

5 views on real estate from ULI condo conference

By Brian Bandell

Leaders of Miami's condominium and development industries gathered on Wednesday for an Urban Land Institute conference where they addressed pressing issues, such as how long the real estate cycle will last and what impact President-elect Donald Trump will have on South Florida.

About 300 people gathered in the East Hotel at Brickell City Centre for the event sponsored by the nonprofit ULI. It came at a pivotal time for the market, as condo sales have slowed and the inventory of existing units for sale has surged. Many developers are wondering whether they should move ahead with projects or fall back and wait for a more positive environment.

Here are five major issues that the panelists addressed.

Where are we in the real estate cycle?

Related Group CEO Jorge Perez said the biggest difference between this cycle and the boom of the last decade is leverage. All of his condo projects have at least 50-percent deposits and those under construction are moving forward. However, there will be a slowdown because too many developers have launched projects at once and the U.S. dollar will remain strong compared to foreign currencies, he said.

"International demand will still come to Miami but there are a lot of projects to choose from," Perez said. "Our company is shifting into the international market in Latin America and into rental product and into government-sponsored and affordable housing. We see us having less emphasis on the condo market and we still think the rental market is very strong the next few years."

The market for overpriced condos and houses has slowed down, but otherwise the market is in pretty good shape, said Howard M. Lorber, president and CEO of Vector Group, and chairman of Douglas Elliman Realty. There was a big run-up in pricing in Miami and Miami Beach and it has retracted, but buyers aren't taking losses.

"It's like you buy a stock for \$10 a share and it goes to \$100 and then when it goes to \$80, you say 'I lost \$20,'" Lorber said. "It's a little psychological."

There's no doubt that the spread of the Zika virus in Miami hurt sales, but Lorber sees that as a temporary problem.



Out of over 300 buyers with deposits, only two have had issues closings so that shouldn't be a concern in this market, said Ugo Colombo, head of CMC Group and developer of Brickell Flatiron. That's because they already put down 50-percent deposits. While many buyers of recently completed condos have put them on the market, Colombo doesn't expect them to sell those units at a loss. Unlike in the 2008 meltdown where condos were heavily financed, buyers have more equity in their units.

However, Colombo said the South American model of 50 percent deposits is not sustainable over the long term. He expects a return to the 1990s model with banks providing a larger portion of project financing with the expectation that the developer can sell out the building before it's completed.

Real estate in Miami is undervalued compared to New York and London and the city is among the most desirable in the world to live, said Vladislav Doronin, CEO of OKO Group. The Russian-born billionaire has secured several condo development sites in Miami including Missoni Baia in Edgewater — one of the few condos to launch sales this year. He said sales have done very well.

"This year, there was uncertainty during the election campaign and clients put deals on hold," Doronin said. "I am sure next year will be much better."

Some of the properties OKO Group has acquired will be land-banked for a few years with the expectation of future growth, he added.

Getting projects off the ground will be difficult over the next 24 months, but condos with financing in place and a substantial amount of units sold will be fine because buyers won't walk away from 50-percent deposits, said Indigo Ardid, co-president of Key International, which is co-developing 1010 Brickell and the Harbour in North Miami Beach.

The majority of condos under construction now are sold and the next cycle will begin quickly after they are delivered, said Neil Fairman, president of the Plaza Group, which is building Marina Palms in North Miami Beach and two projects in Broward County. He's almost sold out at Marina Palms and looking for another development sites, and he's particularly excited about downtown Miami and Coconut Grove.

Spencer Levy, head of research in the Americas for CBRE, said the general real estate cycle is forecast to last until late 2018 or early 2019. Of course, all asset classes have a different cycle, so a property type like apartments is likely to stay positive longer, he added.

Do brand names matter for condo sales?

Increasingly, Miami developers have attracted luxury brands for their buildings from the world of fashion, cars, hospitality and famous architects. Those brands, of course, come with a price that's passed onto the buyer.

Ardid said Key International doesn't favor the brand strategy as it would rather spend more money on the building itself.

“We don’t believe in spending big on a brand because it costs a lot and the name tends to fade over time,” Ardid said. “You don’t need the brand. I don’t want to pay 2 to 3 percent of sales to an outside company to just put their name on it, because a lot of the time, that is just all they are doing.”

