

# DAILY BUSINESS REVIEW

COVER STORY 2013 Economic Forecast

## FOCUS ON 2013

Housing is reviving, hiring is ticking up. Still, plenty of issues worry our experts.

by Mike Seemuth

While Congress avoided a plunge off the so-called “fiscal cliff,” lawmakers are already bracing for more fights over spending cuts and the federal debt ceiling.

Loud debate among Democrats and Republicans over the legislation prior to its passage added to uncertainty among employers, investors and consumers. Yet the political tumult played out against the background of a gradually improving job market in Miami-Dade, Broward and Palm Beach counties.

South Florida’s unemployment rate ticked lower in October for the third consecutive month to 8.2 percent, down about one percentage point from the July level. But job

growth in the tri-county area remains tepid. Data from the federal Bureau of Labor Statistics show that the October population of payroll job holders in South Florida totaled 2.23 million, up 0.1 percent from a year earlier.

Meanwhile, home sales and prices in the region are rebounding. November purchases of existing homes and condos rose 23 percent in Miami-Dade County year over year. Deals jumped 24 percent in Broward and 15 percent in Palm Beach County.

To sort out the implications for the South Florida economy in 2013, the Daily Business Review recently convened 11 professionals whose areas of expertise range from finance and law to education, entrepreneurship and

economic development.

- **Tony Villamil**, economist and dean, St. Thomas University School of Business.
- **Modesto A. “Mitch” Maidique**, president emeritus, Florida International University; executive director, FIU’s Center for Leadership.
- **Howard M. Gitten**, patent attorney, Edwards Wildman Palmer law firm.
- **Jaret L. Davis**, co-managing shareholder, Greenberg Traurig law firm.
- **Tom Lehman**, founding partner, Levine Kellogg Lehman Schneider + Grossman LLP law firm.
- **Francisco J. Cerezo**, partner and chair of the Latin America practice and co-chair of the international practice, Foley & Lardner law firm.
- **Michael Maxwell**, managing partner, Maxwell & Partners; Interim director, Master of Science in Real Estate Development program, Nova Southeastern University.
- **Stephen Owens**, president, U.S. development and investment arm of Swire Properties.
- **Jacky Teplitzky**, residential real estate agent, Prudential Douglas Elliman.
- **David Seleski**, president-CEO, Stonegate Bank.
- **Bruce Foerster**, president, South Beach Capital Markets Advisory Corp.



## With perils of 'cliff' partially averted, focus returns to jobs

Federal debt problems and other pressures threaten area job growth, but despite the wall of worry, South Florida's unemployment rate has been declining lately and could fall further this year.

Among other provisions, the contentious American Taxpayer Relief Act hammered out over the holiday delays resolution of federal spending and borrowing issues while preventing an increase in income tax rates for most taxpayers that had been scheduled to take effect this month.

The legislation partially prevented a deep drop off the so-called "fiscal cliff," or a simultaneous increase in federal income tax rates and decrease in federal spending that were scheduled happen this month. But other matters are commanding more attention from the typical South Florida business owner.

Many entrepreneurs considered the fiscal cliff "one more hurdle" to overcome, attorney Howard Gitten said. In general, "I don't think what's going on in Washington is much of an issue. It doesn't affect their day-to-day."

"In a nutshell, I don't see it having much consequence on what we're doing [at

Swire Properties] long term," Stephen Owens said. "That debate has been going on, in one form or another, I'd say, my entire adult life."

The number of unemployed South Floridians seeking full-time work stood at 241,800 in October, down almost 100,000 from the peak level of August 2010. Data from the federal Bureau of Labor Statistics also show that South Florida's labor force grew over the same 26-month period to 2.93 million from 2.85 million.

"As far as the local economy, we see an improving trend," Tony Villamil said. "Miami-Dade is doing better than many of the 67 counties of Florida. ... Certain parts of the state are still in semi-recession."

International business currents are strong compared to domestic economic momentum. Villamil said Latin American economic strength continues to buoy South Florida, though Europe has emerged as a drag on economic growth: "We still have a growing Brazil, a growing Colombia," but "U.S. exports are down as a result of the Euro zone recession."

"It's not one state, it's three or four different pockets, and the economy down here is do-

ing so much better," banker David Seleski said. "There is more of a level of optimism in Miami, and to a lesser extent in Broward, than there is around the [rest of] the state."

But Seleski also said sweeping federal reforms of banking under the Dodd-Frank Act of 2010 could reduce the number of community banks by making them too expensive to operate.

