Greater Downtown Miami

Residential Real Estate Market Study

Prepared for the Miami Downtown Development Authority (DDA)
by Integra Realty Resources (IRR)

July 2014

MIAMI DDA
DOWNTOWN DEVELOPMENT AUTHORITY

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For more information, please contact

IRR-Miami/Palm Beach
The Douglas Centre
2600 Douglas Road, Suite 801
Coral Gables, FL 33134
305-670-0001
pconstantine@irr.com

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Introduction

Integra Realty Resources – Miami/Palm Beach (IRR-Miami) is pleased to present our research and findings on the state of the Residential Real Estate Market within the Miami Downtown Development Authority's (Miami DDA) market area, defined as the Greater Downtown Miami Market.

This 2014 Annual Report is a continuation of the research reports previously prepared by the Miami DDA in conjunction with Goodkin Research™ and Focus Realty Advisors.™ However, the level of new market activity and general improvement in market conditions required new research into the multitude of projects currently being constructed in the Greater Downtown market, and a look at somewhat different metrics than prior reports.

Prior reports included pricing from "new" projects that were primarily overhang inventory from the previous condo cycle (2003-2008) which remained actively selling through 2011-2012. The majority of the prior cycle inventory was substantially absorbed by the close of 2012, and 2013-2014 brought forth truly new product to the market. This report details the status of those projects, and provides a projection of future deliveries and planned projects to provide insight into market timing and depth.

Anyone who understands the fundamental aspects of the Miami economy knows that unlike most urban economies in the U.S., the Miami economy is not solely driven by job and wage growth to support new residential construction. Miami is one of very few real estate economies that enjoy the envious position of being a real estate "export" economy. By that, we mean that buyers import their money into the economy to hold Miami-based real estate assets on their personal balance sheet, regardless of whether the buyers reside here part-time or full-time. This leads to spikes in demand which are not tied to the fundamental aspects of employment or wage growth. These aspects make forecasting residential demand by traditional methods (vis-à-vis) measuring core economic metrics) mostly futile.

It also makes predicting cycles more complex because the motivations of buyers are more varied, and tend to be tied more to value retention than value appreciation. IRR-Miami's survey of active developers and brokers all indicate that over 90% of the demand for new downtown residential units is driven by foreign buyers. These buyers can be seen as "investors" by virtue of the fact that they are not primary home residents. Our survey of over 70 downtown residential projects indicates fewer than 11% of the units have FL Homestead tax exemptions applicable to owners on their primary residence.

Introduction

Our findings indicate that these buyer/investors are remarkably different from the early-cycle buyer/investors in 2004-2006. The early-cycle buyer/investors during the prior cycle were more varied, and included a higher percentage of U.S. buyer/investors with less deposit money at risk who were depending on much higher leverage requirements at closing. The development community has been vocal and active during this cycle to secure stronger deposits, and commit to stronger qualification of this cycle's buyer/investors.

In the past 6-12 months, the media outlets have been extremely active, and somewhat schizophrenic, in discussing the Greater Miami market activities. Several media reports rely on various market sources, which document announced projects, and the total number of units quoted from these sources. These reports provide for strong headlines about either the resurgence of the market, or the impending doom that will follow.

This report is intended to provide insight into the measurable metrics of the Greater Downtown housing market, and to provide some common sense order of magnitude of the current residential market activities. It is meant to inform the public, and to provide researched context for planning and discussing the future of downtown.

Are we experiencing a housing bubble? In IRR-Miami's Spring address to the Greater Miami Chamber of Commerce, we made the point that many observers define a bubble as a disconnect between "price" and "underlying fundamental demand." To that extent, Greater Downtown Miami is always in a bubble because 90% of the demand is external, and hence is not tied to economic fundamentals.

The question is thereby more properly phrased: "When will there not be enough buyers for the number of units available on the market, which might lead to a downturn in pricing?"

IRR-Miami's research suggests that the residential downtown development market cycle is in the early phase of mid-cycle. Our review of the prior cycle absorption, pricing, and core demand (reflected by historical absorption of units) indicates that the current depth of the market is well supported, and pricing/appreciation is within market norms for new product.

Introduction

IRR-Miami offers the DDA a forecast of "core demand" at 2,000 unit sales annually, and tracks the trajectory of the market based on current development and sales activity. We offer insights and highlights of the various submarkets, and provide as a conclusion a "Report Card" on the state of the Greater Downtown residential market.

We trust the report addresses the fast-moving pace of development in the market, and provides relevant context for an understanding of the changing face of the Greater Downtown residential market.

Respectfully,

Integra Realty Resources (IRR) – Miami/Palm Beach

Anthony M. Graziano, MAI, CRE, FRICS
Senior Managing Director

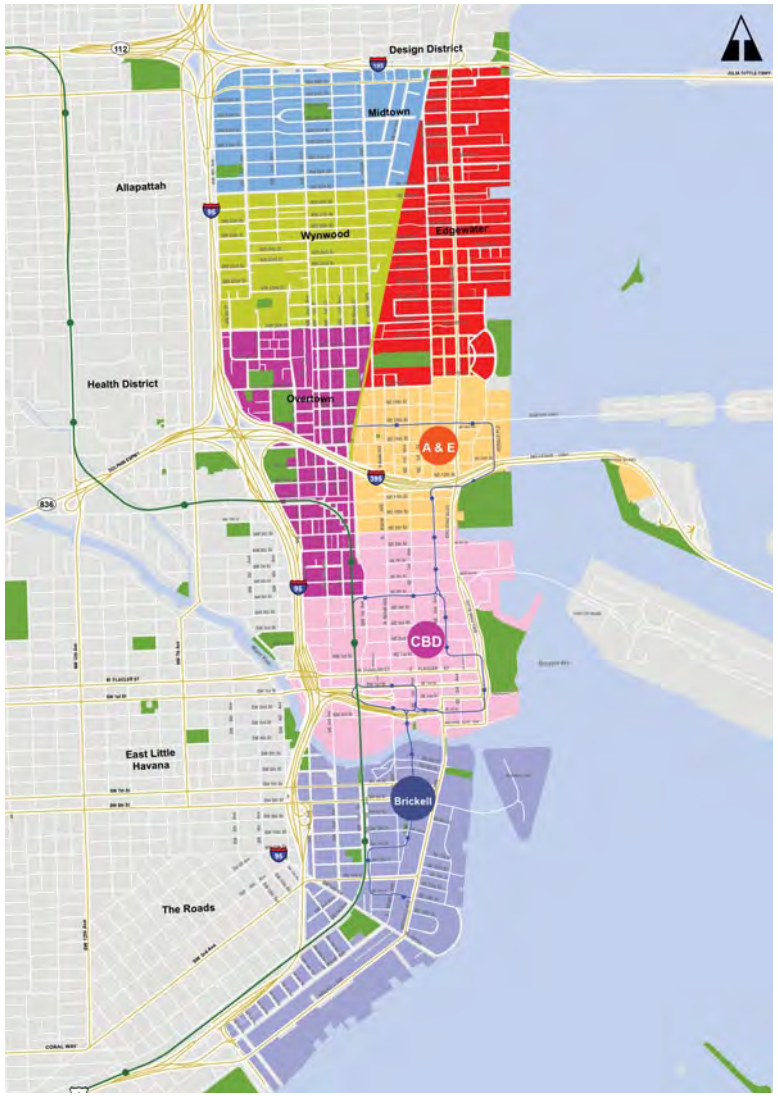
Ryan T. Homan, MAI
Associate Director

Charles E. Badell, MAI
Associate Director

Bruno Picasso
Market Research Senior Analyst

Greater Downtown Miami Market Submarket Map

The following map illustrates the boundaries of the Miami DDA, as well as each submarket within the Miami DDA market.
A description of each submarket is located within the market report.



Greater Downtown Miami Condo Landscape

MyBrickell

There have been only two project's (MyBrickell and 23 Biscayne) completed since 2008. Despite this fact, there is already speculation that Miami is entering another boom-bust cycle.

The following chart summarizes the current condo activity within the entire Greater Downtown Miami Market area, including the number of units, submarket location of the units within the Greater Downtown Miami Market, and in which phase of development the units occupy. The chart illustrates the different stages of the condo development process, including Conceptual, Reservations, Contracts, Under Construction and Completed.

These classifications are significant because they provide a framework for how projects move through the development cycle, and the timeframes to bring a major project to market.

Figure 1

Current Greater Downtown Miami Condo Pipeline

Submarket(s)	Completed	Under Construction	Contracts	Reservations	Conceptual	Totals
Brickell*	192	3,146	745	1,213	2,722	8,018
CBD		352			6,232	6,584
Art's And Entertainment			83		3,385	3,468
Edgewater	96	949	636	977	1,583	4,241
Midtown				367		367
Wynwood		11			575	586
TOTALS	288	4,458	1,464	2,557	14,497	23,264

Notable observations include the following:

There are 4,458 units under construction, approximately 20% of the inventory created between 2003-2008/2013.[1] This inventory is approximately 80-90% pre-sold with committed buyers contracted to close on these units upon completion in 2016-2018.

1 Since no new product was created in 2008-2013, the historical context of market absorption is either 6 or 10 years, depending on the perspective of the observer.

Greater Downtown Miami Condo Landscape

There are 1,464 units in “contracts phase,” meaning they are converting reservations into hard contracts with condominium docs having been completed and filed. These projects will move into the “under construction” pipeline once sufficient pre-sales are committed and all approvals are granted.

There are 2,557 units in “reservations” that are taking reservations with initial deposits in some form of pre-sale phase, but not fully committed to a construction or final planning deadline.

While these figures tend to change weekly, the “reservations” and “contracts” inventory will comprise the sales which contract in 2014-2015, with closings not anticipated until late 2017 and beyond, assuming a typical 30-month construction timeframe.

The 14,500 +/- units in the conceptual phase include a substantial number of units that are from previous MUSP’s issued in the previous cycle, several large-scale projects that will be extended over a longer timeframe, and initial announcements of projects from developers with plans to gauge interest for potential future development beyond the next 2-3 years. It should be noted that while a significant number of the 14,500 conceptual units will not be built within the next 2-3 years, there are several prime land sites that are currently being marketed for sale and will likely commence construction of units in the next 2-3 years that are not included within the conceptual unit count.

