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“Playing with the house’s money”: How buyers, sellers are closing deals

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The signs are popping up across South Florida.

“Seller financing available” and “Major price reduction.”

As developers and investors contend with the high cost of financing, insurance and construction, they are increasingly looking for ways to make deals make sense. And sellers are now willing to work with them in the form of short-term seller financing.

> “For sellers to get their number, they have to offer ,” said attorney Mark Meland of Meland Budwick, a Miami-based law firm. “You’re seeing a lot more of that.”

Sellers may offer buyers bridge loans at a lower mortgage rate than traditional lenders — say 5 percent compared to 8 percent.

It’s one way to help push deals over the finish line. Some buyers are also raising more equity, bringing on partners or adding density to planned projects to boost their profit margins. Investors are also increasingly paying cash for land and commercial properties, a trend that’s more common for sales below $25 million, one broker said.

Attorney Daniel Diaz Leyva of the law firm Day Pitney said he’s starting to see sellers offer financing in listings. But, “you still have somewhat of a disconnect between buyers and sellers in terms of values,” he said.

In September, developer Manny Varas reduced the asking price on a retail complex in Miami Springs after adjusting the cap rate to be more in line with market conditions. Varas is also now offering a potential buyer $9 million in seller financing.

William Kramer, a real estate attorney with Brinkley Morgan, said sellers are willing to be the lender because they are still happy with the prices they are getting. That could change as prices continue to fall and if interest rates come down over the next year.

"I have been pleasantly surprised that sellers have been able to step up to the plate to provide financing, but mainly it's because it's all gain," Kramer said. Sellers will sometimes offer financing once after the due diligence expires.

If the deal closes and the buyer ends up losing the property, the lender is generally happy to take it back. "They're playing with the house's money at that point," Kramer said.

Ducking "obnoxious debt"

Anthony Kang, a real estate attorney with Saul Ewing, said that borrowers are facing the same challenges if they take a shorter-term loan versus more permanent debt. But in most cases, borrowers are looking to lower their loan-to-value debt ratios.

" are doing the deal and buying the land and finding partners and then they're just not taking a construction loan for now," he said, in the hopes that they will be able to get a loan when rates have dropped.

Kang said his clients are also investing in deals as lenders or as private funds to fill a void in the market and to deploy some of the cash that's been sitting on the sidelines.

Over the past three to four months, buyers and sellers have "realized the capital markets are no longer functioning in the same way," said commercial broker Tony Arellano.

"Lenders very active in construction financing or permanent financing are now working through extensions, workouts or loan sales depending on the situation and are less focused on new development and more about mitigating losses and working through their current portfolio of loans," he added.

Arellano's firm, Dwntwn Realty Advisors, is working on $40 million worth of seller financing deals.

"The debt we're getting is so obnoxious, so uncomfortable that even if you present that option to a borrower right now they don't want to take it," he added. "If it's cash, it won't crash."

Cash deals represent a bit more than that, Arellano said. Land sales in particular are increasingly all-cash. "The probability of you getting a construction loan is low if you had to start with debt from the beginning," Arellano said.

Instead of taking a bank loan at a 50 percent LTV, buyers and developers will instead get that from a partner, Arellano said.

Torose Equities' Scott Sherman partnered with Alex Karakhanian's Lndmrk Development and Terranova to buy an office building in Coral Gables in August. Sherman said partners don't have to offer cash, though.

"If you or your partner has a deep relationship with a bank, that's valuable right now," he said, adding that joining forces is more appealing to lenders. "The other very valuable piece is when the partners have different complementary skill sets."

"In this environment, all options are on the table," Sherman said. "If two people can capitalize it better than one, why not?"

Calling an audible

Increasing density is another way to make a project financially viable.

Developer James Curnin said he "got lucky" when he found the Austin Burke menswear store in Wynwood. The site was only zoned for 14 units, but Curnin plans to take advantage of the Live Local Act, new statewide legislation that provides density and height incentives to developers that incorporate workforce or affordable housing into their projects.

Curnin's Clara Homes is in contract to acquire the property at 2601 Northwest Sixth Avenue for $7.7 million in a sale-leaseback deal.

Fourteen units "is not a financially viable option for someone who develops multifamily," he said. Curnin said he spoke with his attorney, Bercow Radell shareholder Michael Larkin, about using Live Local. Curnin's preliminary plans now call for an 18-story luxury apartment building with about 150 units. Forty percent will be capped at below-market rents.

That sale-leaseback “made the deal” for Curnin.

“It allowed me to get my ducks in a row,” he said. “The sale leaseback helps cover all my expenses on the property and it helps me get a 7 percent return on my money at a below-market rate.”

Berger Singerman attorney Mark Shuster said he’s working with projects where insurance costs 300 percent more than it typically would have before.

“It is a scandal for Florida to be in this insurance debacle,” he said.

Though a number of developers plan to build under the state’s new affordable housing law, it has its own limitations and challenges. Building taller, for example, is more expensive.

More flexibility exists for developers with fewer restrictions and lower land costs.

“It’s not as easy as it appears,” Berger Singerman’s Javier Vazquez said about Live Local. “Usually when developers take a deeper dive, they either go back to the drawing board or they have to work a little harder and do a little bit more due diligence.”

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