

11 Predictions For South Florida CRE In 2019

In Miami, as we say adios to 2018 and "Dalé!" to 2019, several of South Florida's real estate pros shared with Bisnow their predictions for the coming year. We're warning you now: It will involve lots of scootering.



11. Amid Economic Uncertainty, South Florida CRE Will Stay Relatively Stable

Aztec Group Executive Vice President Charles Penan: Uncertainty in the global market will greatly influence the real estate capital markets in 2019 and beyond. Miami has evolved into a worldwide epicenter for development and investment with countless international players operating within our market. We are starting to see a fundamental change in investors' mindsets where they are looking to pay off or recapitalize debt as soon as possible to secure the longest-term, lowest cost of capital and lock in perceived equity before the market shifts.

Ocean Terrace Holdings Founder and Managing Principal Sandor Scher on hotels: I expect 2019 to be much like 2018, where acquisitions and entitlements continue to move forward, but at a slower pace. As the credit markets continue to show signs of decreasing activity and spreads on borrowing remain at current levels or increase, that will have a negative effect on new deal activity. There are a number of projects that were acquired and entitled over the last two years and those projects should start in 2019. Locally, the Miami Beach Convention Center coming online should also begin to be a driver of demand for hotel rooms and hopefully create the compression in the market that is needed to drive RevPAR higher.

East End Capital Founder and Managing Principal Jonathon Yormak on multifamily: While Wynwood

25 currently has no competition as the first Class-A purpose-built rental product to exist in the submarket, there have been more than 30,000 apartment units already delivered in Miami-Dade and the shadow condo market adding thousands more. Therefore, based on city averages, we don't expect to see real rental growth for the foreseeable future. The Miami office market looks to remain stable — neither any great increases nor decreases on the occupancy or rental side. As a result, outperformance will continue to be generated only by delivering a better product to the consumer.

10. Certain Submarkets Will Stand Out

Related Group Vice President Jon Paul Perez: The Wynwood market has grown in both strength and size since we first began construction. With the nearby Brightline (soon to be Tri-Rail station) connecting South Florida's urban core to Broward and Palm Beach counties, the area will surely grow into a residential and hospitality hot spot ... New retail leases have been signed and construction on two large commercial projects on Second Avenue have begun. Goldman Garage is complete and open, with more office projects announced this year. We expect the neighborhood to expand at a faster pace than it was before. As a sort of snowball effect, the success of our first large-scale residential development in Wynwood will give other developers the confidence to pursue new projects in the area.

UrbanX Group Principal Andrew Hellinger: "Next year, one area to watch will be the transformation of the Miami Health District west of Downtown Miami. For the first time in decades, we are seeing a rise of new developments, including River Landing Shops & Residences, and a surge of private investment pour in and around the District. Investors are realizing the value of bringing quality development to this submarket, which serves tens of thousands of people who descend daily on the Health District. Some of the recent investors in this submarket include Moishe Mana, Lyle Stern, Mill Creek and the Rubell family. All of them have played key roles transforming areas like Wynwood, South Beach and New York's Meatpacking District over the decades. I expect to see new projects break ground in and around the Health District next year.

9. Industry Consolidation Will Continue

Colliers International South Florida Managing Director Ken Krasnow: Colliers' recent acquisition of Coral Gables-based CREC is a huge indicator of the direction the commercial real estate market is headed, as independent firms are increasingly competing in a global environment. I expect to see an increase of mergers between independent and large brokerage firms at a time when the market is requiring a comprehensive international platform and industry-leading tools to provide clients the absolute best service possible. For a global firm like Colliers International, bringing on board a seasoned team of brokers and leaders like the CREC team gives us an important competitive edge.

8. Cryptocurrency Will Get New Life

APEX Capital Realty President and Managing Broker Miguel Pinto: Tokenization will change how commercial real estate is done for the better in 2019. Tokenization essentially democratizes ownership of assets by using cryptocurrency to split assets into tokens that are stored on the blockchain, making it possible for ordinary people to invest in this unique real estate asset class. Someone who wants to invest in a trophy real estate project now has the luxury of being able to resell their share on the open market through secondary trading. Platforms will be created where an investor will be able to buy and sell — no different than how we buy and sell stock today. People in different geographies and tax brackets will now have access to attractive investment opportunities that they previously would not. For real estate investors, tokenization will be a new way to raise equity or debt on deals. We have been following this trend closely and have seen deals in the U.S. and abroad oversubscribed for investors (when investors pour more cash than what it is needed for the investment). I believe we will begin seeing tokenization as a new method of financing, which could serve as a better alternative for a project and investors. With blockchain tokenization, we can remove the unruly pressure of traditional bank financing, which is much healthier for the project and all of the stakeholders.

7. Developers and Builders Will Incorporate New Technologies

Saul Ewing Arnstein & Lehr Real Estate Attorney Louis P. Archambault: We will see technology such as Building Informational Modeling in connection with blockchain technology become more widespread in the real estate industry as BIM moves toward a more unified platform. It will be a game changer for developers who can use this technology for their projects. This type of technology will allow them to see in real time the impact of traffic, utility use and building temperature and determine how to optimally develop a property based on the data. Uncertainty and risk will significantly be reduced.

Suffolk Construction President and General Manager Pete Tuffo: New project designs continue to be complex, driving the need for construction companies to leverage the latest technologies in smart ways. For instance, virtual reality helps accelerate schedules, minimize costs and enhance quality. At the Seminole Hard Rock Hotel & Casino in Hollywood, Florida, Suffolk and our joint venture partner have been able to use VR to create customized virtual walkthroughs for key stakeholders, allowing them to provide immediate feedback, which ultimately saves time and money.

