

Domestic Trek: Miami, Florida



OPPENHEIM ARCHITECTURE

By Sam Berry

The first stop of the Cornell Baker Program's Class of 2021 Miami Trek was a visit to the office of Chad Oppenheim, Principal and Lead Designer of Miami-based Oppenheim Architecture. The class gathered in the mezzanine conference room inside Oppenheim's Miami office located in the famous Design District. The building itself is covered in greenery on the exterior and surrounded by trees, providing perhaps the block's only cool, shady spot on an otherwise hot South Florida morning. Inside the building, white walls and interior furnishings elicit a modern minimalist feel, a trait synonymous with the projects Oppenheim discussed with the class.

Oppenheim is a 1994 Cornell architecture graduate, and he moved to Miami, Florida, upon graduation to pursue his career. After working in an architecture firm there for five years, he left to prepare for his professional exams, and Oppenheim Architecture was founded shortly thereafter in 1999. Oppenheim's goal in opening his own practice was to bring high-level architecture to Miami, which sounds commonplace today but was unusual in the late 1990's and early 2000's. Uniquely, Oppenheim began his practice as an independent architect by pursuing and completing his own developments, rather than solely working as a fee-based architect hired by outside development firms and homeowners. While that strategy has been modified over the last 20 years, Oppenheim Architecture maintains focus on socially- and environmentally-conscious architecture, while incorporating humans and nature in large-scale urban projects, hotels, resorts, luxury homes, and interiors – all of which were put on display during Oppenheim's presentation to the Class of 2021.

Most of the early projects Oppenheim pursued as a designer/developer were in predominantly opportunistic areas, with the idea of his projects becoming catalysts for their specific neighborhoods. The early projects were primarily smaller residential buildings, such as a 16-unit for-sale condominium complex and an eight-home townhouse complex in Miami Beach. Oppenheim was initially focused on "super efficiency," adopting the economical thought process of a developer and understanding that certain spaces in buildings cannot be sold, such as hallways. Subsequent larger luxury projects brought Oppenheim, and his growing brand, into the spotlight, such as his 10 Museum Park skyscraper where he sold condominiums for \$450 per square foot, despite other condominiums in



the area going for \$300 PSF at the time. Oppenheim's growing reputation for designing luxurious Miami-lifestyle vibes trickled into the speculative home space, where he focused on incorporating this type of lifestyle into the natural environment and region where the building was located. Oppenheim's notable residential resume includes projects such as the iconic former Miami Beach home of Carl Fisher, an Arkansas farmhouse retreat for Walmart's Walton family, the Montclair Miami Beach, and Michael Bay's Miami and Los Angeles homes.

As the transition into commercial designs commenced, Oppenheim remained committed to his passion: creating environmentally sensitive work in beautiful locations, while letting nature become the star. Hospitality and resort projects followed soon after, including the Toy Story Hotel in Shanghai for Disney, Equinox Hotel in Chicago, and resort work all over the world, including the Bahamas, Brazil, Costa Rica, and Bali. The global spread of Oppenheim's brand led to the opening of a second office in Basel, Switzerland,

which is run by a Cornell classmate. While Oppenheim started his firm doing many projects in the dual role of the designer and developer, the firm has since evolved to a more conventional structure where it designs projects for clients for fees, though in some cases it will invest some of these fees into projects for equity stakes. To demonstrate some recent projects, Oppenheim presented a city he has been tasked to design by the Crown Prince of Saudi Arabia. Incorporating the reefs of the Red Sea, occupiable sand dunes, and cliffs, Oppenheim is bringing the ecosystem into his design in a once-in-a-lifetime project, despite the cultural and financial differences.

Oppenheim concluded his presentation with a Q&A session, at which point he was asked whether the growth of his reputation globally has resulted in new work being easier to secure now as compared to when he started. Oppenheim admitted that, while the phones may ring more often now than they did in the beginning, it is still important to prove your worth every day, no matter who you are or how long your company has been around. Oppenheim's presentation surrounding high-end, luxurious, sustainable, and nature-centric design was an ideal foray into the remainder of the Class of 2021's day in Miami's Design District.