Perez said brands are essential to selling condos and so are star architects and interior designers. The Related Group has multiple projects under development under the SLS brand and it’s about to announce another one in Cancun, Mexico. Buyers received great value for a brand when the designers are heavily involved in the projects, such as with management or selecting interior design features and artwork, Perez said.

“If everyone is building the same product and there is no differentiation then you will have a hard time selling it,” Lorber said. “Now differentiation could be architects. You have world-famous architects building residential projects in Miami and that has never happened before.”

Will Trump be positive or negative for the local economy and real estate?

Perez said he knows Trump very well from when they marketed condo projects together in the past and he’s concerned that the choices Trump has made so far have not been good.

“He has surrounded himself with very right-wing small thinkers,” Perez said. “I think he will try to defeat Obamacare and will try to become an isolationist and will make trade more difficult, including with Cuba and with Latin America ... Hopefully he will listen to clearer minds and will shift his positions and allow for greater trade.”

Perez said Trump’s election has caused people in Mexico and Argentina to be fearful of coming to the United States because of visa restrictions.

Doronin said most Russians are pleased with Trump’s election and he expects more of them to buy in Miami if the United States improves its relationship with Russia.

Moishe Mana, who has assembled large development sites in Wynwood and downtown Miami, said he’s fearful because he doesn’t know what Trump plans to do and the president-elect is unpredictable. He knows many wealthy people overseas who are afraid to come to the United States now because of border control.

“We are going through globalization whether we want to or not,” Mana said. “We are all part of a global economy and we should approach issues in a global manner.”

Trump’s policies are pro-business and anti-regulation and that will benefit the economy, said Ziel Feldman, chairman of New York-based HFZ Capital Group, which is building the Fasano Residences at the Shore Club hotel in Miami Beach. Since the election he’s seen more interested from financial institutions and wealthy individuals in putting money back into the United States.

Feldman hopes that Trump loosens the capital regulations on banks under Dodd Frank so they have more freedom to lend. However, Perez said he's worried that Trump will allow too much deregulation, which is what caused the last recession and hurt people in the lower and middle classes who took out bad loans.

"For the economy, last time we had a deregulatory world view, we had the crash of '08," said Eliot Spitzer, the former New York governor and attorney general who now runs a family real estate business. "The banks kept saying they could manage risk and we saw how that worked out. They don't know how to manage risk because they just want a bonus next quarter ... This notion of getting rid of regulation structure is dangerous."

Ardid said he expects Trump will take more moderate positions than he did during his campaign.

"Overall he will be good for economy," Ardid said. "I like the low taxes and the heavy spending on infrastructure. On his trade policies he's been very different on those in the past and I think he will be more moderate on it."

Levy, who formerly did legal work for Trump, expects the president elect to reduce federal regulation and expand credit for home loans, which would be a positive economic driver. He expects the real estate industry will be fine under Trump.

What does Miami need to become more attractive for buyers?

Most real estate executives cited improved education as the a crucial factor in attracting new condo buyers to Miami. School quality is the first thing on the minds of many families with young children when they consider moving here, Lorber said.

Doronin said Miami needs more direct flights to Asia because then he could sell to buyers in China, as he believes they are interested in Miami.

Silvia Coltrane, CEO of development and brokerage firm Transacta Developers, said addressing sea level rise is a big concern where she is building in North Beach and Surfside. In a hotel she has proposed at Collins Avenue and 72nd Street, she designed it with extra high ceilings in the ground-floor retail space in anticipation of sea level rise.

"In case water rises we can raise the floor of the retail so it remains at street level," Coltrane said. "We don't want sunken retail like in Sunset Harbor."

How the region deals with sea level rise is important to projecting the Miami brand, especially as there's more press about the issue, said David Martin, president of Terra Group, which is developing Eighty Seven Park in Miami Beach.

What economic trends will drive future growth?

Mana said neighborhoods have become more important and people will seek to stay close to where they live and work. As he develops Mana Wynwood, he's attracted and invested in technology startups to seed the neighborhood with innovators. That will lead to his plans for shared office space and micro units.

Levy said automation is the biggest economic issue in the world today and the main reason that global trade has slowed down. Jobs in transportation, production, repair and construction are most at risk to automation. Countries that depend on manufacturing less complex goods and producing commodities will struggle, Levy said.

"We must advance to providing services and more complex goods because the value of less complex goods and commodities is dropping," Levy said.