

This Miami Preconstruction Condo Market Snapshot is a brief overview of the preconstruction condo resale activity for September 2016. The August 9, 2016 Miami Preconstruction Condo Market Update available at StatFunding.com provides a detailed overview of the current Miami condo cycle.

September 2016: 66% Of Resellers Of Miami Preconstruction Condos Suffered A Loss On Resale

Condo flippers suffered continuing weakness in the Miami preconstruction condo resale market in September. With more than 800 units listed for sale a total of 9 resales of year 2012-2016 vintage condos closed in September (20 projects included in the review). Sellers lost money on 6 of the 9 resales (66%).

Gains & Losses on Resale September 2016							
Project ¹	Unit #	Original Purchase Price	Resale Price	Resale Price After 6% Commission	Gain/Loss ²	Percentage Gain/Loss ²	Units in Project / Listed for Sale
CityCentre Reach	2410	\$800,650 ³	\$745,000 ⁴	\$700,300 ⁴	-\$100,350 ⁵	-13% ⁵	390 / 41
Bay House	2505	\$714,900	\$600,000	\$564,000	-\$150,900	-21%	165 / 31
Marina Palms North	610	\$1,132,000	\$1,100,000	\$1,034,000	-\$98,000	-7%	234 / 91
Marina Palms North	703	\$768,900	\$812,000	\$763,280	-\$5,620	-1%	234 / 91
Icon Bay	2703	\$589,900	\$549,000	\$516,060	-\$73,840	-13%	299 / 80
Icon Bay	907	\$580,900	\$525,000	\$493,500	-\$87,400	-15%	299 / 80
400 Sunny Isles	1104	\$776,000	\$850,000	\$799,000	\$23,000	3%	230 / 74
Brickell House	2202	\$372,900	\$445,000	\$418,300	\$45,400	12%	374 / 79
Brickell House	3203	\$593,900	\$675,000	\$634,500	\$40,600	6%	374 / 79

¹ Resales reported on MLS by original purchaser from developer; projects completed from 2012–2016 with more than 85 units.
² Gain/loss after 6% sales commission. Does not include developer fees and other costs paid by preconstruction condo buyer.
³ Original deed not recorded. Estimated original sale price based upon average sale price of units 2110, 2210, 2510, & 2710.
⁴ MLS reported resale price \$745,000. Resale deed not yet recorded. Special note: 2410 is the first resale at CityCentre Reach.
⁵ Estimated loss on resale based upon MLS reported resale price and average sale prices of units 2110, 2210, 2510, & 2710.

The monthly results for September are the continuation of a trend; in August, 7 out of 8 condo preconstruction resales resulted in a loss for the seller (17 projects included in the August review). Importantly, developer fees, association contributions, and other actual costs (paid by the preconstruction buyer at closing, generally more than 1.5% of preconstruction purchase price), build-out costs, and carrying costs *are not included* in the gain / loss analysis for each resale. If these costs were included the percentage of losses on resale would have been higher and more significant in dollar terms.

More Losses On Resale Are On The Way

In the August 9, 2016 Miami Preconstruction Condo Market Update we identified 44 underwater-asking-price preconstruction condo resale listings. Only 2 of those 44 listings were sold in September. The remaining September losses were from sales where the listing price was higher than loss-generating and the sale price was at a discount to asking price.

Because there are so many listings-for-losses in the market, and because comparable sales prices are trending down, we should expect further losses on sale in the preconstruction condo resale market in the immediate future.

Resales For A Loss Are Establishing Low Comps

In some real estate markets pricing is in part driven by psychology. In any market, current market prices are in part driven by comparable sales prices.

With loss-making resale prices now normal, buyers in the market today may be unwilling to purchase a condo unless the seller is willing to take a loss on resale. At the very least, the comparable sales prices set by underwater resales will affect the value of all other units on the market in the immediate future.

Case Study: The Metrics of Losing Money Flipping a Miami Condo

There are many costs associated with buying and carrying a Miami preconstruction condo, which are unique to each transaction, in addition to original purchase price and resale price.

Case Study: In September 2016, Bay House #2505 sold for a \$150,900 gross loss. However, the net loss was much steeper when costs for the 15 months from the June 2015 initial closing through the resale in September 2016 are included in the analysis.

When actual closing and carrying costs are considered in a condo transaction the losses on sale are much greater than they initially appear. Carrying a condo in a declining market is expensive.

