DAILY BUSINESS REVIEW

COVID-19 Hit to South Florida Hospitality, Retail Spells Distressed Real Estate Opportunities

The coronavirus pandemic has pummeled hospitality and retail, but the bust may be a boon for investors who can scoop up discounted real estate.

By Lidia Dinkova | September 14, 2020

An aerial view of closed 258-key Ramada at 1950 W. 49th St. in Hialeah. Courtesy photo

The multifamily investor Estate Cos. couldn't bypass a Hialeah hotel discounted 20% in the coronavirus-created hospitality nosedive, an historic decline making the market ripe for distressed real estate deals.

"This is very opportunistic," Estate principal Jeff Ardizon said about the purchase. "Obviously, the hotel sector is experiencing some distress, which we believe is going to continue for a little bit. We don't have a crystal ball, but at the moment we do feel there is going to be more opportunities in hotels."

The South Miami-based apartment developer bought the closed 258-key Ramada at 1950 W. 49th St. in August for $15.25 million, a price Ardizon said Estate would have been happy to pay just for the 5-acre parcel without the hotel. The Ramada closed years before coronavirus settled in, but the low price resulted from the pandemic.

Hotels and retail lead the way on virus-related closures with hospitality researcher STR reporting that nationwide hotel occupancy won't bounce back until 2023 and room revenue until 2024. Shopping centers faced headwinds before the pandemic with a growing taste for e-commerce.

Jeffrey Ardizon principal with The Estate Companies/courtesy photo

But the real estate bust is a boon for investors. Estate, which is considering acquiring three other distressed South Florida hotels, isn't the only one chasing discounted trades.

Claudio Mekler is CEO and founder of Sunrise-based Miami Manager/courtesy photo

"Moments like this offer unique opportunities that are hard to find when the market is going full force," said Claudio Mekler, CEO of South Florida retail landlord Miami Manager.

Miami Manager is on the lookout to expand its five retail center portfolio with more South Florida retail priced from $20 million to $25 million or with 5-to-20-acre vacant sites for multifamily development.

Another investor in the distressed game is Miami-based LinkVest Properties, which wants to deploy $30 million to $100 million over the next year in South Florida and Central Florida retail. Its sister company, private lender LV Lending LLC, already helped others spring into action, issuing $25 million in six loans to distressed buyers, including Estate for its Ramada acquisition, said CEO Camilo Niño.

They aren't alone as investors look closely at market distress.

Saul Ewing Arnstein & Lehr partner Luis Flores/courtesy photo

"We have distressed buyers and funds lining up right now, seeking opportunities," said Luis Flores, a partner at Saul Ewing Arnstein & Lehr in Miami. They "are on the sidelines ready to take advantage of the opportunities that present themselves to help bail out hotel owners that are not getting bailed out."

Dry Powder

There's been no deluge of deals yet as sellers aren't willing to drop prices as low as buyers want. For their part, buyers are keeping their powder dry for better prices and more options.

"The buyers who are out there are looking for bargain prices, and I don't think the owners are quite willing yet to sell their assets at that low of a price," said Suzanne Amaducci-Adams, a partner at Bilzin Sumberg and head of real estate in Miami. "As we say in the industry, the bid and the ask. There is a big spread and a big difference between the bid and the ask. You won't be seeing distressed sales until those two numbers get much, much closer."

Owners won't sell low while they are being propped up with federal stimulus loans and protected by foreclosure moratoriums. Those that have worked out financing abatement with lenders feel less pressure to generate fast cash.

Suzanne Amaducci-Adams, a partner at Bilzin Sumberg Baena Price & Axelrod in Miami/courtesy photo

"The forbearance and deferment are basically putting pause on the problem," Flores said. "Once we take our finger off the pause button and assuming the federal government doesn't offer additional assistance, we are going to start seeing a lot of distress."

The federal government started with a $2.2 trillion stimulus package, but congressional Democrats and Republicans are in a stalemate over the value of another relief package.

For now, distressed opportunities are rare. Just ask Miami Manager, which is looking on behalf of Latin American investors. It tried buying two shopping centers, but the sellers took them off the market when Miami Manager was the only one to show interest. One issue for sellers is determining a pandemic-era sale price.

"Sellers aren't sure where valuation is," Mekler said. "The value of an income-producing asset is based on the income it generates. When you have tenants not paying rent, how do you determine the value of the property?"

LinkVest Properties, whose investors include U.S. and Latin American family offices, is interested only if at least 20% comes off market value, Niño said. If it doesn't find these discounts, it will keep tapping into the distressed market through affiliate LV Lending.

LV Lending is filling a gap left by banks that aren't lending because of coronavirus uncertainty (https://www.law.com/dailybusinessreview/2020/04/13/we-are-not-lending-no-new-loans-but-defaults-are-on-the-coronavirus-horizon/) and is issuing quick turnaround bridge loans for distressed acquisitions, Niño said. Banks can take months in negotiations, and distressed sellers can't wait that long.

