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Condo Vultures founder Zalewski joins new private equity fund to buy Miami condos as prices fall

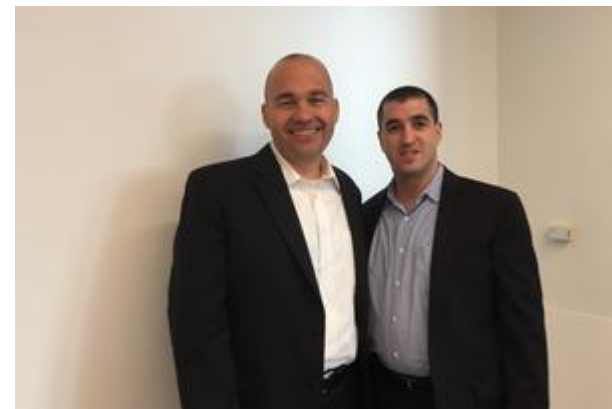
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Peter Zalewski has been on the cutting edge of Miami's condo market for over a decade, starting Condo Vultures to organize bulk buyers during the recession and CraneSpotters to chronicle the resumption of the development boom.

After spending more than a year traveling the world, Zalewski has joined Brickell Ventures LP, a recently formed private equity firm that aims to purchase recently completed downtown Miami condos at a discount as prices sharply decline, as he believes they will, in the coming years. Zalewski, the firm's director of acquisitions, said he wants to buy condos from both unit owners and developers at a significant markdown.

Brickell Ventures' target is to raise \$60 million in capital from accredited investors for this purpose.



BRIAN BANDELL

Peter Zalewski and Seth Denison of Brickell Ventures.

Zalewski will continue consult on the condo market, but only outside greater downtown Miami, which runs from Brickell through Edgewater.

By studying the market closely with CraneSpotters, Zalewski said all the signs are there that a price correction is coming. Greater downtown Miami had 5,932 units delivered since 2011, and an additional 5,864 are under construction, but sales have been slowing, he said. There were 3,631 condos on the resale market, or a 26.8-month supply at the current sales price.

For the first nine months of 2017, the average price per square foot was \$373 for closed condo sales, a big difference from the \$497 per square foot for active listings.

When the condo towers currently under construction are completed, that will place even more unsold developer units and resale listings on the market, Zalewski said.

“Once the cranes come down, it will be like a NASCAR race,” he said. “The flag will be waved and everyone will come running.”

Zalewski wants to be ready with capital when that time comes. That’s why he joined Brickell Ventures, led by managing principal Seth Denison, an attorney and former managing director of Hart Advisors Group’s Miami office. At that firm, he restructured billions of dollars in securitized commercial mortgages, and placed hundreds of millions of dollars in debt.

Denison said he’s spent over a year researching the downtown Miami condo market, and he’s convinced that it’s overheating. He believes Brickell Ventures can buy condos from foreign investors at 30 to 40 percent discounts.

Many South American investors who bought new condos or have presale contracts on them were planning to quickly flip them at a profit, but that’s not likely to happen with so much inventory on the market, Denison

said. Often, renting the condos won't even cover the carrying cost of maintenance and taxes because there are so many rental units in the market, and rents are likely to be flat or decline in downtown, Zalewski said.

A typical Miami condominium will have 10 percent of its units listed for resale at a given time, he said. Many of the new condo towers in downtown Miami have 15 to 25 percent of their units listed for resale, which creates downtown pricing pressure, Zalewski said.

"There is a lot of tension and pressure being created," he said. "We suspect a lot of the sellers are the folks in South America who could hold if they wanted to, but their unique set of circumstances dictate otherwise."

Brickell Ventures is also interested in buying unsold condos in bulk from developers. Zalewski said many developers would rather move the last of their inventory quickly at a discount than spend cash holding it for a long time. The typical developer profit margin is 25 percent, so he would seek a discount of about that amount.

If the developer doesn't want the other unit owners to know that it deeply discounted some units, Brickell Ventures can accept a discount in other ways, Denison said, such as the developer prepaying taxes or association dues.

"Developers will look at us as a backstop if they need to sell units," Zalewski said. "I don't see developers being foreclosed on by lenders. It will hurt their profit margins and then they can move on."

Brickell Ventures worked with Berger Singerman to set up a private placement for accredited investors, seeking to raise up to \$60 million. The minimum buy-in is \$250,000. More information is available on the [firm's website](#).

Denison said he plans to start buying greater downtown Miami condos built since 2014 in the third quarter, and continue through 2019. The fund will probably start selling those units in 2022, he added. In the meantime, Brickell Ventures will hire a property management team to rent those units.

The firm has created a computer model that can quickly spit out a price the fund should pay for a condo unit to make a profit when the market bounces back, Denison said. That price is largely based on rents.

For the long term, Denison said the downtown Miami condo market will recover because of population growth, and the excess inventory will eventually be absorbed.

“This is not 2008 all over again, with developers not paying their lenders,” Denison said.

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