DACRA

By Samyak Jain

Baker Program students visited the office of Dacra, the developer behind the Miami Design District. Craig Robins, the founder and CEO of Dacra and the visionary behind the Miami Design District, led the discussion on his vision and



motivation behind the development. Dacra was established in 1987 with a focus on the preservation of historical districts in Miami and also on building communities of substance. The first area that Dacra focused on was South Beach. In the early 90's, the area was characterized by a sizable elderly population and criminal activities. Dacra began to acquire, renovate, and carefully curate projects in South Beach. This urban renewal attracted restaurants, retail, and entertainment to the area, helping bring the Art Deco District back to life. As the neighborhood became more popular, the area became over-commercialized. Since Dacra did not own all of the land in the neighborhood, it was unable to fully influence change and preserve the intimate nature of the neighborhood.

Its success in rejuvenating South Beach prompted Dacra to venture into the area that would become the Design District. Learning from the constraints on its development in South Beach, starting in the early 2000's, Dacra purchased many run-down buildings and vacant lots to control an entire 18 square block area. The area had fallen into disrepair and Robins saw this as an opportunity to reinvigorate the area through exceptional design, architecture, art, and experiences. Robins told the students, "Integrating the community culture with business and focusing on an entire neighborhood instead of just a single building will lead to more returns in the long term."

The vision behind the Design District was to create a physical place that was filled with art, design, and architecture and that almost functioned as an outdoor museum. As Robins remarked, "Design should be on the streets." Initially, Dacra focused on luring furniture designers away from enclosed malls to the street-level retail spaces to increase awareness amongst people who may never walk into such stores. Robins convinced Alison Spear, Peter Page, Kartell, Luminaire, and furniture designer Holly Hunt to open studios and showrooms in the area. He also was instrumental



in bringing Art Basel to Miami in the early 2000's, which accelerated both Miami's and the Design District's growth as a premier worldwide destination for art. In order to generate revenue and further accelerate the neighborhood's growth, he also founded Design Miami, a global forum for design.

In 2010, development of the Design District began in earnest, and Dacra and L Real Estate partnered to develop the area as a luxury retail and lifestyle destination. At the time, major luxury retail brands such as Louis Vuitton, Dior, and Hermes had stores in the Bal Harbour Shops north of Miami. Due to restrictive lease terms imposed by their landlord, these and other high-profile tenants whose presence in the Design District was crucial to its growth were prohibited from opening another store in Miami. Robins saw this as an opportunity and began a dialogue with these prominent brands and ultimately convinced them to vacate their spaces in the Bal Harbour Shops and open showrooms in the Design District. Once brands like Louis



Vuitton and Hermes opened stores in the Design District, the proof of concept was established and several brands followed suit and opened their own stores there. Consistent with the artistic concept of the area, each brand attempts to outdo the others when it comes to store design. Almost all of the art in the Design District is curated by Robbins, which shows his high degree of expertise and involvement.

Following the discussion at Dacra's office, the students received an immersive tour of the Design District from Robbins, where he pointed out many of its innovative design elements, architecture, and attractions.

13TH FLOOR INVESTMENTS

By Joshua Lau

As a result of superstitious beliefs, many buildings intentionally skip the 13th floor. In fact, this superstition seems to stem from the word "triskaidekaphobia," which the English dictionary describes as the fear of the number 13. But just like a charm, Arnaud Karsenti has credited luck, as much as capitalizing on good opportunities, for his success in managing and growing 13th Floor Investments.

13th Floor Investments is a real estate investment firm that focuses on value-add and opportunistic deals primarily in the Florida market. Arnaud recounts the early days of starting the company in 2008 when the market was very different from where it is today. Access to capital was very limited, but assets were also selling at a true bargain. He gave an example of a deal involving a portfolio of properties purchased in Homestead, Florida, for about a fifth of the

price it is valued at today. But the day before this deal was about to close, the stock market fell by about 800 points, which imperiled the deal as his primary investor, spooked by the almost ten percent one-day drop, decided it could no longer participate. With just 24 hours to replace this investor's capital, Arnaud was left to source it from an investor that was originally excluded from this deal. This was an investor not based in Miami, but who just happened to be in the city at the time, and so they held an impromptu meeting that stretched into the early hours of the morning at the 13th Floor office to work out details of their joint venture. The next day, with the new investor aboard, 13th Floor closed on the deal, and ultimately this partnership worked on multiple other profitable deals together. This just goes to show that sometimes Lady Luck can come through just in the nick of time.

