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As South Florida's Real Estate Market Remains Hot, Lawyers Contemplate Looming Challenges



"[Miami's] not immune to all the macro economic forces. They impact the economy and commercial real estate market, but it has the benefit of reacting to those things from a position of relative strength," said John Sullivan, chair of DLA Piper's U.S. real estate practice.

June 29, 2023 at 09:31 AM

Real Estate



Alexander Lugo



What You Need to Know

- South Florida's booming real estate market comes with inflation and stress on infrastructure.
- Higher housing prices, stress on infrastructure and less capacity at schools could dampen the region's allure.
- Developers are seeing some pressure on mid-market deals.

Although South Florida remains a hot market in the bustling Sunbelt region, that heat is causing some cracks in the local real estate market as other markets feel even more intense pressure from high interest rates.

While real estate markets like New York and San Francisco feel a sting from remote workers fleeing, markets like Miami and Austin seem to be thriving, partly because of the same phenomenon. But even growing markets can be prone to swings in the opposite direction.

"It's, of course, not immune from the challenges that everyone is facing, right? Higher interest rates means debts are more expensive, so it's harder to borrow, it's harder to develop," said John Sullivan, chair of DLA Piper's U.S. real estate practice.

Beyond interest rates, growing markets like Miami come with higher housing prices, stress on infrastructure and less capacity at schools, Sullivan said. And that can all have an effect on a city's allure.

But even with those problems getting worse, the market is proving to stay attractive for now, according to Sullivan and other real estate lawyers.

And if widespread recessionary problems do hit Miami's booming economy, Sullivan still sees South Florida continually growing.

"It's not immune to all the macro economic forces. They impact the economy and commercial real estate market, but [South Florida] has the benefit of reacting to those things from a position of relative strength," he said. "Because of that, I think it should be less negatively impacted than a lot of other markets."

But because Miami is one of the markets to reap the benefits from remote work migration trends, will a push for workers to return to the office affect pandemic boom towns?

"On the margin, that could be a headwind for the markets like Miami that have benefited from that remote work, but I think the remote work phenomenon is just one of a number of reasons why South Florida and some of these other Sunbelt cities have been doing so well," Sullivan said. "I don't think it is going to dramatically impact those Sunbelt markets."

On the housing inflation front, South Florida's lower middle class is facing a squeeze that's concerning local business leaders.

"The proportion of wage to cost of living is bad in the city, and it's affecting a lot of people. We've always been bad, but it's probably worse now than it's ever been," said Harold Lewis, chair of Miami-based Haber Law's real estate and transaction departments.

The state's recently passed [Live Local Act](#) has some developers salivating over the incentives it provides for developments with affordable housing units, according to Alexander Leon, a construction and real estate partner at Haber Law.

"What effect that will have on actual units for affordable housing and how it will trickle down into our economy, that remains to be seen," Leon said.

But even beyond a concern on how affordability affects the city's working class, the issue is also trickling into business deals.

"On the commercial side, we are seeing some pressure, particularly on middle market deals, where people are saying interest rates have gone up so much, property taxes are going up and, most importantly, insurance is going up," David Podein, chair of Haber Law's real estate and transactional law group. "I do have some clients on the commercial side, in the middle market, that are looking out of South Florida to look at doing deals in other states, where the cost of insurance is much lower."

Despite the lingering worries, Haber Law is one example of how the region's real estate is still delivering growth opportunities for law firms in South Florida.

"The firm has four major practice areas: Real estate, complex business litigation, condominium and planned development law as well as construction," said Haber Law's founder, David Haber. "And right now, with the South Florida market on a real estate boom, we get a significant increase in demand for legal services."

Although deals seemed to hit a speedbump recently, South Florida is still seeing an influx of money from places like Latin America and other U.S. regions. And that capital is still being put to work within the local real estate market, said Alexandra Lehson, a commercial real estate partner at Miami's Bilzin Sumberg Baena Price & Axelrod.

“The real story is the energy, the growth and the momentum that we have despite the challenging environment,” said Lehson. “Miami is definitely the place that everybody wants to be and there’s still still deals happening. There’s still these alternative funding sources to keep the deals flowing, and it’s really still experiencing a lot of growth.”

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