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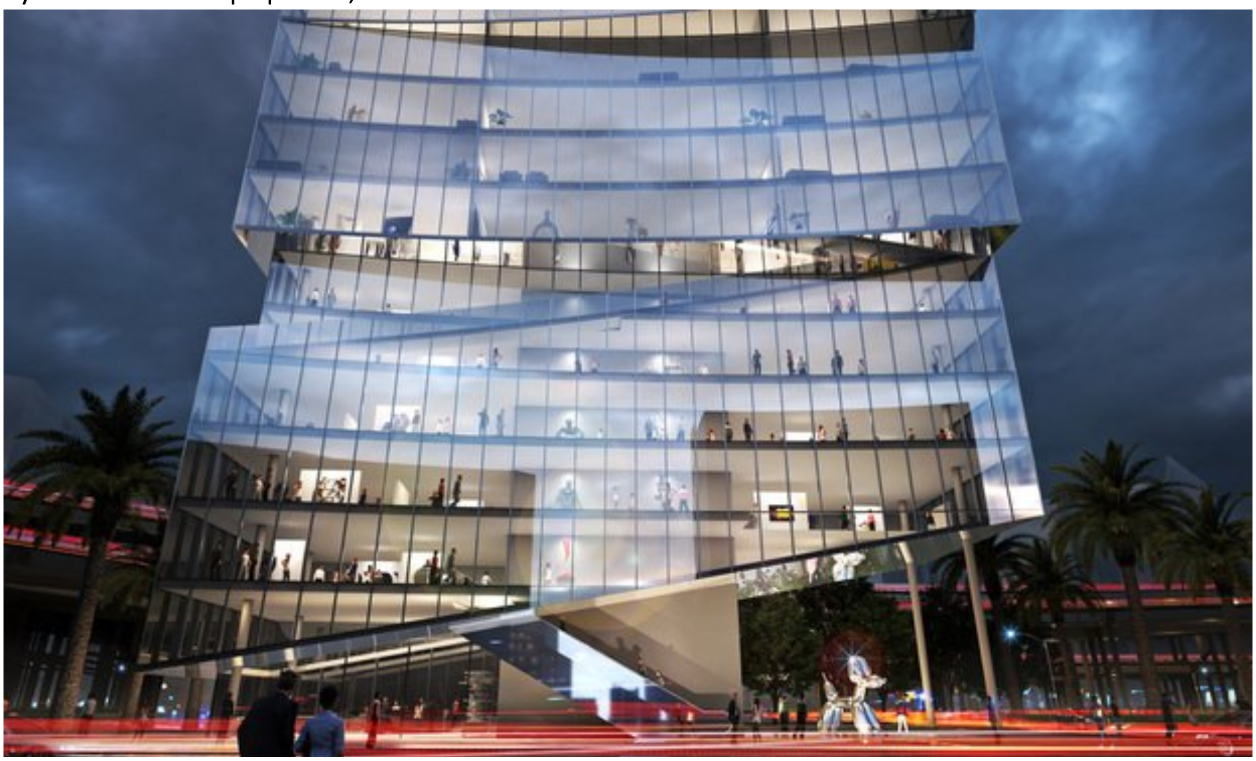
South Florida Opportunity Zone Investments Strong Even Before Latest Guidelines

Some South Florida developers forged ahead with OZ project planning even before the second round of regulations were issued.

By **Lidia Dinkova** | April 23, 2019 at 11:12 AM



Developer Sean McCormick is looking for a joint venture partner and investors to help develop The Basel Miami, a 36-story office-hotel tower on property McCormick has owned since the 1970s at 205 SW Third St. in downtown Miami. Courtesy of Palma & Partners

The appetite for opportunity zone projects already was strong in South Florida before the federal government released a second round of regulations.

In most real estate circles, developers and investors were seen as waiting for the latest OZ guidelines before embarking on projects. Not so in South Florida.