When addressing how the company has performed since these early days, Arnaud was frank in admitting that, while 13th Floor has never lost money on a deal, it began in a down market that has been going up ever since. He advised the audience to remember that no investor is ever invincible. There will be a time when the market will correct, and it would be disastrous not to be mindful of that. To counter this overconfidence, 13th Floor Investments de-risks by not over-leveraging. Their internal target is to keep debt under 50% on all their deals. Leverage is powerful, and has the ability to increase the IRR by reducing the amount of equity invested in each deal. Therefore, equity returns multiply if the property cash flows meet or exceed the target. But if the actual cash flows fall below the anticipated target, and debt



service cannot be met, leverage can have a devastating negative effect, and investors can lose their properties to foreclosure.

Additionally, the company has a strict policy of never using leverage when acquiring land. Arnaud cautions against leveraging land because the debt starts a countdown timer, as interest is accruing on an asset that is not generating income. And over a long enough period, that pressure might force an investor to make a rash decision on the idle land.

The visit with Arnaud at 13th Floor Investments concluded with a tour of their recent condo development at 1010 Brickell Ave. At the time, they were able to acquire the underlying land for relatively good value, which meant they were also able to sell their luxury condo units at a very competitive price, hence why the condos are fully sold today. The Baker Program in Real Estate left with renewed insights on real estate investing, a breathtaking view of Miami, and some bespoke 13th Floor Investment Monopoly boards.

TURNBERRY ASSOCIATES

By Ryan Meiser

The Baker Program in Real Estate had the privilege of visiting Turnberry Associates during its Miami trek. Turnberry is one of Florida's largest and most influential real estate developers operating in the commercial, residential, and hospitality space. Turnberry has developed \$10 billion in commercial and residential property including approximately 20 million square feet of retail space, more than 7,000 apartment and condo units, 15 million square

feet of office space, and more than 3,000 hotel and resort rooms. Turnberry developments are typically grand in scale and include multiple master-planned projects such as Aventura and Solé Mia. Developments such as the Aventura Mall, Town Center Aventura, and Destin Commons create destinations in their communities. These projects have catalyzed major economic advances in their neighborhoods "creating community and making the whole greater than the sum of its parts" (About Us: Turnberry, 2020).

The Baker Program's visit to Turnberry commenced with an introduction from Donald Soffer, the visionary behind the development of Aventura, Florida. In 1967, the site was nothing more than 785 acres of swampland. Soffer, on behalf Oxford Development Company in partnership with Arlen Realty and Development Corporation, purchased this land for \$6 million funded by the John Hancock Life Insurance Company. Soffer moved to South Florida from Duquesne, Pennsylvania, where he was raised in a working-class community predominantly driven by strip mining. His father was a shopping mall developer in western Pennsylvania, which gave Soffer his start in the industry. After graduating from college in Massachusetts, Soffer returned to Pennsylvania and helped his father develop multiple shopping malls including South Hills Village, an indoor family shopping mall with dining, entertainment, and more than 110 stores (Bojnansky, Family & Fortune, 2012).

Soffer's father envisioned South Florida as the next frontier for speculative development. Soffer envisioned Aventura, the Spanish translation of "adventure," as a masterplan



centered around the Aventura Country Club. Soffer was keen to mention that the golf course was designed by the highly regarded golf course architect, Robert Trent Jones, and this created an attraction for the adjacent development. Soffer was given the responsibility of executing the development of the 785 acres of Aventura swampland. The site was drained and ultimately rezoned from single-family residential to high-rise development. When visiting the Aventura Mall today, it is almost unfathomable that the area was once swampland. The area is spotless, the roads are well-maintained, and the buildings are all gleaming. Aventura, aligning with Soffer's initial vision, is a high-end neighborhood of upper-class residents. The mall, which includes tenants such as Gucci and Burberry, caters to those seeking an upper echelon shopping experience. We met in the Level Three event space attached to the mall, which is connected to the mall by a large patio with games, ping-pong tables and a food court just beyond.

Though we did not visit the golf resort, Soffer described it as the catalyst for the entire community. Once the area was rezoned, the strategy of building vertically to preserve open land was employed and the partnership developed 4,000 condo units. This masterplan essentially created the entire city as it exists today. After developing multiple commercial, residential, and hotel structures on the site, Soffer and his team began to sell the now useable parcels to other developers which contributed to the evolution of the city.

