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From the South Florida Business Journal:

<https://www.bizjournals.com/southflorida/news/2020/12/24/2020-real-estate-market-review.html>

2020 Market Review: Real estate experts anticipate post-pandemic recovery

Dec 24, 2020, 7:00am EST

There were many frightening months in the South Florida real estate sector in 2020 amid the Covid-19 pandemic, but experts expect the market to bounce back.

Just how quickly that recovery occurs depends on the type of real estate.

Single-family homes and industrial properties are already thriving. Office and retail space have a cloudy outlook, depending on how much the trends of remote work and e-commerce, respectively, impact business. The fate of hotels depends on the type of visitor they serve, and how quickly they're likely to resume traveling.

Those were some of the takeaways from the *Business Journal's* seventh annual Market Review panel, held virtually and broadcast online Dec. 15

Berkowitz Pollack Brant Advisors + CPAs and First Horizon Bank sponsored the discussion, which was moderated by Senior Reporter Brian Bandell.



SOUTH FLORIDA BUSINESS JOURNAL
The 2020 Real Estate Market Review discussion took place virtually.

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Some of South Florida's top players in the areas of retail, industrial, office and residential real estate recently gathered for the *Business Journal's* seventh annual Market Review panel, a virtual affair where the experts reviewed some of the current – and future – trends impacting the tri-county region.

The spirited conversation highlighted how the Covid-19 pandemic is fueling certain real estate sectors while hurting others, and what the region's top industry could experience in 2021.

Migration helps housing market soar

Demand for single-family homes in South Florida is near record highs, with sales surging as inventory levels fall. Peggy Olin, CEO of Fort Lauderdale-based brokerage OneWorld Properties, said this has been driven by relocations from other states, particularly in the Northeast, and many members of the millennial generation finally deciding to purchase homes.

Improved virtual meeting technology has made it easier for people to move to South Florida and maintain their businesses and family ties back home, said Neil Merin, chairman of West Palm Beach-based brokerage and management firm NAI/Merin Hunter Codman. Low interest rates have also made mortgages much more affordable.

And as single-family home prices surge amid dwindling supply, many homebuyers could find condos a more affordable alternative, Olin said. This has spurred more condominium developers to plan less-expensive projects offering smaller spaces.

Another fortuitous housing trend is wealthy people from the Northeast buying both a single-family home in the suburbs and a condo on the beach or downtown to enjoy the region's fun lifestyle, she added.

"With New York condos, \$5million doesn't buy you much, while here's it's enough for a big home and they still have room to buy a beach condo," Olin said.

Office threatened by remote work

The biggest question for the office market is whether companies will extend flexible work-from-home policies, and whether that will lead to downsizing office space. Merin said most of his clients with expiring leases have decided on short-term extensions and aren't downsizing. However, a few companies decided to take less space and have more employees work from home.

"The ones I feel for are those who made a rash decision to drastically downsize their footprint," Merin said. "I believe they will regret it in a year's time when they are trying to attract talent back to their office."

Most office tenants have long-term leases, so the fallout from remote work will be felt over many years, not just the next 12 months, said Art Lieberman, director of tax services at Berkowitz Pollack Brant Advisors + CPAs in Miami.

The bright side for the office market is South Florida has attracted more companies from the Northeast, especially financial firms. Merin noted that a company like Goldman Sachs could cut its rent from \$200 to \$50 a square foot by moving from New York City to South Florida – and reduce its salaries.

These relocating companies will covet new, modern office buildings, meaning many of South Florida's 40- and 50-year-old

buildings are functionally obsolete and good candidates for redevelopment, Merin said.

Challenges for retail

Many retail tenants were hurt by the pandemic, but some are performing better than others.

Grocery-anchored shopping centers with a moderate amount of supporting retail are performing well, as grocers have reported strong sales, said Andrew Zidar, VP of development and acquisition at Sunny Isles Beach-based RK Centers, which owns retail centers in South Florida and New England. Discount retailers like TJ Maxx and drugstore chains are also doing well. Gyms suffered early in the pandemic, but many die-hard members are coming back, so business is a fraction of what it was before, he said.

Small retail and restaurant businesses have faced the most difficulty during the pandemic, so retail centers heavily dependent on them could be in trouble, Zidar said. Meanwhile, the future of movie theaters is a big unknown as streaming services capture more of the film market.

