

International investors stake their claim in Miami

Eric Kalis

Daily Business Review | August 1, 2011



Argentina native Fernando Levy-Hara and Austrian Stephan Gietl try to stay a step ahead when it comes to South Florida real estate.

Levy-Hara and Gietl, the co-founders of Aventura-based mckafka Development Group who met while attending graduate school at Harvard University, brought in a German investment fund to contribute between 30 percent and 45 percent when they went on a condo buying spree starting in 2009.

Now, after renting out and selling most of the units, the mckafka managing partners are ready to start buying vacant land and building multifamily projects.

A confluence of favorable real estate prices, ample space for additional development and demand for a safe spot to park capital has led to offshore investors and foreign-backed players like Levy-Hara, Gietl and Cyril Bijaoui driving the local real estate market.

"Miami's cheap relative to other places," said Bijaoui, managing director of Coral Gables-based The Company Real Estate and asset manager of The NAV Group, which is primarily funded by international investors.



Miami real estate is noteworthy for its "distressed pricing," Bijaoui said. "Everyone all over the world is buzzing about buying in Miami."

Rented Condos

Since 2009, mckafka has acquired a combined 307 units in four South Florida condo buildings for a total of \$40 million. Many of these have already been sold to individual buyers, including 177 units in downtown Miami buildings Edgewater Lofts and Gallery Art condominiums and 62 units at Las Olas by the River in Fort Lauderdale. More than half of the 68 units mckafka acquired Feb. 14 at Village East in Fort Lauderdale have also been sold.

Nearly all of the units have been sold to international investors from Europe and South America who prefer to acquire condos already occupied by renters.

"These units yield between 5 and 6 percent profit per year after paying property taxes and maintenance," Levy-Hara said. "With the potential appreciation, if you're buying at half the price of the bubble, you have the potential to go up 60 to 70 percent in the next five years."

International buyers sense that the bottom of the local real estate market has been reached, according to Bilzin Sumberg partner Richard Goldstein, who represents numerous foreign investors.

"At the same time, sellers are understanding if they hold onto their properties and try to sell for exorbitant values, it isn't in the cards," Goldstein said. "The differences between buyers and sellers have narrowed."

The most notable recent property deals have been made by investors with connections to major international companies.

An affiliate of Miami-based Agave Holdings, with ties to the owner of the Jose Cuervo tequila brand, paid FirstBank Puerto Rico \$30.55 million on June 30 for most of the site of the scuttled Old Spanish Village project in Coral Gables.

This spring, Brickell Key developer Swire Properties, part of Hong Kong-based real estate and airline owner Swire Pacific, completed three years of aggressive land buying in Miami's Brickell area with the \$14 million purchase of 2.15 acres and the \$13.1 million acquisition of Eastern Bank's headquarters.

Last week, Swire received final approval from Miami city commissioners to build Brickell CitiCentre, a 9-acre mixed-use project to be developed in phases.

In downtown Miami, an affiliate of Malaysia-based Genting Group paid \$236 million in May for the Miami Herald's headquarters and announced plans to develop a mixed-use resort hub.

Beyond Agave and Swire, who already had a presence in South Florida, scores of international companies have waited on the sidelines for similar opportunities since the recession began, according to Andrew Hellinger, chief executive of Coral Gables-based Hellinger & Penabad Cos.

While Americans fret over the jobless rate and contentious debt ceiling negotiations, international investors still perceive the U.S. as "the most reliable country in the world," Hellinger said.

"Our government is predictable, our laws are predictable, our business rules are predictable," he said. "We are a country where you can place your money for investment and know that it's safe."

Global Gateway

The idea that international money is secure in the U.S. drove Espacio USA, the American arm of Spanish real estate giant Inmobiliaria Espacio, to expand into Miami, according to chief executive officer Alberto Muñoz.

Espacio is about to close on its purchase of an office building at 2125 Biscayne Blvd., Munoz said. It would be its second office acquisition along the Biscayne Boulevard corridor in the past year.

"Our company decided three years ago to move into different markets," Muñoz said. "Studying different locations ... we definitely had the feeling that Miami is the gateway to the world."

In June 2010, Espacio paid \$31.52 million for a struggling office building at 1444 Biscayne Blvd., which the company has repositioned as 1400 Biscayne Center. Espacio has pumped more than \$1 million into renovating the 131,000-square-foot building and boosted occupancy from a paltry 11 percent to 72 percent.

Espacio is working with the firm of renowned architect I.M. Pei on a potential mixed-use expansion of 1400 Biscayne Center, Muñoz said. The previous owner had obtained approvals from the city to build 850 apartment

units and 43,000 square feet of retail space on the site. Espacio's project would likely have fewer residential units, he said.

The company expects to take the same approach with 2125 Biscayne Blvd., Muñoz said.

"We are here for the long term," he said. "We want to invest and find more projects."

'First-Tier' Deals

In the past 20 years, most foreign investment in Miami came from "second- and third-tier" investors from Europe and South America, according to Miami attorney Neisen Kasdin, managing partner of Akerman Senterfitt.

Today, the next wave of international investors is making first-tier South Florida acquisitions and comes from other regions of the world, including Asia, Kasdin said.

Kasdin represents Swire and Bayfront 2011 Property, an affiliate of Malaysia-based Genting Group, which paid \$236 million on May 26 for the Miami Herald's downtown Miami headquarters property.

Genting, which also owns 50 percent of Miami-based Norwegian Cruise Lines, intends to build nearly 7 million square feet of hotel, convention, retail, restaurant and office space on the 13.9-acre site.

Kasdin also represents a prominent Argentina developer, Consultatio S.A., which plans to build 165 condominiums at the site of the former Sonesta Beach Resort in Key Biscayne.

