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PROPERTY REPORT

Shedding Seinfeld Stereotypes, Boca Property Developers Court Younger Crowd

New development includes rental units, retail and plans for city's first luxury hotel in decades

Lotus Capital Partners, LLC, an independent real estate investment banking firm, announced that it has arranged a $318 million capital stack to finance the construction and recapitalization of Via Mizner, a two million-square-foot mixed-use project in downtown Boca Raton. PHOTO: HARVEY SMITH

By Peter Grant

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For years Boca Raton, Fla., was known by most people as the retirement town of Jerry Seinfeld's parents on the hit television show.

Now developers are appealing to a younger crowd. In recent years they have rolled out rental housing, retail and nightlife targeting people who are more into fine dining than early-bird specials.

Downtown Boca Raton is getting its first new luxury hotel in decades. Penn-Florida Cos., a developer in the state for three decades, has obtained $318 million in debt financing for a 2 million square foot project that includes a 164-key Mandarin Oriental Hotel & Resort.

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Penn-Florida secured the financing from Mack Real Estate Credit Strategies, a three year old firm that has become an active so-called nonbank lender. These lenders have been focusing on construction financing and other riskier loans that many traditional banks are reluctant to make.

Penn-Florida's project, named Via Mizner, includes the planned Mandarin hotel, a recently-completed 366-unit rental apartment building, 88 condominiums and 60,000 square feet of retail. The rental building, which opened last year, is about 50% leased, according to Mark Gensheimer, chief executive of Penn-Florida.

Mr. Gensheimer said that when his company acquired the site for Via Mizner in 2007 he wasn't considering a rental building. But since then, "The entire country has changed its perspective on renting versus owning," he said. "People that have the choice of either renting or owning have chose to rent for the lifestyle."

The U.S. homeownership rate hit 63.7% in the second quarter, the Census Bureau said. That is well below the historical average but up nearly a full percentage point from a year ago, when it touched a 50-year low of 62.9%.

Via Mizner's website lists studios starting in the $1,639 a month range and three bedroom units that run as much as $6,055 a month.

Demand for hotel rooms in the area has been rising. The occupancy rate in the Boca Raton/West Palm Beach market was 74.9% for the first eight months of the year, up 0.7% compared with the same period last year, according to data firm STR Inc. The average daily rate was $178.23, up 0.8%, the firm said.

But it isn't as if Morty and Helen Seinfeld would no longer feel at home in Boca Raton. More than 39% of the population was over 55 years old in 2015, roughly the same as 2010, according to the city's website. The country club lifestyle still appeals to many. Siemens Group is developing a 139-unit condominium named Akoya Boca West in a private club community. About 50% of the units have sold, according to Rob Siemens, a vice president.

The loan from Mack Real Estate provided funds to refinance the Via Mizner rental building, develop the Mandarin hotel and replace a land loan that had been on the parcel where the condominium is going to be built. The interest-only floating rate loan with a term of close to four years is designed to give the developer enough time to stabilize the project and obtain longer-term financing.

Penn-Florida selected Mack partly because principals of the firm have extensive experience in development and understood the different dimensions of the Via Mizner plan. "They treated this as a partnership as opposed to a lender putting a term sheet out and saying: here's what we can do," said Faisal Ashraf, chief executive of Lotus Capital Partners, which arranged the financing.

Mack Real Estate was formed by William and Richard Mack, a well-known investment team that was active in such ventures as private-equity firm Apollo Real Estate Advisors, and Peter Sotoloff, who was head of debt originations for Blackstone Group LP. The firm expects to originate close to $4 billion in loans this year, Mr. Sotoloff said.

Banks and other traditional lenders have become more active in making first mortgages on stabilized properties and other less-risky assets. But they have had less of an appetite for construction loans which pay higher interest rates but also are more risky, finance experts say.

Nonbank lenders "are basically saying there are gaps in lending after the financial crisis and we can establish pools of capital that lend in a manner that still make real estate work," Mr. Ashraf said.

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