think that's unhealthy," he said. "We think we'll outperform our competitors."

Analysts said they see a significant housing downturn in Miami but not a large crash because development has dropped off, limiting supply. They said they see projects selling out slowly.

"We're peeling back the layers and just grinding it out." said Jonathan Miller, president of appraisal firm Miller Samuel.