

Foreign Buyers Moving Away From Miami's Condo Scene for Commercial Real Estate

Carla Vianna, *Daily Business Review*

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Alex D. Zylberglait

J. Albert Diaz

Foreign investors are moving away from buying Miami condos because prices have gotten too high, says Alex Zylberglait, senior vice president of investments with Marcus & Millichap in Miami.

Yet, foreign capital is still flowing into the region's real estate market.

The Daily Business Review spoke with Zylberglait about why. This interview has been edited for length and clarity.

You've noticed a trend shaping Miami's real estate landscape over the past couple of years: When condo sales to foreign investors begin to decline, commercial real estate sales to foreign buyers go up. Why is that?

For decades, foreign buyers came to the U.S. to buy condos. But a strong dollar and skyrocketing condo prices has been shifting foreign investors' appetite in Miami real estate from residential to commercial.

We really began to see this in early 2015, when commercial real estate deals in Miami involving foreign capital jumped to \$2.3 billion from \$468 million in 2014, according to data from Real Capital Analytics.

In 2016, deals involving foreign capital in Miami-Dade totaled roughly \$1.72 billion. While this number is down from last year, it remains extremely high compared to 2014, 2013 and 2012.

The volume of international investment is down this year compared with 2015. Why is that?

While the absolute numbers are down, they're still very strong. Part of it relates to the fact that the dollar has strengthened against foreign currencies. That has caused somewhat of a pause or slowdown.

Nevertheless, the numbers are still healthy. The fact that financing has been available to international buyers more so than in the past has fueled strong foreign investment activity, as buyers are able to leverage their equity and increase their purchase power.

Miami's real estate market has grown beyond its luxury condo offerings. What drove this evolution?

As the condo pricing got significantly out of balance in mid- to late-2014, we began to see a lot of foreign buyers saying, "I would rather own a commercial asset that's going to give me more predictable cash flows and a higher appreciation potential."

Investors who traditionally stuck to the residential market noticed that demand for commercial property was outpacing supply. We began seeing a migration of residential investors into the commercial sector.

Between 2009 and 2014, the volume of commercial sales to foreign investors ebbed and flowed, ranging from \$71 million up to \$714 million. A noticeable shift took place in 2015, when foreign buyers invested over \$2 billion in the region's commercial sector, simultaneous to a softening in the condo market. That tells us that foreign capital isn't really leaving Miami, but rather changing the type of asset.

For example, I'm working with an Argentinian investor who stopped buying condos last year and is now buying single-tenant, triple-net-leased assets in South Florida. Between 2010 and 2014, he bought three high-end condos. But in 2016, he decided to stop buying condos because he perceived that prices had hit a plateau and wouldn't appreciate much more in the near future.

He's actively looking for more single-tenant assets that are easy to manage at a distance, can generate cash flow and are still increasing in value.

What notable trends have you seen in today's commercial real estate market?

We're seeing some segments of the market leveling off in terms of pricing. There has been an unprecedented growth in values up until last year. This year, we're seeing less price appreciation.

Depending on the asset and location, some will hold their values stronger than others. Those properties that are well located and tied to a good quality tenant with good lease terms are going to be selling for prices similar to last year.

However, those assets that do not meet that criteria are feeling somewhat of a pushback from the marketplace. The momentum is there, but it's not as strong as 2015.

So investors are being more careful about what they pay for assets. We are not seeing significant price reductions—it's not a major downward adjustment, but prices are getting scrutinized more and are facing slight year-over-year discounts.

Who is here and what are they buying?

We still have large interest from Latin American investors. You're seeing a combination of Venezuelans, Colombians, Brazilians and Argentinians in large part due to their different circumstances, such as the economic recession in Brazil and the chaos in Venezuela.

Foreign investors still consider the U.S., and certainly Miami, a place of safety.

They're buying all kinds of commercial properties. Many clients when entering the commercial real estate market like the single-tenant, triple-net-leased assets because of how easy they are to manage.

What about the presidential election may affect the local market?

There are going to be some people who will pause to see what happens. Others will perhaps try to get deals done before a new administration goes into office and tries to pass unfavorable legislation.

Others may see it as a positive: We have a new president that is a real estate investor himself, and he may favor the segment because a lot of his wealth is in real estate.

What is your outlook for 2017?

Next year will still be a strong year for commercial real estate.

The fundamentals are still strong. The performance of assets is going to be strong. By the end of 2017, we may start to see some changes, either politically or economically in the U.S. and other countries. That may cause somewhat of a stronger correction to values.

Miami has matured as a city, so we are a lot stronger today than we were in the last cycle in terms of economic diversity, our industries and population.

There's a lot more equity invested in assets this go-around than there was during the last downturn. Investors, especially foreign investors, have a longer term investment position.

They're not necessarily looking to get in and out. Those looking to come in and score a strong profit on a quick basis are going to have a difficult time doing so. For those reasons, we're well positioned to withhold a market correction.

The industrial, retail and office sectors are going to do well. Businesses are going to be investing more as they'll begin to feel more confident in a pro-business environment.

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