Camilo Nino, a principal with LV Lending/courtesy photo

"Normally you are willing to give a discount because you need the cash fast and you don't want to get involved in six-month negotiations and extensions and extensions subject to financing," Niño said, adding LV Lending issued Ramada an $11.5 million acquisition loan in two weeks. "Because banks are frozen, bridge lenders have an opportunity in the next months to fill that gap."

Exactly when distressed transactions will pump up from a trickle is unclear, although Amaducci-Adams expects to see more deals in the fourth quarter. Niño foresees more opportunities next year.

Distressed Debt

Kevin O'Grady, co-founder and managing director of commercial real estate financing adviser and investor Concord Summit Capital LLC in Miami (https://www.law.com/dailybusinessreview/2020/07/24/concord-summit-capital-sets-up-headquarters-in-miamis-brickell-district/), said there are two ways to acquire distressed property.

Investors can outright acquire fee simple title or distressed debt. A lot of opportunities are expected on the debt side because there was stress before the pandemic, O'Grady said.

"Everyone I talk to" is forming distressed debt funds, he added. "A lot of the real estate equity firms, life companies and private equity firms are basically looking to not invest heavily into new stuff. They are going to be buying on the distressed side."

Kevin O'Grady of Concord Summit Capital/courtesy photo

Hotels are in for an unprecedented foreclosure wave just as the sector's commercial mortgage-backed securities are experiencing distress exceeding that of the Great Recession.

As of July, 23% of hotel CMBS loans were delinquent by at least a month, the highest percentage in history. This is 53% more than the highest level during the financial crisis.

This translates to $20.6 billion of delinquent loans, according to New York-based finance and commercial real estate researcher and data provider Trepp LLC (//www.ahla.com/sites/default/files/Trepp%20Historical%20CMBS%20Report%20-%20Hotel%20Commercial%20Real%20Estate.pdf). The worst moment in the financial crisis showed $13.5 billion in delinquent loans.

By the end of last year, CMBS loans that were at least a month delinquent represented only 1.34% of the market and added up to $1.15 billion.

In South Florida, some prominent hotels went into CMBS special servicing this summer, including Miami Beach's Clevelander South Beach Hotel and Bar that had a 90-day delinquent loan in July with $42.5 million overdue. The DoubleTree Resort by Hilton Hollywood Beach had an outstanding $55.5 million balance that was 90 days delinquent by late summer. Owners could have worked out abatement since then.

In light of the distressed debt buildup, one of O'Grady's clients is a value-add multifamily investor that has embarked on buying nonperforming loans on extended-stay hotels throughout the U.S. with plans to convert them into multifamily. The platform is looking at over 30 properties.

"Here is an adaptive reuse of a building that basically has kitchenettes in it that could be used for living quarters, and you can convert them to multifamily for affordable housing," O'Grady said, adding apartments remain more secure than hospitality. "We are already starting to see hotel properties at 30% discounts. I don't have a prediction of where it bottoms out. But for the numbers to work in converting them to multifamily, they start to work really well at 30% discount."

Flores of Saul Ewing warned against broad-brushing all hotels as distressed or struggling. Mom-and-pop hotels in less-populated areas will fare better than downtown skyscrapers, he said. The first type of hotel can be reached by car by vacationers who are avoiding airports and seeking secluded destinations. But the second type of hotel heavily relies on conventions and business travel, both of which fell off a cliff.

"If you own a hotel on the road from point A to point B between national landmarks, you are going to be OK," Flores said. "But those hotels with 200 to 400 keys rely heavily on hosting event space, then they are going to see immediate distress and will be seeking additional equity partners or assistance from their lenders to provide an opportunity to come out of this downturn in their occupancy rates. It's going to be a tough few months, tough year for those hotels."

Trickle-Up Recession

The coronavirus recession is started on Main Street but is making its way up to big business and financiers.

“Unlike other downturns that were more top down — disruptions in the banking industry or the equity markets or the tech bubble — these were effects that trickled down to the common person’s world but didn’t affect a normal, blue-collar guy’s ability to eat and pay his rent,” O’Grady said. “This is ground up.”

Even though hotels have reopened, many are booking at low rates and not all staff have been brought back. Same for restaurants.

“If you go into a restaurant, your favorite bartender, he isn’t there. He hasn’t been there since February. How long can these people hold out is really the question,” O’Grady said.

Predicting a big-picture recovery is difficult since the impact on small businesses and hospitality workers may not have fully materialized, O’Grady said. And it won’t be until people start feeling comfortable interacting again that the U.S. economy can recover and allow everyone to fully gauge the virus’ economic impact.

South Florida COVID-19 cases decreased in late May, leading counties to start phased reopenings, but they scaled back once cases increased to record-setting levels.

With hopes dashed for a return to normalcy this summer, the timing and strength of an economic recovery are big question marks, O’Grady said.

“The soft landing has turned into a rough landing so far,” he added. “The question is whether or not it turns into a crash.”

Source: CBRE Group Inc. and CoStar Group

South Florida
Commercial Real Estate Sales

Sales of office, retail, industrial and multifamily

Dollars in millions
Source: JLL and CoStar Group