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South Florida home prices and rents are already expensive. And they could soon get worse. | Miami Herald

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Materials costs at One Thousand Museum Tower, currently under construction, are not affected by increased tariffs, said Brad Meltzer, president of Plaza Construction. Other builders and developers are finding costs have risen significantly since the tariffs were introduced. Emily Michot emichot@miamiherald.com

Miami's already-expensive housing costs could go even higher as the U.S. wades into a global trade war.

The tariffs on steel and aluminum imposed against most global markets earlier this year now also apply to Canada and Mexico — two of the biggest suppliers to the U.S. The steel and aluminum tariffs come on top of a nationwide labor shortage and previous tariffs on lumber. The combination is pushing up costs for South Florida home builders and home buyers, and may affect renters as well.

Sergio Pino, founder of the Century Homebuilders Group, said his suppliers are expecting the cost of materials will rise by 5 percent in the coming months. His subcontractors are already raising price estimates on drywall installation — an essential element in local homes and rentals — as the costs for steel partitions rise.

"It’s definitely going to hurt the industry," said Pino, whose company has 200 condos and single-family homes under construction across South Florida. "I know our homes are going up $20,000 to $30,000."

VIDEO 1:14
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The Astor Companies, which is currently building Merrick Manor in Coral Gables, could feel a pinch on its future projects. "The tariffs alone bring prices up on materials," said developer Henry Torres, founder and president. "We’re trying to figure out ways to keep prices steady, but housing is just going to get more expensive."

For many firms, especially larger ones, current projects are not affected. Plaza Construction, which counts One Thousand Museumon Biscayne Boulevard among its projects, has locked in materials prices for the Zaha Hadid-designed building. But those price guarantees don't apply to future projects.

"With the tariffs, it makes it harder to estimate the prices, which has an effect on the long-term investment and projects," said Brad Meltzer, president of Plaza Construction. "Most of our sub-contractors aren’t holding the prices for more than 60 to 90 days because of the uncertainty."

Before June 1, Canada, Mexico and Europe were exempt from the trade penalties the Trump Administration imposed on most global markets in March. But now suppliers based in those countries face a 25 percent tax on steel and a 10 percent tax on aluminum imported into the United States.

This new round of tariffs comes 7 months after the Trump Administration imposed a 24 percent duty on Canadian lumber. Since the beginning of 2017, lumber prices have climbed 63 percent, according to Robert Dietz, chief economist at the National Association of Homebuilders — including a 22 percent jump just since November. Lumber prices are now the highest in U.S. history, according to trade publications.

For Murray Rice, co-owner of Deerfield Beach-based Richard and Rice Construction, the tariffs have translated into a 10.5 percent increase in lumber costs since January. And rebar is even worse: costs of the reinforcement steel rods have skyrocketed 58 percent this year alone, he said.

Rice's company constructs shells — the structural framework for homes — for home builders including Lennar and DR Horton. Though timber is used only minimally due to Florida's climate, it still accounts for 12 percent to 15 percent each project's overall budget in his South Florida projects.

The end result: "If a shell cost $30,000 a year ago, it would be 33,000 to $34,000 today," said Rice.

The materials-price increases come on top of South Florida's construction labor shortage, part of a national trend that's driving up wages. Dietz said there are 200,000 unfilled construction jobs in the United States.

When combined with the increased material costs in steel and lumber, he said, the price of a single-family home has risen $9,000 in a year.

In Miami, that means higher home prices in a market already unaffordable to many. An analysis of housing and census data by the FIU Metropolitan Center found that 85 percent of Miami-Dade residents earning the median household income of $44,000 can't afford to buy a home. The median cost of a home in Miami-Dade is $345,000, up from 7.8 percent since April 2017. The rental market is no better, with the median rent at $1,043. The county needs another 30,000-plus units to serve families earning less than the median income, he said.

“Construction costs coupled with land costs have always been the real concerns when you’re looking at margins that are so slim to begin with,” said Ned Murray, associate director of the Metropolitan Center. “These costs make it very difficult to make the numbers work even in the best scenarios.”

But George Jalil, chairman of the Miami Association of Realtors, hasn't seen a connection between the rise in material costs and climbing home prices. He points to high demand, especially from international buyers, as the primary driver.

"There's no nexus between the two," said Jalil. "Housing prices have appreciated steadily for the past 5 to 7 years. And last year, we had steady increases and that’s from the demand we get in South Florida both domestic and internationally."

Noah Breakstone, managing principal at development firm BTI Partners, estimates his firm's Florida projects have seen a 7 percent to 10 percent increase in construction costs over the past 12 months. The company builds mid-priced single-family homes and condos in Central and South Florida.

Breakstone worries that rising construction costs could make building future homes in the $300,000 price range untenable. The tariffs could lead to a "chilling effect" for the industry.

"You may hold off on a project because the feasibility isn’t there," said Breakstone. "The effect of that is that you’re not going to have those jobs that come from the project."

And the chilling effect is what many see as the most dangerous long-term aspect of the tariffs.

"The longer-term danger comes not from the initial impact," said Claude Barfield, trade scholar at the American Enterprise Institute. "Uncertainty makes business draw back. It will have an effect on the economy beyond what it will have on the consumer in the near term."

Some global economists fear an escalated trade war could dip the U.S. into a recession said Ken Roberts, founder of WorldCity, a publication focused on international trade, and a contributor to Forbes.com.

“Companies that are looking to invest in capital infrastructure and they’re saying ‘Hey, let's slow down,’ said Roberts. “There’s a fear that tariffs may cause the world to dip into recession, which further slows down investment.”

Still, the tariffs appear to be here to stay. President Trump reiterated his America-first trade stance as he met with allies at the June G7 meeting, firing off a series of tweets the week after the tariffs were announced.

Peter Dyga, CEO of the Associated Builders and Contractors East Coast Chapter, argues that while the new trade policy may hurt some businesses short term, a renegotiation of NAFTA and trade with other countries is much needed. He pointed to China’s willingness to buy $70 billion of U.S. goods in exchange for the halt on tariffs on Chinese goods.

“A lot of these trade deals were one-sided and inefficient," said Dyga. “I think the objectives of the administration are laudable and will put us on a better playing field."

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