

What Recession?

The following is an editorial by Michael Y. Cannon, MAI, SRA, CRE, who is Managing Director of Integra Realty Resources—AREEA/South Florida, a Miami company that is part of a national organization that focuses on real estate valuation, consulting and market analysis. Mr. Cannon, Publisher of The AREEA Report, has been a real estate analyst, consultant, and valuation expert for over 30 years.

The South Florida housing market that includes Miami-Dade, Broward and Palm Beach Counties has not been negatively impacted by the tragic events of September 11, 2001 that may have impacted some sectors of Corporate America and the stock market. Supply has continued to decline as sales prices have continued to increase.

South Florida has experienced a housing expansion since 1992 as in-migration of more affluent households have purchased new and used homes and consumers have benefited from favorable low interest rates. In return we have experienced higher quality of lifestyles.

Although certain developers have reported a decline in traffic and pre sales, residential sales closings in all categories (new and used), single family and condominiums are ahead of historical highs. Current interviews with developers indicate that traffic is at favorable levels. Developers that may not be experiencing such activity may have spiked sales prices above the market norms or have developed less marketable products.

The overall outlook is favorable for 2002. A primary reason is the diversity of South Florida's economy and its attraction to the world market. As long as South Florida's growth continues with the in-migration of higher income households, permanent and part-time residents should experience price increases.

During 2001, the South Florida housing markets experienced all time records in dollar and sales volume, and average price. During the year, IRR-AREEA identified 169,051 recorded transactions for new and resale housing with an average price of \$177,095. That's a 54.9% increase from 1991 when the average price was \$114,332 for new and resale single family and condominium units.

The most expensive residence sale in 2001 was \$30 million in Palm Beach County, \$10.5 million in Broward and \$12.9 million in Miami-Dade, reflective of the affluent population enjoying South Florida's quality of life style.

Housing demand in South Florida remains at a level that should be sustained with the introduction of new housing types in most all price categories (assuming marketability tests are met.) During 2001, over 83% of all closed transactions were for resale housing that totaled a record 140,930 sales. New housing totaled a record 28,121 sales.

The residential market however, may be returning to a more normal market expansion that has not been experienced for many years in South Florida. Normal should not be considered negative or recessive for we may simply be coming off an "escalated expansion period."

Demand and growth for new and resale housing should continue to emerge, especially within urban in-fill locals where redevelopment opportunities in "smart neighborhood" urban areas are capturing an emerging market sector.

To date, only a few over priced and/or ill conceived developments are considered to be in distress or are reflecting low sales absorptions. Listing periods for resale housing continue to be brief but are longer than the instant sales pace prior to Sept. 11th. Properly positioned introductions of new well conceived and prudently priced condominiums and single family homes should be readily absorbed at acceptable levels throughout 2002.

As long as the professional developer, investor and lender keeps abreast of market trends and product types and continues to conduct prudent due diligence and reviews, over building should not become a factor in 2002.

South Florida Diversity Gives Favor to Outlook for 2002

Recap of 2001 Residential Activity

Miami-Dade continues to lead the new condominium market with 5,974 sales during the year at an average price of \$243,769. Broward and Palm Beach Counties have the least available waterfront land available for development, reflected in their total sales volume: Broward with 890 sales and Palm Beach with 718 sales. The average prices there were \$250,258 and \$290,266, respectively.

Used condominium sales were far greater. Miami-Dade recorded 17,705 transactions at an average price of \$143,753.

Broward and Palm Beach were at 18,932 and 12,988 sales, respectively. Resale pricing in these two counties is reflective of lower priced retirement housing sales. The average in Broward was \$88,726, compared to \$111,147 in Palm Beach.

Used home sales were the highest ever in South Florida. The market contributed \$17.1 billion to South Florida's economy during 2001, more than any other single component of residential housing and comprising 57.1 percent of all residential monies spent. The monies were near evenly divided between the three counties.

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Miami-Dade saw 31,791 recorded transactions at an average price of \$177,687. Broward had 33,779 sales at an average of \$174,297, and Palm Beach closed 25,715 sales at an average price of \$216,448.

New home sales in Miami-Dade, though 4.9 percent greater than 2000, have generally been since the peak year of 1989 when 7,810 homes were sold. In 2001 they totaled 4,472 sales at an average price of \$218,965. Declining suburban land inventory is a factor.

Broward County, which is starting to reflect diminished land supplies, closed the year with 7,655 sales, 5.4 percent below 2000 and the first time since 1994 that sales were less than 8,000. The county had the highest average at \$271,542.

Where sales were lost in Broward, they were picked up in Palm Beach. For the first time since 1992 Palm Beach County passed Broward County for new home sales with 8,412 sales averaging \$268,237.

