

Real Estate Investment Firm 13th Floor Evolving Into National Player

By Paola Iuspa-Abbott

Daily Business Review July 10, 2013



Arnaud Karsenti
Photo by J. Albert Diaz

At the height of the recession when dealmaking was just a memory, a small investment group was quietly amassing a diverse portfolio of heavily discounted real estate across South Florida.

Called 13th Floor Investments LLC, the company bought below replacement cost, added value to the often unfinished projects and resold them for hefty profits. The deals were complex — often involving foreclosures and the purchase of notes — and risky, said 13th Floor managing principal Arnaud Karsenti.

"You were virtually buying pieces, and you had to put the pieces back together and hope you were left with something that was more valuable than just the pieces," he said. "The exercise of putting the pieces together created the value."

That model worked well in a market flooded with distressed properties. But as the economy improved and real estate values recovered, 13th Floor had to evolve to survive and grow.

Since then, Karsenti has reshaped 13th Floor to become an investment boutique firm with its own fund.

"We just launched our second fund," he said. "It is about a \$100 million program, which has the objective to acquire and develop opportunistic real estate throughout Florida."

Some observers have seen 13th Floor mature into a notable regional player.

"He has gone from buying smaller distressed D and C apartments to being a well-capitalized company and buying marquee properties," said Holliday Fenoglio Fowler broker Jaret Turkell, who does business with Karsenti from time to time.

The company is actively buying real estate in some of the region's hottest markets, including the Brickell area, South Beach and the Design District.

Its high-profile acquisitions include a 20,000-square-foot retail and showroom building under construction in the Design District. His company bought the project at 3650 N. Miami Ave. in May. In December, 13th Floor in partnership with Miami-based Integra Investments, managed by Paulo De Melo, acquired a 13-building rental community in Bay Harbor Islands. The partners plan to redevelop the portion of the property facing Biscayne Bay.

Last year, 13th Floor in partnership with Miami-based Key International Inc. acquired a development site steps from Brickell Avenue. A 316-space parking garage on the property at 1025 SE Miami Avenue Road will be demolished to make room for a high-rise. The garage is within walking distance of Mary Brickell Village, the area's entertainment hub, and the mixed-use Brickell at CityCentre now under construction. In August, 13th Floor

partnered with Key International to buy a marina and the future home of a luxury condo tower in Sunny Isles Beach, now experiencing a mini-condo boom. Most of the 230 condos at 400 Sunny Isles are pre-sold. They are currently selling for \$500 to \$600 per square foot, and construction is set to start this year.

INVESTMENT STRATEGY

Karsenti said his company may have evolved with the market, but the acquisition strategy is the same: buy cash-flowing properties with cash below replacement costs.

"We buy cash, and we only put debt on a property when the business plans call for it," he said. "We want to make sure that we can own the deal all cash and it works."

He looks at a return "north of two times" the initial investment, which can be achieved in a short time by flipping a property or throughout the life of the project, he said.

While his investment strategy remains the same, what is different from the past is how the company adds value to nondistressed acquisitions.

"The nuance today is to buy properties that have some form of upside development component," he said, adding it could mean a zoning change to allow a new project or changing the use of a property from residential to commercial. "That's where you are creating your return today."

During the recession, 13th Floor added value by completing unfinished residential communities or securing permits for tracts of land and reselling them to investors or home-builders like Lennar Corp. and D.R. Horton Inc.

With values soaring as investors from around the world chase South Florida real estate, Karsenti is known for going after off-peak deals.

"In today's market, finding value isn't as easy as just looking at a list and saying, 'I want these three assets,' " he said. "A lot of times, it is finding the special situations and buying out partnerships or finding situations where someone requires capital. As a fund we are also provider of capital. So a lot of times we structure deals where we provide debt or become equity partners."

As soon as 13th Floor finds a property that meets its criteria, the next step is developing the structure "in which we are going to invest," Karsenti said.

That could include buying a majority stake or providing loans that convert to equity.

MANAGEMENT CHANGE

As the market changed and 13th Floor sought to adapt to the times, its management also changed.

The company was founded in 2007 by Karsenti and partner Robert Suris. The pair met in 2003 buying and selling Little Havana real estate to each other. They complemented each other, with Karsenti's skills centering on valuing, structuring and capitalizing deals. Suris' strength was decades of experience in construction and a feel for what would sell even during a challenging housing market.

But as the real estate market recovered, the partners had different objectives for the company. Suris started State Investment Group LLC in January, focusing more on buying land to develop or getting it permitted to resell to national home buyers. He also buys and builds apartment buildings.

"I wanted to build more of an investment real estate firm, and he was more focused on building and construction," Karsenti said, adding they still manage several assets together.

Suris said 13th Floor was increasingly becoming more of a provider of capital and debt, and he wanted to "go more into the actual development, construction and entitlement" side of real estate.

Karsenti's company now has a management team consisting of Michael Nunziata and Jacob Roffman, vice presidents who focus on acquisitions; Rey Melendi, the COO formerly with Rialto Capital Management LLC in Miami Beach; and CFO Daryl Shevin, formerly with White Barron Asset Management LLC in Miami.

Some real estate experts who have done business with 13th Floor admire the team.

"That type of intellectual capital is often seen in large institutional players," said Peter Mekras, senior vice president of the Continental Real Estate Cos. in Coral Gables. "That team structure allows them to take advantage of the deals that may fall below those institutions' radar screens and capitalize."

Mekras said one thing makes 13th Floor stand out from its competitors.

"The team has discretion over their capital," he said. "There are very few people who gained discretion over capital and have control over it."

The team is also "willing to roll up their sleeves" and become hands on, finding the best way to structure the deal, said Mekras, who has invested on deals with 13th Floor as a limited partner.

Mekras said Karsenti reacts quickly to an opportunity that requires a partner.

"He has a unique ability to navigate the market," he said. The company "looks at different opportunities and needs to have a myriad of different operating partners and collaborative influences in order to react very quickly and make smart decisions."