

Move Over, Miami: Fla. Cities Poised For RE Growth In 2015

By **Carolina Bolado**

Law360, New York (December 08, 2014, 4:55 PM ET) -- Thanks to an influx of foreign capital, Miami's white-hot real estate market has led the way in Florida, but development in other metropolitan areas in the state has finally begun to pick up after the recession, and attorneys expect steady growth in the coming year.

Outside investment has fueled the real estate rebound in Miami, which happened early while other cities in Florida and around the country were still reeling from the recession.

"Miami is certainly leading the pack," Akerman LLP's Neisen Kasdin said.

But in 2014, even lagging markets like Jacksonville began to pick up, and real estate attorneys say they expect to see moderate growth in each of the state's largest markets in the coming year.

Outside Investment Fuels a South Florida Boom

Manuel Farach of Richman Greer PA calls South Florida's real estate market "a tale of three counties."

"Miami is going crazy — we've got cranes, sales of air rights, people talking vertical subdivisions, and it's becoming a center of art and architecture," he said. "Broward seems steady, and Palm Beach is running a little bit behind."

Miami's real estate market has been hot for four years already, thanks to cash pouring into the city from outside the country. But unlike in previous decades, the money this time around isn't just coming from Latin America, according to Kasdin, who says Miami is now attracting investors from all over the world.

"South America is still the largest single source of investor money, but truly it has become a global investment platform," Kasdin said. "Among projects we're working on, you have investors from France, Russia, Sweden, Hong Kong, Malaysia and Spain, so the fact of the matter is that the international investment has broadened significantly and diversified."

In addition to the foreign investment, Kasdin said a "tremendous amount" of domestic investors are pumping money into Miami, much more than in recent years. Many of the major private equity firms are investing in the Magic City, he said.

Thanks to all of this capital, the market won't implode like it did in 2008, though it could correct itself a bit.

"Since there's so much equity and very little leverage, when all the inventory comes out there may be a softening, but there's certainly not going to be a crash," Kasdin said. "There's not a chance of 2008 all over again."

And unlike in previous booms, which saw the western suburbs of the city expand farther out with new residential developments, the focus now is on infill projects and residential properties going up in the city, according to Mark Meland of Meland Russin & Budwick PA. It's a function of both lack of available land in the western part of the county and increasing demand for residences in the urban core.

"Everyone's talking about infill projects, and it's really happening here," he said. "Here, there's a demand for every little parcel."

Meland has found that the hotel market has been excellent, and he expects it to continue. Several Miami Beach hotels have traded recently at high prices, and more are being built.

The Fort Lauderdale area is not as hot as Miami, but attorneys there say the real estate action has picked up in the past year and is expected to continue on an upward trend.

The multifamily market is heating up, as is the hotel market in Fort Lauderdale, according to Dan McCawley of Greenberg Traurig LLP. McCawley added that the city now has a vibrant international investment scene and that he represents European investors who see Fort Lauderdale as a great opportunity, particularly now that there are direct flights from its recently expanded airport to more international locations in Europe and Latin America.

"They see it as they're getting much discounted value to what you get in Miami," McCawley said. "They see we have direct flights now, which opened up a lot more activity for the hotel side. The port expansion and the airport is where they see the opportunity."

In addition to hotels, the multifamily market is hot, particularly within a three-mile radius of the downtown core. He also noted that the market in automobile dealerships is strong.

"The banks are continuing to open up the spigot, and we have lots of investors, both domestic and foreign, coming in," he said. "I think we will see a lot of activity for the coming year."

Farach, who is based in West Palm Beach, said that what Palm Beach County has that its neighbors in South Florida don't is a lot of land. He noted that some large residential projects are going up in the western part of the county on former orange groves.

"The subdivisions are what seem to be driving the Palm Beach County market," he said. "The stuff that's coming out seems to be at the higher end as opposed to middle-class or working-class."

The demand for homes, he said, is not anything out of the ordinary, but prices are going back up slowly and the foreclosure gap is shrinking. The county now has fewer than 10,000 foreclosure cases, down from a high of more than 50,000, he said.

For now, he expects slow and steady growth, though that could change once the projects currently

underway are finished and several thousand more homes are unleashed on the market.

"I'm not quite sure what those big projects out west are going to bring us," Farach said. "Those are 5,000 to 15,000 homes that will be coming online in two or three years. That's a lot of homes to throw out on the market."