Aria Development Group Principal David Arditi: Robotics are becoming more common in residential and hospitality projects — just take a look at our robot butler, Lulu, at YOTELPAD Miami. We recognized how much excitement robots generated at other YOTEL projects around the world, and we thought this would be a great addition to Downtown Miami. We see these robots like we see our other technology: an innovative element that doesn't go too far. With the ability to make deliveries and help guests and tenants, they act as an extension of the staff and are a fun, unique way for people to engage with technology.

6. The Luxury Sector Will Power Through A Soft Market

International Sales Group and Related ISG Co-Founder Craig Studnicky: We've been selling luxury condos in Miami for the last three years without a significant demand from South America, mostly as a result of the strong U.S. dollar. In 2019, we expect to see the return of demand from Brazil, Mexico and Colombia. That, plus shrinking inventory, should create a very robust year for condo sales.

Swire Properties Senior Vice President of Residential Sales Maile Aguila: In 2019, as unsold condo inventory continues to sell, you'll see Swire and our competitors gearing up for the next cycle. The next wave of condo developments will reach new heights, consisting of supertall towers that will offer amenities and services that lend to truly experiential living.

OKO Group CEO and Chairman Vladislav Doronin: We are looking forward to continuing our vertical construction at Missoni Baia and to break ground at Una Residences next year. We have a few other projects in the pipeline we look forward to announcing ... We expect to see continued growth from domestic buyers in Miami real estate, particularly those affected by the changes in the tax structure. Mexico, Brazil and Colombia continue to be valuable markets. At OKO Group we take a long-term view on the markets that we enter and are bullish on Miami for many reasons. We have always been and continue to be cautious with our business decisions, making strategic and calculated choices with our real estate projects. By the time Missoni Baia and Una Residences are completed, there will not be much primary market inventory available. Our condos will continue to be desirable and in high demand.

5. Properties Will Continue To Incorporate Sustainability, Wellness

Edenburg Hospitality CEO Ignacio Edenburg: Millennials, a target for hotels, are very eco-conscious, so in 2019, sustainability will become more of the norm in the hotel industry since millennials often prioritize this over cost. We will see brands incorporating more eco-friendly elements from building design to furniture in order to appeal to this demographic.

Creative Choice Group CEO and Founder Dilip Barot: We are heading into the age of self-care where luxury is no longer equated to money, but to optimal peace and happiness. Wellness real estate concepts allow buyers to not only invest in a home but also prioritize their personal health. This transcends all demographics, ages, genders as health and wellness is a universal desire and need. At Amrit Ocean Resort, we are at the forefront of this trend, as we have designed a first-of-its-kind personalized wellness program, including a dedicated wellness coach and a wellness assistant who will help individuals to identify their wellness goals and the right mix of activities to achieve those goals. Then, they will support them in accomplishing those goals by being available 24x7 via a personalized Amrit mobile application.

4. Lots More Scooters

Lime Florida General Manager Jed Fluxman: In cities like Fort Lauderdale, where approximately 4,000 units are about to come online, introducing scooters to the market will substantially help reduce the amount of cars on the road ... In 2018, Lime launched in Miami, Fort Lauderdale and Orlando. As more users continue to embrace Lime as an alternative mode of transportation, we anticipate the service to continue to grow statewide.

3. Industrial Won't Be *Quite* As Insane

Steinbauer Associates Vice President JR Steinbauer: A strong absorption rate, coupled with the market's ties to the international business community, will continue to keep the demand for distribution buildings strong and vacancy rates low. Industrial companies are vying to be near transportation centers that keep the distribution process close by their business operations. South Florida continues to expand and improve upon its systems. For example, the new terminal at PortMiami and the Miami International Airport cargo expansion is supporting the last-mile initiative we're seeing nationwide.

Easton Group Founder Edward W. Easton: In 2018, I predicted industrial rents would go up 3-5%, but they exceeded my expectations, rising on average around 11%. Going into 2019, I think we will see more modest gains. There will still be very strong demand for small-bay warehouses 50K SF or less. In fact, the demand should outweigh the current supply. On the contrary, I think there is too much supply of the big-box warehouse space, but the absorption rate is happening faster than I had predicted last year. Still, I don't think landlords will be able to get as much rent as they hoped for in the near term until the absorption rate picks up, which I think is possible due to the demand for last-mile delivery.

2. EB-5 Projects Will Get More Litigious

Levine Kellogg Lehman Schneider + Grossman attorney Jeff Schneider: We are in the stage where EB-5 developers will need to start returning EB-5 capital to their EB-5 investors. We expect to see an increase in litigation involving EB-5 investors who will have a hard time getting their money back.

1. Opportunity Zone Capital Will Be Deployed

Akerman Managing Partner Neisen Kasdin: The opportunity zones discussion will shift to implementation in the year ahead. Recently released Treasury guidelines have unleashed a torrent of interest in investing in opportunity zones.

Native Realty Founder and CEO Jaime Sturgis: When it comes to opportunity zones, it will be off to the races to capitalize on the program. The federal guidelines will be well-established, so the capital being raised will start to be deployed. Expect to see deals in opportunity zones transact in the first and second quarters. The combination of fears of rising interest rates and clarification on opportunity zone rules will certainly be a catalyst for transactional activity in South Florida