



## Miami's condo development market reaches new heights

*Alternative lenders are backing the city's luxury condo boom.*

The Miami market is undergoing what is expected to be a skyline-changing period of construction as an influx of new luxury condominiums comes online. Alternative lenders are at the heart of this transformation.

Over the past two months, there have been a slew of record-setting loans in the city, including a \$668 million loan that is the largest in the history of Florida for the development of the Waldorf Astoria Hotel & Residences, funded by Bank OZK and Related Fund Management for developer PMG.

There are multiple reasons why Miami is seeing this growth in the condo market, says Charles Foschini, a senior managing director at advisory Berkadia.

"Growth in Miami has been accelerating and, during the pandemic, the city continued to see wealth migration," Foschini says. "Buyers of real estate, be it for single-family residential or condo, are looking for a best-in-class property that the city didn't have previously, and new construction is answering that need at the very high end."

Additionally, there is an older stock of existing condos which need to be rehabilitated or rebuilt. “There is a lot of concern over buildings that are 40-50 years old, and there are questions if these locations are viable,” Foschini adds.

### Long-term growth trends

There are multiple reasons why Miami is booming. There are a commensurate number of reasons why alternative lenders are backing condo development and other deals, according to multiple lenders who spoke with *PERE Credit*.

The growth being seen in the city today has its roots in the wake of the global financial crisis, when Miami started to become a more international city, says Peter LaPointe, a managing partner at national lender 3650 REIT.

“Coming out of the global financial crisis, the continued maturation of Miami started to be apparent, and we recognized this was not just an area in which we wanted to invest but others did as well,” LaPointe adds. “We saw an opportunity to establish an institutional-quality investment management company here.”

The firm, via its affiliate Grass River Property, has also been a developer in the area.

“We have been a developer or co-developer of millions of square feet in Miami, specifically in the Coconut Grove, and the real estate disciplines that it takes to be a developer are the same as what you need to be a lender,” LaPointe says. “We can slot in wherever it makes sense because we can wear a lender or principal equity hat. We ask, ‘How do we marry the right capital for our involvement, depending on the risk profile and the timeline of the investment?’”

#### Miami Nice

The city has seen a recent string of condo financings, including...

**\$600m**

construction loan for the  
Cipriani Residences

**\$527m**

for the St Regis Residences, Miami

**\$328m**

for the Baccarat Residences Miami

**\$239m**

for One Park Tower at SoLé Mia

**\$400m**

for the development of Six Fisher  
Island

There have been headline-catching moves to the city, including Citadel chief executive Ken Griffin's plans to build a 54-story office tower and former Vornado Realty Trust chairman Steven Roth's move to launch a development firm focused on West Palm Beach. But there are dozens of smaller yet equally institutional investment management firms moving into the city, notes Tony Fineman, a senior managing director and head of originations at New York-based investment manager ACORE Capital.

"You see the big names coming down here, but there is a lot of prominent institutional capital that is also coming down here," Fineman says. "There are other places that we're more cautious about, but I don't know of a stronger office market in the country than Miami and parts of West Palm Beach. There is still a tremendous amount of development going on and the capital doesn't seem to be afraid of investing down here."

Berkadia's Foschini notes it is hard to separate the condo development story from the dynamic being seen in the office market.

"The office dynamic is because brand-new product in South Florida in terms of getting the highest rents and absorption," Foschini adds. "We have always had wealth migration, but we are now seeing wealth migration with a full tax base and employment. That has created a situation where [individuals] are looking for best-in-class real estate and they're getting it from these branded high-end products."

#### Brand awareness

Partnerships between sponsors and well-known luxury brands have been a key factor in moving condo projects along, notes Luis Flores, a real estate transaction attorney with Saul Ewing who represents lenders and developers in securing construction financing in South Florida. The firm also represented PMG as it worked to acquire and develop the site of the Waldorf Astoria Hotel & Residences Miami.

"PMG always viewed that property as a trophy site and knew that they were going to have to build something that was distinctive and tall. For something that was going to be 950 feet tall, or 100 stories, it would have to be unique," Flores says. "It was important to PMG to have a luxury hotel brand as the co-sponsor, and we helped them to negotiate the agreements with Hilton for the property to be operated as a Waldorf Astoria."

As these plans were moving forward, the covid-19 pandemic hit. For a period, the project hit challenges because of inflation and higher construction, capital and insurance costs, Flores adds.

“Given these challenges, PMG was patient in choosing a lender that was the right fit. The number of lenders that can make a loan of this magnitude you can count on one hand,” Flores adds. “[The firm] fortunately had a previous relationship with Bank OZK and was able to partner with them but we were in a holding period, waiting until everything was aligned and the timing was right.”