Landlords will face tough decisions at tax time, Lieberman said. They need to pay taxes on past-due rent they expect to collect, or they could write off the rent as uncollectible and not owe taxes on it, he said.

For malls, where missed rent payments have big among the highest, 2021 could be a turning point.

“The concept of an enclosed mall with five or six big boxes is a 1960s or ‘70s concept that doesn’t work anymore,” Merin said.

“People want experiential retail, and they want it to feel authentic.”

Many traditional malls that are struggling will be repurposed into mixed-use communities, he added.

The good news is leasing volume has picked up in recent months, Zidar said. With the vaccine coming out, restaurant and retail tenants anticipate consumers will feel more comfortable venturing out, so they are looking for space.

Industrial booms

One area taking off, fueled by the growth of online sales, is industrial development.

Developers are scrambling to build new warehouses in South Florida to accommodate the growth of e-commerce firms, said Stephanie Rodriguez, senior VP for the Florida region at Duke Realty (NYSE: DRE). Their goal is to have next-day delivery, but South Florida’s congested streets make that a challenge, so locations close to the urban core are in high demand.

Still, while it might seem like a good idea to redevelop struggling malls or big retail boxes into distribution centers, it's a challenging process, Rodriguez said. Such a project often requires a zoning change, and many neighborhoods don't want industrial projects, with frequent visits from delivery vans, in their backyards. Industrial also comes with a lower property value than retail, so cities may not want to lower their tax base.

Still, there's no doubt that e-commerce firms are aggressively seeking new locations in South Florida.

"Everybody is ordering online now, so they want to be where those rooftops are," Rodriguez said. "They are putting last-mile [delivery] centers anywhere they can."

Hotels await recovery

Owning a hotel now requires a long-term perspective.

While hotels that count on drive-up tourists are performing well this year, business has been down sharply for most other hotels, said Dev Motwani, president and CEO of Fort Lauderdale-based Merrimac Ventures, which develops and owns hotels. Hotels that depend on airline and cruise travel, especially, will have to wait well into 2021 for a healthy rebound as consumers feel comfortable traveling again.

"We are social animals and, while it will be slower to come back, the hospitality industry will comeback even stronger in 2022 and 2023," Motwani said. "Those who stick with it will be rewarded on the back end."

However, hotels that depend on business travel are another story and could face long-term challenges, he said. It's not clear whether substituting remote meetings for in-person dealmaking will remain the norm, he added.

As for hotel sales, those won't pick up until the second or third quarter of 2021, when owners can better understand the market trends, Motwani said. Merrimac invested in a fund to provide preferred equity and mezzanine financing to hotel owners, as that will be in demand to carry them through tough times, he added.

QUOTABLES

What South Florida real estate sectors will have a really bright outlook for 2021?

Neil Merin, NAI/Merin Hunter Codman: "The brightest outlook is single-family housing. Housing sales right now are running 125% ahead of the same time last year."

Peggy Olin, OneWorld Properties: "Single-family homes. Everyone had the dream of being in South Florida and this [Covid-19] has

really accelerated that decision. The level of prices we are seeing trading on the single-family home side and some of the high-end condos, as well, are amazing to see, and I think we will continue to see it.”

Stephanie Rodriguez, Duke Realty: “On the industrial side, institutional developers put a pause on spec development [in the first quarter]. But there was a shift in our business and an acceleration in demand, and we are pulling off that band aid and going full throttle.”

Dev Motwani, Merrimac Ventures: “With Elliot [Management], and Blackstone and Goldman [Sachs] announcing moves here, the rest will follow because they realize this is a great place to do business. That will benefit the residential market. That will benefit the office market. That’s going to benefit retail, and certainly industrial.”

Art Lieberman, Berkowitz Pollack Brant Advisors + CPAs: “You are seeing a lot of opportunity zone projects starting to come online. Leasing to businesses looking for opportunity zone tax benefits will start to trend.”

What sectors of real estate are probably going to struggle in 2021?

Neil Merin, NAI/Merin Hunter Codman: “Hospitality and retail. There will be a permanent impairment to hospitality in the business travel sector. Retail is a reimagining.”

Andrew Zidar, RK Centers: “It’s survival of the fittest on the retail side. There will continue to be fallout over the next year or two. There will be names in retail we have known for a long time that cease to exist.”

Dev Motwani, Merrimac Ventures: “We’ve always been a great hospitality and cruise market, and those markets are going to take a little longer to rebound in 2021 as people get comfortable traveling again.”

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