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# Perceived stability

Foreign money funneled into local properties

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When it comes to Europeans, Latin Americans, North Americans and Asians, it is different investment strokes for different folks.

When Spanish real estate giant Testa Inmuebles En Renta wants to invest in South Florida, it goes for the big-ticket trophy towers.

Last year, it plunked down \$65 million for the 200,000-square-foot 1401 Brickell office tower in the heart of Miami's financial district.

Contrastly, British Virgin Islands-based investor Astra Fund pools money from about 100 investors - mostly from Venezuela - into nine different properties around South Florida.

The fund funnels \$150,000 to \$200,000 from each investor into an investment trust, which then buys condos, land and office condos. These short-term investments are designed to yield aggressive returns.

While the tactics are diametrically different, they are both common ways in which foreign investors dive into South Florida commercial real estate market.

As South Florida booms and the socio-political climates abroad - especially in Latin America - flounder, foreign investors are flocking to place their money in what they perceive as a safe haven.

And while the residential real estate market has slowed, the commercial market, particularly the office sector, is booming.

It is being fueled largely by money from places as close as Mexico and Canada and as far away as India and Israel.

"Investors come here because there's a perception of stability," said Dan Carlo, senior managing director of Holliday Fenoglio Fowler in Miami. "It's inherent in anything you would invest in the United States. You know you don't have country risk."

According to estimates from several area brokerages, foreign investors own between 10

percent and 20 percent of metropolitan Miami's commercial real estate.

For companies from Spanish-speaking countries, Miami's appeal as a leading gateway to the United States is obvious.

"We think it's very comfortable to work in Miami," said Alfonso Badias, Testa Inmuebles En Rentas real estate director. "It's not only the language. The culture is very similar. It's the best place to start to go to the U.S. market."

Testa also purchased the Mellon Financial Center on Brickell Avenue in 2002 and specifically targets prime, Class A property that it can incrementally develop during the next 10 to 15 years.

Generally, real estate in Miami is more liquid than other parts of the country. The high volume of construction and transactions means plentiful opportunity to buy and sell.

The availability of warehouses also provides a practical entry point for small and mid-size foreign businesses.

"These entrepreneurs have seen the opportunity to acquire real estate where they're going to have an office, have a warehouse area for the distribution of their product and to house their inventory," said Tere Blanca, senior managing director of Cushman & Wakefield. "Warehouses are more user-driven than investor-driven."

Finally, Miami is hot because property is at a premium. The scarcity of available land, coupled with rising construction costs and longer building timelines, translates into high demand for existing buildings, according to Blanca.

"Any existing product that presents itself as an opportunity is going to drive a lot of interest from buyers all over the world," she said.

These buyers come primarily from Europe, Latin America and Canada. The most active countries are Venezuela, Colombia, Ecuador, Mexico, Germany, Spain and England. According to Nicholas Perez, operations manager of the Astra Fund, foreign investors' strategies tend to be twofold: to secure a large chunk of capital in safe, long-term holds and gamble smaller sums on riskier deals.

Investors who place millions of dollars in U.S. real estate must conduct painstaking research into local market indicators, trends and conditions.

### Steering away from residential

With the residential market slowing, many foreign buyers are steering their euros, dollars and pesos away from residential real estate and into office and warehouse markets, said John Burford, VP of the International Bank of Miami.

But no amount of research can replace having local feet on the ground.

"Most people think it's a guy who goes here on a plane and has a bunch of money that he can spend on real estate," said Paul Cohen, an industrial investment specialist for CB Richard Ellis. "What you find is that, in commercial transactions, that's not the case. They have local representation here."

Pricey, institutional-grade buildings are usually purchased by large foreign companies with broad access to the South Florida market and possible plans to expand operations into the luxury offices they buy.

Meanwhile, purchases in the \$5 million or less range are often facilitated through companies such as Astra Fund, which operates from Miami, but travels abroad to recruit and advise its investors.

"They have a local guy here who knows the market, knows the business," Cohen said. "This guy puts the deal together. He flies down, meets with investors and goes back and they buy the property."

One such property is the Dolphin Park of Commerce, a 111-unit office condo and warehouse project now going up in western Miami-Dade County.

J. Brett Houston, a principal for developer REMS Group, said about 20 percent of the park's buyers are foreign investors.

Foreign investors are also expressing interest in REMS Group's newest project, a mixed-use complex south of I-595 and west of Nob Hill Road in Davie, Houston said.

Nonetheless, foreign investors still face significant barriers to South Florida investing.

Aside from a competitive disadvantage and the general lack of available property insurance, foreign investors also have trouble securing large bank loans, Burford said.

As a result, foreign investors must come up with half the deal equity up front.

This prompts many foreign companies to partner with local investors able to pass bank underwriting criteria, said Jonathan Gelman, a real estate attorney with Greenberg Traurig.

In fact, the law firm's Brickell Avenue building was acquired using this tactic in September. British real estate company PRUPIM partnered with Chicago-based Equity Office Properties Trust to acquire the \$111.8 million tower.

And foreign investors are likely to continue to be a major player in South Florida's competitive real estate market.

"I think foreign investors are here to stay and are pretty committed to this market," Burford said. "Over time, you'll see more and more people investing in South Florida because it's still a really high-growth area, the unemployment rate is low and the rents are decent."