Miami-Dade County and Broward Counties are fast running out of developable suburban land. Palm

Beach County may just be the next suburban housing expansion area in South-Florida, which could become even more reasonable if the issues of "Stuck in Traffic" and highway / byway "GridLock" which South Florida is facing are effectively addressed. To accommodate the ever expanding population growth, County governments must address this on a Regional basis for there are no barriers between the three Counties for commerce and housing, even though certain political factions perceive otherwise.

Office Sector

Office buildings are experiencing higher than expected vacancies due to the fall-out of the Dot Com's and business consolidations. Subletting, also known as "shadow space" is competing with the landlords' vacancies. However, with continued in-migration of national and international companies to South Florida, IRR/AREEA projects that the excess sublease and unlet space in office buildings under construction may just be absorbed in a normal fashion over the next 24 months.

South Florida has not seen that much overbuilding of spec office buildings except in certain submarket locals. The weakest submarket areas where overbuilding may have occurred is in Coral Gables, South Beach, along E. Las Olas Boulevard and Cypress Creek. Hopefully, this will not occur in Miami's Brickell/CBD District or in other submarkets in South Florida.

Retail Sector

Demand should continue where warranted in certain submarkets for neighborhood and strip shopping centers. Power Center development (big box retailers) seems to be out of favor, especially with the bankruptcies and downsizing of some of the major retailers. (i.e. Kmart, Service Merchandise, Albertson's and others.) Several shopping districts are undergoing modernization and rejuvenation such as Dadeland Mall and retail stores along Lincoln Road Mall.

Rouse's new Merrick Place may impact Dadeland Mall and compete head to head with Bal Harbour Shoppes which has enjoyed exclusivity towards the carriage trade. Entertainment centers that copied Coco Walk's former success such as Shops of Mayfair, Shops at Sunset Place, Beach Place and Riverwalk are having to re-identify themselves.

Locally, no one seems to know what to do with the over screening of movie theaters (as IRR-AREEA previously predicted). However, only a few have been converted into other retail uses.

Marketable & Feasible Developments Should Fare Well

Certain national retailers seem to be competing with themselves within their own trade areas. One wonders, as an example, if there are too many Old Navy's and Gap stores to serve their market niches. The jury is out as to whether the Dolphin Mall will become an economically feasible retail outlet and one wonders what segment of the market the Dolphin Mall serves.

Well planned and designed shopping centers and malls catering to their trade area with the right type of store mix coupled with sound marketing, based upon prudent due diligence, marketability and trade area studies, should capture market share.

Rental Apartment Sector

The rental apartment sector continues to perform well and to reflect low vacancies. Urban expansion continues, part of which is being fueled by the professional urban workers enjoying the urban day and night life activity in close-in locations. Areas that are and should benefit from this urban housing expansion include Brickell Avenue, Miami Beach, downtown Miami, Omni and uptown areas north of the performing arts center to N.E. 36th Street. Other submarkets include Aventura, Las Olas Boulevard and downtown West Palm Beach.

Industrial Sector

The industrial sector should be broken down into three basic categories, warehousing/ distribution, manufacturing and mixed industrial including flex office space. The market for sales rose in 2001 to the second highest level of record. The Keyes Company which underwrote a sales survey indicated that total sales increased 5.3% of 878 acquisitions totaling \$1.027 billion

dollars, a 21.5% increase over 2000, \$1.149 billion dollars of 862 sales in 1998.

However, due to speculation in certain locales where over \$300 million dollars was lent to developers last year, vacancies have increased dramatically. The fall-out of the telecommunication industry has added to the glut by those developers and lenders who built and financed too many special purpose properties and spec buildings that must be refitted to more marketable uses.

In Summary

Those involved in South Florida's Real Estate may have been spoiled by years of unprecedented growth. We may be just coming into a more moderate era, which should be a challenge for the professional and difficult for the amateur who were on "easy street." The professional will survive; as for the non-professional, well??

As long as the capital market is attracted to real estate, mortgage rates remain favorably low, we do not experience another 9/11 tragedy and if local, state and federal governments continue to implement progressive legislation, population growth continues, we should experience another good year in all sectors of real estate. Those sectors that reflect over building such as the hospitality industry will eventually stabilize as long as those in the industry make prudent business decisions.

As Humphrey Bogart said "Play it Again." The Market will go as the Money Flows (or the Market went as the money was [imprudently] lent and spent).

If Tiger Woods' win/loss record could be used as barometer (check out how his win/loss record over the past 5 years compares to the economic ups and downs) we just may see a re-energizing year of business successes in 2002.

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