Greater Downtown Miami Market Sizing

Figure 2 illustrates the current size, growth and potential long-term growth of the entire Greater Downtown Miami Market, as well as each submarket.

The entire Greater Downtown Miami Market is currently being expanded by almost 8,800 +/- units, or 25% of the current market size. The current growth estimate is based on all units under construction, in contract and reservations phases; therefore, it is likely that not all of the units in reservations and contracts will make it to the under construction phase during this cycle. The long-term potential growth of the entire market is almost 33%, which includes only the conceptual units in the pipeline with the current growth included into the existing inventory.

The Brickell and Edgewater submarkets are experiencing the greatest growth (%) in market size with Brickell expected to grow by 27% and Edgewater by 67%. Edgewater does not include a significant amount of inventory as this is a redeveloping area in the early stages of its modern life and dense population. The Midtown submarket is in the early stages of life, growing by 38%, but with with an existing size of less than 1,000 units, and only one development project, which is just starting to take reservations. Brickell and Edgewater have been the most active submarkets for development with 5,300 +/- and 2,700 +/- units, either selling or under construction.

While the Brickell and Edgewater submarkets are the two most active submarkets with current projects, the CBD and Arts & Entertainment present the most potential for long-term growth. The CBD and Arts and Entertainment submarkets present long-term growth opportunities due to the substantial amount of undeveloped land. Although the Midtown submarket does not include a significant amount of conceptual or announced units, it does include a large (18 +/- Acres) area of developable land that is currently being marketed for sale. This land will most likely be developed with mixed-use development in the future. Wynwood has been mostly an industrial neighborhood; however, due to recent transformation into a retail and art-entertainment district, Wynwood has the potential to exponentially grow its residential base.

Figure 2

Greater Downtown Miami Condo Market Size

Submarket(s)	Current Size of Market	Current Growth*	%	Potential Long-Term Growth**	%
Brickell*	19,843	5,296	27%	2,722	11%
CBD	6,288	352	6%	6,232	94%
Art's And Entertainment	4,225	83	2%	3,385	79%
Edgewater	3,956	2,658	67%	1,583	24%
Midtown	978	367	38%	0	0%
Wynwood	100	11	11%	575	518%
TOTALS	35,390	8,767	25%	14,497	33%

* Current Growth is all Under Construction, Contracts and Reservations ** Long-Term Growth is the Remaining Conceptual Net of Current Growth

The Greater Downtown Miami Market Condo Delivery and Absorption of Units (2001 – 2012)

The Greater Downtown Miami Market experienced an increase in inventory of over 22,000 units during the last condo cycle. The following chart illustrates the historical increase in inventory based on the delivery of construction. The delivery of these units will generally lag the sales by 24-36 months.

Figure 3

Greater Downtown Miami Historical Condo Development (2001-2011)

Year Built	Number of Units Delivered	Cumulative Absorption
2001	198	
2002	0	198
2003	183	381
2004	2,272	2,653
2005	1,951	4,604
2006	2,215	6,819
2007	4,500	11,319
2008	10,111	21,430
2009	306	21,736
2010	530	22,266
2011	346	22,612
	Total/Average Absorption:	**22,612**
	11 Year Cycle (2001-2011):	2,056
	4 Year Cycle (2009-2012):	4,250
IRR-Miami Estimated Typical Annual Demand +/-		**2,000**

Based on the prior delivery of units, the average unit absorption through the end of 2011 was 2,056 units per year (straight-line). The actual absorption was far more uneven as 2008 brought so many units to market, despite a lack of committed sales. At one point in early 2009, the market was reported to have 16,000 – 17,000 unsold (overhang) units. IRR-Miami notes that if all overhang units were sold, whether in bulk or by unit, by the end of 2012, the real rate of absorption 2009-2012 was 4,250 per year, with approximately 1,200 – 1,500 units per year at pre-2008 pricing.

The Greater Downtown Miami Market Condo Delivery and Absorption of Units

Figure 4 includes delivery of 96 units not shown on Figure 5, so totals vary slightly.

Figure 4

Current Greater Downtown Miami Condo Demand

	Current Cycle Projected Delivered Units	Normalized Demand (@2,000)	Cumulative Pent-Up Demand
2012	0		
2013	0	2,000	2,000
2014	657	2,000	3,343
2015	1,056	2,000	4,287
2016	1,308	2,000	4,979
2017	2,528	2,000	4,451
2018	1,810	2,000	4,641
2019	1,408	2,000	TBD
2020	TBD	2,000	TBD
2021	TBD	2,000	TBD

From this historical perspective, we can normalize "demand" based on historical patterns by "re-starting" the cycle using an average 2,000 per year demand model.

By 2013, there was no significant inventory of new units except for the projects (now currently under construction) which began the reservations and contracts cycle. The contract inventory delivered in 2014 and planned for delivery in 2015 sold very strongly in 2012-2013 at pricing in the $325 - $425/SF range.

IRR-Miami's research into current pricing and pre-sales indicates that the 2,000 unit per year demand model conforms to reported sales on the current "under-construction" inventory, and "reservation and contract" inventory reports strong selling.

As the current "under construction" inventory is delivered in 2016-2018, we see residual demand starting to decline, but not significantly, absent the addition of more projects entering the pipeline.

The Greater Downtown Miami Market
Condo Delivery and Absorption of Units

On a straight-line basis, the market can currently support an additional 1,000 - 1,500 units for planned delivery in 2017-2019. This projection is moderated from the historical 2,000 per year "residual demand" because as pricing increases, it is likely that the average of 2,000 units per year will not hold. (See subsequent discussion of pricing on page 16).

As in the prior cycle, the demand which "closed" averaged 1,500 units per year during the peak pricing, and accelerated to 4,250 units per year at discounted pricing levels.

Based on the timing gap between "sales" and "construction delivery," a healthy market will be maintained by having built-up residual demand of over 2,500 units in waiting.

IRR-Miami concludes that we are early in the mid-cycle development phase because current prices are still rising, and project pre-sales remain strong. However, new progress in the selling and under construction pipeline do not exceed normalized annual demand with 2017. This indicates a build-up of residual demand through 2016.

Current Selling Projects

MyBrickell

Figure 5 includes a summary of 26 projects that were either actively sold or are selling during this cycle. We have segregated the early Brickell sales to illustrate the increase in pre-sale pricing from 2012 to present. We have excluded ultra-luxury ($1,200/SF+) projects from over market total/average figures to present a more consistent market snapshot.

Figure 5

Greater Downtown Miami Condominium Projects

DDA SUBMARKET AREA
Research & Analysis as of June 2014

No.	Name/Location	Submarket	Total Units	Average Price	Avg. SF	Avg. Price/SF
1	MyBrickell	Brickell	192	$305,500	940	$325
2	Brickell House	Brickell	374	$444,360	966	$460
3	1100 Millecento Residences	Brickell	382	$442,788	966	$420
4	Nine at Mary Brickell Village	Brickell	369	$589,789	1,219	$484
5	The Bond	Brickell	328	$570,590	1,027	$550
6	Echo Brickell	Brickell	180	$1,869,472	1,548	$1,208
7	Le Parc at Brickell	Brickell	128	$517,982	1,066	$469
8	SLS Hotel & Residences	Brickell	453	$687,960	1,176	$585
9	1010 Brickell	Brickell	387	$795,825	1,179	$675
10	Brickell Heights - East	Brickell	358	$619,850	1,078	$575
11	SLS Lux	Brickell	450	$774,900	1,230	$630
12	Brickell Ten	Brickell	155	$410,887	1,050	$391
13	Brickell Flatiron	Brickell	552	$787,500	1,250	$630
14	Brickell City Centre	Brickell	780	$877,500	1,350	$650
15	Brickell Cassa	Brickell	81	$487,600	1,060	$460
16	Centro	CBD	352	$308,945	703	$439
17	1000 Museum	Arts & Entertainment	83	$6,937,775	5,389	$1,287
18	Icon Bay	Edgewater	300	$651,222	1,287	$506
19	Bay House	Edgewater	165	$659,120	1,660	$513
20	The Crimson	Edgewater	90	$623,194	1,143	$545
21	Paraiso Bay - Tower 1	Edgewater	360	$782,000	1,360	$575
22	Biscayne Beach	Edgewater	395	$833,937	1,428	$589
23	One Paraiso	Edgewater	276	$1,081,405	1,651	$665
24	Ion East Edgewater	Edgewater	330	$565,900	1,100	$475
25	Hyde Midtown	Midtown	367	$565,900	1,100	$550
26	250 Wynwood	Wynwood	11			$420
Total/Average*			7,898	$662,439	1,186	$559

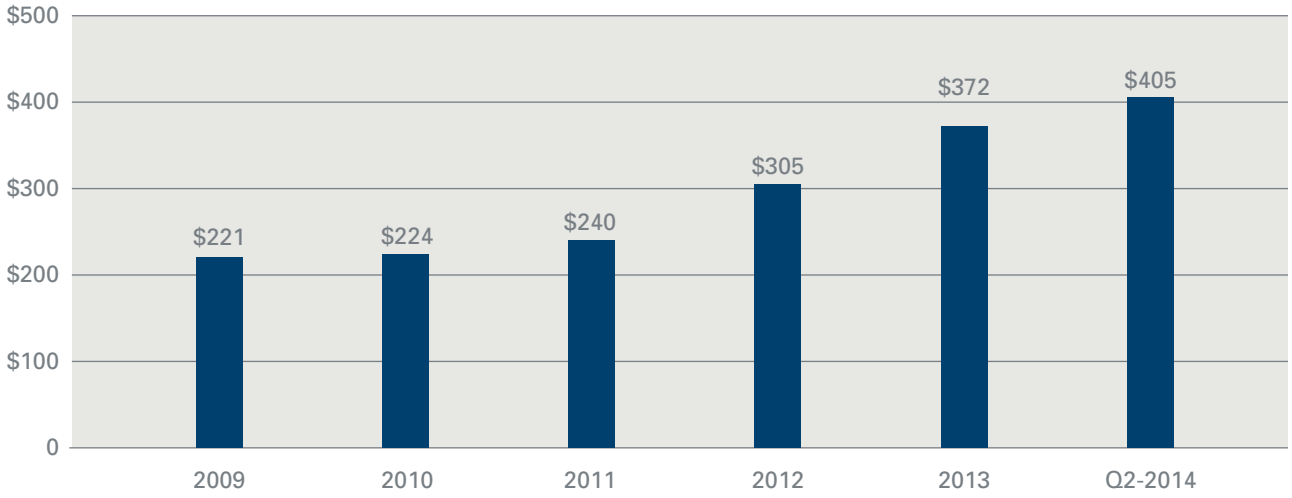
* Does not include ultra-luxury projects Echo Brickell and 1000 Museum that are selling over $1,200/SF.

