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More Affluent Investors Expected as South Florida's Luxury Market in Hot Demand

by Melea VanOstrand

Investment in South Florida real estate is expected to strengthen as affluent buyers are seeking to diversify their portfolios as a long-term investment strategy.

Conditions in Miami have moved from a balanced market to be more favorable to buyers, according to the latest trend report by the Coldwell Banker Global Luxury program.

Only 28% of high-net-worth buyers planning to purchase a home in the future say it would be their primary residence, while 72% said they'd get a second residence, rental property or vacation home. Florida remains the top destination for international buyers.

Hinshaw & Culbertson real estate attorneys, associate Sabrina Janeiro and partner-in-charge Ross Manella at the firm's Fort Lauderdale office, said a majority of their clients are affluent investors who are investing in multi-family housing, hotels, land, and luxury condos. The clients are mainly Canadian and European investors looking for long-term opportunities in Florida.

"Canadian and European investors have always made substantial

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investments in commercial and residential South Florida properties. Prior to the Federal Reserve's recent actions, investment funds from Canada, Israel and Europe were flowing into South Florida's commercial and residential luxury market," Manella and Janeiro said via email. "The advent of increased interest rates and the strong dollar has ultimately resulted in a decrease in the rate that funds enter the market, as investment groups are taking a more halted approach."

The luxury housing market and condo market haven't slowed much, Manella and Janeiro said, as foreign nationals still want luxury property in South Florida.

"Higher interest rates are not a major factor as most luxury buyers do not require financing, although the strong dollar may certainly be one," they said. "This will be an opportunity for buyers with cash in the United States to enter and take advantage of the commercial and residential market."

Many deals are being made in cash as record highs and interest rates cause buyers to adjust their budgets, according to both Manella and Jill Hertzberg of The Jills Zeder Group in Miami Beach, which is affiliated with Coldwell Banker Realty.

"If they are cash buyers, they may lower the price point they are looking in if the property prices are not to their liking, or if their cash was impacted by the recent stock market fluctuations," said Hertzberg.

Manella and Janeiro said they've seen many investors who have bought or made offers on vacant land because

they weren't able to find income-producing properties with reasonable cap rates.

"They are willing to assume the risks of development in exchange for higher returns. Multifamily properties have been very popular as foreign investors see this category of investment as recession-proof with little risk," they said. "Furthermore, many investors are hesitant to invest in high-taxed and regulated states such as New York."

According to a September report by the Miami Association of Realtors, the top countries searching for property in Miami include Colombia, Argentina, Russia, Venezuela, the U.K., the Philippines, China, Canada, Mexico and Spain.

There's already some activity from foreign buyers, but Eber said she anticipates there will be more in the future.

"Some of the foreign countries that were more active in the past are still hesitating due to any possible changes in COVID protocol as it relates to their home country," said Eber.

Eber said it's typical to see high-net-worth buyers hesitate before midterm elections in the U.S.

"Interestingly, they are more attuned to the results than whether there is a major change in the majority of the House or Senate, for example. They appear to just want to know what to expect," she said.

Dawn McKenna, a luxury property specialist affiliated with Coldwell Banker Realty in both Illinois and Florida, said although the work-from-home lifestyle was popular during the pandemic, people now want a change of environment.

"By owning multiple properties, they can feel like they have a little slice

of home in a variety of locations," said McKenna.

The foreign buyers Eber does see are looking for areas with qualities such as walkability, or condos with strong amenities and high-class features.

"Waterfront properties for both single-family homes and condos attract the most attention," she said. "Prime location tends to weather any fluctuation in the market and always be a good investment."

INVESTOR CHALLENGES

One growing concern for foreign investors, according to Manella and Janeiro, includes confidentiality and privacy relating to offshore entities, which is a popular investment vehicle.

"In 2016, hackers leaked millions of confidential documents from hundreds of thousands of offshore entities in an event dubbed the Panama Papers," they said. "The Paradise Papers occurred a year later and involved a data leak of millions of confidential documents relating to offshore investments. The leaks ultimately resulted in the exposure of fraudulent dealings and tax evasion schemes."

The U.S. then enacted the Corporate Transparency Act in 2021, which requires both offshore and domestic limited liability companies and corporations to disclose beneficial ownership information to the U.S. Department of Treasury's Financial Crimes Enforcement Network.

For attorneys with foreign investor clients, Manella and Janeiro said it's crucial to ensure they're in compliance with U.S. tax and reporting laws, as legislation such as the National Defense Authorization Act and Anti-Money Laundering Act require companies to provide further disclosures to the government.

"Furthermore, it is crucial to structure the transaction in a manner that minimizes taxes. The wrong structure can trigger double taxation and substantial estate taxes," they said. "Certain tax treaties, such as the treaty between Canada and the United States, help avoid issues of double taxation. The wrong structure, however, can obviate the treaty benefits. Additionally, further challenges exist with other European Countries that do not have treaties with the United States."

Eber said she's excited about what's to come in November, the start of South Florida's high season, as so much is still in demand.

"The inflow of buyers from the domestic market has remained strong, including major moves by corporations into the area which has kept the foundation of the market strong," said Eber. "As foreign buyers continue to reenter the market, it should bode well for continued interest, stability and growth in the real estate market in South Florida."

Manella and Janeiro said they're interested to see what the younger, more creative investor groups do, as some look at alternative investments such as student housing.

"Geographically, the whole Gold Coast of Florida is in demand. Due to the scarcity of product, even areas that have been laggards such as Hollywood are in greater demand," Manella and Janeiro said. "Investors are also focusing in areas experiencing exponential growth such as Tampa and Jacksonville."

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