Forbes

Trump, The Russian Connection, And The Future Of Ultra Luxury Real Estate

February 21, 2017 Peter Lane Taylor

President Donald Trump speaks with Russian President Vladimir Putin on the telephone in the Oval Office. Courtesy of Pete Marovich / Pool via CNP / MediaPunch/IPX

Whatever your political optics no one can avoid the word "Trump" these days. So amid all of the executive orders, cabinet hearings, and media ju-jitsu doesn't anyone else find it surprising that we haven't heard much about the segment of the economy closest to the new President's heart: luxury real estate?

If the sparkling, new multi-million dollar Sunny Isles Ritz-Carlton Residences sales center just north of Miami Beach is any indication of what the "Trump Effect" means for international real estate investment in the U.S., it's already giving it a nice tailwind. It's also a telling symbol in some ways of what a Trump Presidency represents economically and globally from the outside in.

The recently opened Ritz-Carlton Residences Sunny Isles sales center

The Ritz-Carlton Residences Sunny Isles have some of the best views in South Florida. Courtesy of DBOX

Even during the Great Recession and Trump v. Clinton, luxury American real estate never lost its appeal to high net worth international buyers, particularly from emerging economies like Turkey, Brazil, Russia, and China. The U.S. dollar and stock markets remain strong. The rule of law still prevails. And despite recent financial disclosure requirements for residential purchases over $5 million, the American pied-a-terre is still one of the world's safest (and most enjoyable) financial investments. Miami and Beverly Hills are also a lot more climatologically hospitable than Europe in the winter (sorry London).

The Ritz-Carlton Residences Sunny Isles has the best piece of the property on the beach. Courtesy of DBOX

That this inflow of high net worth international buyers—and capital—into the U.S. might increase with real estate mogul-cum-President Trump now in office has many developers cautiously buzzing.

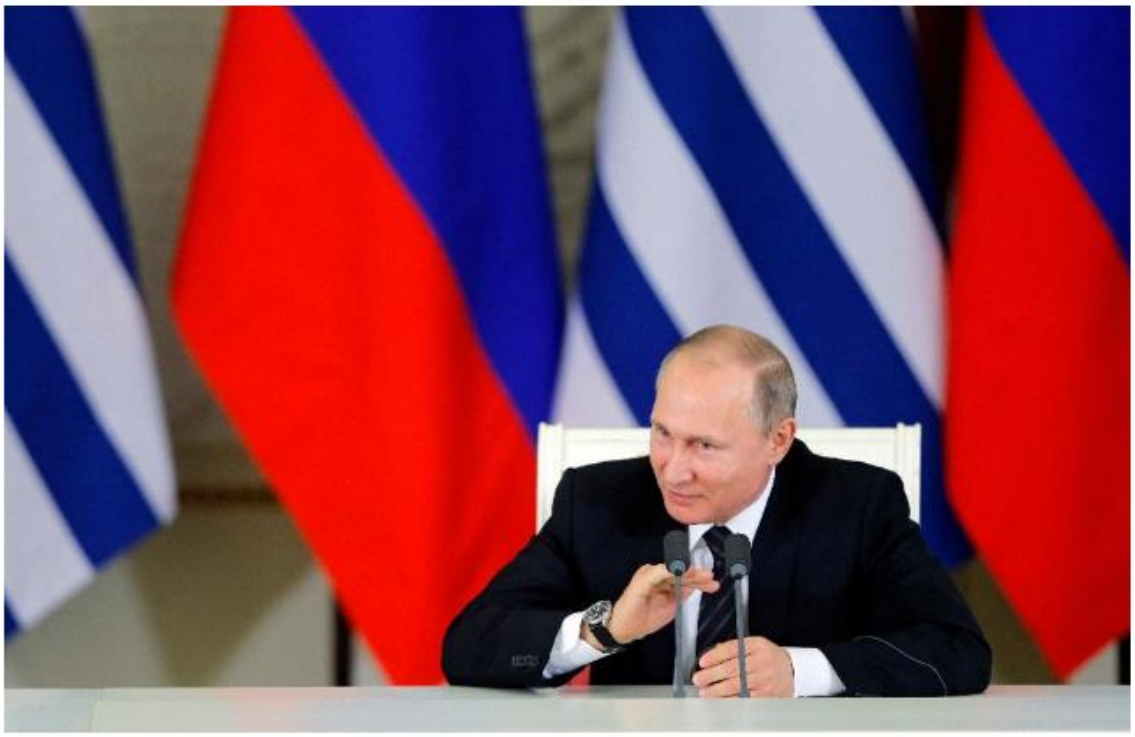
"We weren't hedging our bets on the election outcome," says Edgardo Defortuna, President and CEO of the global real estate development company Fortune International Group, which is spearheading the Sunny Isles' Ritz-Carlton Residences. "But on a real estate basis a lot of us (developers) are very happy. If Trump wants to give the economy a jump start through infrastructure and taxes and making investment in the U.S. more attractive it's definitely going to have a positive impact on the real estate market so from that point of view I'm very optimistic."

