

Developers make moves as Tampa Bay's apartment market hits bottom

By **Ashley Gurbal Kritzer**
Real Estate Editor
Tampa Bay Business Journal

May 31, 2024

COMMERCIAL REAL ESTATE

For over a decade, construction cranes dotted Tampa's skyline, building apartments on seemingly every available patch of land. But one prime site lay dormant: the corner of North Lois Avenue and West Boy Scout Boulevard, where real estate giant MetLife Investment Management had been planning a multifamily project since the mid-aughts.

Now, as high interest rates and construction costs make development nearly impossible, those apartments are moving forward. The timing, ZOM CEO Greg West says, is perfect.

"I personally believe we've already hit bottom, and we're starting to rise off the bottom," West told the Tampa Bay Business Journal. "When we are leasing up roughly two years from now, there will be very little new supply to compete with, so we are very excited about that prospect."

ZOM has formed a joint venture with MetLife to develop MetWest Residential, an eight-story, 375-unit apartment building with 3,000 square feet of retail space and a six-story parking garage. It's the kind of midrise apartment building that came to define Tampa's streetscapes during the 2010s, creating thousands of construction jobs and millions of dollars in capital investment. As Tampa Bay's multifamily market reaches the bottom — most experts agree the market peaked in mid-2022 — apartment construction has slowed dramatically. However, opportunistic and well-capitalized developers are able to take advantage of the lull to move their projects forward.

"There have been very few developments that started in the second half of last year," West said, "and only a fraction of starts in 2024 compared to a normalized year. We're at 25% of a normal pace."

Multifamily developments that work in Tampa's current market

Apartment projects that move forward in the current environment will look a lot like ZOM's joint venture deal, said Casey Babb, executive vice president at Colliers Tampa Bay and founding partner of the Florida multifamily team at Colliers.

ZOM and MetLife landed a \$63 million construction loan from TD Bank for the MetWest International apartments in early May — and Babb said that's no small feat. But ZOM has delivered over a dozen successful projects in the Tampa area and has an institutional equity partner in MetLife, making their development palatable for a lender.

"If the developer has a great track record, they can get a loan and attract equity," Babb said. "These are \$100 million projects; right now, you need 40% down or more to get a construction loan. Someone has to come in with \$40 million in cash to capitalize the deal, and it's been challenging."

Apartments that broke ground in Florida's frothy post-pandemic era are



Greg West, ZOM CEO

being delivered, driving down rents at a time when the cost to build is higher than ever. Since 2020, 25,000 apartments have been built across the Tampa

Bay metro area, which includes Tampa, St. Petersburg, and Clearwater, according to Colliers' first-quarter market report. In 2023, over 6,600 apartments were delivered in the area, and another 10,500 are expected to be delivered in 2024.

"It's a full-on battle for tenants right now," Babb said. "Here we are four years removed from Covid, and people have blown through their savings. Credit card debt is at an all-time high, and inflation is a slow bleed on everyone. People are moving back in with parents or taking on

roommates."

That onslaught of new apartments has lowered rents — but Tampa's rental decline is far less than other metro areas in Florida, said Shawn Rupp, Colliers senior vice president.

"In the past year, Tampa Bay has maintained its position as one of the nation's most stable markets," Rupp said in the quarterly report. "It had a nominal rental decrease of just 1.6%, significantly lower than its Floridian counterparts, Orlando and Jacksonville, as well as other key Sun Belt cities, including Atlanta, Nashville, Austin and Phoenix."

Beyond financing challenges and skyrocketing construction costs, developers also face the age-old quandary of predicting what demand will be like two years from now. But like West, Babb predicts developers moving forward now will be in the best position in 2026 and beyond.

"Florida has that beautiful constant population growth," he said.

Turbulent times ahead for Tampa's apartment market

There are likely troubled times ahead for investors and developers who bought land or apartment properties at the peak of the market, Babb said.

"There are a number of groups that got caught near May 2022 — plus or minus three to five months — that are completely upside down," he said.

One recent example is the sale of Lumi Hyde Park, a 259-unit complex that sold for \$83 million or \$320,463 per unit on April 30. That's nearly a 28% discount to the \$115 million that the seller, Dallas-based Conti Capital, paid for the property in March 2022.

"That was the first of those types of transactions," Babb said. "It won't be nearly as widespread as it was last time, because it's a different situation. The banks were largely pretty disciplined coming out of 2008 and 2009."

That timing of the market peak coincides with a major apartment land transaction in downtown Tampa: Silverstein Properties' \$19.75 million purchase of a .78-acre site at 505 E. Tyler St. In November 2023, Coastal Construction applied for permits for a \$160 million tower on the site, which remains fallow. Those permits are set to expire on May 29.

Babb said many apartment developments are on hold right now, which will only exacerbate the state's affordable housing issue in the long run.

"Hopefully, it's temporary," he said of the paused projects, "because we still need this housing." ■