Analysis of Resale (Product Delivered 2001 to Present)

Figure 6 indicates a continuous increase in sale price/SF since 2011. As previously discussed, the lack of available inventory and demand for units within the Downtown Miami market have driven resale prices from distressed levels (below replacement cost) to current levels of over $400/SF.

Figure 6

Average $/SF Sale Price Trend – Greater Downtown Miami Resale Market



The resale market saw a significant spike in average unit price (27%) in 2011-2012, and nearly 22% in 2012-2013. This coincides with the lack of new inventory, and the announcement of new projects in late 2012 and 2013. Average pricing is up 8% in the quarter between year-end 2013, and Q2-2014, indicating continued price appreciation at 20% annually, albeit at a lower annual appreciation rate.

Analysis of Condo Resale (Product Delivered 2001 to Present)

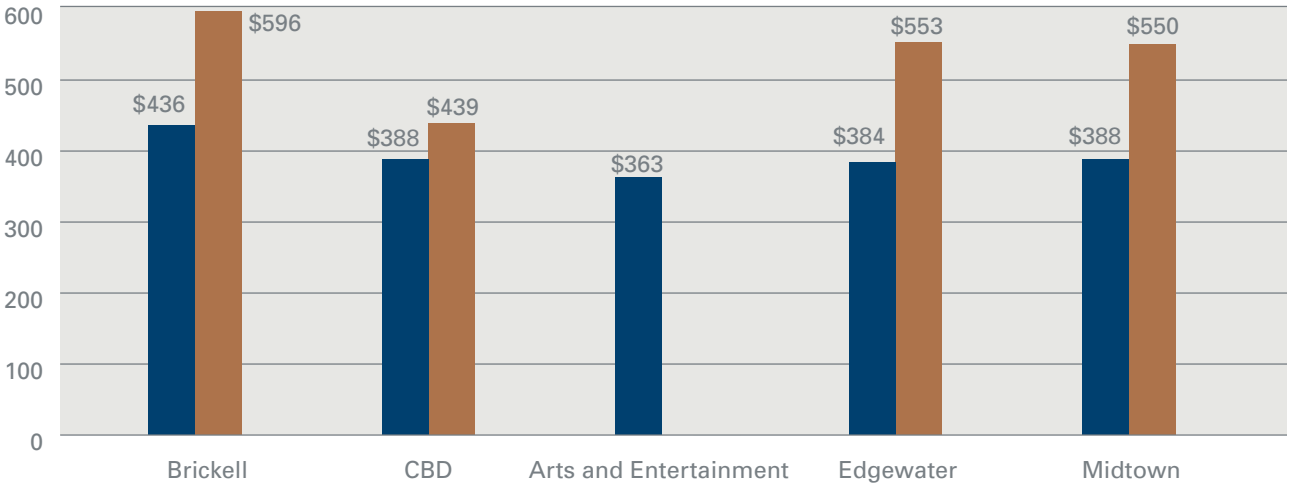
The resale units have experienced year-over-year 20% price increases since 2011. A future contract price (2-3 years) of less than 30% over today's resale price infers investors expect year-over-year price changes to decelerate below the 20% annual appreciation level enjoyed in 2011-2013.

Figure 7 compares the current average pricing for condo resales as compared to the current pricing for new or proposed condo projects. The new condo projects indicate a great range in premium pricing as several existing markets include a smaller sample or limited existing modern inventory. This pricing premium is reasonable as new product will always enjoy a premium over a resale product due to the condition and modernization of the project and unit. In addition, the condo projects within this cycle are being developed with modern amenities, features and designs by top architects, and interior designers with global recognition.

The current pricing for new condo projects is essentially a futures contract as the completion and actual closing sale of the unit will not occur until 2-3 years in the future. Therefore, a premium of 15%-40% over today's current resale pricing is a combination of new design/amenities and expectations of increasing future values. Co-branded projects that include a recognized hotel or entertainment component are achieving the highest new product pricing premium in comparison to comparable market resale inventory.

Figure 7

Current Resale vs. New Product Pricing $/SF



Analysis of Resale (Product Delivered 2001 to Present)

The luxury projects (1000 Museum and Echo Brickell) in Downtown Miami are selling for over $1,200/SF. This is lower than the comparable luxury markets of Coconut Grove ($1,250/SF), Miami Beach $($1,500-$2,500+/SF), and Sunny Isles Beach ($1,500-$2,000+/SF). The Greater Downtown Miami market provides a significant number of new product units at relatively affordable prices compared to the typical luxury unit prices of $1,250-$2,500+/SF) of surrounding submarkets.

On an average gross sale basis, the Brickell and Edgewater submarkets indicate the largest spread between the new and existing resale inventory.

The CBD only includes one (1) new project (Centro) that is being built and priced without on-site parking, as well as below-average-size units. Thus, the price differential is based on too small of a sample to be deemed representative of a trend.

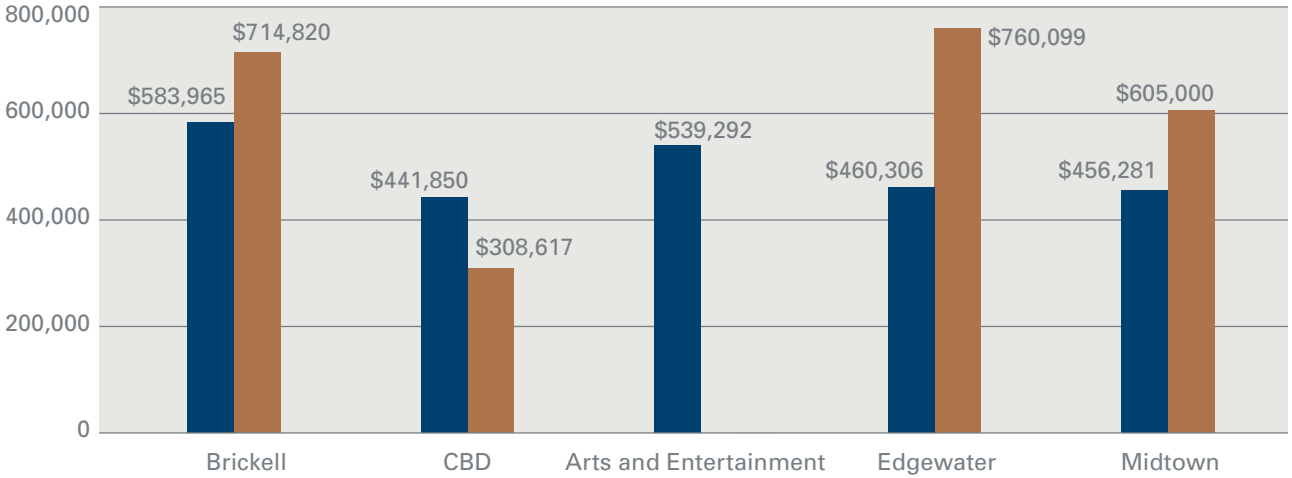
We have not included new product within the Arts and Entertainment (A&E) submarket as it only includes 1000 Museum, which is an ultra-luxury project with average pricing of over $5,000,000 per unit.

The Midtown submarket includes only includes one new project with limited reservations beginning in early July.

There is too small of an existing resale inventory within the Wynwood market to make a correlation to the single new project selling in Wynwood.

Figure 8

Current Resale vs. New Product (Total Sale Price)



Pre-Sale Absorption Activity

Figure 9 illustrates the estimated sales velocity of each of the submarkets within the Greater Downtown Miami market that are currently selling and/or under construction. Current pricing and sales activity was assembled from developers, brokers and sales center visits. The data is the best available as of June, 2014.

Figure 9

Greater Downtown Miami Condominium Projects

SUBMARKET SALE AND ABSORPTIONS
Research & Analysis as of July 2014

No. of Projects	Name/Location	Submarket	Total Units	Average Price	Avg. SF	Avg. Price/SF	Sales Per Month
3	Sub-Total/Average (2011-2012)	Brickell	948	$415,603	961	$433	20-40
11	Sub-Total/Average (2013-Current)*	Brickell	4,042	$719,374	1,202	$599	25-100+
1	Sub-Total/Average	CBD	352	$308,617	703	$439	20-30
1	Sub-Total/Average	Arts & Entertainment	83	$6,937,775	5,389	$1,287	Less Than 5
7	Sub-Total/Average	Edgewater	1,916	$760,099	1,375	$553	20-50+
1	Sub-Total/Average	Midtown	367	$605,000	1,100	$550	N/A
1	Sub-Total/Average	Wynwood	11	N/A	N/A	$420	N/A

* Excludes Echo Brickell (180 Units)

The entire Greater Downtown Miami market indicates an average sales velocity of 25+ units per month, not including ultra-luxury units that are selling to high-net worth individuals as a second or third home. There are several recent projects reporting sales/reservations of between 50 and 100+ per month as buyer/investors accept and pursue projects they believe have the highest likelihood of appreciation. Not surprisingly, the central Brickell co-branded condo/hotel and waterfront projects indicate the strongest pre-sale pricing as well as the highest pre-sale velocity within the overall market.

