

Office condo market crash ahead, experts say

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Experts called the office condo conversion of Miami's 295,000-square-foot SBS Tower the biggest on record. Perhaps they spoke too soon.

Industry number crunchers noted in May, when the SBS Tower's owner announced its conversion, that the project - along with the selling of office space at the Grand Bay Office Tower - virtually knocked out all of Coconut Grove's Class A office inventory. Those observations may not hold for long - and not because a bigger building has entered the office condo conversion arena.

Although SBS Tower's owner insists that sales of its office space are still on, it confirms that some space at 2601 S. Bayshore Drive will be leased. It maintains that's been the plan all along.

The fast and furious office condo trend appears to be following the familiar pattern forged by apartment conversions in a residential market gone soft.

Hybrid properties - with some units owned and others leased - are on the rise as apartment and office converters are either unable to sell out or are finding units fragmented among investors.

"We're starting to see cracks [in the office condo market] that were there from the very beginning," said Tom Capocefalo, managing director of **Studley**'s Fort Lauderdale office, which represents tenants.

The office condo trend was launched about 18 months ago as the next big thing for investors, but Capocefalo contends "that shallow pool of buyers has been scraped."

At the same time, Miami's office market has vacancy rates unseen since the 1980s, said Tony Puente, senior VP of Miami-based Fairchild Partners. Figures are below 8 percent across Miami-Dade and as low as 3 percent in some submarkets, he said.

Speculation among commercial real estate experts is that the entire 22-story SBS Tower may revert to rental as the bloom of the office condo boom starts to wilt.

"As usual, we've simply overdone it. We've just got too much space," said Peter Harrison, Transwestern Commercial Services senior VP. "It's a great concept for small users who know they're not going to be growing in the foreseeable future, but the market is limited."

He estimated 5 million to 6 million square feet of office condo space is under construction or conversion in Miami-Dade.

"And that's probably 4 million square feet too much," he said.

Office condo space is offered for sale at the SBS building at rates ranging from \$400 to \$600 a square foot.

"Our business plan has always included retaining units as an income base," said Carlos Avila of Key Realty Advisors, which bought the 18-year-old SBS Tower in May under the shell company KRA Tower LLC. "We don't have to sell."

In some cases, tenants at the tower are national companies - such as investment firm Oppenheimer & Co. - that won't buy, he added.

At the same time, Avila said Key Realty has no intention of reverting back to rental, even though the office condo market has weakened in the past three months. He declined to disclose how much is sold and who has bought.

Miami-Dade County property records currently only list the SBS building's 2006 sales price - \$75.3 million. An announcement from broker **CB Richard Ellis** on May 26 said the transaction included 16 townhouses and a 1,097-space parking garage, which increased the value of the deal to more than \$100 million.

A recent transaction by the tower's marquee tenant - **Spanish Broadcasting System**, the largest Hispanic-controlled radio broadcasting company in the United States - may further shake up SBS Tower.

The tower's seller, **Irradio Holdings Ltd.**, retained about 62,000 square feet on four floors and the ground floor. The company is managed by **Irradio Investments**, which is led by Raúl Alarcón Jr., according to state records.

Alarcón is president, CEO and board chairman of Spanish Broadcasting System (NASDAQ: SBSA). Irradio originally bought the tower for \$58.8 million in April 2000 and the Hispanic radio broadcasting company displays an image of the tower on its Web site, just as the building bears the company's initials.

But within the past few months, Spanish Broadcasting System inked a \$9.35 million deal to buy the 7007 Palmetto Building, at 7007 N.W. 77th Ave., in Miami's Airport West submarket. The 62,000-square-foot building includes 1.7 acres of undeveloped land for future expansion. According to SBS's third quarter report, the company plans to consolidate radio and television operations after closing.

"We are currently in negotiations for the release of the leased space currently occupied by the television operations," the Nov. 7 filing stated, "and for the release of the leased studios and offices of our Miami radio stations currently located in leased facilities, which are indirectly owned by Raúl Alarcón Jr. and Pablo Raúl Alarcón Sr. (our chairman emeritus and director)."

Avila said he was unaware of any plans by the broadcasting system to relocate from the tower.

Unwinding the tower's ownership to ready it for sale would be very difficult. The SBS Tower converted simultaneously with the sale, said Fairchild's Puente, who brokered the sale of the SBS Tower last year when he was with CB Richard Ellis. He also advised the broadcasting company's purchase of the Airport West property and said he was unaware of any plans to move the headquarters out of Coconut Grove.

The SBS Tower is considered an anomaly in the office conversion industry, Studley's Capocefalo said. Small buildings, at about 100,000 square feet and close to high-value residential real estate, are typically better suited.

"Historically, the SBS Tower was a Class A trophy catering to corporate America," he said. "And corporate America does not want to buy an office condo."

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