

In tough market, office condos turn to rentals

Holly Sime Realty has become a buyer, landlord and seller of office condos in its newly opened Miami Green building.

The building developer and brokerage house acquired 9,800 square feet, with plans to relocate its corporate headquarters there this summer, according to broker Bert Checa.

Holly Sime also is branching out from its original sales strategy to market condo space for lease, he said, leasing 4,600 square feet to Clorox Greenworks. The building will become home to the cleaning products company's Latin American headquarters.

So far, about 55 percent of the 122,000-square-foot building is under contract for purchase, including Holly Sime's recent acquisition. The building is seeking Leadership in Energy and Environmental Design (LEED) certification from the U.S. Green Building Council.

Checa said the developer would likely end up buying more space to help close out building sales. The space is being marketed for \$475 a square foot for sale and \$30 a square foot - not including electricity, maintenance and property taxes - for lease.

Checa said Holly Sime paid market rates for the space.

"Our expectations about the market were different when we started," he said. "However, our development team and our sales team have done an excellent job of adjusting to the market to be able to maintain activity and succeed and continue to move space."

Miami's Green's new strategy reflects broader challenges facing office condo developers in the post-boom real estate market.

Many projects in South Florida were conceived with off-the-market pricing expectations, some real estate experts say.

The bottom line is that the after-tax cost of buying an office versus leasing one must be cheaper, Cushman & Wakefield senior director Alan Kleber said.

Kleber worked with office condo developer Hank Bush, who acquired 1000 Brickell Ave. in Miami and the Galleria Corporate Centre in Fort Lauderdale, with plans to convert them into office condos.

The 12-story 1000 Brickell Ave. building sold two years ago. It was acquired for about \$180 a square foot and resold as condos in the \$290-a-foot range.

The Galleria building is nearly 50 percent sold, Kleber said. The challenge there is find-

ing buyers that can overcome the hurdles of today's financing markets, he said.

Office condos grew out of the residential boom. Early demand drove prices into the stratosphere, fueled, in part, by investors looking to flip or lease units for top rents.

Cracks in that strategy emerged by early 2007, and a wave of planned office condos were shelved. Rents are generally not high enough to cover the purchase price or development costs.

Now, many lenders are faced with taking back partially sold office condo buildings, CB Richard Ellis Vice Chairman Charles Foschini said.

"There will likely be many," he said. "We haven't yet seen them, but the groundswell is building."

LEASING UNSOLD SPACE

Tony Puente, senior VP of Fairchild Partners, said buildings that 18 months ago marketed themselves as pure condo offices are now trying to lease unsold space.

Owners of 75 Valencia in Coral Gables converted it to office condos three years ago.

At its peak, 75 Valencia's asking prices were \$360 to \$370 a square foot. Owners allowed leases to run out on the existing tenants so they could sell the entire 98,000-square-foot building as condos. They are now trying to release the space, Puente said.

Maintenance is also becoming a burden. Partially converted buildings can't generate enough in maintenance fees to cover costs.

"Guys can't afford to maintain them or occupy them," said Tom Capocefalo, managing

director of tenant broker Studley. "When they look at rental rates, they realize they have to put in additional improvements, and the rents they expected to receive are not supported by market."

But, the office condo model does work under the right circumstances, said Ken Weston, who has been developing office condos since 1978.

Weston said there are opportunities for buying troubled projects in prime spots, with at least 50 percent of the space sold to medical users.

TIAA-CREF and Flagler Development brought in Weston & Associates to convert and market Palms at Town Country, two buildings totaling 134,000 square feet, as a medical office condo.

Weston expects more shoes to drop as speculator shakeout continues. Many investors would rather walk away from deposits than close in this market, he said. They also can't get financing because appraisals are coming in lower than the sale price of comparable units.

"Some people sold to investors with the idea of flipping them," Weston said. "I don't know who you want to consider in trouble: the developer or the buyer."