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Two Roads' Taylor Collins on slowdown, rising interest rates

Collins of Two Roads talked about rising cost of debt, insurance affecting deals

Taylor Collins, a managing partner at Two Roads Development, is aware of the paradox a lot of developers and brokers are seeing in the market, especially in Miami.

He agrees that the slowdown is here, and hesitates to compare anything to the boom in prices of last year. Yet, he is still finding that demand is high. Last year, he said, was "a very strange year" with an "unnatural" appreciation of values.

"I typically don't look at 2021, because it was just so out of whack. It was just so crazy," he told *The Real Deal*. "It's hard to kind of sit there and say that's sustainable."

Still, Two Roads, a Miami and West Palm Beach-based real estate firm, is moving forward with a three-tower, Edition-branded luxury residential project in Miami's Edgewater neighborhood. It is also developing the recently approved Residences at Bal Harbour condo development in joint venture with Related Group. Sales are expected to launch soon, he said. Last year, Related and Two Roads completed a bulk buyout and condo termination of the former Carlton Terrace condo building on the Bal Harbour site.

Collins sat down with *TRD* to discuss the firm's projects, the market for foreign buyers, and the effects that rising costs are having on the company.

How's demand for new developments right now?
In 2020, 2021, projects that were not in the premium location, because of the demand were selling, and selling well. And that normal cycle, which I think that we're going to get into now, you're going to find that buyers are really looking at location. That's where we tend to buy our product, on the water. Water views aren't the same as actually living on the water because realistically, one day, there could be a building built in front of you, and you lose those views. Luxury product that has launched off the water is going to have a little bit more trouble.

Are you still considering condo buyouts?
We're constantly looking at condo buyouts. Next year, condo associations are going to start looking for us because they're going to realize their new tax bill and insurance bills are going to be so much higher than what they're used to, and the 100 percent reserves that the state is requiring them to have in place.

Some of these [older] buildings that are located on prime property, those units on a one-off basis, they're probably going to be depreciating assets. Because at some point, it's just not worth it. And I think you'll find more condo associations reaching out to developers and asking them, 'What would you consider buying out our condo association for if we could get to the threshold you need to terminate it?' I'm starting to get whispers of that now.

It's an interesting time because the market is slowing down. And insurance rates across the board are rising.
Our construction insurance is almost up 3x. The financing costs are double what they were a year ago. All of our costs have kind of gone up, and you're right, the market has slowed down and absorption has slowed down.

Like you said, last year was unsustainable.
It was crazy. That wasn't a healthy real estate market. You want a steady appreciation instead. You don't want to have the hockey stick effect where it shoots straight up because it's going to come down.

How are you dealing with the rising cost of financing?
I cry daily.

You're giving me a lot of good headline options.
Lenders coming out of the last crisis, they really stayed to their guns on their lending limits. And what they would do on a loan-to-cost basis, they really didn't move too much from that. Now, you're still getting 400 basis points above SOFR (secure overnight financing rate). But when that happens over a 12-month period, you're literally going from paying 4 percent to 8, 9 percent. When lenders are really sticking to their guns on your LTC requirements, you might have to bring in more equity, you might have to have more presales, you might have to bring on another layer of financing from a secondary piece.
It's a very trying time right now. Because lenders don't want to be caught, like they were in the last cycles. Truth be told, as a developer, you're happy to see that because you never want to see what happened in the last cycle, right?

You said Forté, a condo tower Two Roads is developing in West Palm Beach, is sold out. Is the new dev market in West Palm outperforming other areas in South Florida?
West Palm has a lot of macro growth because of all the financial companies that are moving down here. These guys that work up in New York are paying an extra 15% in taxes there. Let's say they make $2 million a year,

so that's $300,000 [in taxes]. Well, by moving the team down to Florida, that's a $300,000 savings right away, right?

All these financial institutions are starting to see the benefit of being able to come down to Florida. You don't have to be in New York to run your company anymore. There's a lot of opportunity in West Palm Beach, because of Palm Beach. West Palm has become this financial hub. Miami has always been.

When we launched Edition (in Miami's Edgewater) we allocated a number of units to be sold between now and the end of the year, before we opened up the sales center. And it's really to test the market to make sure your product mix and your pricing is in line with what you're saying. So when we launched, within the first 30 days, we sold out of that inventory, and we've already had to double it. That shows me how strong the Miami market still is for the right product.

What about foreign buyers? Are they back?
I wouldn't say it's going to come back in full force. But I think you're going to see a lot more. Right now you're finding a lot of Mexican buyers coming into the market. Brazil, because of how strong the dollar is against the real, I don't think that you're going to see them buy. We're seeing some buyers from Colombia, but it's really region by region.