Orlando's Hotel Market Is on the Upswing

Hospitality is hot in central Florida, and the competition for available deals will continue to be fierce in 2015, according to Truong Nguyen of GrayRobinson PA. Right now, many of the easy deals for hotel operators — which often prefer to acquire facilities rather than build them — have been bought and sold and are priced higher, so development is beginning to pick up, he said.

In addition to hospitality, Nguyen cited restaurant and retail real estate as another hot market that has picked up in the past six months and will remain hot into the coming year.

Not only is there a fair amount of cash in the marketplace, but financing is once again available, he said.

"What I've seen a lot is that a lot of the institutional lenders are back in the real estate game," Nguyen said. "A lot of banks were burned badly by commercial real estate in the recession. Most banks are keeping these teams relatively thin, so they're more efficient, but the banks are definitely in the game."

He is also seeing money coming from South America, from Venezuela, Argentina and especially Brazil, as people begin to move north from overpriced Miami looking for bargains.

"It typically starts out in Miami, but with the volume of deals that are happening down in South Florida, you're going to see a lot of that money push up," Nguyen said.

Broad and Cassel's James Slater said he expected "solid, mild-to-moderate growth" in Central Florida in the coming year. He sees growth in the apartment market in particular and in single-family homes being built on developed lots. The problem, he says, is that developed lots — which already have infrastructure like roads and sewer lines — are few and far between, and homebuilders lack the capital necessary to develop these lots and prep them for houses.

"Now they need a middleman to do lot development and sell to the homebuilders, but there aren't that many of those left," Slater said. "One of the things that was lost in the meltdown was a number of people who did that."

But he said that wherever there are available lots, there is growth, and pointed out that the areas southwest and southeast of Orlando are doing well.

"People turn over houses because it's a good place to live," he said.

Tampa Bounces Back

Tampa's real estate market bounced back in 2014, particularly in the second half of the year, and the city is poised to continue on an upward trend in the coming year, according to Holland & Knight LLP's Donald Bly.

National buyers have returned to Tampa, and even some foreign investment is trickling in, Bly said.

"There's a renewed confidence in where Tampa is heading," he said. "Just a feeling that people are still moving here and it's a desirable place to live and work."

Multifamily development, both in the urban core and in the city's outskirts, was strong in 2014 and is expected to continue to pick up in the coming year, according to Bly. Single-family housing development also did well in 2014 and is expected to continue to do so, he said.

"I think you're going to see continued infill and redevelopment opportunities in the urban core but also growth at the boundaries," he said.

On the commercial side, office vacancies have come down, and some of the larger buildings have recently traded at seller-favorable rates, according to Bly. He expects to see more deals involving office buildings as vacancies and capitalization rates stay low.

"I don't think there's anything imminent in terms of new buildings, but as trading prices rise, the development opportunities become more realistic," he said.

At the same time, the lending market loosened in 2014, and he expects more financing to become available in the coming year.

"People are looking for opportunities," Bly said. "They're watching the market, and a lot of it depends on the financing opportunities. In 2015, you may see all of that come together."

Jacksonville Finally Begins to Rebound

Jacksonville was among the hardest-hit metropolitan areas in the state in the economic downturn, and it is just now beginning to rebound, according to GrayRobinson's Terry Moore. Foreclosure rates have stabilized, and the numbers are declining, he said.

"There are some good things happening, but we're 24 months behind what everyone else is experiencing," Moore said.

The city does not get the influx of foreign capital that flows steadily into South Florida, nor is it a particularly popular tourism destination, he said. The area has already seen freezing temperatures this winter season and is not a huge draw for retirees looking for property, he pointed out.

Still, the city is seeing some investment capital coming in, and the inventory of unsold lots has been consumed, he said. National homebuilders are returning to the market.

"There are some signs of employment coming back in certain sectors," Moore said. "I'm optimistic that things are improving there."

On the commercial side, the city is still dealing with the effects of the crash, which came just after a period of overbuilding. Moore said the restaurant and entertainment industry has not yet bounced back, and several of the largest office buildings downtown have sold recently at significant discounts. Rental rates are similar to what they were close to 15 years ago, he said, and owners have been aggressively trying to fill up buildings with tenants by offering free rent periods or free parking.

The low prices have lured out-of-state buyers, he said.

"In each case, the buyers are out-of-town opportunistic buyers with large sources of money, some of them hedge funds, and I think they see things in this market that people here locally don't see," Moore said.

--Editing by Kat Laskowski and Katherine Rautenberg.

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