The relatively robust market had emerging areas like the Miami River District and Delray Beach, and preliminary regulations were enough for some developers to embark on OZ projects before the [Trump administration released another 169 pages of guidelines](#) last week.

“Initially, just the law itself was really attractive and powerful for real estate holders who want to build and hold for a long period like we do,” said Scott Meyer, who is part of the joint venture developing Soleste Grand Central in a designated zone near the Virgin MiamiCentral passenger train station.

The Tax Cuts and Jobs Act in 2017 created the opportunity zone law to encourage investment in real estate and businesses in economically distressed areas. Investors can take capital gains from any venture and put them into a qualified opportunity zone fund that seeks eligible projects.

In return, investors can get a break on the federal capital gains tax and get appreciation of their OZ investments.

The Internal Revenue Service and Treasury Department last October issued the first round of regulations, which were enough for the Soleste Grand Central developers.

“We had started putting a business plan in motion but needed that first wave of guidance,” said Meyer, chief investment officer at PTM Partners LLC. “I think that round of guidance really gave us enough to embark on these investments that we ended up closing.”

PTM Partners, a development company founded to focus entirely on OZ projects, is working with South Miami-based Estate Investments Group to build the 18-story, 360-unit apartment complex at 218 NW Eighth St. Construction is due to finish in summer 2021.

PTM, which has offices in Miami and New York, and Estate Investments bought the 1.3-acre site for $9.7 million this year. And they aren’t the only early birds to get their OZ site before the second round of regulations.

‘CHERRY ON TOP’

Because some developers opted to wait for this month’s regulations, TSG Group and Linéaire Group had an opportunity to close on a coveted OZ site in Miami.

“We saw an opportunity because a lot of people were waiting on the sidelines to see how the regulation was going to come out,” Diego Bonet, Linéaire managing partner, told the Daily Business Review in March. “All the big players were waiting on the sidelines, so we wanted to make sure we were one of the early movers and jump on this before all of the guidance had come out.”

TSG and Linéaire, both based in Miami, paid $5.9 million for the 30,000-square-foot vacant assemblage at 1765 N. Miami Ave. to build a 24-story apartment tower with ground-floor retail by early 2022.

In Delray Beach, PEBB Capital was pursuing a nine-building office and retail complex along Atlantic Avenue west of Swinton Avenue with or without the area's OZ designation.

The eastern part of Atlantic Avenue is a booming entertainment district, and PEBB's James Jago expects that to creep westward past Swinton Avenue.

"We think as time goes by, the cool corridor will continue to march west into the OZ," said Jago, principal and managing director in Boca Raton. "The OZ designation was kind of like a bonus, and it will accelerate the trends we already have been seeing. But it's not like we needed it to make it work."

In Miami, Sean McCormick said the OZ tax law and the creation of an OZ encompassing his parking lot at 205 SW Third St. prompted him to opt for redevelopment.

McCormick, whose family has owned the lot since 1974, is looking for joint venture partners and qualified opportunity zone funds to help him develop The Basel Miami, a 36-story, 234,000-square-foot tower planned with a hotel and office.

The site is about two blocks northeast of the Miami River in a district experiencing vigorous redevelopment.

"It's obviously been a big combination of everything with market timing, the Miami River becoming that next hot area and the downtown core becoming that next hot area of Miami," he said. "So really this opportunity zone is just the cherry on top."

McCormick said he will pull construction permits by year's end.

EXPECT MORE

Miami attorney Stevan Pardo said many other developers and investors waited for the second round of regulations to drop.

"They are clearly more motivated to do something today after these regulations came out," said the Pardo Jackson Gainsburg partner. "I think they are more interested because they see the Treasury is seeking to make things more flexible and more able to be accomplished."

The guidelines answered a lot of lingering questions posed by the first set of regulations and gave investors more leeway to use the tax breaks.

The recently released guidelines are subject to a comment period, and a public hearing will be held July 9.