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**INSIDE**

**COVER STORY** Condo Boom

**LAW**

**GREENBERG A 'BOYS' CLUB**  
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 Miami-Dade County has committed \$1.4 billion in sewerage system improvements to improve sewer infrastructure within 15 years. **A8**

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# A Stronger Foundation



A flock of construction cranes is about to return to South Florida as developers race to start residential projects before the competition.

by Eric Kalis See Page A8





# A Stronger Foundation

*A flock of construction cranes is about to return to South Florida as developers race to start residential projects before the competition.*

by **Eric Kalls**  
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Peter Zalewski loves to compare South Florida's condominium market to a trading pit.

To Zalewski, founder of Miami-based Condo Vultures LLC, the region's condo development cycles are tantamount to a stock exchange. Both are fueled by hype.

"When rumors come that something is going to happen in the condo market, buyers flood into the market, then pull back," Zalewski said. "Buy on the rumor, sell on the news."

The same buzz is being generated by developers in South Florida — particularly in Miami-Dade County. A flurry of new projects has been announced.

Vowing things will be different from the last cycle, condo builders in the region are proposing nearly 140 towers totaling more than 18,500 units, according to Condo Vultures. Miami-Dade has 90 proposed towers with a combined 14,000 units, or three-quarters of what's in the mix. Developments range from luxury oceanfront towers in Bal Harbour and Sunny Isles Beach to high-end urban product in downtown Miami to Miami's rapidly growing Edgewater neighborhood, where a land rush is in full swing.

For the first time in five years, proposed South Florida condos east of I-95 and in Coral Gables exceed the listed 18,400 units available for resale, according to Condo Vultures.

Those condo resales bring added competition for the new projects, according to developer Ron Gottesmann, principal of Miami Gardens-based NR Investments Inc.

His company in January partnered with Tahoe Investments LLC to acquire the unfinished Filling Station condo project in Miami's emerging Wynwood neighborhood. The immediate plan is to finish construction and operate the 1650 NE Miami Court building as a rental tower. The 81 units could always be converted to condos down the road.

"People who bought in 2008 and 2009 want to take those units back to the market and start reselling product," Gottesmann said. "Now you have a lot of inventory in the market competing against new product."

That includes Nordica, a 130-condo tower in The Roads neighborhood of Miami. The Astor Cos. held onto 59 units at the 2525 SW Third Ave. tower during the recession. Knowing how much new product is in the pipeline, the company started selling the Nordica condos last month.

With "no inventory available in the downtown area, we felt it was the right time to bring the remaining inventory to the market," said Astor vice president Peter Torres.

## **RACE IS ON**

Knowing how many projects were abandoned during the previous cycle, developers are racing to acquire land and secure enough deposits to start

construction ahead of the pack.

"The current number of projects being proposed has a lot to do with developers looking to get in on the ground floor," said attorney Stephen Reisman, a Miami-based vice chairman at Peckar & Abramson.

"As we saw with the last condo boom, those who finished early enough did fine," Reisman said. "Those who got caught in the recession had tremendous financial problems."

To separate themselves in a competitive, high-stakes business, some developers are using nonbinding buyer reservations to tout the viability of their projects.

In Coral Gables, Astor recently announced 85 percent of the planned 174-unit Merrick Manor luxury project is reserved. In Edgewater, neighborhood pioneers Melo Group say they have about 50 reservations for the 165-unit Bay House.

Once a blighted, sleepy neighborhood north of downtown Miami, Edgewater has become a hot spot for waterfront land banking and condominium development. Melo has developed 10 rental and condo projects totaling more than 1,700 units in the area since 2001.

"As prices continue to rise on Brickell, people are going to look for what Miami is most valuable for: the water view," said Carlos Rosso, president of the Related Group's condominium development division. Related paid \$29 million for the 4.6-acre former Element site at Northeast 31st Street in April. The price is nearly twice



Astor Cos. has started selling units at Nordica, a 130-unit condo tower planned for The Roads neighborhood of



About 85 percent of the planned 174-unit Merrick Manor luxury project in Coral Gables is reserved.



the \$14.5 million the seller paid for the debt on the site and 21 unsold condos in an abutting building in 2011.

All 300 units at Related's Icon Bay project at Biscayne Bay and Northeast 28th Street are under contract, Rosso said.

On Brickell Avenue, Rilea Group Inc. notes 30 percent of the 323-unit Bond at Brickell were reserved during a launch party last month. Yet Rilea vice president Diego Ojeda said his family's company won't deviate from its current plan for a January 2016 completion despite the initial buyer response and competitive development landscape.