"Community banks which are defined as under \$10 billion in size, do 40 percent of the lending in the United States," he said. "So if the community banks disappear, it's going to be very hard for the U.S. economy to get real traction long-term."

Tightened fiscal policy could choke off area employment growth in 2013. Government employment in South Florida slipped 0.7 of a percent during the 12 months ended in October. The area's total payroll employment edged 0.6 of a percent higher in the same period.

Investor concern about a scheduled Jan. 1 increase in the tax rate for capital gains generated "a lot of talk about what's going to happen" in the South Florida real estate market as a result, Tom Lehman said. But "that hasn't stopped

the money from coming in, because there are still a lot of bargains here."

Francisco Cerezo said year-end tax considerations were major motivators in some December sales of assets, but not many. He said most of the investors whom he counsels were "sitting on the sidelines" at the end of last month instead of selling for tax reasons, he said. "It wasn't the right time."

Jaret Davis said the 2013 outlook for legal work related to business financing is mixed. Young companies in South Florida have local access to seed-capital investors, or "angels," he said, but "there still isn't a large, vibrant VC [venture capital] community that can take them to the next level."

Bruce Foerster said investment banking in South Florida has become increasingly sophisticated since the 1990s, and "we need a little patience" because such money centers as Boston and New York City are more than double Miami's age. Eventually, "the venture community will come here" in larger numbers, he said. "Things are happening here."

## A promising market revival — and some red flags

High-yielding commercial properties and high-rise condominium apartments have attracted plenty of investors, but not enough to justify a massive new wave of real

estate development across South Florida.

"You're still in a position where you can buy a cash-flowing property for less than you can build something,"

said Michael Maxwell, who advises developers, bankers and other types of clients on real estate projects.

South Florida's best income-producing properties,

including hotels and rental apartment buildings, "have already been picked over," Maxwell said. So, "you're going to see a lot more activity in A-minus, B-plus properties."

Competition for the best commercial properties is intense because “a lot of people are chasing investment-grade [real estate], he said. “There is a tremendous amount of cap rate compression in certain product classes.”

Rental apartment buildings have been hot investments as home-mortgage foreclosures boost South Florida’s population of renters. But the current level of investment in multifamily housing in South Florida is a sign the market is “way overheated,” Stonegate Bank’s David Seleski said.

Recent absorption of South Florida’s residential condominium inventory has em-

boldened some developers to launch new condo construction projects that hinge on large pre-construction deposits from foreign buyers, raising questions about the risks.

“We’ve gotten a tremendous amount of calls on these high-deposit developments,” Tom Lehman said. Foreign investors in high-deposit developments are unsure of their financial exposure “when they’re asked to put up 20, 30, 40, up to 70 [percent] when they top out? What are the risks?”

Investors, not lenders, are driving this “new phase of development” in Miami’s condo market, Swire’s Stephen Owens said, and the absence of ample

credit may be a good thing.

“With all due respect, if the banks stay out of it, we’ll be better off,” he said. “Developers will build anything if banks lend us the money.”

Widespread cash purchases of Miami-area condominiums by foreign investors have rapidly reduced the area’s condo surplus, a product of overbuilding during the housing boom of the last decade. Many of the investors are cash buyers from South America who rented their Miami condos instead of occupying them.

“If you talk to New Yorkers, they will tell you: We were wrong about Miami. We were

absolutely wrong. We thought it was going to take seven years for [condo] inventory to get absorbed, and we are sorry we didn’t buy more,” Jacky Teplitzky said.

Bruce Foerster said the New York Times “used to treat Miami disparagingly,” like a “newsroom piñata,” in the newspaper’s articles about the city. But “the frequency of those is much less,” he said. “The articles now talk about what we’re doing down here much more seriously than even five years ago.”

## FOREIGN

# Offshore investors scour South Florida for deals

Miami’s large international business sector is an increasingly important conduit for investments from abroad, giving South Florida an economic advantage over metropolitan areas more reliant on domestic economic growth.

Francisco Cerezo, the Foley & Lardner partner, said his law firm is “bullish on the transactional front” in 2013 because people around the world still see the U.S. as a stable place to invest, despite domestic doubt about the federal debt burden and how to lighten it.

“Clearly, there is a level of uncertainty stateside,” but the United States “is still a highly certain market if you’re someone from Russia, or Venezuela, or Brazil or Colombia. I mean, historically, they’re so accustomed to dealing with hyper

inflation or political crises that these just seem like calm waters,” Cerezo said.