The ultra-luxury units (Echo Brickell) and (1000 Museum) indicate a lower sales pace as pricing is over $1,200/SF at each of these projects with a smaller pool of potential buyers.

Unit Mix and Size Comparison

Figure 10 compares the general product mix of the existing Downtown Miami inventory vs. the proposed projects being developed within the current cycle. IRR-Miami has sampled and analyzed over 17,000 units from 75 +/-buildings of current inventory as well as 20 +/- proposed projects. We have focused on the Brickell and Edgewater submarkets due to the availability of proposed projects within those submarkets. We have excluded ultra-luxury projects, which generally include much larger units.

The unit mix percentage allocation indicates that developers are not building as many studio units in Brickell during this cycle. The Edgewater submarket is not building any smaller units in this cycle.

The proposed and under construction units of this condo cycle indicate that developers are building similar-sized units in Brickell and larger units in Edgewater, as compared to existing inventory. The East Edgewater area includes several waterfront projects that are being promoted to wealthy buyers as more of a second home condo product than a for-rent investment unit.

Figure 10

Unit Mix and Size Comparison

Submarket Unit Mix Comparison	Product Type		Studio %	1-Bedroom %	2-Bedroom %	3-Bedroom %	4+-Bedroom %
Downtown Miami*	Existing		13%	39%	39%	7%	2%
Brickell	Proposed/Under Construction		8%	42%	42%	7%	1%
Edgewater	Proposed/Under Construction		0%	22%	50%	22%	6%
Unit Size Comparison		**Average Unit Size (SF)**	**(SF)**	**(SF)**	**(SF)**	**(SF)**	**(SF)**
Downtown Miami*	Existing	1,110	795	826	1,264	1,915	2,959
Brickell	Proposed/Under Construction	1,202	580	840	1,220	1,551	2,088
Edgewater	Proposed/Under Construction	1,375	N/A	973	1,364	1,712	3,008

* Sample of over 17,000 units from 75 +/- existing condo projects.

The "South American Financing Model"

The current condo boom in the Greater Downtown Miami Market is being facilitated by the "South American Financing Model," which requires large deposits from prospective buyers before and during the construction of the project. The current market deposit structure is typically a 10% of purchase price at reservation, 10% at contract, 20% at groundbreaking and 10% at top off. The remaining 50% is due upon the completion and sale closing of the unit.

The buyer financing formula is affecting this condo boom in several ways, including the following:

- Without buyer deposits, lenders would not be as comfortable financing the project. Therefore, substantially more developer or investor equity would be required, limiting construction starts
- The financing model ensures that the buyer is committed to the project with greater deposits required than last cycle, which prevents buyers from walking away from contracts
- The greater buyer deposits are giving the developer, equity partners and lenders more confidence that the project is well-received by the market and the buyers will close on the unit at completion of the project
- The buyer deposits allow the developer to use excess buyer deposits (greater than 10%) for hard and development costs subject to certain exclusions and other provisions contained in the governing documents

The buyer deposits can only be used for development costs, excluding certain marketing and similar expenses. It should be noted that the deposit structure typically allows for the buyer to back out of the sale and receive the full deposit back LESS "liquidated damages," which typically involves a restocking fee, remarketing of the unit fee, and any loss in value from the time of contract.

The "South American Financing Model"

The development community has embraced this financing model and believes that it creates a healthier condo development market that prevents speculators from returning to Miami. Several of the larger developers have promoted the 50% deposit structure as an indicator of the health of the market and report that they would be concerned if the deposit structure begins to dip to a lower level (30% or 40%). This would indicate that the quality of buyer is lessening, and that there is a greater possibility of uncommitted speculation from buyers.

While several luxury products within South Florida have reported a 30% deposit structure, the buyer profile of these ultra-luxury projects is of very high net worth individuals with pricing beginning at several million dollars per unit. This project type and unit pricing level is not common within the Greater Downtown Miami Market.

The "South American Financing Model" should continue to maintain a healthy condo development environment as developers, equity investors and lenders will be able to determine the strength of a project by the number of pre-sales and deposits received from the buyers.

Condo Pipeline Conclusions

IRR-Miami research indicates that there are currently over 23,000 +/- condo units within the Greater Downtown Miami Market at some stage of development within this market cycle. Approximately 14,500 +/- units, which are over the half of the total number of units in the current pipeline, are in the initial conceptual phase of the process. Only 288 units (MyBrickell and 23 Biscayne Bay) have been completed and delivered, while over 4,500 +/- are under construction with an additional 4,000 +/- in the reservations or contacts stage of development.

A substantial number of conceptual units will not be completed within this market cycle for a variety of reasons. Several thousand of the conceptual units are located within long-term major mixed-use development projects that will take 5-10 years to complete. Residential units are typically delivered in the later phases of development after the retail, hospitality and office components have been completed.

With the exception of a few prime sites remaining in the market, a number of the planned and under construction units are located on the prime development sites in each submarket. The local developers had the foresight to acquire these sites as either distressed assets during the market downturn or early in the condo cycle. This has given them greater margin for pricing combined with lower construction costs in the early stage of this cycle.

Two likely constraints to developers in the current market cycle are increased land pricing and higher construction costs. In addition, future projects could potentially be competing against more projects and a greater number of units. While the sale prices per square foot continue to increase, any resistance to pricing or absorption may prevent the development from moving forward past the initial selling phase.

While the developments that are currently in the conceptual stage may benefit from the continued price increases that have occurred since the start of the cycle, they will ultimately have to compete against new units that were purchased at lower prices in pre-sale development pricing and placed back on the market after initial closing. The future developments could be promoting a project on a secondary site against a newly completed project on a prime site as early buyer/investors decide to resell their units upon delivery of the project. This could potentially allow buyer/investors at current projects to undercut future pricing as the first wave of units is delivered to market. This variable level of “roll-over” creates mid-cycle risks because the supply pipeline is volatile.

Submarket Analysis

A detailed chart with project names, number of units, and current pricing for each submarket is located within the following pages.

Brickell CityCentre

Brickell
North: Miami River
South: SW 26th Road
East: Biscayne Bay
West: Interstate 95

Brickell

The Brickell submarket continues to be the most active condo submarket for development. The submarket's Brickell CityCentre is the central development driver as it is currently under construction and will bring a first class mixed-use development, including an upscale shopping center, hospitality, office and residential uses. There are several large-scale condo developments that are under construction and currently pre-selling. The majority of the area's development is taking place on S. Miami Avenue as the waterfront is mostly developed from previous condo cycles and/or the significant office market along Brickell Avenue. The submarket includes a significant amount of Class A office space with development continuing to push west. The submarket was one of the first areas to experience condo construction in this cycle as MyBrickell, Brickell House and 1100 Millicento were some of the earliest projects to begin selling and break ground in this cycle. The most recent pre-development pricing indicates that this is the overall strongest submarket with the most recent pricing above $600/SF. The early developments indicate pricing from $350 to $450/SF. This indicates an increase of $200 to $300/SF, or approximately 45% to 55% from the beginning of the cycle in 2011. As the cycle has progressed, the design and quality of the most recent projects has also increased; current projects are including superior amenity packages and finishes.

Brickell

Figure 11

Greater Downtown Miami Condominium Projects

SUBMARKET SALE AND ABSORPTIONS
Research & Analysis as of June 2014

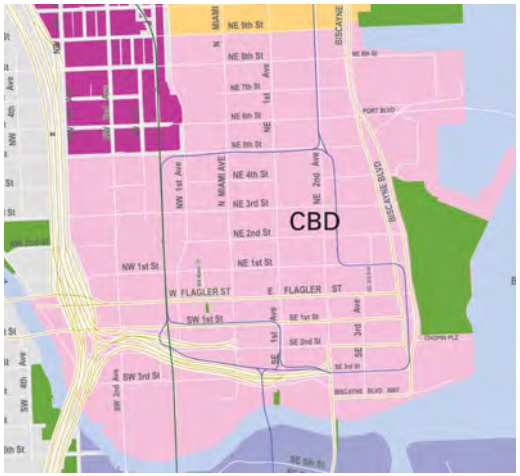
Name/Location	Submarket	Total Units	Average Price	Avg. SF	Avg. Price/SF	Sales Per Month
MyBrickell	Brickell	192	$305,500	940	$325	
Brickell House	Brickell	374	$444,360	966	$460	
1100 Millecento Residences	Brickell	382	$442,788	966	$420	
Sub-Total / Average (2011-2012)	**Brickell**	**948**	**$415,603**	**961**	**$433**	**20-40**
Nine at Mary Brickell Village	Brickell	369	$589,789	1,219	$484	
The Bond	Brickell	328	$570,590	1,027	$550	
Echo Brickell	Brickell	180	$1,869,472	1,548	$1,208	
Le Parc at Brickell	Brickell	128	$517,982	1,066	$469	
SLS Hotel & Residences	Brickell	453	$687,960	1,176	$585	
1010 Brickell	Brickell	387	$795,825	1,179	$675	
Brickell Heights - East	Brickell	358	$619,850	1,078	$57	
SLS Lux	Brickell	532	$774,900	1,230	$630	
Brickell Ten	Brickell	155	$410,887	1,050	$391	
Brickell Flatiron	Brickell	552	$787,500	1,250	$630	
Brickell City Centre	Brickell	780	$877,500	1,350	$650	
Cassa Brickell	Brickell	81	$487,600	1,060	$460	
Sub-Total / Average (2013-Current)	**Brickell**	**4,123**	**$714,820**	**1,199**	**$596**	**25-100+**

CBD

Miami Worldcenter

CBD
North: NE 5th and NE 9th Streets
South: Miami River
East: Biscayne Bay
West: Interstate 95/ NW 1st Avenue

Miami Worldcenter and Grand Central Miami station (All Aboard Florida) are the most significant planned project within the CBD and will be the catalysts for future development within the CBD submarket. The planned Miami Worldcenter project will provide over 1MM SF of retail space and 600K SF of convention space, in addition to a 1,800 +/- room Marriott Marquis hotel. The project will also include almost 1,200 +/- condo units and 1,900 +/- apartment units. The Grand Central Miami rail station will also have the opportunity to create a significant transit-hub within the CBD submarket as this facility will help activate pedestrian traffic through Downtown Miami on a daily basis. Recent announcements by All Aboard Florida indicate the long-term potential for several million square feet of both commercial and residential space.