Swire's Brickell CitiCentre plans include a 550,000-square-foot open-air shopping center and two levels of underground parking for the first phase, which could open in 2014.

The project, bounded by Brickell and First avenues and Southeast Sixth and Eight streets, is expected to cost \$700 million and generate \$6.3 million in annual revenues to the city.

Swire executives declined comment through a company spokesman.

With the influx of new residents in the Brickell area, Swire reacted to an opening for new commercial development, especially retail, Kasdin said.

"Swire saw a part of the market underserved in downtown, which was retail," he said. "That is becoming a cornerstone of the mixed-use project, which is also tied to transit."

Having room for future development also separates Miami from other U.S. cities competing for international dollars, Hellinger said.

"These new downtown developments show the city of Miami is still an underdeveloped community," he said. "Shopping is limited, entertainment is limited, the conveniences that go along with ordinary life are limited. The Swire project adds the retail and entertainment that will return the cycle to traditional residential development."

'Mini-Bubble'

Aggressive condo buying by international investors has created a "mini-bubble," according to Bijaoui, who said he has tracked the South Florida residential market since July 2007.

"Condo inventory is at a four-year low at 25,884" available units in the region as of July 26, he said. The market's peak during that span was 70,480 available units.

"Prices kept going down, but now there is a shift because of foreign money. Very low inventory levels make for a lot of competition."

The unveiling of projects like Brickell CitiCentre has resulted in a flurry of interest in the central business district from international investors, Bijaoui said.

"From the moment announcements started being made, residential brokers became like waiters again," he said. "During the boom, brokers were taking orders like waiters."

Brazilians, motivated by the real's 45 percent improvement against the U.S. dollar in the past three years, have led the Miami condo market resurgence. Of the international buyers of greater Miami single-family homes and condos in the last year, Brazilians accounted for 9 percent of unit purchases, according to the Miami Association of Realtors. Only Canadians and Venezuelans bought a higher percentage of units during that span.

"The feeling in Brazil is certain aspects of their real estate and economy make U.S. real property a relative bargain," Goldstein said. "In other countries like Venezuela, the currency is not as much of a factor. Political instability is a factor; they want a safe haven for their money."

The Midtown area north of downtown Miami is a primary focus of mckafka's land-acquisition plan, according to Levy-Hara. With many of the condos in the central business district now occupied, Midtown should be ripe for additional development in the next few years.

Of the 22,250 units developed in the district since 2003, only 2,300 — or about 11 percent — were unsold as of June, according to Bal Harbour-based real estate consulting firm Condo Vultures. That marks a sharp decline from more than 5,000 units unsold a year earlier.

Less than 600 units are currently available for rent in the district.

Levy-Hara declined to identify which Midtown properties mckafka is negotiating to buy, saying the deal is in the due diligence phase.

"I learned all this in Argentina, where we have one of these [financial] crisis every 10 years," Levy-Hara said. "After a big depression, first you buy units cheap, then land."

Upcoming residential developments by mckafka initially would be rental apartments since obtaining construction financing for condos is still extremely difficult, Levy-Hara said. Several years from now, if an appetite for condos returns to South Florida, the developments could be converted to condos.

International companies have an opportunity to "land bank" in Miami today and position themselves for the next development cycle, according to Tere Blanca, president and chief executive officer of Miami-based Blanca Commercial Real Estate.

"It is a great time to invest in land," Blanca said. "Acquiring prime properties at discount prices in the height of the market was not achievable. Whomever has deep liquidity and can be nimble and act when opportunities arise can acquire properties at what we consider to be solid pricing."

'Crown Jewel'

At a sale price that resembles the real estate boom of last decade, Genting's Herald headquarters acquisition should be considered an anomaly, Hellinger said.

Genting paid \$46 million more than the price a group led by Indianapolis developer Mark Siffin agreed to pay for 10 of the 14 acres in 2005. Siffin's contract did not include the Herald building or as much waterfront access, however.

Genting "overpaid because their business model works for them, no matter the price," Hellinger said.

Calling the Herald site the "crown jewel of downtown Miami," Christian Goode, senior vice president for development at Genting subsidiary Resorts World, said the company "firmly" disagrees with anyone suggesting it overpaid for the property.

The site is "the area's last remaining parcel ripe for redevelopment," Goode said. "The property features exceptional waterfront access and great connectivity with downtown Miami. It's impossible to put a price tag on that kind of opportunity."

Goode cited Florida's growing population, increasing tourism in Miami and the anticipated addition of non-stop flights from Asia to Miami International Airport as motivating factors for Genting's acquisition.

The largest owner and developer of destination resorts in Southeast Asia, Genting is following its model of projects in the Far East. If Florida modifies its laws that limit gambling, a gambling component would be included in the downtown project, which Genting estimates would cost more than \$3 billion to complete.

But the viability of the Genting project does not depend on gambling, Goode said.

"Resorts World Miami will create tens of thousands of new jobs and generate hundreds of millions in economic activity," he said. "While gaming would allow us to accelerate our construction time line, those jobs and dollars are coming to Florida regardless."

In a transaction indicative of current market pricing, London-based Cube Capital in April partnered with Weston-based InSite Development Group to acquire the Continental Oceanfront Hotel in Miami Beach for \$61 million in April. The partners plan to renovate and reposition the hotel by the end of 2012. The previous owner acquired the hotel as part of an \$80 million, three-property deal in 2005.

As long as Miami continues to have the reputation of a tropical gateway destination, the city should remain a top U.S. target for international real estate investors, Levy-Hara said.

"A lot of investors like to invest here and tell their friends in the golf club back home about their real estate in Miami," he said. "It is every wealthy Latin American's dream to have properties in the U.S. This is the historical moment they can do it."

Eric Kalis can be reached at (305) 347-6651.