

## Condo Construction Financing Making a Slow but Steady Comeback in Miami

*By Balazs Szekely, Associate Editor*

Miami—The recent recession hit the real estate industry hard. Miami's multifamily residential construction scene was no exception; however, the condo market is beginning to bounce back. In the last condo boom, many lenders were left with no choice but to foreclose on condo developers who were unable to pay back their construction loans. Buyers sometimes put down as low as 5 percent deposits, with developers leveraging close to 90 percent of the construction cost, passing the risk to the banks and fueling a bubble.

In this cycle, the bulk of the condo construction in Miami is financed with developers' equity and condo deposits, and buyers are putting down between 50 and 70 percent deposits in cash prior to closing. Most of this money goes to construction, and the return of the lenders underlines the strength of the market.

Blackstone lent \$120 million recently to a partnership led by GTIS Partners to fund the 51-story Biscayne Beach condominium tower in greater downtown Miami. Blackstone also granted a \$290 million construction loan in August to help fund the 8.7-acre Surf Club in Surfside. Back in February HSBC Bank helped fund Saxony Hotel and Faena House in Miami Beach with a \$300 million construction loan.

A consortium of banks led by Regions Bank also issued a \$160M construction loan to help fund the 47-story Mansions at Acqualina condo tower in Sunny Isles Beach last February. Miami attorney James W. Shindell, chair of Miami-based Bilzin Sumberg's Real Estate Group, represented the project in securing the loan. "Currently, developers in Miami are asking buyers for 50 percent deposits prior to closing so that money becomes equity, making these projects safer to banks. Most of the buyers are foreign nationals who are familiar and comfortable with this deposit structure, and lenders like to see that level of commitment," Shindell says. "We are barely seeing any of this money flow into secondary or tertiary locations as it happened before the crash."

Another example is Melo Group's project, the construction of greater downtown Miami's 38-story Bay House, which was supported by a \$39.2 million loan from Florida Community Bank. The development is close to completion and the company is poised to start construction of Aria on the Bay, which is also in downtown Miami. Just like Schindell, Principal Martin Melo of Melo Group sees a great deal of caution being exercised by lenders, but he is also surprised by their reaction to the increased ratio of deposits. "When we began asking buyers to put down 50-percent deposits in 2011, we didn't know our deposit-model was going to open up the capital markets for construction financing for the Miami condo market, one of the most affected by the recession. Until then, banks were not touching new condos," he says.

In October 2013, Regions Bank lent \$43.1 million to the developers of the 230-unit 400 Sunny Isles in Sunny Isles Beach. Daryl A. Shevin, chief financial officer of Miami-based 13th Floor Investments—the firm that is currently building 400 Sunny Isles and 1010 Brickell, another luxury condo project in Miami—says that in the current cycle, in the majority of cases most or even all of the required 40-70 percent deposits are due by the groundbreaking date. “We have seen banks show an appetite to lend in the range of 50-60 percent of value and 40-50 percent of cost. The use of deposits has drastically reduced this figure as, in the last cycle, some developers sought (and received) loans up to 100 percent of the cost of their asset,” Shevin claims.