The CBD submarket currently has one condo project (Centro) under construction. Centro is a unique condo project as it is being developed without any on-site parking. The project will have valet, a Car-2-Go and a bike-share station. The project indicates current average pricing ($439/SF) that is at the low-end of pricing within Greater Downtown Miami. On a gross price basis, this project holds the promise of attracting conventional homebuyers and downtown workers.

Figure 12

Greater Downtown Miami Condominium Projects

SUBMARKET SALE AND ABSORPTIONS
Research & Analysis as of June 2014

Name/Location	Submarket	Total Units	Average Price	Avg. SF	Avg. Price/SF	Sales Per Month
Centro	CBD	352	$308,617	703	$439	
Sub-Total/Average	**CBD**	**352**	**$308,617**	**703**	**$439**	**25**

Arts and Entertainment

Miami Science Museum

Arts & Entertainment
North: NE 17th Street
South: NE 9th Street
East: Biscayne Bay
West: NW 1st Avenue

The Arts and Entertainment submarket has only experienced the announcement of one new condo building, 1000 Museum. Coincidentally, this ultra-luxury project designed by Zaha Hadid indicates presales of over $1,250/SF, which is the highest pricing level for any project within the Greater Downtown Miami Market. The submarket includes several proposed rental projects by Melo Group and the recent completion of the Filling Station Lofts as a rental project. However, the for-sale product has not been active in this submarket. A significant amount of the land is controlled by Genting (former Miami Herald headquarters) with several vacant parking lots. Until a more definitive plan is determined for the Genting site, this submarket is not likely to experience a significant level of new condo development within this cycle.

Figure 13
Greater Downtown Miami Condominium Projects

SUBMARKET SALE AND ABSORPTIONS
Research & Analysis as of June 2014

Name/Location	Submarket	Total Units	Average Price	Avg. SF	Avg. Price/SF	Sales Per Month
1000 Museum	Arts & Entertainment	83	$6,937,775	5,389	$1,287	
Sub-Total/Average	**Arts & Entertainment**	**83**	**$6,937,775**	**5,389**	**$1,287**	**Less Than 5**

Edgewater

Edgewater

Edgewater
North: Interstate 195
South: NE 17th Street
East: Biscayne Bay
West: Railroad Tracks

The Edgewater submarket has experienced significant condo development in the early part of this cycle with several more projects expected in the future. The "East Edgewater" area east of Biscayne Boulevard is the most active development area within the submarket with several projects under construction and several additional projects and/or phases of current projects planned.

Developers have capitalized on Biscayne Bay waterfront with land speculators following suit throughout the area. Several large-scale land transactions and assemblages are currently taking place in East Edgewater. The submarket is realizing strong pricing with current pricing of waterfront projects achieving price levels above $650/SF. Icon Bay was one of the earliest projects sold and started within this cycle as average pricing indicated approximately $500/SF. Current pricing for waterfront projects report a range between $550 and $650/SF, indicating significant appreciation for this area over the past 2-3 years. As land speculators and developers have assembled non-waterfront sites between Biscayne Boulevard and Biscayne Bay, this area is expected to continue to transition to non-waterfront projects in the future.

Figure 14
Greater Downtown Miami Condominium Projects

SUBMARKET SALE AND ABSORPTIONS
Research & Analysis as of June 2014

Name/Location	Submarket	Total Units	Average Price	Avg. SF	Avg. Price/SF	Sales Per Month
Icon Bay	Edgewater	300	$651,222	1,287	$506	
Bay House	Edgewater	165	$659,120	1,660	$513	
The Crimson	Edgewater	90	$623,194	1,143	$545	
Paraiso Bay - Tower 1	Edgewater	360	$782,000	1,360	$575	
Biscayne Beach	Edgewater	395	$833,937	1,428	$589	
One Paraiso	Edgewater	276	$1,081,405	1,651	$665	
Ion at Edgewtater	Edgewater	330	$565,900	1,100	$475	
Sub-Total/Average	**Edgewater**	**1,916**	**$760,099**	**1,375**	**$553**	**20-50+**

Midtown

Midtown
North: Interstate 195
South: NW 29th Street
East: Railroad Tracks
West: Interstate 95

Most of the units within Midtown Miami, the mixed-use development that anchors this submarket, have been absorbed quickly over the past 2-3 years. The submarket only has one new project that is just beginning sales as of July 2014. Hyde Midtown is a co-branded condo/hotel development. This submarket includes the single largest land assemblage (18 +/- acres) that is currently being marketed for sale, with reported offers of approximately $200,000,000. This submarket's close proximity to the Design District and Wynwood should help facilitate additional condo development in the future. As Midtown Miami continues to achieve critical mass, this area is ripe for additional residential development. We anticipate the future residential development to represent a mix of both rental and for-sale condo product. Due to its demographic composition and mid-level retail and shopping core, this area will compete favorably for new demand in the mid-point non-waterfront range of $500/SF +/-.

Figure 15
Greater Downtown Miami Condominium Projects

SUBMARKET SALE AND ABSORPTIONS
Research & Analysis as of June 2014

Name/Location	Submarket	Total Units	Average Price	Avg. SF	Avg. Price/SF	Sales Per Month
Hyde Midtown	Midtown	367	$605,000	1,100	$550	N/A
Sub-Total/Average	**Midtown**	**367**	**$605,000**	**1,100**	**$550**	**N/A**

Wynwood

Wynwood
North: NW 29th Street
South: NW 20th Street
East: Railroad Tracks
West: Interstate 95

While the Wynwood neighborhood has experienced a significant amount of commercial and retail redevelopment and investment over the past 2-3 years, there has been minimal residential development within the submarket due to restrictive zoning. There is currently one live-work project with eleven units under construction. There have been several rental projects announced; however, due to the composition of the major property holders and restrictive zoning for pure residential development within the submarket, most of the future residential development within the Wynwood submarket will most likely be smaller neighborhood projects surrounding the central Wynwood neighborhood.

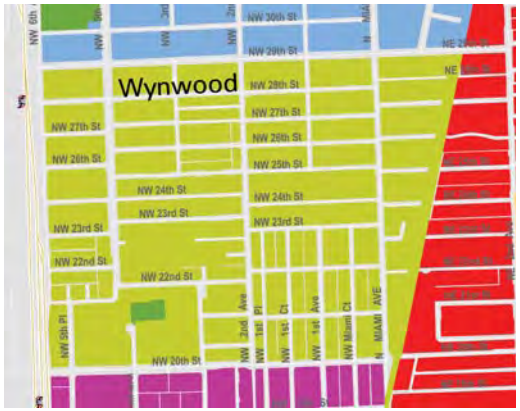


Figure 16
Greater Downtown Miami Condominium Projects

SUBMARKET SALE AND ABSORPTIONS
Research & Analysis as of June 2014

Name/Location	Submarket	Total Units	Average Price	Avg. SF	Avg. Price/SF	Sales Per Month
250 Wynwood	Wynwood	11			$420	N/A
Sub-Total/Average	**Wynwood**	**11**			**$420**	**N/A**

Market Drivers

Downtown Miami was the national headline for the housing crash in 2008-2010, the South Florida and Downtown Miami housing markets have rebounded faster and stronger than almost any other market in the U.S. The Downtown Miami condo market recovery has been fueled by a number of market drivers.

Foreign investment has fueled the majority of the current condo resurgence as the buyers and investors are more comfortable and accepting of the "South American Financing Model." The currency exchange rates, inflationary concerns and political unrest in several South American countries have further promoted the transfer of capital resources to stable assets in the U.S. Miami is the gateway to Latin America and a favored vacation destination for South Americans, which creates a natural comfort level for the foreign investors to invest in Downtown Miami condos. Interviews with several developers and exclusive sales agencies report an average of 65% of the entire market's pre-sales are from South America, with an additional 15% from European, Asian, and other Latin American locations.

The lack of inventory of available new condos in South Florida has also driven the Downtown Miami condo market. As investors purchased bulk condo sales and converted the units to rentals, the inventory of available condos within the Greater Downtown Miami Market has decreased consistently. The last condo units of the previous condo cycle were delivered in 2008. Since that time, only 288 units (MyBrickell – 192 units and 23 Biscayne Bay – 96 units) have been completed and delivered to the market. There is significant pent-up demand as rental prices and sale prices continue to rise in all submarkets of Downtown Miami from 2013-2014.

As the previous condo cycle created over 22,000 new condos within the Downtown Miami area, a 24-hour city was created along with it. This has fostered a more stable critical mass of newer housing units. Even recognizing the high incidence of these units being rented, the residential uses have helped create an environment that supports retail and commercial services by virtue of the additional population. Major developments such as Brickell City Centre (under construction) and Miami Worldcenter (planned) will continue to create an urban environment where people of all ages and backgrounds will want to live, work and play.

Market Drivers

IRR-Miami's survey of sales professionals indicates that 1000 Museum has the highest domestic (out-of-state) market share, representing over 35% of its current buyers. The domestic (out-of-state) group continues to increase, especially from the Northeast (New York, Boston, New Jersey, and Washington D.C. are most common) and Chicago, currently comprising an average of 15% of the current buyer pool. Several projects report west coast buyers from Las Vegas and California as well. As baby boomers search for retirement or second homes, Miami offers an affordable option relative to housing prices in the above-mentioned primary cities. The Downtown Miami market can provide a cultural, entertainment and shopping experience that few other waterfront cities in the Sunshine State can match.

The Downtown Miami office market has rebounded strongly after the recession, fueling additional demand from both buyers and renters who prefer to live near their place of work and avoid South Florida traffic. As office vacancy continues to decrease in both the Brickell and CBD submarkets, additional employees will consider living in one of the Downtown Miami submarkets.