There is plenty of “flight capital looking for opportunities over here” in Argentina, Ecuador and Venezuela, Cerezo said. But he also said investors in such countries as Brazil and Colombia invest in the United States mainly for the potential profits, not to avoid possible perils in their own countries.

Recent statistics from Miami International Airport tell part of the story. They paint a picture of steady growth in MIA’s heavy volume of cross-border traffic. The number of international passengers at the airport climbed to 17.5 million in the first 11 months of 2012, up 2.8 percent from the same period in 2011. International freight volume rose in the same period to

1.65 million tons, up 3.3 percent year over year.

“You have 15 flights a day from Sao Paulo,” said Jacky Teplitzky, citing the power of Brazil as an economic force in South Florida. Besides buying U.S. real estate, Brazilian investors also want to invest in American businesses, Teplitzky said, and “they’re looking all over, not just in Miami but all over the United States. They’re asking for studies about companies.”

Russians also have emerged as big spenders in the Miami area, Teplitzky said.

“Russians have been buying here in the last two years, and we’re talking about high-ticket items,” she said. “It’s not just real estate. Go to Bal Harbour Shops and see what they’re buying. The ladies over there

are like, ‘Give me five of each with its own bag.’ ”

“Miami is unique to the rest of the state,” said Owens, the Squire Properties executive. “It operates almost like its own country, and in many ways, it is.” Nationwide, “there isn’t another city where more than 50 percent of its permanent residents were born outside the U.S.”

Overbuilding in the Miami condo market prior to 2007 was supposed to saddle the area with surplus units for decades, but the surplus has declined rapidly in recent years, thanks mainly to a wave of cash purchases by foreign buyers. In initial estimates of the duration of the condo surplus, “they were talking 10, 20 years,” Owens said, “and look where we are today.”

## EDUCATION

# How schools will take hit from federal austerity

If federal austerity induces an economic recession, one likely consequence is a new round of state budget cuts, which could further hurt education in Florida.

"For Florida to slip into another recession, it will mean another hit on our state universities," Mitch Maidique said.

"If we go into even a mild recession, what will happen is the state budget will be reduced," eroding educational spending and undermining classroom quality, the former Florida International University president said.

"People that rank universities see that your ratio of students to teachers goes up,

up, up," he said. "The state universities have been cut by \$1 billion over the last four years, \$300 million just in this past year."

Private schools also have felt the impact of cuts in federal spending on education, such as tuition subsidies, and some schools are bracing for deeper cuts, Tony Villamil said.

For example, "Pell grants at the federal level are being cut down," he said. "People are not getting the level of education that they would like to get."

Michael Maxwell warned that curricular diversity has waned at state universities,

and that Florida is paying a price in the form of narrower economic development.

For example, he said, many engineering disciplines are absent from the curricula of the typical state university in Florida because "our universities haven't embraced this as an economic driver."

Some elementary and secondary schools in the public school system are exceptional, Howard Gitten said. He said he has a son attending high school in the Miami-Dade system who "wants to become a rocket scientist — literally," but "he wants to leave the state" for the right college program.

Maxwell said area economic development officials recently declared in a public forum that a negative perception of public education is the main reason for a decline in the number of large public companies with headquarters in South Florida. "The universal answer was our public education system, our K through 12," he said. Fix that, and "people would be lined up down 1-95 to do business with us."

## BUSINESS OF LAW

# Era of painful cost cutting ending

Some law firms are adding staff again after slashing payroll and other costs in a plodding post-recession economy.

"Law firms are hiring again," Francisco Cerezo said. "It bodes well for the future."

Cerezo said one growing field in legal services is arbitrating contractual disputes among Latin American companies. "Miami is becoming an increasingly active place

for international arbitrations," he said.

Regulatory issues and merger pressures in the banking and health-care industries are likely to boost law-firm billings, Jaret Davis said. He also said the "conventional wisdom is litigation will be up" in 2013.

"We're finding litigation growing," Tom Lehman said. More companies that can afford the cost are litigating such

issues as "business disputes, fraud, certain funds that have gone down."

Technology-related legal work appears to have upside potential. "There is a lot of innovation going on in South Florida. We hope to capitalize on it," Howard Gitten said. "The next hot field is apps."

Gitten also said a scarcity of venture capital has weighed on deal flow, not only

in South Florida but also in California's high-technology hub Silicon Valley.

"If Silicon Valley is the canary in the coal mine, there has been a lot of washout in the last couple of years as venture capitalists do not do follow-on rounds," he said. "But we remain bullish on Florida."