Miami at night. Courtesy of Shutterstock

It's actually a bit of surprise that some investors and developers are getting bullish on the U.S. luxury real estate market so soon after an election, particularly in South Florida.

Over the past year luxury properties in Miami-Dade County have taken a beating. Zika, a strong dollar, continuing economic instability in parts of Latin America, and white hot over-supply since the Great Recession have all combined to pummel luxury prices and sales down by almost 20% year over year since 2015. And despite the Dow climbing towards 21,000, uncertainty remains with respect to President Trump's upcoming policy directives on taxes, deregulation, the EPA, and immigration—all of which have a direct impact on the ebb and flow of international real estate dollars.

So why is Defortuna, who recently secured another $163 million in construction financing for his 52-story sail-shaped beachfront tower, so optimistic?



Russian President Vladimir Putin speaks to the media after his meeting with Uruguayan President Tabare Vazquez in the Kremlin in Moscow. Courtesy of Yuri Kochetkov/Pool Photo via AP

The Bear (Market) Is Back

For starters, say many people on the ground in Miami—the "Russians".

Notwithstanding the recent resignation of General Flynn as National Security Advisor over his conversations with the Russian ambassador, the mere possibility of a Trump "reset" with Putin and a diplomatic thaw appears to be breathing oxygen back into the Russian appetite for American real estate. In the months leading up to the 2016 U.S. Presidential election—just as the Defortuna was breaking ground on his Ritz-Carlton Residences project— the number of Russian buyers searching for luxury properties in Miami-Dade County surged to its highest level since 2013.

High net worth Russian buyers largely went soft during the Obama administration. So the current Russian reset has potentially far reaching implications for U.S. foreign investment, the domestic construction economy, and the continued growth of speculative real estate markets in coastal cities like Miami, New York, and Los Angeles where the most expensive buildings are often occupied by up to 70% in-absentia, foreign "residents".

Bal Harbour stretches away to the south of the Ritz-Carlton Residences Sunny Isles. Courtesy of DBOX

The Ritz-Carlton Residences Sunny Isles oceanfront pool at sunset. Courtesy of DBOX

"Just the possibility of Trump becoming President was a catalyst to what you're seeing happening now in Miami real estate when it comes to Russian buyers," says John Harris, Managing Partner and Chief Wealth Advisor for Coral Gables Trust which represents dozens of high net worth international clients, including many Russians.

"Trump early on back in the 1980s made entrees into the Russian market in terms of soliciting buyers for his condominium buildings. Those connections with very high net

worth Russians haven't gone away. Now he's the President of the United States. So if you're an affluent Russian with the ability to invest somewhere in the $1 million to $10 million price range in a luxury property outside of Russia, there's a feeling in general that his administration is going to be favorable to real estate interests."

Beachfront construction is soaring on Sunny Isles beach. Courtesy of Shutterstock

Say Hello To My "Little Moscow"

Few places is this on display more overtly than Sunny Isles, Florida known since the 1990s as Miami's "Little Moscow" when the first wave of wealthy Russians started snatching up waterfront condominiums here. In many restaurants and bars you'll hear more Russian than English and find Borscht, Chicken Kiev, and Siberian Pelmeni on the menu above the spiny lobster. There are two Trump branded developments in Sunny Isles within blocks of one another.

It's difficult to say how much politics—or Russia—is involved in Sunny Isles' currently screaming hot luxury real estate market. Many of the current projects wrapping up or breaking ground, including the Muse Residences and the Porsche Design Tower, were on the boards long before Trump contemplated a Presidential run. But everyone locally seems to think that Trump's possible rapprochement with Putin—and the potential relaxing of economic sanctions with Russia—will only add more heat to the market.

Ritz-Carlton Residences Sunny Isles looking south towards Bal Harbor. Courtesy of DBOX

A Ritz-Carlton Residences Sunny Isles' living room looking northeast. Courtesy of DBOX

Ironically, courting Russian buyers wasn't part of Defortuna's development calculus. Because it didn't have to be. He has the best piece of the property on Sunny Isles' beach—the first building north of Bal Harbour with protected land and waterfront stretching almost two miles to the south. His brand partnership with Ritz-Carlton excluding a transient hotel component also ensures that his residents get the ultimate

hospitality experience without the constant traffic and having to wonder who their neighbors are every weekend—a rarity in some parts of Miami these days.

But a potential resurgence of high net worth Russian buyers into Miami doesn't hurt, Defortuna says.

The recently opened Ritz-Carlton Residences Sunny Isles sales center

View of the towers of the Kremlin and the Moscva City. Courtesy of iStock

Part of the rosy Russian forecast for American luxury real estate is purely economic. After years of enduring a weak rubble, sluggish growth, and recent financial sanctions, Russians' purchasing power is coming back.