Opportunities for Additional Drivers

Miami Worldcenter

While the Downtown Miami market currently provides significant resources of culture, sports and shopping, the neighborhood amenities are evolving. Highlights include:

- Cultural – The recent completion of the PAMM (Perez Art Museum Miami) and the anticipated Patricia and Phillip Frost Museum of Science, along with the successful Adrianne Arsht Center, provide the cultural anchor of the Arts and Entertainment submarket of Downtown Miami.

- Sports – The American Airlines Arena (NBA Heat and concerts) is the current sports and major event space. The interest of David Beckham to build a major league soccer stadium in Downtown Miami has been well-documented over the past nine months. The presence of an MLS soccer stadium and team within Downtown Miami may further enhance the marketability of the area to potential residents, particularly the foreign buyer/investor with a strong affinity for soccer.

- Entertainment and Retail/Shopping – The Bayside Marketplace and Shoppes at Midtown Miami currently provide the most supportive retail options for residents and visitors. The Brickell City Centre and Miami Worldcenter will provide significant enhancement of upscale shopping, retail, dining and entertainment options for residents in the future. In addition to these future upscale retail destinations, the Design District, located immediately north of the Midtown submarket, is under construction with over 200,000 SF of luxury retail. The upscale and major retailer destinations will insure that Downtown Miami residents will not have to travel exclusively to Aventura, Bal Harbour Shops, Dolphin, International or Dadeland Mall for retail purposes.

- Public Transportation – With the announcement of All Aboard Florida, a proposed transportation hub that will connect Downtown Miami with Orlando and several downtowns in between, the CBD submarket and Grand Central Miami has an opportunity to create a transit-hub near in Downtown Miami. The ability of Downtown Miami residents to get to other destinations quickly by using public transportation is an added benefit as employees of businesses located outside of Downtown Miami may be more likely to live in Downtown Miami and commute to employers located in external markets. Initial conceptual public transportation options to Miami Beach could present substantial demand for Downtown Miami housing, particularly in the Arts and Entertainment and CBD neighborhoods.

Opportunities for Additional Drivers

- Education – As the Greater Downtown Miami market grows and more families begin to make this their home, demand for either a private educational facility or charter school will likely emerge. A recognized private or charter school created in Downtown Miami could become a major driver for the Greater Downtown Miami housing market.

- Critical Mass/Market Distinction – As the above-discussed potential market drivers continue to develop, the Greater Downtown Miami market will continue to achieve greater critical mass as additional entertainment, retail and support services grow within the market. In addition, the individual submarkets within the Miami DDA market are beginning to form differential characteristics from one another as each submarket caters to different buyer preferences.

Top to bottom: Doral, Aventura, Coral Gables, Miami Beach

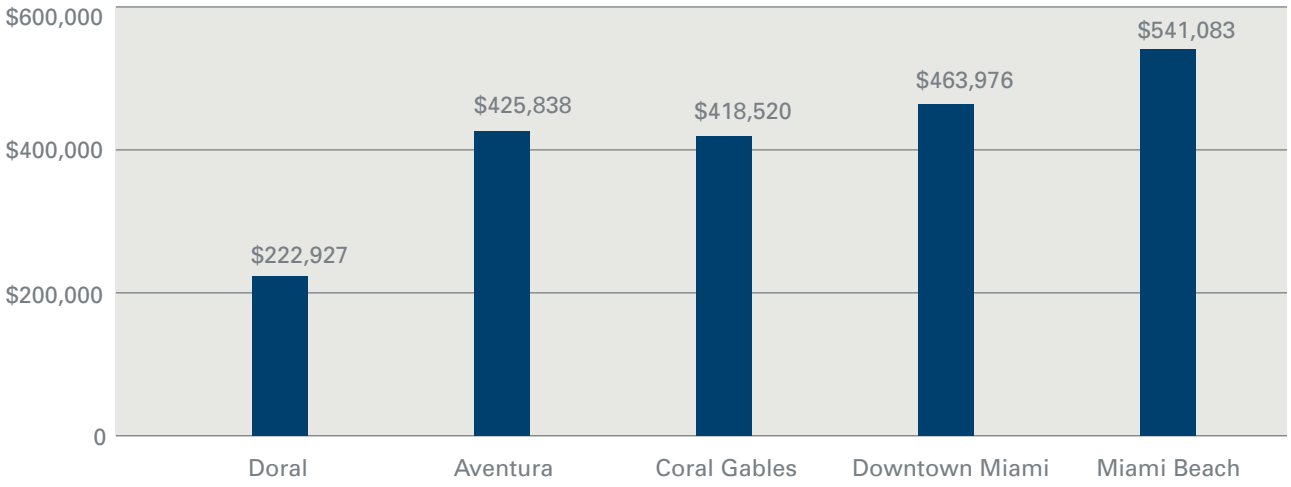
Comparison to Other Major Miami-Dade Submarkets

The market drivers of different housing markets vary from each market. Some markets (Coral Gables and Doral) are based more on work, family and/or schools, while Miami Beach and Aventura are driven by entertainment and vacation units. The Downtown Miami market is driven by several factors, including the close proximity to a significant amount of office space, urban environment, higher education and entertainment options. The high number of sales within the Downtown Miami submarket is reflective of its ever-changing features and motivations, as a high number of sales were from investors who previously purchased distressed units and decided to realize profits on them as pricing increased significantly since 2009-2010.

Figure 17 illustrates the Greater Downtown Miami Market compared to other major condo markets in Miami-Dade County in terms of average sale price of condos in 2013. The Greater Downtown Miami Market was the second highest market behind Miami Beach, with an average resale price of over $460,000 in 2013. While Doral is a very young market and the most suburban of the listed markets, the other competitive markets are reasonably close in average sale price.

Figure 17

Market Comparison of Average Condo Gross Sale Price (2013)



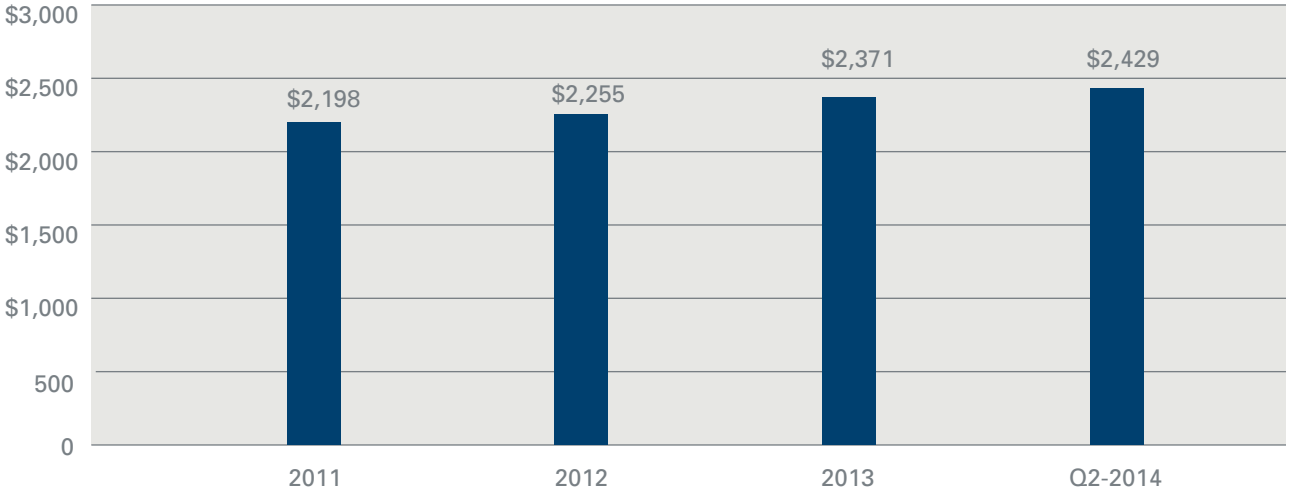
Leasing Rental Activity

Figure 18 shows the historical leasing activity and pricing levels for the entire Greater Downtown Miami Market, with Figure 18 segregating the rental rates by individual submarket.

The overall market has realized consistent leasing activity at between 400 and 450 leases per month over the past three years as well as consistent lease pricing growth. The overall market indicates an increase from an average lease price of $2,198 in 2011 to $2,371 in 2013 with an average 2014 lease rate (through Q2 – 2014) of $2,429 per unit.

Figure 18

Greater Downtown Miami Average Leasing Price (Greater Downtown Miami)



Leasing Rental Activity

Figure 19 indicates the current average asking lease price vs. achieved leasing price and average number of leases per month for each submarket in 2013. The Arts and Entertainment district includes several luxury projects located along Biscayne Boulevard with clear water views of Biscayne Bay and Miami Beach. Brickell has the second highest average lease rate, with Midtown close behind.

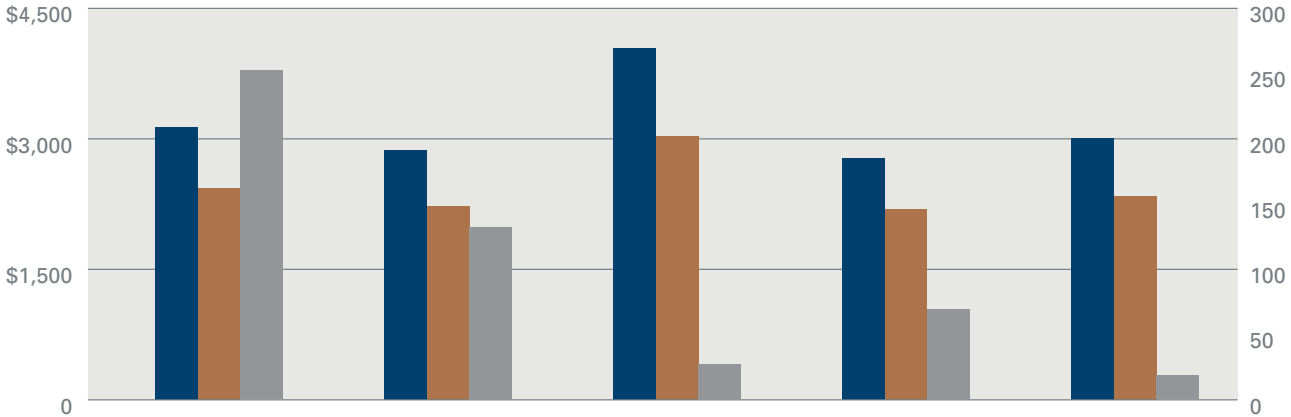
Current asking rates are 20-30% higher than recently achieved and will most likely be negotiated downward, but represent an expected increase in current lease rates by the brokerage community.

