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Building boom in affordable housing underway in South Florida

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Biscayne Housing Group has completed more than 1,200 units since 2009, and has six projects under development in Miami-Dade County. Notre Dame, located at 5725 N.W. 2nd Ave. in Little Haiti, is set to open in December 2011.

There's a quiet building boom taking place in South Florida, but it's nothing like the mid-decade condo rush that ended in an epic economic bust.

The new towers going up today are not being built on the water for the affluent, but on the chipped sidewalks of gritty neighborhoods for the region's poorest families.

The 2009 federal stimulus package and other government programs aimed at fixing the housing crisis have helped boost the affordable housing sector, which uses government funds to build rental communities for low-income residents. It's the only sector of South Florida's housing market in which demand is outpacing supply, analysts say, and thousands of new units are currently being

constructed.

There are more than 25 affordable multifamily projects either recently completed or under construction in Miami-Dade and Broward counties, making up a large chunk of all new development in South Florida and providing a boon for the for-profit developers that specialize in affordable housing.

Usually financed with a mix of private lending, federal funds and local government subsidies culled from surtaxes on real estate sales, affordable rental projects are designed to meet the need for reasonably priced housing options in urban communities.

That need has been especially acute in South Florida, as the recession and foreclosure crisis have lingered, turning many homeowners into renters and dropping many middle-income residents into the low-income bracket. South Florida's shortage of low-priced housing options was evident even before the recession, as the real estate boom pushed the cost of housing up so rapidly that many were priced out of the market.

"Because of the large number of condo conversions that were going on from 2000 through 2007,

there is a shortage of affordable rental housing,” said Arden Shank, president of Neighborhood Housing Services of South Florida. “It means that rental prices are going up, and there’s a significant need for affordable housing.”

In South Florida, the average consumer’s “housing burden”— the percentage of one’s income that goes to pay for housing — is the highest in the nation. About 42 percent of South Floridians spend more than half of their income on housing, according to a recent report by the Center for Housing Policy. That compares to only 23 percent across the nation.

Michael Cox, co-founder of Miami-based developer Biscayne Housing Group, said the region’s high cost of housing has been particularly tough on South Florida’s poorest residents, creating a snowball effect that has contributed to social problems like crime, pollution and homelessness.

Cox sees affordable housing not only as a way to combat all of these ills in one fell swoop, but also a way to lift blighted areas out of the dumps and spark neighborhood-level revitalization.

For his company, it’s also been a surefire way to strike a profit.

His five-year-old business is one of the few developers that kept busy during the course of the recession, building new structures amidst a collapsing housing market that has been plagued by a bloated inventory of homes and condos for sale.

Biscayne Housing Group (BHG) has completed more than 1,200 units since 2009, and has six projects under development in Miami-Dade County. Cox and his partners say that virtually every unit built will be occupied by paying residents.

“We have occupancy at our projects really at about 100 percent. They’re all full, and they have waiting lists,” Cox said. “In the last three years, three of our projects were fully leased in 10 weeks.”

Responding to this level of demand — and to more than \$2 billion in federal stimulus funding for housing aid in Florida — BHG and other developers have been busy breaking ground on mid-rise towers in Liberty City, Overtown, Allapattah and other inner-city neighborhoods.

Last year, BHG began construction on Notre Dame, a mixed-use building in Little Haiti that will house 64 families when it is completed in December. The \$18.1 million project received government funding worth \$5.6 million, a large chunk of that coming from the federal stimulus package. When it is completed, it will have an exercise room, a library, 12,300 square feet of retail space and a 112-car parking garage.

“It’s not the stereotype project that people think about when you say affordable housing,” said Gonzalo DeRamon, co-founder of BHG. “We’re building market-rate developments with income restrictions.”

In Overtown, builders have just topped off The Beacon, a 90-unit apartment complex being developed by Miami-based Carlisle Development Group. The \$25 million project has capitalized on funding from the stimulus, as well as county and city subsidies. The gray 13-story skeleton is expected to come to life by Christmas, and will house families whose income qualified as low or

very low.

Carlisle is also erecting a 467-unit complex next to the Metrorail station in Brownsville. That \$100 million project is the largest of Carlisle's seven low-income rental properties under construction.