Marina Kazartseva, Director of Asset Management at Turnberry, presented another exciting project to our trek class: the Miami Beach Convention Center Hotel. After other developers were unable to obtain community support, Turnberry stepped in to spearhead the project, a 185-foot-tall, 800-key hotel that was approved by more than the required 60 percent of voters. Turnberry was able to succeed where others failed for a number of reasons, including increasing the vehicle queuing area by nearly six times the previous proposal and reducing the overall height by nearly 100 feet. These efforts eased locals' concerns and resulted in a general community embrace. The City of Miami Beach also stands to earn an estimated \$96 million dollars in rent and percentage of hotel revenue over the next 30 years from the project (Gurney & Dolven, 2018). Kazartseva mentioned that while the project has been approved, there is still much to be done. They are currently finalizing the architectural and interior designs and are preparing to submit the updated plans to the city for review. Turnberry is also in negotiations with hotel brands regarding operations, which will affect the

design process to some extent. Once branded, Turnberry will raise the remaining equity investment needed to fund the venture.

Turnberry's latest mixed-use development, Sole Mia, is currently under construction in partnership with the LeFrak family. This development will consist of 12 residential buildings with 4,390 units and more than 1 million square feet of commercial area. Perhaps most notably, this project will include a 7-acre manmade lagoon.

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OCEAN TERRACE AND MAGIC CITY

By Parth Patel

On the morning of the final day of their domestic trek to Miami, Florida, first-year Baker students visited two developers with ambitions to transform different Miami-area neighborhoods through large, pioneering projects that are each currently in the pre-development stages.

The first visit was to a site owned by Ocean Terrace Holdings, LLC ("Ocean Terrace") and was led by Sameer Godiwala (MBA/MPSRE '17). Ocean Terrace is a real estate development firm with a single, significant mixed-use project on an oceanfront site in North Beach. This project is planned on a 2.21-acre oceanfront assemblage and, upon completion, will include hotel, condo, and retail uses. With an estimated cost of \$220 million, Ocean Terrace has already spent approximately \$100 million thus far to assemble the parcels and fund the lengthy pre-development process.

The vision for the site is to develop a flagship project with a hotel that attracts an upscale clientele (roughly \$700



ADR) and condominiums that will have an average sellout of approximately \$2,300 PSF. The team behind Ocean Terrace is committed to creating a refined luxury experience that will transform its North Beach neighborhood into what South Beach was at its peak. In fact, Godiwala specifically mentioned that what excited him to take on this role was an opportunity to be a pioneer in a neighborhood that has missed a few real estate cycles. Godiwala believes that North Beach has the potential to become the next “hot” neighborhood in the Miami area – a mantle currently held by Wynwood – and that the Ocean Terrace project can act as a catalyst for this transformation.

The site currently has an old hotel and a few dilapidated structures that are not structurally sound. To win the approval of the city and the local community, the team at Ocean Terrace agreed to preserve the existing hotel’s façade and completely rehab the structure. In addition, Ocean Terrace also agreed to acquire the street and its associated parking, which currently separates the project from the beach, and invest approximately \$15 million to convert this land into an oceanfront public park designed by Raymond Jungles. While an easement will ensure that this park remains freely accessible by the public, by purchasing and improving this parcel Ocean Terrace was able to convert its holdings into oceanfront property as well as increase its allowable FAR and thus the size of its buildings. Having secured the City of Miami Beach’s agreement with respect to the vacation of the street as well as the support of neighboring property owners, Ocean Terrace will likely break ground on its project in 2020.



Baker Program students next visited a site known as Magic City located in the Little Haiti neighborhood of Miami. Magic City is an innovation district with grand development plans to transform its neighborhood. The project is led by Tony Cho of Metro 1. The innovation district is in its infancy stage and is being planned around four pillars that serve as its guiding principles: technology, health & wellness, sustainability, and art & culture.

As we look to the future, climate change and sustainability are big issues across the globe. Given Miami’s geographical location on the ocean, the impact of climate change is already being felt heavily in the area, and there is a future fear of even greater impacts stemming from rising sea levels. Cho has a strong desire to attract tenants with a focus on research and innovation that fight climate change. In addition to this desire for research and innovation, the



masterplan has been designed to reduce automobile use and preserve the culture of Little Haiti. While Cho wants to redevelop parts of the neighborhood, he does not want to do so at the cost of the area losing its identity.

