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# Commercial Sector Gets Its Turn In Miami's Real Estate Boom

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Law360, Miami (October 15, 2015, 5:48 PM ET) -- Downtown Miami has seen a recent surge in high-profile commercial real estate transactions topping $100 million for retail complexes and even Class B office buildings, a trend experts say represents a new development phase in the wake of a condo boom that ate up most of the city's undeveloped land.

As with the condo boom, the interest in these properties is driven by the city's growing reputation as a first-class urban center and desirable locale for millennials, some of whom moved downtown to take advantage of rentals that sprang up as a way to sustain condos built before 2008's economic downturn.

"There's a lot going on, and it's all interrelated," said James Shindell, chairman of the real estate practice at Miami law firm Bilzin Sumberg Baena Price & Axelrod LLP, offering a description echoed by multiple industry sources.

The $110 million acquisition of The Shops at Sunset Place in South Miami on Oct. 1 by a joint venture of Federal Realty Investment Trust and local partners Grass River Property and The Comras Co. was just the latest in a string of major retail acquisitions. The same team closed in May on an $87.5 million purchase of the CocoWalk outdoor retail center in Coconut Grove. Mary Brickell Village in the downtown Brickell District went to Boston private equity firm Rockpoint Group LLC for $115 million in September. And no deal has topped the $370 million that Amancio Ortega's Playa Retail Investments paid for a full block along Miami Beach's Lincoln Road pedestrian mall that same month.

September also saw several major office building deals, with office tower Espirito Santo Plaza in Brickell selling to Gaedeke Group for $142 million and the 777 Brickell office tower going for $140 million to a private group of South American investors.

Hotels continue to trade at record numbers as well, Shindell said.

This run on existing commercial real estate properties has not been indiscriminate, however. What these properties share are prime locations either in the urban core or in pedestrian-friendly areas surrounded by affluent neighborhoods.

“We're talking about really irreplaceable assets. I think that's the common mantra on all of these transactions,” said Ezra Katz, founder and chief executive of the Aztec Group Inc., which invests in and arranges real estate deals.

Demand is tremendous in the “core trophy section,” but well-occupied suburban “B” commercial properties find themselves in a softer middle of the market, according to David Moret, a principal at Continental Real Estate Cos. who noted that “everybody wants to be downtown, core, urban.”

New commercial development is hard to come by in downtown Miami, with the notable exception being a pair of multiblock, mixed-use megaprojects — Swire Properties Inc.'s Brickell City Centre and developer Arthur Falcone's downtown Miami WorldCenter — each of which is costing more than $1 billion to develop.

“These are urban infill locations which cannot be replaced,” Katz said.

Shindell pointed to the sale a little over a year ago of the 1.2-acre, undeveloped Epic East site at the mouth of the Miami River for $125 million as a moment that sent a clear message on the state and direction of the local real estate market.

“That sale was an indication to anyone that if you were buying land, it had to be for high-luxury residential development,” Shindell said, noting that land prices and construction costs are too expensive for the financial returns that office or other asset uses could produce.

“So the fact that the land is going to condominiums if it can means that other existing uses that feed off of residential development are at a premium,” he added.

In addition to this numbers game driven by land scarcity, changes in South Florida's population and character have also played a critical role, helping to drum up the necessary demand.

“The perception of South Florida has changed dramatically in the last decade, particularly because of the influx of the young millennials who want to live here and are highly educated, which really is different from where we were before that," Katz said. "This was not a destination for young people for many years."

Maryland-based Federal Realty took note of that shift in deciding to grow its portfolio in the South Florida market from its mostly Northeast base.

"We're seeing so many similarities in terms of the demographics you have, in terms of the population density, the incomes that are there, and just the year-round base is very strong in the two South Florida markets we just entered in Coconut Grove and South Miami," said Dawn Becker, an executive vice president with the company.

"We really see those [areas] as coming into their own with the type of places they're looking to try to grow into," she added.

In a twist, the economic downturn actually helped somewhat to speed up downtown Miami's revival. To sustain the first wave of condo units built before the real estate market crash, Miami saw a lot more rentals, which helped bring people into the downtown areas, "and Miami got its first 24/7 live/work/play area," Shindell said.

Efforts from the public sector have contributed to making the market more desirable too. Katz noted significant investments that Miami-Dade County has made in Miami International Airport, which he said are critical for Miami's development as a gateway city drawing in foreign tourists and immigrants. And Alyce Robertson, executive director of the Miami Downtown Development Authority, an agency responsible for advocating for the urban core's economic development, pointed to billions of dollars the government has spent on parks, museums, transit and other features.

"These infrastructure improvements are attracting private investors from around the world at a level never before seen in our urban core," Robertson said in a statement.

The investors and buyers behind these acquisitions are indeed a diverse group, with money flowing into these transactions from investors from Argentina, Chile, Malaysia, the Middle East, Spain and Turkey plus the U.S., various sources noted.

"And when you look at the fact that right now, both regular loan capital and equity capital is as readily available as it's ever been, it's just a perfect mix for a place where dollars want to flow, and Miami just continues to be a logical site for offshore money," Shindell said.

The buyers also vary, including high-net-worth investors, wealthy foreign family partnerships and the usual suspects in the institutional class, Shindell observed, describing the resulting competition as fierce.

"These properties, they're able to sell in a bid process, and the competition extends not only to price, but terms of sale, timing of closing, little or no due diligence periods, very few contingencies," Shindell said. "It's seller-favorable in every aspect."

Transactions for existing buildings may become somewhat more simple to execute, with sellers refusing to include various contingencies, he added.

The lingering question is how much supply is out there and how long this wave of interest in Miami commercial real estate will continue.

Katz said that he expects to see a handful of large deals — but not many — over the next 12 to 24 months, saying Aztec Group is aware of some properties that may come to market by the first quarter of 2016.

"But remember, those large deals are complicated, expensive and they take enormous vision and capability. The combination of those ingredients is very hard to find," he said, adding that he expects to see a considerable amount of activity for some properties under $100 million.

Moret pointed out that interest rates could have an effect too, noting these deals would be different if Treasury notes were at 4 percent instead of 2 percent. But Miami-Dade is very limited in its office supply, and even with the additions of City Centre and WorldCenter, it will remain "under-retailed," so demand should remain high.

As Katz said, "Supply is limited, capital is unlimited. That combination tells you a lot."

--Editing by John Quinn and Edrienne Su.