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DailyBusinessReview.com
An ALM Publication
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March 8, 2017

Perceived Miami Condo Slowdown Could Result in Missed Opportunity

Commentary by
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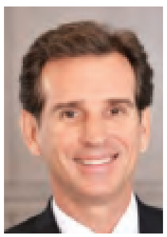
A few of the biggest players in the Miami condominium development



Rodriguez

game have publicly declared the city's condominium market to be heading for a potentially prolonged slowdown and are pivoting to rental apartment and commercial and industrial projects. They perceive Miami's condominium market to be oversaturated, basing that notion on several indicators, but primarily the market's historical absorption cycles.

What if they are wrong?

Those who run to the sidelines too soon and stay there too long could miss out on tremendous opportunities. The Miami of today is dramatically different from the Miami of a decade ago — and even from the beginning stages of the most recent boom. There are many indicators that point to Miami moving into development cycles with bigger peaks and smaller valleys. Even if we are beginning a period of contraction in the condominium market as some suggest, there could be an upswing in as soon as two or three years from now.

Proponents of the sustainability of this condominium development cycle point to the heavy amount of cash — not debt — fueling construction of the luxury condominium towers and ensuring that the vast majority of unit purchases will indeed close. Most, if not all, of the projects already out of the ground will move forward. And even in a "softening market," the premise that developers will be amenable to taking significant discounts to unload remaining unsold units might be flawed.

A closer look at the different strategies that major real estate players are now employing, and will likely maintain, over the next few years suggests that we should not expect a massive exodus from the Miami residential development market:

- The players who already have land will move in one of two general directions: invest substantial amounts in soft costs to design the project and launch sales and marketing efforts in an attempt to generate enough sales momentum to move forward, or simply decide not to test the waters until the next up-cycle clearly materializes.

- Many who don't already have land will be inclined to wait for an opportunity when prime development sites become available at more "affordable" prices, which happened to a great degree in 2009 through 2012. The majority of them could end up waiting for a long time or indefinitely as the severely discounted and numerous distressed opportunities of the past likely will not materialize this time around.

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- There is a smaller group of international players who will move forward with large investments in South Florida real estate no matter what the market indicators show. Some international investors simply aren't concerned with shorter-term real estate cycles — they are looking to buy legacy assets and hold them for the long-term. A notable example is Spanish billionaire Amancio Ortega, who paid "peak" prices for the Southeast Financial Center in downtown Miami and an assemblage on Lincoln Road.

- Lastly, some of the ultra-wealthy players who are not already developing in South Florida will look to pay current asking prices and land bank or attempt to develop immediately following land acquisition. They are playing a long game. The major land acquisitions during 2009-2014 now seem like great investments. We've seen Oleg Baybakov assembling property in Edgewater, Vladislav Dorinin's company paying nearly $620 per square foot for two waterfront acres in the same Edgewater neighborhood and Moishe Mana's acquisitions in downtown Miami.

Miami clearly did not have the diversity of deep-pocketed players with different strategies, visions and timetables in past boom-and-bust cycles. This also applies to Miami's condominium buyers, who are not all going to run away in droves and hide until they are told it's OK to start buying again. Miami still enjoys a highly attractive climate allowing for year-round outdoor activities and its astonishing beaches. Moreover, Miami now has several additional attractions, including its world-renowned art scene, an abundance of gourmet restaurants and the ever-growing sophistication of its residents.

What if the residential condominium market is just settling into a more mature phase — one in which a constant, albeit not "frantic," demand for well-designed and highly amenitized buildings is always present.

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