The Brickell submarket was the most active submarket with an average leasing velocity of over 250 leases per month (50% +/- of the total market leasing activity). Wynwood is not included due to the lack of existing lease inventory.

Figure 19

Average Current Asking vs. Achieved Leasing Price and Monthly Velocity by Submarket (2013-2014)

■ Average Asking Leasing Price ■ Average Achieved Leasing Price ■ # of Leases/Month



	Brickell	CBD	Arts & Entertainment	Edgewater	Midtown
■ Average Asking Leasing Price	$3,133	$2,865	$4,043	$2,775	$3,007
■ Average Achieved Leasing Price	$2,435	$2,219	$3,024	$2,185	$2,334
■ # of Leases/Month	252	132	27	69	18

Leasing Rental Activity

Due to the recent success and higher profit margins generally associated with successful for-sale condo projects, rental projects are typically located on secondary sites that are not best suited for condo development, or are built by developers that only specialize in rental development.

Figure 20, on the next page, shows the current proposed or under construction rental projects within the Greater Downtown Miami market. IRR-Miami research indicates over 4,600 units within 14 projects are either proposed or being constructed as rental projects. The 100% conventional rental projects present an opportunity for developers as the condo projects and associated retail/entertainment uses drive demand for the market.

As the first wave of condo units is completed and sold, we expect a large percentage (50%) of these units to be rented. Therefore, future rent growth is likely to slow as supply is increased in the coming 12-36 months.

Leasing Rental Activity

Figure 20

Greater Downtown Miami Rental Pipeline

Development Name	Market	Status	Units
Brickell			
Brickell Bayview Center	Brickell	Planned	420
Edge at Brickell	Brickell	Under Construction	418
Panorama	Brickell	Under Construction	821
CBD			
Metropolitan 3	CBD	Under Construction	462
Arts & Entertainment			
Melody	Arts & Entertainment	Under Construction	497
17 Edgewater	Arts & Entertainment	Planned	240
14 Plaza	Arts & Entertainment	Planned	650
Edgewater			
26 Plaza	Edgewater	Under Construction	171
The Filling Station Lofts	Edgewater	Under Construction	81
Midtown			
Midtown 5	Midtown	Planned	400
Midtown 29	Midtown	Planned	300
Wynwood			
NW 24th St	Wynwood	Planned	80
Wynwood Central	Wynwood	Under Construction	69
NW 3rd Avenue	Wynwood	Planned	264
		Total:	4,609

IRR-Miami notes that in the early part of the cycle, EnV (now Nine at Mary Brickell) originally started construction as a rental project, and then converted to a sales plan. Some of the Figure 20 projects could conceivably convert to condos. However, to effectively build feasible multifamily projects, construction finishes would be at the low-end of the range.

Land Prices Trends

As the Downtown Miami condo market has gained traction, land prices for developable sites have increased substantially over the past 2-3 years. The Greater Downtown Miami Market area has realized several significant site acquisitions over the past 12-18 months. While a large number of the current projects under construction are being built on sites that were acquired at distressed levels from the previous condo cycle, the current pricing for development land has increased considerably through the early part of the cycle. Several larger ($20,000,000+) transactions are listed and summarized below. In addition, IRR-Miami has included the current listings of three sites that will most likely be developed with a large number of units in the future.

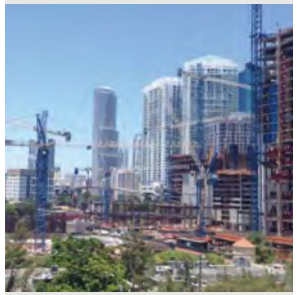
Figure 21

Land/Future Development Sales & Listing Summary

	Project	Submarket	Sale Price	Planned Use
1	444 Brickell Avenue	Brickell	$104,000,000	Future Mixed-Use
2	700 Brickell Avenue	Brickell	$64,000,000	Future Mixed-Use
3	North Miami River	CBD	$60,000,000	Residential Condo
4	NE 26th Street	Edgewater	$37,000,000	Residential Condo
5	30 SE 8th Street	Brickell	$28,500,000	Residential Condo
6	1451 Bickell Avenue	Brickell	$25,000,000	Residential Condo
7	1100 SE 1st Avenue	Brickell	$21,000,000	Residential Condo
8	Midtown Miami*	Midtown	$200,000,000*	Future Mixed-Use
9	Epic Hotel Marina*	CBD	$100,000,000*	Future Mixed-Use
10	300 Biscayne Boulevard*	CBD	Is Not Available	Future Mixed-Use

* Listing with reported expected bid offer range.

Major Developments and Potential Redevelopment Areas



Brickell CityCentre

Miami Worldcenter

The following projects include significant mixed-use projects within the Greater Downtown Miami Market that are either under construction or planned, and will likely facilitate additional development in each surrounding area. The projects include retail, office and hospitality uses. While each project will include a residential component, the significant commercial aspect of each development will further spur additional residential demand.

Brickell CityCentre

This mixed-use project is located just west of Brickell Avenue, between SW 8th Street and the Miami River. This $1.0+ billion project will include over 5.4 million +/- square feet of retail, hospitality, office and residential space. This project is under construction and is the heart of new Brickell development. There are a significant number of residential projects being developed near this project with several being built immediately across the street.

Miami Worldcenter

This mixed-use project is located in the northern part of the CBD, west of the American Airlines Arena and Biscayne Boulevard. The massive project includes 30 +/- acres and will include 1,800 hotel rooms, 600,000 square feet of convention space and over 750,000 square feet of retail space. The project will include over 3,000 residential units, including both condos and apartments.

Potential Development and Redevelopment Areas

The following areas either have a significant amount of available land for development or are located in the path of development and present desirable redevelopment opportunities as the underlying land values and potential for redevelopment are greater than the current improvements.

Resorts World Miami

This area is the former Miami Herald headquarters located on the Biscayne Bay waterfront and just north of Interstate 395/MacArthur Causeway in the Arts and Entertainment submarket. This is locally referred to as the Genting site or the former Miami Herald site. The site includes 14 +/- acres and was originally planned as a 5,000-room casino resort. However, Florida legislation for gaming had initially stalled the project. Genting reportedly owns a total of nearly 30 +/- acres in the Omni district of the Arts and Entertainment submarket. The developer/gaming company will be able to develop a major mixed-use bay-front project over several years, whether or not the project ultimately includes a gaming component.

West Brickell

This area is found immediately east of I-95 and west of SW 1st Avenue. The area is located north of SW 15th Road and extends north to the Miami River. The area is located within walking distance of the desirable areas of Brickell and South Miami Avenues. The area includes a significant number of low-rise apartments, single-family homes, duplexes and vacant lots. The area is located in the direct path of development as the current Brickell developments start to move west into this area. There are several significant proposed projects in the northern part of this area, including apartments and condos along the Miami River.

West Central CBD (Transit-Hub and All Aboard Florida)

This area is located just east of the proposed All Aboard Florida rail station that will be expanded from its current size and capacity. This area is a TOD (Transit Oriented Development) that will be within close proximity to the proposed Grand Central Miami train station, which will be the central hub of the public transportation network of the Greater Downtown Miami Market. The area will be immediately southwest of the proposed Miami Worldcenter and is just north of the improving Miami CBD and government office market area that is currently undergoing the renovation of several Class B and C buildings. This area includes several parking lots and retail buildings that could be prime candidates for redevelopment in the future as the submarket's major projects are completed.

Potential Development and Redevelopment Areas

East Edgewater

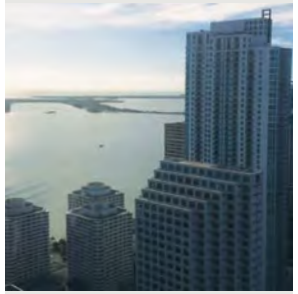
This area is located east of Biscayne Boulevard and south of Interstate 195 and is within close proximity to Midtown Miami and the Design District, as well as Biscayne Bay. As this area is redeveloped from single-family homes and low-rise apartment buildings, non-waterfront high-rise towers will be able to achieve pocket water views of Biscayne Bay. The area will continue to transition as several major projects are completed and the neighborhood continues its redevelopment. There are several waterfront projects that are assembling non-waterfront sites in order to increase the overall size of a waterfront project.

Midtown

The Midtown Miami area is located at the north end of the Greater Downtown Miami Market, bordered by Interstate 95 on the west and Interstate 195 on the north. The submarket benefits from its easy access to the interstate system and an established retail and residential base that was created in the last condo cycle. There are currently 18 +/- acres being marketed for sale within Midtown Miami with a potential development density of over 3,200 units and 5,350,000 +/- square feet of developable area. The Midtown area has a planned 200,000 +/- square foot Wal-Mart Supercenter and two condo and apartment projects planned to commence within the next year. The significant size of the available site area and developable space will allow a major developer to control its development pipeline and the future image of the Midtown submarket for the next decade.

Wynwood

The Wynwood area is located southwest of Midtown Miami and has realized a significant level of commercial redevelopment as this area is the central artistic neighborhood of Miami. Local land values have appreciated 100% in the past two years. The redevelopment has been mostly conversions from industrial to retail and gallery/showroom uses. Due to the current zoning and composition of the neighborhood, IRR-Miami does not anticipate major residential redevelopment in this area. While residential development may occur, it will be mostly small-scale or live-work neighborhood projects catering to the local resident or artist population.



