DAILY BUSINESS REVIEW

July 8, 2022 **UMV: 973,277**

Developers Are Swooping in as More Waterfront Condo Owners Consider Termination

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July 08, 2022 at 02:35 PM

Melea VanOstrand | Real Estate Reporter

Developers have always looked for opportunities to buy beachfront assets that can be repurposed, but after the tragic collapse of Champlain Towers South in Surfside, coupled with rising insurance costs and new condo laws, it's making more and more sense for some condo owners to consider condo termination.

Condo termination is not a new concept in South Florida, but as supply is diminishing, it's a good time for investors to look for ideal inventory before it runs outs. That's according to Taylor Collins, a managing partner of South Florida-based Two Roads Development.

"It's going to be coming to the point where it makes more sense to sell the asset, maximize your value, and then a developer will come in and redevelop it," said Collins.

The next areas of opportunity for Collins look like neighborhoods such as Bal Harbor and Edgewater, where Two Roads Development is in the process of redeveloping old condominiums into new residences. Although a lot of the older buildings need expensive repairs, Collins believes it's a great investment that can continue to change the landscape of Miami.

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Other areas developers like Collins are looking at are Sunny Isles, North Miami Beach, Brickell and Downtown Miami, where the need for mixed-use buildings is becoming popular. Collins said developers first look at the age of a building, condo documents and regulations to terminate the condo association.

"From there you make a list of the areas you like, then you go and you do a zoning analysis and figure out if you had that piece of property, what could you build there? Then you get the square footage and that allows you to back," said Collins.

Collins said he believes Miami will see condo termination happen more frequently after inspections required by law start to take place.

"The buildings with the capital expenditure that they're going to have to put into them, they're going to hire a company like JLL and Avison Young and will market the whole building for sale, and then a bunch of developers will come and pay," said Collins. "Typically they're making $500,000 on a condo sale. On a bulk sale, it could go anywhere from 50% to 100% premium."

But the competition for investment opportunities is getting pretty saturated with the migration of people from New York and California, Collins says. Add to that a dwindling supply of property available.

"They just get bid up. If you're willing to pay a dollar and now it's trading at $1.50 your financial models aren't going to work, and you're not going to make the margin on the back end," said Collins. "When you get a lot of people chasing it, there's not a lot of things to chase, they just get bid out."

For Two Roads Development, it's important to stay strict in the underwriting process.

"We try to stay within the box and what we know will work," said Collins. "Be honest with your underwriting, there's a lot of properties out there. Just because it's going up for sale, doesn't mean you have to buy it."

The demand for products by the water will continue to grow over the next five to 10 years, Collins predicts.

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