In Sunrise, the Pinnacle at Avery Glen complex will soon have 140 new units of workforce rental housing. The \$26.4 million project is one of a handful of stimulus-funded developments set to open in Broward County this year.

Along with other developers in the space — Carrfour Supportive Housing, Cornerstone Group and Pinnacle Housing Group are examples — Carlisle and BHG are filling the void left by luxury and market rate developers, who have been sidelined by a tight credit market and the fallout of the condo bust.

Some of those luxury developers have shifted gears toward affordable housing as well. The Related Group, the Miami-based mega-developer responsible for skyline-defining projects like Icon Brickell and Trump Towers in Sunny Isles Beach, is building two low-rise rental properties in Little Havana, as financing has all but dried up for the type of luxury condo buildings that were the company's forte.

All told, there are more than 5,000 new or rehabbed affordable rental units set to open in South Florida in the near future. The developments stretch from Florida City up to Sunrise, and range in size from a few dozen units to multi-phase complexes.

Profit margins for affordable developers are generally lower than for luxury builders — rent prices are set based on income restrictions, and are far below market rates. Private developers are able to survive on such low rents because much of the development cost is subsidized by the government.

Rent at The Beacon, for example, will range from \$369 to \$874 for two- and three-bedroom units.

Alexander Smith pays below market rent for his one-bedroom apartment at Village Carver in Little Haiti. He's been living there since 2009 and said its many amenities are a big upgrade for an area marred by substandard housing. The eight-story complex and its fresh coat of pastel paint brighten up the neighborhood, he said.

"This is my neighborhood — I grew up here," he said. "I'm really impressed, and I can tell they're trying to improve and make things better in Little Haiti. It's going to take a little time, but Rome wasn't built in one day."

Smith's low rent is, in effect, subsidized by taxpayers, something critics of affordable housing decry. Others point to past failures of publicly funded housing projects as evidence of government waste. With funding from the stimulus winding down and state legislators seeking new budget cuts, the affordable building boom could be short-lived.

Ken Naylor, senior vice president of Carlisle Development Group, points out that the pool of available money for new projects is rapidly shrinking.

"As there have been fewer [real estate] transactions and as land has sold for less money, the pool

of available subsidies has shrunk,” he said.

Gov. Rick Scott has put a \$123 million affordable housing trust fund on the table, seeking to steer that money away from housing and toward the state’s \$3.7 billion budget hole.

“At the time we need it the most, the funding is down,” said Cox. “There’s not enough money, and there’s no easy solution.”

It’s a thorny issue for Scott because government-subsidized housing projects also create jobs, many of them in the reeling construction industry. Scott has acknowledged that the housing industry is crucial to any job creation effort in Florida, but has also vowed to curb state spending.

For every \$1 million the state spends on affordable housing, 77 jobs are created, according to a 2009 report by the Hendrickson Company, a financial advisory firm specializing in the housing industry. That \$1 million generates \$7.7 million in economic activity, according to the report.

Cox said he has witnessed the job-creating power of affordable housing development firsthand.

“When each of these developments is operating, you have somewhere between 30 and 35 full- and part-time jobs created,” he said. “That goes from the guy who mows the lawn to the accountant on the property, to the elevator crew. During the construction and development phase, each of our or developments [generates] about \$7 million in local income.”

He estimates that each project creates 300 to 350 temporary construction jobs, boosting an industry that has been devastated by the housing crash.

Many of the jobs go to people who live in the communities where affordable housing is located — that’s often a requirement for receiving federal funding — and those neighborhoods are often plagued by higher unemployment rates.

By bringing jobs and modern buildings to struggling communities, developers say they can spur an economic renaissance. Artists’ renderings of the completed housing projects show clean, vibrant streets that hardly resemble the blighted areas that exist at those sites today. While many have tried and failed to revitalize South Florida’s poorest neighborhoods, Pinnacle Housing Group CEO Michael Wohl said affordable housing has a proven track record of doing just that. He pointed to Wynwood as an example.

“Ten years ago, Wynwood was blighted,” he recently told a group of real estate professionals interested in investing in low-income communities. “We’re a great believer that affordable housing should be the first new development in an area, and it can be a catalyst for change.”

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