Gross Gain / Loss	
Purchase Price	\$714,900
<u>Resale Price</u> ¹	<u>\$564,000</u>
Gross Gain/Loss	-\$150,900
Percent Gross Gain/Loss	-21%

Closing & Carrying Costs	
Developer Fees @ 1.5% ²	\$10,724
Association Contribution ²	\$1,592
Developer "Title Fees" ²	\$800
15 Months Property Taxes ²	\$12,500
15 Months Condo Maint Fees ²	\$11,940
<u>Doc Stamps on Sale</u>	<u>\$3,600</u>
Total Closing & Carrying Costs	\$41,156

Actual Estimated Net Loss	
Gross Gain/Loss	-\$150,900
<u>Total Closing & Carrying Costs</u>	<u>-\$41,156</u>
Actual Estimate Loss	-\$192,156
Percent Loss of Investment	-27%

¹ After 6% sales commission.

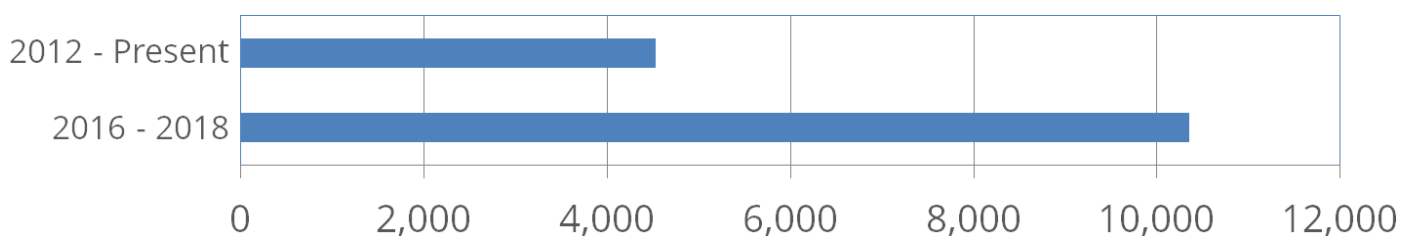
² Estimated costs.

Temporary Blip Or Continuation Of A Trend

The current weakness could be contained to a limited number of forced sellers or a temporary lack of willing buyers. However, with two consecutive months with a significant number of loss-generating resales and a backlog of listings with underwater asking prices, the current market conditions could be more than a temporary blip.

Regardless of the cause, this market instability could not have arrived at a more inopportune time in the current Miami condo cycle, with a deluge of units nearing completion in the immediate future.

Number of Preconstruction Condo Units Completed And To Be Delivered



High Inventory Levels And Low Sales Volumes

There could be a temporary market imbalance of more sellers than buyers, or the high percentage of sellers willing to take losses on resale could be affecting the willingness of buyers to enter the market in the current environment.

All Preconstruction Resales September 2016						
Project	All Resales ¹	Resales For A Loss ²	Units For Sale	# Of Units In Project	% of Project Listed For Sale On MLS	# Of Units With Listing Price For A Loss ³
Marina Palms North	2	2	89	234	38%	3
Icon Bay	2	2	81	299	27%	9
CityCentre Reach	1	1	41	390	11%	0
Bay House	1	1	35	165	21%	3
Brickell House	2	0	80	374	21%	0
400 Sunny Isles	1	0	72	230	31%	3
MyBrickell	0	N/A	33	191	17%	3
1 Hotel & Homes	0	N/A	18	154	12%	0
23 Biscayne Bay	0	N/A	14	96	15%	0
Nine at Mary Brickell	0	N/A	47	390	12%	9
Millicento	0	N/A	72	382	19%	7
Crimson	0	N/A	3	90	3%	0
Echo Aventura	0	N/A	34	190	18%	0
Baltus House	0	N/A	33	167	20%	6
Le Parc Brickell	0	N/A	30	128	23%	0
Oceana Key Biscayne	0	N/A	22	154	14%	0
Peloro Miami Beach	0	N/A	31	114	27%	1
Centro ⁴	0	N/A	28	352	8%	N/A ⁴
Bond ⁴	0	N/A	35	328	11%	N/A ⁴
Grove at Grand Bay ⁴	0	N/A	15	98	15%	N/A ⁴
Totals	9	6	813	4,526	18%	44

¹ Resales reported on MLS by original purchaser from developer; projects completed from 2012-2016 with more than 85 units.
² Gain/loss after 6% sales commission. Does not include developer fees paid by preconstruction condo purchaser at closing.
³ As of 8/1/2016; after 6% commission; does not include developer fees paid by preconstruction condo purchaser at closing.
⁴ Closings recently began and not all units yet sold. Insufficient number of deeds recorded to determine listing prices for a loss.

The Immediate Future

The Miami preconstruction condo resale market appears to be distressed. As an additional 10,000+ units are completed and subsets of those units are then listed for resale over the next 24 months, the preconstruction condo resale market will likely continue to weaken.

Unless something extremely positive and unexpected occurs which completely changes market conditions, Miami condo flippers should expect further losses on resale in the immediate future.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Sources: MLS; Miami-Dade County Recorder.