All of these considerations roll-up into a forward-thinking master development plan that is sure to transform Little Haiti. Cho is committed to building on his track record and the success he had as one of the earliest investors in the Wynwood neighborhood and the Design District, two rapidly-developing and popular neighborhoods in Miami.

RIALTO CAPITAL

By Madhura Kharche

As the final stop on their trek, first-year Baker Program in Real Estate students visited Rialto Capital's new office on Biscayne Boulevard in downtown Miami. This visit was coordinated through the Baker Program's fortunate connection with Director Michael Mashioff (ILR '04). Rialto was founded in 2007 as a subsidiary of Lennar Corporation, the largest home-builder in the U.S. In 2018, Stone Point Capital – a Greenwich-based private equity fund run by Goldman Sachs' former CEO Steve Friedman – purchased Rialto. The Rialto platform invests in real estate across the capital stack, including floating rate senior loans, mezzanine loans, B-Notes, and direct real estate, with the

most prevalent component of their investment platform being the CMBS B-Pieces.

According to Director Brian Klein, Rialto is unique because it manages all types of commercial real estate assets across all 50 states. These assets include hotels, industrial, offices, retail, self-storage, and multifamily. In addition, Rialto offers an exhaustive list of in-house services, ranging from underwriting initial investments to being the point of contact for borrowers and managing foreclosure activities in the CMBS universe. David Jervasi, Senior Vice President of Finance, emphasized the importance of this diversification, which provides Rialto a competitive advantage. With an integrated investment and asset management structure, Rialto controls each aspect of the investment process, unlike comparable firms in the market.

With a conscious effort to internalize all services, Rialto enjoys some notable benefits as compared to its competitors. Servicing and monitoring deals in-house gives Rialto preemptive insights into potential issues (e.g. retailers filing for bankruptcy in spite of regular payments on loans). This allows Rialto to compile comprehensive data to create an information loop within the company that will allow for informed decisions with respect to other similarly situated properties. Rialto's clients are often impressed by the attention to detail given to small-scale issues as its team underwrites large-scale deals. This strategy is important to Rialto as it does not have to rely on third party asset managers. Being self-sufficient allows teams to be internally answerable and to avoid charging clients multilayered fees.

The four core departments under Rialto's Asset Management department are CMBS Performing Loans, CMBS Loan Workout, Real Estate Asset Management ("REO"), and Collateral Surveillance. The CMBS Performing Loans department focuses on various real estate transactions such as leasing matters, property sales, and hotel franchise agreements. The Loan Workout department, on the other hand, explores the investors' options in the case of a default and analyses the degree to which loan terms may be modified before a foreclosure is imminent. The Asset Management team (REO) adopts a capital improvement strategy, wherein it assesses, manages, and liquidates real estate owned by Rialto or its subsidiaries to then determine the optimal holding period and market value of each asset. Finally, the Collateral Surveillance team monitors risks associated with Rialto's CMBS bond investments. The successful performance of this department is essential in



making Rialto a market leader as it studies the effect of macro-level issues (e.g. natural disasters) on commercial real estate cash flows.

CMBS loans are an important and growing part of the debt universe. The benefit of CMBS is that these loans are usually non-recourse and allow fixed interest rates at loan origination, which is attractive to borrowers. On the other hand, CMBS loans can be restrictive for borrowers and the tax implications for investors can be complicated. CMBS loans are generally appropriate for built properties with solid past performance, which helps in accurately underwriting the asset and projecting cash flows.

For Rialto, on the fund business and capital raising side, foreign investors play a key role, especially for a company in an international market such as Miami. This part of the business focuses heavily on long-term relationships with players including (but not limited to) pension funds, high net worth individuals, insurance companies, and sovereign wealth funds in countries like Singapore and Japan. Mr. Mashioff explained the concept of “sticky capital,” wherein trust is built with an institutional partner who repeatedly commits capital to the sponsor, causing smaller investors to follow in its footsteps. In repayment of Rialto’s good faith partnership, an investor made a significant investment in its fund after a decade of Rialto’s relationship-building and superior performance.

As parting advice, Mr. Mashioff advised the first-year Baker students to learn and master a specific set of skills, including financial analysis and accounting fundamentals, to stay up-to-date with current events, and to focus on communication skills. On this latter point, the ability to read, comprehend, distill, and present information in a digestible manner to senior management is an essential skill.

