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Veteran Miami office broker takes wait-and-see attitude

By Jennifer LeClaire

Miami is coming down from a commercial real estate peak that enjoyed low office vacancies in the urban core, but the Magic City could be headed for a skyrocketing vacancy rate in the years ahead if the economy doesn't pick up -- and fast.

At the end of the third quarter, Miami's leasing activity year-to-date was slightly ahead of levels recorded in 2007, according to Cushman & Wakefield. However, the firm expects leasing activity for the year to be lower than in 2007. Making the picture a little grimmer, direct absorption was again negative for the quarter. This trend is expected to continue as companies put excess space on the market.

Miami office inventory stood at nearly 44.8 million square feet at the end of the third quarter, at the time two new buildings came online -- the Merrick View, a 78,454-square foot building in Coral Gables and the 49,000-square foot Bird Road Professional Office Center adjacent to the Palmetto Expressway.

Three premium Class A office towers totaling 1.9 million square feet are currently under construction in Miami's Central Business District. The three buildings -- 1450 Brickell, Brickell Financial Center and Met 2 -- are all scheduled to come online sometime between late 2009 and the middle of 2010.

Indeed, with more office inventory coming online in the next two years, older buildings could sit dark as new, pre-leased towers see high occupancy rates at their expense. Since Miami's market is driven by procyclical industries such as finance, real estate and tourism, the city is exposed to the same down U.S. and global economies that
buoyed it in the up market.

How high Downtown Miami's office vacancies climb remains to be seen, but most experts agree that the numbers could rise quickly beginning in late 2009 if the economy doesn't rebound in the next few quarters.

The Real Deal caught up with Tony Puente, a senior vice president at Fairchild Partners, a commercial real estate services firm in Coral Gables, to discuss the ins and outs of Downtown Miami's office sector in a shifting economy. Puente offers a perspective based on 19 years of experience in South Florida markets, representing both landlords and tenants in over 650 transactions.

TRD: What's the state of the office market right this minute?

TP: We are coming off the tightest office market that Miami-Dade County has experienced in many, many, years. Two thousand seven was the peak. From 2002 to 2007, no office buildings were built and we had some pretty significant absorption. Everybody focused on multifamily and retail. Now those components of the market are struggling. Recently, groups identified parcels to start building office buildings again.

Sitting here in 2008, we are still in a healthy office market. Landlords are still close to all-time highs in terms of rental rates. We reached our peak and there's a little pressure on the downward side now. You are seeing tenants

that are pitting landlords against each
other a little bit and trying to gain an edge in terms of lower rental rates or increased concessions.

The next 12 to 18 months will remain pretty steady, but that could change in 2010. The market could potentially deliver about 4 million square feet of new office product in Miami-Dade County over the next 20 to 30 months. So 2010 to 2011 could be years where we may see some spikes in vacancy unless absorption changes from a historical pattern. How much depends on what events happen here in the next 18 to 24 months in terms of new businesses expanding, whether domestic or foreign.

TRD: How is the financial meltdown impacting the Miami office market?

TP: Miami, in some ways, is isolated from some of the financial meltdown. In other ways it's very tied into what's happening in some of the financial cycles. Wachovia is a user in our marketplace, so we'll end up seeing how [Wells Fargo] treats those leases.
Lehman was a big lender in our community and also a user of space. We'll see what happens in terms of the future of those spaces.

There is a lot of uncertainty in the marketplace and a lot of cautiousness among tenants. You are not seeing tenants take that extra bit of space because they plan on growing. You are seeing, if anything, more of a hold-and-see and let's wait it out.

TRD: Are there any major surprises in South Florida's office market?

TP: Not really. We know that 1.9 million square feet is presently under construction all within a mile of each other -- three major projects between Brickell and Downtown Miami. So we know what's coming. For all those buildings to be delivered in the next few years is going to increase our vacancy rates and potentially push landlords to be a little more creative and perhaps offer certain concessions that they weren't offering some time ago.

TRD: Let's talk about the international impact on Miami. What international deals are you doing now?
TP: We are dealing right now with a Swedish firm and with a group out of England. There are always Spanish groups here. Coral Gables is one of the tightest markets. There's hundreds of hundreds of Latin American headquarters in Coral Gables. What we have been preaching for a very long time about Miami as an international gateway is happening right before our eyes.

TRD: What's the long-term perspective, say, five years out?
TP: I always like to look [to] Miami's history. I was born and raised here and I started my career in the late 80s, so I saw the down cycle of the late 80s and I saw the down cycles of the early 2000 and 9/11. Miami is always so resilient. The city bounces back at a level that nobody even imagines.