

Miami Developers Look To Cash In On Chinese Market Crash

Law360, Miami (July 22, 2015, 5:58 PM ET) -- Chinese investors seeking a safe haven in the face of their home stock market's recent crash are drawing the attention of Miami real estate developers on the hunt for new sources of money, a relationship that could provide the capital needed to sustain the rise of luxury condominium towers in the city's downtown.

China is still in many respects a world away from Miami, not yet connected by direct flights, but local developers have definitely turned their gaze — and marketing efforts — to East Asia and its largest player, those involved say, and the city has much to offer those investors, from climate to culture to value.

“I think it's really ramped up even in the last six months, and every month it is growing exponentially,” said Vanessa Grout, president of CMC Group, which is developing the Brickell Flatiron luxury condominium project downtown. “In the past few weeks, with the volatility [in the Chinese stock market], we have seen an increase.”

Foreign investment has played a key role in Miami's real estate development market for years — especially its rapid climb from the depths of the Great Recession — but the U.S. dollar's gains over the past three years against every South American currency as well as the euro and the Russian ruble have caused those sources of capital to dry up considerably, along with their buyers' being prepared to put down preconstruction cash deposits of up to 50 percent for luxury condominiums.

Standing in contrast to those trends is China, where the yuan has increased in purchasing power by 7.7 percent against the dollar over the same period, according to a report authored by Integra Realty Resources for the Miami Downtown Development Authority earlier this year.

“This has the potential to be a significant market driver in 2015, as the Chinese have been showing increased interest in the Miami real estate market with a continued push to increase air transportation and business relations between Chinese investors and South Florida,” the report said.

A leveling off of prices in 2015 has opened the door somewhat to domestic buyers, especially from the Northeast, the DDA report said, but many luxury projects remain out of reach for local buyers and are still dependent on 50 percent deposits before developers greenlight construction.

“There are a lot of high-net-worth individuals in China,” said Javier Avino, a partner in the land-development and government-relations group at [Bilzin Sumberg Baena Price & Axelrod LLP](#) and co-chair of the firm's international group. “It is a market you didn't previously have, so it becomes another available source.”

Economic Rollercoaster

That new market and wealth is the result of dramatic growth in China over the past five to 10 years, but in the wake of the 30 percent drop suffered by the Chinese stock market earlier this month, there are comparisons to be seen in the recent booms and busts in the U.S. economy.

“There is all of this excitement of a massive world economy,” said Alan Lips, an accountant who works closely with developers to structure foreign investment opportunities as a partner with Miami-based Gerson Preston Robinson. “It gives you a real indication of this wild market with everybody jumping in with their eyes closed.”

Seeing similarities to the U.S. real estate market before 2008, Lips said there are two directions China's economy can go: The stock market may really be crashing and will continue to decline, or so much money will be pumped into the economy that decline will slow or growth could even continue.

Either way, the recent tumble has raised concerns over future volatility.

“Always when these things happen you see a massive influx of money into the U.S. markets, whether investments or real estate,” Lips said, noting Miami has a history of benefiting from economic and political turmoil in Latin America, and has potential to see a similar effect in relation to China.

“It's like this economic rollercoaster,” he added, noting that when foreigners' home markets are enjoying highs, the focus often returns to business at home, but during lows they are in Miami or elsewhere in the U.S.

Avino is less certain that the recent market developments will have an immediate impact on Miami, explaining that a lot of the Chinese investment in the U.S. has been focused on the long term and what took place this month in the markets, in conjunction with [government reaction](#), may prove to be more of a readjustment after such a rapid ascent.

Certain Chinese high-net-worth individuals can move their money to what are perceived as safer U.S. investment and real estate markets, “but that will depend on their ability to move the money [out of the country] in the first place,” he also noted.

Multifold Appeal

Miami is certainly not the only city looking to capitalize on Chinese investors' interest in U.S. real estate. Chinese buyers recently surpassed Canadians as the top foreign buyers of U.S. homes, purchasing \$28.6 billion of properties in the 12-month period ending in March, according to the [National Association of Realtors](#).

New York, Los Angeles and San Francisco remain at the forefront, and Grout, who recently made a sales trip to China, noted that many prospective buyers mention Chicago and Houston ahead of Miami as desirable places to live, which she attributes to those cities' direct airline connections to China.

Nevertheless, Miami is gaining attention for a number of reasons. There is its favorable climate, which has attracted transplants for decades, and its cultural and entertainment offerings, which have made great advances in recent years.

“Everywhere you go, when people hear you're from Miami, they're fascinated,” Lips said. “Miami has changed over the last six, seven years. It's matured. It's grown culturally. There's just an automatic draw to Miami for people.”

The city's multiculturalism is also a positive for attracting foreigners.

“When you come to Miami, wherever you're from, you fit in,” Lips said.

But beyond the sunshine, beaches and nightlife, Miami offers several financial advantages, too.

“This is such a tax-friendly state, that I think Miami is really starting to take some of the market share from some of the other markets,” Avino said.

Indeed, the Miami DDA report cites the Knight Frank 2015 Wealth Report's Global Cities Survey, which found only two U.S. cities ranked in the top 10 for global investment — New York and Miami.

“Miami’s inclusion reinforces its fast-growing transformation as not only an outpost for doing business in Latin America, but also secures its position as a global destination for ultrahigh-net-worth investment,” the DDA report said.

Miami real estate also presents a great value compared to the more traditional U.S. markets, with prices generally a third of New York’s, Grout said. Miami also offers new construction and a greater variety in those projects, which is a big draw to the Chinese buyers.

“I think looking at the value, they’re initially shocked, and they’ll say, ‘Wow, that’s cheap,’” she said. “That’s great that they think that.”

In Many Forms

Concerns over China’s economic outlook should only make America’s EB-5 investment visa program more enticing to the Chinese, especially as it grows more sophisticated or if the government opens it up more, Lips said.

“It’s completely a safe backup for them,” he explained. “If something goes wrong in China and they need a safe place to go, it’s the U.S.”

The program has been massively popular with Chinese investors because of its automatic path to a green card for themselves and family members. Developers have found ways to bring EB-5 investments, which must include proof that they created a number of jobs to qualify, into real estate by getting their development projects EB-5 approved, Lips noted.

The result has been very low-cost money for developers, at rates better than banks are offering. Whether raised as equity or debt, it does not matter too much to the builders pursuing it because the cost is so low, Lips said.

Avino agreed that when a market is in turmoil, investors are going to want to look to the U.S. and “folks here are going to try to take advantage of that, especially if there is change from the Chinese government that wouldn’t allow them to do it later.”

Grout has seen that urgency in person, with potential condo buyers suddenly calling and saying they will

be in Miami in two days to meet in person.

Looking to the Chinese as condo buyers is a recent phenomenon for American developers, Lips said, because they were never significant players in that market.

For now, most Chinese condo buyers are investors, with their primary concern the return they will get on rentals, but Grout said she expects the interest for end users, which is just beginning to pick up, to grow considerably.

That's an area where Florida's lack of income tax really comes into play as more Chinese look to relocate, and direct China flights to Miami International Airport will be a key to success, she noted.

Miami has also recently seen more direct Chinese investment in the form of land acquisition. Chinese investors, including American Da Tang Group and China City Construction Holding Group Co. recently acquired the former "Capital at Brickell" site just west of Brickell Avenue, with reported plans for a mixed-use high-rise project in the works.

And while Chinese land investors are likely to partner with local developers to fine-tune their projects, Avino said there is a good chance that in targeting investors and purchasers, they also will turn to China.