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## Fierce rental holdings market drives prices up at great value, limited risk

By Marilyn Bowden

Miami's active rental market is drawing investors of all stripes, from institutions looking for bulk buys to individuals buying a handful of condo units to rent out. While all these purchasers add to the city's tax coffers, successful investors warn against the risks of ignoring sound investment fundamentals.

Gold Krown Financial, which acquired more than 500 condo units at Midtown, often sells them to small investors buying anywhere from one to five units as rentals, said Managing Partner Ronald "Ronnie" Krongold.

"What they've been doing is leasing them out or buying them with leases already intact," he said. "Our buildings are running 92% to 96% occupancy, so a lot that we sold already had leases."

Although they've had buyers from all over the globe, Mr. Krongold said, the majority are from South America.

"What they are looking for," he said, "is not only a return on investment but also appreciation. There's been a dramatic increase in values at Midtown." Dacra Development's plans for an ultra high-end retail complex in the Design District bode well for boosting values in adjacent areas.

"We have kept our prices under some of the resales around the city, which is why we are selling fast," Mr. Krongold said. "But we are holding some units back in Midtown Four because we think prices are going up."

Yamal Yidios Char, president and CEO of Ytech International, has over the past 12 months acquired more than \$100 mil-

lion of rental properties he is currently rehabilitating. Originally from Colombia, Mr. Yidios Char now makes his home in Miami.

Those acquisitions include the 26-building, 492-unit Crystal Lakes Apartments next to Dolphin Stadium in Miami Gardens; Riverwalk II, a 112-unit Low Income Housing Tax Credit (LIHTC) apartment community, and the 105-unit Card Sound Condominiums, now converted to rentals, both in Homestead; and a 36-building, 384-unit apartment community in Palm Beach County.

"Over the past two years, investors have lined up to benefit from markets like South Florida with lots of supply and a legacy of foreclosure properties," he said. "The reason they are so popular is they represent great value with limited downside risk. Today, market, economic and population-growth trends support rental housing."

All this interest creates fierce competition that has driven up prices, Mr. Yidios Char said, and will eventually drive up rental rates.

"Institutional investors, who play a big role in today's market, can afford the luxury of 6% to 6.5% cap rates," he said, "because they can obtain funds at low interest rates and have a long-term interest."

"But soon small and individual investors will be tempted to buy based on value speculation rather than cash flow – and even worse, investors will start borrowing money to earn a higher return, and that involves risk. It is very important not to fall into that 2006 trap. We can't afford to suffer from short-term memory loss."

Ytech, Mr. Yidios Char said, "focuses strictly on cash flow, net operating incomes and return. We do not focus on appreciation; that is just a bonus for us. We not only do a very rigorous financial analysis but also look at employment, price trends and rental yields in the area."

"We buy entire apartment buildings and rent them," said Eric Soulavy, managing member of Reac, a small family group of investors and developers from Venezuela, "but we're also always looking at the property's appraised value. We basically do investments based on the cap rate, and we get a return on our investment."

Most South Americans, he said, are just looking for a safe place for their money, and prefer to have tangible assets. "They are not looking at making a profit," he said. "They're thinking, 'If I cover my costs, that's enough.'"

Reac recently bought a 20-unit building in Key Biscayne with an average monthly rental of almost \$2,000.

"There's a lot of demand right now," Mr. Soulavy said. "Many people who work in Key Biscayne can't afford a mortgage. We also do some short-term holiday rentals – day to day or week to week – for which we charge a little more."

Reac has an exit strategy in place.

"We entitled the land with the city," Mr. Soulavy said, "so that we can construct more than there is right now." When the market shifts, the plan is to tear down the rentals and develop condominiums on the site.