"Russia was turning the corner in many ways economically even before the election and the possibility of relaxing sanctions was even theoretically put on the table," Harris explains. "Russian GDP is forecast to grow by 1.3% in 2017 and 1.8% in 2018. That's a lot faster than most other countries who have traditionally invested in U.S. real estate so there are going to be a lot of developers especially given the Trump Presidency who will be looking hard at the Russian market and Russian buyers on pure economic terms since many Latin American countries are still struggling."

Miami Beach nightlife. Courtesy of Shutterstock

The other part of the Russian real estate resurgence never left, says Harris. "Russians just like the culture in Miami. The beaches, the high-end shops, South Beach, Bal Harbor, the gourmet restaurants, that's all appealing to them in a quasi-European kind of way so beyond just the financial stability of the investment in real estate here, Russians like the lifestyle. I'd expect the 'Russian factor' to have a significant impact on Miami real estate for a while as well as places like LA and New York."

The Ritz-Carlton Residences Sunny Isles oceanside pool. Courtesy of DBOX

Defortuna agrees. While he's wary that Trump's stance on immigration could scare away some potential buyers, particularly from Mexico and the Middle East, he also knows that the potential Russian offset could be key to selling his building out.

"The Russian factor is very real," says Defortuna, who works with a global network of brokers to market his properties specifically to Russian buyers among others. "Especially in Sunny Isles which was very attractive to Russians in the previous cycle. The past administration wasn't very favorable to people from Russia. But with a better investment climate, better access to the U.S., and a growing economy that could all change very quickly."

Ritz-Carlton Residences Sunny Isles looking south and west. Courtesy of DBOX

You Can't Put A Price On Privacy

The potential Russian reinvigoration of the U.S. real estate market also points to broader trends that can be expected from the Trump Administration, say many investment and tax experts.

"A number of factors are driving non-resident, international buyers to continue investing in U.S. real estate," says Bill Rohrer, an international tax partner at Duane

Morris LLP, whose practice includes planning for inbound foreign U.S. investment. “Some of the increase in interest you’re seeing right now is more ‘expectation’ than anything else. We have deregulation taking place, we have a commitment for more infrastructure, and because of the possible reduction of individual tax rates and the repeal of the estate tax a lot of wealthy non-residents are going to be interested in moving permanently to the U.S., bringing their families here, and becoming residents. As much as Trump may be anti-immigration, I don’t think he’s going to be anti-immigration of the wealthy. This is all going to encourage real estate investment especially in the coastal cities like Miami, New York, and Los Angeles.”

All of the Ritz-Carlton Residences Sunny Isles’ kitchens have floor to ceiling waterfront views. Courtesy of DBOX

One of the Ritz-Carlton Residences Sunny Isles' best assets is it's location directly on the beach. Courtesy of DBOX

While this is good news for developers and cities that would love the extra property tax revenue, it revives a long-standing concern about where all that international money is coming from—especially when it comes to Russia.

That some of Russia's money invested in U.S. real estate may not have originated from the purest sources has never been in doubt. But Rohrer is quick to point out that, while tax evasion and dirty money are real issues, most international buyers investing in a second, third, or fourth residence in the U.S. are looking for the "privacy premium" above all else.

"In many countries no matter how much you're worth," says Rohrer, "You're on a roller coaster when it comes to the domestic investment economy. But it's often the security concerns that are first and foremost for (my clients). Kidnapping and extortion are still very real issues in a lot of Latin American and other countries. So when many international buyers are looking for 'privacy' it's not that they're looking to hide anything or avoid paying taxes. It's about their family's safety because once the government knows what you have in some countries you never know where that information goes or how it's going to be used."

A master bedroom at the Ritz-Carlton Residences Sunny Isles. Courtesy of DBOX

So what's the scorecard so far on President Trump when it comes to luxury real estate? Apolitical and optimistic, says Rohrer, noting that a growing economy for any reason is something that all Americans should be happy about. All buildings create jobs.

"Most people outside of the U.S. are betting that Trump won't be self-destructive, that he'll be more methodical—not necessarily in what he says—but in what he does," Rohrer speculates. "The cabinet members he's selected all know about wealth creation, about creating the environment for investment. He's surrounded himself with smart people. And investors are showing that they're generally feeling good about that, particularly in the real estate markets."

Regardless of what the Russians do, Defortuna's Ritz-Carlton Sunny Isles Residences will likely sell out within the next few months. It's already 65% pre-sold, including three full floor penthouses on the 48th, 51st, and 52nd floors which have already gone under contract for $8.9 million, $21 million, and $16.5 million respectively.

Meanwhile anyone who wants to give President Trump any credit for the cautiously improving luxury real estate market is probably doing it in private.