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Foreign Investment Roaring Back To Miami

By Deirdra Funcheon, Bisnow South Florida

Foreign investment in the U.S. may have slowed down during the coronavirus pandemic, but it didn't disappear, and it's been growing since international travel picked up, Miami real estate experts say.

Related Group Condominium Division Managing Director Patrick Campbell said that as the coronavirus shook the world in 2020, investor demographics changed.

"There was no South or Central American buyer. It was all from the Northeast, Chicago, California," Campbell said. "In the past three months, it's really changed. It used to be 90-10, but now it's switching to almost half and half."

"There's been a huge wave of people coming here for the vaccine," Campbell said.

It isn't uncommon for foreign investors to stay for a few weeks and shop the market, he said, and investors have been relying on relationships with brokers they trust, and people who have previously bought from Related have been seeking out its new products, especially in the under-development Baccarat Residences Brickell and District 225, a property that was explicitly designed for hosting on Airbnb.

"It's their mentality," Campbell said. "They can come when they want to use it, and it's an investment — like a condo-hotel without being a condo-hotel. Sales have been tremendous."

Melo Group principal Martin Melo is building Aria Reserve Miami, which at 62 stories is set to be the tallest waterfront residential twin towers in the U.S. Melo told Bisnow that his team has sold 30% of the first tower's 391 units in the five weeks since sales launched, with about half of buyers coming from overseas.

"We're seeing strong demand from international buyers in countries such as Mexico, Colombia, Argentina and Peru who are attracted to our waterfront location, large residences, unique amenities and unmatched price point," he said.

The National Association of Realtors' International Transactions in U.S. Residential Real Estate report, released in July, found that the dollar volume of U.S. existing-home purchases by foreign buyers dipped during the pandemic (from April 2020–March 2021) by 27% to \$54.4B. Foreign buyer purchases accounted for 2.8% of the \$5.8 trillion of existing-home sales, a decrease from 4.4% the prior period.

NAR's 2021 Commercial Real Estate International Business Trends report found that foreign buyer

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purchases decreased across all commercial property types, with the biggest pullback in the office, retail and hotel sectors — those most directly affected by the pandemic and its resultant shutdowns. Of all states, Florida drew the largest share of foreign buyers for both residential and commercial property.

Rodolfo "Rudy" Leonart is executive vice president and managing director of community banking for the Florida market at First American Bank, a family-owned bank headquartered in Illinois that is expanding to focus on Latin America and the Caribbean. Leonart said international buyers didn't endure many foreclosures during the pandemic. Generally, if clients were wealthy enough to be banking in the U.S., they were wealthy enough to hang on, he said.

"The loan-to-values, on average, usually with foreign buyers are under 50%," Leonart said.

Banks also usually require international buyers to have escrow accounts with reserves equal to six months' or a year's worth of loan repayments. His bank requires an in-person meeting to open an account, and standard background checks are routine.

Both Campbell and Leonart said they are seeing an uptick in clients from Mexico, Colombia and Peru. As long as political situations are volatile in Latin America, its wealthy citizens will continue to see the U.S. as a haven for capital, Leonart said.

"Activity from Peru has particularly ramped up lately, while Mexican buyers have been active throughout most of the pandemic," Astor Cos. founder and CEO Henry Torres said. "Peruvians are eager to get their money out amid the current political upheaval, as a Marxist Party candidate just became president and appointed a party member as prime minister. Peru's currency just hit a record low and had its largest daily decline in more than seven years. Anyone in Peru with means is seeing what can be purchased quickly in the U.S. Colombians are slowly beginning to resurface as well."

Torres said that for Merrick Manor, his condo project in Coral Gables, his team counted 27 internet leads in the first seven months of 2020 but 335 in the first seven months of 2021, most during the past two months, which lines up with the election and currency decline. Some Peruvian buyers have even been seeking to buy multiple condo units, he said. His team is working with affiliates in Latin America to help some sell their homes and move capital.

"In recent months we've had nearly 40 sales to international buyers, whereas in the previous year during the same time period, we had six international sales," said Kari Fernandez, vice president of sales for OKO Group and Cain International's luxury towers Missoni Baia and Una Residences. "While Mexico remains our strongest international market, domestic buyers still dominate at our developments."

Buyers were also coming from Brazil, she said.

The EB-5 program has been popular with foreign buyers. It awards U.S. visas to investors and their family

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members if they invest certain amounts into U.S.-based projects that create at least 10 jobs.

There were two ways for international investors to take part: via "regional centers" that match investors to projects or directly into a chosen project, which can be more hands-on. In the wake of the Great Recession, when traditional lending dried up, EB-5 funds provided tens of billions of dollars for construction of commercial projects.

When investing via regional centers, investors took a mostly passive role, and when it came to tallying the number of jobs the project created, direct jobs (like workers at a newly built hotel), indirect jobs (a cleaning company contracted by the hotel) and induced jobs (at restaurants next door to the hotel) all counted. Conversely, via direct investing, only direct jobs are counted.

According to Saul Ewing Arnstein & Lehr attorney Ronald Fieldstone, EB-5 investment dropped in 2020. It was expected to because shortly before the pandemic hit, new rules were passed that raised the threshold for investing via regional centers from \$500K to \$900K.

On June 22 of this year, a key U.S. District Court decision vacated those new regulations, and there was a rush to once again get in for just \$500K. But days later, on June 30, the whole EB-5 regional center program lapsed because Congress failed to reauthorize it.

Experts expect the regional center program to be reauthorized, possibly in September and likely by the end of the year, but in the meantime, the market has turned to the direct EB-5 program, which also requires just \$500K. Because of the way job creation is counted, it is bumping up interest in labor-intensive asset classes such as restaurants, assisted living facilities and even some children's education facilities, Fieldstone said.

"Traditionally, within the last decade, direct EB-5 has accounted for less than 5% of all EB-5 cases," Fieldstone said. "Right now, since it is the only option, those numbers are sure to get skewed and hundreds of cases are expected to be filed in the coming months."