A partnership between a traditional lender like Bank OZK and Related Fund Management, which respectively provided the senior and mezzanine financing, continues to be a common structure for deals like this, Flores says. “That was necessary for a project of this size, and having the Waldorf Astoria as our partner meant we were all working toward a common goal.”

Flores, who has been working in the Florida market for most of his career, also highlights a significant change in the way the buyers of these condo units are viewing them. “When I first started working down here, they called condos ‘safety deposit boxes in the sky.’ But there is a lot more competition now, and professionals are buying these units as second homes with the capability to offer short-term rentals.”

Another factor in getting lenders comfortable with originating condo loans in Florida is the ability of developers to use a significant amount of pre-sale deposits toward the construction of a project, says Liam Krahe, a partner at Miami-based Cohen Property Law Group.



“That is the real force driving condo development activity in Florida and it reduces the risk from a construction financing standpoint,” Krahe says. “There is a certain cachet associated with the buildings that we are seeing that allows developers to secure significant deposits, obtain fairly conservative loans and go vertical.”

Most developers are not demanding or requiring higher leverage, with Krahe estimating the loan-to-cost ratios are about 50-65 percent today. Three years ago, it was 85 percent loan-to-cost, he adds.

Krahe is seeing a greater number of private lenders entering Florida or expanding their presence there.

“Private credit has always been more expensive than institutional lenders or bank lenders. But with rate increases, private credit is basically on par with what bank financing would be. Three years ago, you’d be able to get a construction loan at 5 or 6 percent but now that same loan is 500 or 600 basis points above SOFR,” Krahe says. “Why would you go through the hassle of getting a bank loan when you could have a more efficient closing through private credit?”

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*Luis Flores,  
Saul Ewing*

### The construction angle

Regardless of where a new project is going up, construction remains challenged, says Brad Bullock, an asset manager at Atlanta-based Trimont. The advisory and special servicer provider consulting for its clients active in the space is seeing lenders find a way to move ahead with deals that pencil. There are, however, caveats.

“Lenders are finding ways to complete, especially for deals in which there is very strong sponsorship and where there is a business plan that has a real opportunity,” Bullock says. “While lending is slow, it is selective. Some of the activity we are seeing is due to the stabilization of the supply chain and cost in general.”

As there is more clarity on supply chains and costs, Trimont is seeing activity from clients seeking to originate bridge loans to take out construction loans that are maturing. “While rates were shooting up, everything was more uncertain, but now that they are leveling off again, people are more confident. I can’t predict the future, but I think we are seeing more people who are comfortable in measuring risk, or at least offsetting it,” Bullock adds.

Trimont is seeing trends which include rate cap provisions and interest rate reserves in newly negotiated loans. It is also seeing nuances around loan documents and structures, Bullock says.

“There are lenders creating some options at times when there are trigger points around a loan. Ideally, you’d like to size a loan all the way to maturity in a construction financing, but today you maybe size it in pieces to give more flexibility and push the risk out,” Bullock adds.

The most important factor, however, is lender comfort with the project and the sponsor.

“Lenders with deep understanding of the operational, development and market expertise are able to tolerate a little more risk because they feel like they can offset that risk with their expertise,” Bullock says.

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*Liam Krahe,  
Cohen Property  
Law Group*

## Outlook

Alternative lenders anticipate continued activity in Miami, which still is seeing a supply-demand imbalance for housing. This is particularly the case in the high-end condo market, notes 3650’s LaPointe.

“There is very much a demand for Class A housing in the right areas. And people, notwithstanding high interest rates, are still paying up for condo projects,” LaPointe adds.

While there are concerns about the impact of climate change, Berkadia’s Foschini and other market participants who spoke with *PERE Credit* believe developers and lenders are working to address these in new construction and renovations.

“We have the toughest hurricane codes in the country for new development, and to keep and maintain insurance, existing developments need to be recertified and have resiliency built back in,” Foschini adds. “I see it as an issue, not a problem.”

There is a larger growth story in the city that goes beyond what is happening today, market participants tell *PERE Credit*. In addition to the new office and condo development, the city has seen infrastructure upgrades which include the introduction of the high-speed passenger train, Brightline, which connects Miami to other nearby cities.

“Miami has always been a prominent city in the United States and often, when I talk about Miami, I add the fact that there are a lot of other South Florida counties that are really part of the Miami Metro, including Dade County and Palm Beach County,” ACORE’s Fineman says. “The Brightline is opening up locations in the north, like Boca Raton, and further north, to Miami being a commutable city.”

While Miami has always been an international city, there is a difference in what is going on today, Fineman adds.

“When I first came down here, Miami was not a 24-hour city. It was a place where you worked, but you lived somewhere else. It clearly is today (a 24-hour city),” Fineman says. “While there are ups and down in the past, commerce has come down here in a very big way and the real estate market sees Miami and South Florida as a real and safe place to invest and a great place to live.”