"There is no urgency to start right away," he said.

Zalewski is quick to pour water on the smoldering flames, estimating a 50 percent "fallout rate" for condo reservations.

"They sign up, then when the developer goes to the broker and it's time to cough it up, that's where people fall off," he said. "Maybe another project popped up where the pricing is better. My overall feeling is this is a speculative market all over again, except this is people with real cash."

Developer Henry Pino, whose Strategic Properties Group Inc. is working with AXA Developers LLC to construct the 124-unit Le Parc at Brickell at 1600 SW First Ave. overlooking Simpson Park, is not concerned about buyers abandoning reservations. AXA is a partnership that includes Aconcagua, Chile's largest publicly traded residential builder. The companies also are working together on a 300-unit Edgewater project that has not been named.

"Even if they would want to walk away, someone right behind them will take it," Pino said.

### CASH IS KING

The reliance on heavy cash deposits instead of traditional construction financing has developers confident a condo bust can be avoided.

"All developers who survived the crisis definitely are smarter," Pino said. "This concept of large deposits is really a breath of fresh air that makes life a lot easier."

Unless dramatic changes occur in the capital markets, current condo projects would not move forward without at least 50 percent buyer deposits in hand for a substantial amount of the proposed units. Florida law allows anything above the first 10 percent of



About 50 reservations have been made for the 165-unit Bay House in Edgewater, north of downtown Miami (left); The Bond at Brickell has reserved about 30 percent of its planned 323 units (right).



Real Estate broker Alicia Cervera Lamadrid says asking buyers for 50 percent in advance sidelines much of the domestic buyer pool. But she says Latin American condo investors are more comfortable with large cash deposits than debt financing.



Developer Henry Pino isn't concerned about buyers abandoning reservations at the 124-unit Le Parc at Brickell, which will overlook Simpson Park. "Even if they would want to walk away," he says, "someone right behind them will take it."

## CONDOS: Reliance on heavy cash deposits buoys confidence

a unit deposit to be used on construction.

This financial structure was introduced in South Florida by the Melo family two years ago with the 96-unit 23 Biscayne project in Edgewater. It used the same model to sell condos in Argentina.

"Everybody told us we were crazy asking for 50 percent in advance," Melo Group principal Carlos Melo said. "We sold the units in four months and built it in 10 months. Now everybody is doing the same thing."

The structure sidelines much of the domestic buyer pool, but Latin American condo investors are more comfortable with large cash deposits than debt financing, said real estate broker Alicia Cervera Lamadrid, managing partner at Miami-based Cervera Real Estate Inc. Cervera's firm is handling sales at more than a dozen condo projects, including Centro in downtown Miami, Bond at Brickell and Merrick Manor.

"During the last cycle, I went to South America and explained they could get financing" for condo purchases, Cervera said. "They looked at me like I had holes in my head."

To protect themselves, some buyers are asking developers for bonds to cover the potential loss of a deposit if a project is not completed or purchasing bonds directly from surety companies, according to real estate attorney Steven Carlyle Cronig, a partner in the Coral Gables office of Hinshaw & Culbertson.

"I've seen bond prices of \$50,000," Cronig said. "If you've got a \$600,000 deposit, \$50,000 is worth it. This is an evolving structure."

### TRACK RECORD

The absence of traditional financing tilts the balance toward experienced developers who have a South Florida track record, according to Melo.

"If you are paying 50 percent, you have to take [note] of who the developer is and what they did before," he said. "In this industry, many people think because they have money they can be a developer."

The only developers to receive debt financing for current projects are the Trump Group, which in February obtained a \$160 million syndicated construction loan for the Mansions of Acqualina in Sunny Isles Beach, and

the Related Group of Florida LLC, which last November obtained a \$9.2 million credit line from City National Bank of Florida for the 192-unit MyBrickell project in Miami's financial district.

Rosso notes the company obtained small loans for all of its current projects to cover the gap between receiving buyer deposits and finishing construction.

"Other people are doing it with equity or bringing in equity partners to bridge the difference," he said.

Zalewski predicts a return to condo construction lending from banks as soon as next year. Otherwise, many projects would be scuttled without available financing.

"Now we move into a phase where banks need to maintain profit levels," Zalewski said. "There is pressure to put money on the street. That's likely to open the door in 2014. ... I'm of the opinion the pre-construction boom begins in 2014."



J. ALBERT DIAZ

Rilea Group vice president Diego Ojeda said his family's company won't move up a January 2016 completion for the 323-unit Bond at Brickell despite the initial buyer response and competitive development landscape.