

Developers voice caution on Cuba

Even as D.C.-Havana relations thaw, builders see hurdles to investing on island

BY NICK MADIGAN

When President Barack Obama declared almost a year ago his intention to restore diplomatic ties with the Cuban government, there was great excitement among American developers and investors about the possibility that the Caribbean island, crushingly underdeveloped and long isolated from the bounties of capitalism, would deliver a gold mine of opportunities.

The initial euphoria, fueled by visions of a crumbling Havana transformed into a glamorous, latter-day Miami Beach, soon gave way to harsher realities. Despite a considerable loosening of restrictions on commerce, investments and travel between the two countries, some announced just in September, the United States' 53-year-old economic embargo on Cuba remains firmly in place, and Republicans in Congress have vowed to keep it there while they can.

For developers in South Florida, the enticements of nearby Cuba are also tempered by the fact that, even if the embargo were lifted tomorrow, the Communist government doesn't make it easy to set up shop on the island.

"The biggest issue is the legal ownership of land," said Carlos Rosso, president of the condominium division of the Related Group. "All the underlying land rights are owned by the state today."

Like other developers, Rosso admitted to having considered Cuba as an option, even if it is not yet practical. "Change will take some time, but it will happen," he said.

Less optimistically, Javier F. Aviñó, a partner in the land development and government relations team at the Miami law firm Bilzin Sumberg, said any large-scale investment in Cuba by U.S. real estate developers is a long way off and riddled with obstacles.

"Everybody has Cuba on their radar, but they're looking at it very cautiously," Aviñó said. "It's a high-risk situation. The system in



Bryan Ledgard

Cuba has a wealth of older buildings that could be renovated to lure tourists.

Cuba is completely different from what we're used to. It's all government controlled, so you don't have a lot of recourse if a deal goes bad. That's the kind of thing a real estate developer is not accustomed to."

Making matters even more tenuous, the country's banking sector is not remotely comparable to that of the U.S. or other developed nations and can barely support the kinds of transactions necessary for international real estate deals, said Aviñó, who was born in Miami to Cuban immigrant parents. Cuba's physical and economic infrastructure is greatly underdeveloped, with Internet access available to only a tiny portion of its 11 million people, he said. Poverty remains rampant.

Yet U.S. enterprises such as Netflix, American Express and Airbnb have forged ahead with plans to establish a foothold in Cuba, following the example of overseas corporations such as Meliá Hotels International, a Spanish chain that has run resorts in Cuba for 25 years. American hoteliers, as well as airlines and cruise operators, want to get in on the action, too.

Investment in repairing hotels, restaurants and commercial property ranked

among the fastest growing sectors of the Cuban economy in the past nine years, and the number of Cubans working in the private sector has more than tripled since 2008 to nearly half a million last year, according to a New York Times article in September.

"Yes, there are opportunities, but hold your horses," said Eddy Arriola, chief executive of Apollo Bank in Miami. "If the Castros die, almost immediately the dominoes start to fall, but who's in charge? It becomes easier to go in there, but by how much?"

Arriola, 43, whose parents were born in Cuba, serves as chairman of the board of the Inter-American Foundation, an independent U.S. government agency that aims to support grassroots development in Latin America and the Caribbean. Cuba is not yet a good candidate for the agency's efforts, he said.

Among the biggest challenges confronting real estate investors there, according to Arriola, is the prohibition on projects operated independently of the island's Communist overseers. "It's very hard to do a joint venture with the Cuban government," Arriola said.

"Your joint-venture partner controls the utilities, the workforce, and the road you came in on. The same government that controls the court system is the one you're in business with. If I'm a real estate developer, how early do I go in? How much risk do I want to take?"

"None," said Stephan Gietl, co-founder of Miami-based McKafka Development Group, who learned about building in places formerly under Communist rule while developing a 1 million-square-foot shopping center in Prague a decade ago. The post-Velvet Revolution government of the Czech Republic adopted a reliable legal system and in 2004 joined the European Union, with its across-the-board regulatory strictures. No such actions are in sight for Cuba.

"I see no benefit to going in there," Gietl said. "To be successful in closed economies, you need to be insanely well connected. If you come in as a developer and want a building permit, you have to build relationships.

"People don't do you a favor for free," he continued. "And when you hire people, you don't know if they're going to betray you."

Another major stumbling block, developers say, is the more than \$7 billion in claims against the Cuban government that are still pending on properties and businesses seized by the Castro regime after the revolution.

Miami lawyer James Gueits, whose grandfather abandoned his Havana car dealership when he left Cuba after the revolution, said the property claims issue could bedevil the attempts of developers trying to build on the island because they

would tend to avoid properties whose ownership is in question.

Gueits, who handles litigation for clients with business interests in the U.S. and Latin America, said many South Florida business owners are concerned that investing in Cuba could harm key relationships in Miami, where many Cuban exiles take a dim view of anyone pursuing development on the island.

"You wouldn't want to step out and do something there that would cause some reputational blowback," Gueits said. "It's a complicated emotional thing."

For those taking the leap, Cuban officials have made it clear they don't plan to change their single-party political system and centrally planned economy, according to Mike Periu, a Miami consultant to small entrepreneurs who has conducted extensive research about Cuba's business outlook.

"The state will continue to micromanage the economy," Periu wrote in February on the American Express site Open Forum, noting that the Cuban government has a "poor track record" as a borrower and business partner. In the past five years alone, he wrote, Cuba's debtors have written off more than \$40 billion in debt as uncollectable.

Still, if some of these obstacles are ultimately removed or at least reduced, developers would have plenty of choices.

Christian Beaudoin, national research director for Jones Lang LaSalle, said the metropolitan Havana area could easily absorb an additional 500,000 square feet of new office space. The hospitality sector shows the most promise, he said, adding, "There's incredible potential there." Cuba has almost 63,000 hotel rooms in service today, with an additional 3,000 planned or under development, he noted. "It's a real opportunity for a property developer who is willing to go into that sector of the market and take on the risks and the restrictions that hotel chains like Meliá have done."

Marc L. Miller, who serves as Florida research manager for JLL's office in Fort Lauderdale, asserted that the "handful" of hotels already operating "aren't really up to snuff."

Nor is the rest of Cuba's infrastructure "on par with what the rest of the world considers the modern age," Miller said. "It's



Edele Rodriguez

Cuba has tried to promote its oceanfront Malecon Drive, popular for walking, but little development has resulted.

a very limited economy in terms of consumer expenditure or retail-related development potential. Yes, it's an untapped market, but there are a slew of untapped markets that are more stable, more transparent and that have more of an infrastructure."

In a June research paper titled "Navigating the Uncharted Waters of Doing Business in Cuba," Miller wrote, "Before Cuba becomes an attractive investment opportunity for U.S. companies, and particularly developers, greater transparency about laws (particularly real estate laws), upgraded logistics and banking infrastructure need to be established, and some form of ownership insurance would need to be in place."

Many of the obstacles to investment in Cuba remain intractable, according to Kabir Sehgal, a former JPMorgan Chase vice president. "For U.S. firms to get comfortable investing in Cuba, the embargo will need to be lifted, and there must be a resolution to the \$7 billion in claims," Sehgal wrote on CNBC.com in July. Even then, he wrote, U.S. companies will still need to gain approval for projects from the Cuban regime.

Developers are also wary of working in a system where public officials often demand bribes and legal protections are suspect, said Alan Lips, a partner at the Miami Beach accounting firm Gerson, Preston, Robinson & Co. who specializes in tax planning for companies moving to South Florida.

"With so much still unknown, investing in Cuba makes the wild, wild West look tame," Lips said. **TRD**