Conclusions

- Condo pricing (resale) of newer post-2003 product has “appreciated” from $230/SF - $400/SF in the past 2 years (75% +/-). A large portion of this appreciation is “value recovery” from prior lows due to market glut. Future appreciation is likely to be slower.
- New condo deliveries in 2014 were pre-contracted in the $325/SF range based on pricing 1-2 years ago during the selling phase. Buyer/investors enjoyed value accretion based on current pricing when these units were delivered.
- Pricing on condo units today (based on reported sales from each project) are at significantly higher pricing. Much of the inventory under construction today is contracted in the $450 to low $550/SF range, and will be delivered in late 2015-2018. Q22014 preconstruction pricing continues at $550 - $675 per square foot for current unsold inventory.
- The prior cycle stability was evident until the confluence of two events: 1) more than 4,500 units were delivered in a single year, 2007, followed by over 10,000 units delivered in 2008; 2) global economic conditions eroded to unprecedented lows.
- The previous cycle’s over delivery was also based on elevated land pricing and construction costs due to speculation. These deliveries also tended to be the larger mega projects (over 600 units). If the natural demand curve demonstrates 2,000 units per year on average, it follows that larger 600+ unit projects are significantly more risky, particularly if conceived and sold mid-cycle.
- The excess inventory was cleared very quickly once prices reached equilibrium sub-$350/SF. This provided a significant expansion to the shadow rental inventory.
- The current value recovery and appreciation of unit values is now forcing large rental increases in the market. This is driving new conventional multi-family developers into the market to capitalize on a growing higher-end rental pool.
- The submarkets within the Greater Miami Downtown are becoming more distinct and recognizable in the market for their respective attributes.

Conclusions

- The drivers of quality urban life are coalescing to provide more critical mass and motivation for area residents to adopt an urban lifestyle. The effect of redevelopment and pricing in Miami Beach is also leading a transition of urban beach dwellers to opt in to a city location.
- While there is no guarantee that overbuilding won't occur, the market forces that inhibit overbuilding (elevated land costs, higher construction costs, increased market transparency, lack of available financing) could slow exuberance enough to prevent massive oversupply.
- The allowable densities in the downtown area are one of the major risks in favor of oversupply. The freedom to build the biggest project allowable makes timing the market very difficult. City Centre is applauded for its transformative scale, when in fact its most admirable attribute is that it commenced so early in the market cycle, before market stability was evident.
- To make a full transition to more fundamental demand, improvements in downtown primary education will be required (private or public). Nothing correlates more strongly with fundamental residential demand than safety and quality education.
- The market is in the early stages of mid-cycle development. Land buyers today should be cautious, and developers selling today for construction in 2015 will represent the first alert of demand changes to come in the next 18-24 months. Let's hope the market makers can be as transparent when leading indicators are less than robust.

Conclusions

IRR-Miami's Report Card on the Greater Miami Downtown Residential Market is presented as guidance on where we are going:

Greater Downtown Miami Residential Report Card

Subject	Grade	Comments
New Demand/Pricing	A+	Appreciating pricing; reported strong demand
Resale Demand/Pricing	A-	Strong; rapidly appreciating pricing – likely to slow in 2014/15
Rental Demand	A-	Renters in condo projects are experiencing large rental increases; new pure-play rental product will capture condo move-outs
Local Economic Conditions	B+	While tied to construction and tourism, the Miami market fundamentals in other non-core sectors remains strong, and the market is out ahead of statewide growth
Inventory Spikes	B	Projects in the pipeline sold; new projects finding the limit
International Stability	B	Significant external capital in all sectors continues capital flows into the U.S. This favors the condo market, 90% dominated by international buyers
Construction Costs	B-	Reports of escalating construction costs and labor availability could bust rosy cost budgets
Domestic Housing Market	B-	Still rocky, the signals remain mixed on housing recovery
Lifestyle Amenities	C+	Nightlife, entertainment, and culture aside, a 24/7 downtown still needs more service retail and educational components to be viable and make the transition to higher-than-11% primary home ownership
Affordability	C	More so than even lifestyle, the affordability aspect of life downtown hampers transition to a less speculative market
Land Pricing	C-	Quickly rebounded pricing and tremendous demand from cheap capital is driving pricing beyond feasibility
Wage Growth	D	The cost and escalation of downtown projects is beyond the means and rate of growth of most employees unless rented

Conclusions

- IRR-Miami's conclusion is that the market absorption will slow as pricing continues to rise, and more projects enter the selling phase. Based on current and pent-up demand from five years of no building, more than 1,500 additional units actively selling could slow the market momentum measurably.
- While the deposit structure provides some insurance against the overbuilding of ill-conceived or ill-timed projects, it is not a magic bullet. While offering some protection against speculation, it may offer an equal measure of work-out complexity on the downside.
- Miami enjoys a unique position in terms of attracting wealth capital to the area. The Greater Miami downtown area is competing extremely well against other areas of the county in 2014. We expect continued stability into this mid-cycle, subject to the market forces being able to effectively control the supply pipeline, and continued forward perceptions that Miami can sustain long-term growth.

IRR-Miami – Greater Downtown Miami Residential Market Conclusions and Takeaways

Where are we in the current condo cycle?

We are in the mid-cycle development stage of the current Greater Downtown Miami condo cycle. We have delivered 288 units with an additional 8,500 +/- units either under construction or in the selling stage of development. The current growth indicates an increase of 25% +/- of the current condo market size. The current growth of the market is meeting the pent-up demand from the inactive development market in 2009-2013.

The current pipeline includes potential long-term growth of 14,500 +/- units that are in the conceptual phase of development. However, a large number of these units will not likely be built within this cycle. Several thousand of these units are located in major mixed-use projects that will take 5-10 years to fully develop and deliver. As long as the market continues to meet, but not exceed, IRR-Miami's estimated 2,000 +/- units per year, we do not foresee an oversupply of the market.

How do we keep from overbuilding?

The significant buyer deposits (total of 50% by top-off) are helping to control the market as projects are being more heavily scrutinized by buyer/investors. The lack of A&D loans for all proposed projects requires developers/equity partners to have more "skin in the game." The available construction financing is typically only being provided to the A projects that have achieved significant pre-sales with a high likelihood of success.

The substantial land pricing appreciation over the past 2-3 years is making potential projects harder and harder to "pencil-out," as developers report having to "buy-in" to the limited number of available sites available by allocating part of their development profit to the land acquisition. Developers are reporting increases in construction costs as the entire South Florida region is experiencing substantial development. There is a shortage of laborers, with reports of sub-contractor crews jumping projects for marginal price increases.

The completion and delivery of the early projects currently under construction will likely control rapid price appreciation as some percentage of these units will be immediately remarketed for sale by buyer-investors who purchased pre-sale units in 2011-2012 and decide to realize profits due to the recent pricing appreciation in the market. As the units are put back to market, buyer/investors will have the opportunity to acquire newly-built projects that could potentially be below pre-sale pricing of proposed buildings. This option allows them to begin collecting rental payments or actual price appreciation in lieu of a futures contract with no guarantee that the project gets built.

IRR-Miami – Greater Downtown Miami Residential Market Conclusions and Takeaways

As the land acquisition and construction costs continue to increase, developers typically require higher pricing to create satisfactory profit margins; however, due to the larger buyer deposits required in this cycle, we expect several projects to be announced, but not achieve required pre-sales and buyer deposit amounts to begin construction.

What is driving the 2,000 +/- unit annual demand?

The Greater Downtown Miami Condo market has always been driven by external demand. There is minimal local or fundamental demand (5% of all pre-sales) due to the substantial pricing levels compared to lower pricing of suburban and secondary markets west of Interstate 95. A large number of the developed units are not occupied by year-round residents of Miami.

While a larger number of units at low- and mid-level pricing projects will be rented by local residents and employees within downtown Miami, the current leasing levels are not driving the purchasing decision as normal required investment yields are not achieved after real estate tax and monthly maintenance fees. In addition, the recent annual increases in rent levels are far lower than the recent increases in year-over-year condo resale prices.

The higher-priced units are being purchased either by wealthy foreign buyer/investors or out-of-state domestic buyers. The foreign- and out-of-state buyer/investors are purchasing units as vacation homes, preservation of capital/inflation-hedging investments or for stability due to unstable political/social conditions in their home country.

Condo Development Process Appendix

Conceptual	Reservations	Contracts		Under Construction	Completed
The conceptual phase is the initial phase of the development process; a conceptual plan for a new building or project is initiated by a developer or property owner. The developer may release a press release or a news story with an initial rendering to gauge the interest in the project, but the project size may change over time to conform to market demand and/or as site due diligence constrains the process.	The reservations phase is the second phase of the development process; the developer and architectural/design team produce additional renderings and floor plans; the sales centers are opened and the finishes, amenities, and features of the project are disclosed. The developer files with the State of Florida to be able to take reservations and deposits for units during this stage. This begins the pre-sale phase during which reservations are taken.	The contracts phase is whern the initial conceptualizing and reserving of a completely undefined development idea meets the actual contracting for sale upon the receipt of further deposits. The architectural and construction drawings are completed; the developer obtains government permitting and approvals. The final unit floor plans are defined as the reservations are converted to sales contracts with additional buyer deposits upon filing of the Master Declaration of Condominium. Changes to these documents are costly, and therefore the development plan tends to be more static following this phase.	The Contracts stage is typically the make-or-break stage of development as the project was either well-received by buyers, investors, and lenders, or it was not. If the developer has as a sufficient number of sale contracts, buyer deposits, and a commitment for financing, the project's construction will most likely commence. If the project was not well-received, either by a lack of pre-sales, or insufficient equity from initial investors or debt financing, a project may be scrapped, shelved, or significantly altered in another future attempt (either later in the cycle or in the next one). Projects which fail the Contracts stage may move all the way back to Conceptual during this process.	The site improvements and vertical construction have commenced. At this stage of development, the project has secured sufficient pre-sales with significant deposits and most likely a financing commitment. These projects will enter the market under a reasonably definitive timeline of 24-48 months, depending upon the scale of the project and surrounding infrastructure requirements.	This is the final stage of the development process; as the construction of the units is completed, CO's (Certificates of Occupancy) are issued, and the closing of the unit sales are finalized.

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