

South Florida Industrial Levels Out



By Crystal Proenza

MIAMI—During the first quarter of 2008, the South Florida industrial real estate market has experienced an increase in vacancy rates and stabilizing rents. However, market reports and experts say the region is just experiencing equalization after 2007 saw rising rents, sometimes in the double digits, and record-low vacancy rates under 5%. Rising fuel costs are also putting a strain on the industrial market, making it more expensive to operate commercial vehicles.

In Miami-Dade County, the current vacancy rate is 6.3%, which is higher than last year, but still below the statewide average of 6.5%, according to research by Cushman & Wakefield of Florida. Meanwhile, a first-quarter report by CB Richard Ellis points to an increase in sublease space in the region, offering more leasing opportunities than at any time in the last four years.

“I think the biggest impact to our market is downsizing in warehouse industrial users related to the housing industry,” says Jose Juncadella, principal of Coral Gables-based Fairchild Partners. **“Companies producing building products, appliances, tile distributors, etc., have been adversely affected with the downturn in the economy.”**

Supply and demand in Miami were balanced in the quarter, creating a flattening of rental rates. The average rental rate for all of South Florida is around \$7 triple net, says Juncadella, noting that less movement in the industrial market has pushed rents to stabilize. CBRE reports that the decrease in activity is partially due to potential investors having difficulty getting financing.

“In terms of the rental rates there has definitely been a shift, especially in the last six months or so, that the tenant may have gained some ground,” says Audley Bosch, C&W associate director of industrial brokerage. “In previous quarters, it was a dominant landlord’s position.”

That seems to be the case in Broward County especially, where landlords have begun offering concessions as a reaction to a lessening demand. C&W reports a continued equilibrium in the Broward market for the first quarter, with a negative absorption of 558,369 sf.

The biggest industrial sale in South Florida during the first quarter was the 207,737-sf Broward Office Flex Portfolio, a \$22.2-million deal taking place in Fort Lauderdale. Mizzen LLC purchased the property, which consists of three sites including office, showroom and warehouse space situated on 17 acres, from Jamie Danburg. Both the buyer and seller were represented by Marcus & Millichap.

Broward's industrial vacancy rate was unchanged over the quarter at 5.4%, but was slightly higher than the rate a year earlier. Big-box industrial facilities, which CBRE defines as buildings over 100,000 sf, reported a higher vacancy rate of 7.7 percent and availability rate of 9.6%, inching closer to the national industrial vacancy rate of 10%. Projects under construction in Broward totaled 3.3 million sf, which C&W cites as a sign of developers' confidence in the local market.

Palm Beach County's industrial market remains tight with vacancy at 3.6%, the lowest rate in six quarters, according to C&W. Leasing activity increased 29% from a year ago, with the average lease rate at \$8.54 price per sf triple net, according to CBRE. More than a million sf is under construction, which is expected to raise the vacancy rate slightly when projects are complete.

Despite the rise in vacancy and stabilized rental rates, experts believe the region is insulated from major effects of the residential downturn and corporate downsizing because of international trade. With expansions going on at Miami International Airport and the Port of Miami, industrial distribution fundamentals remain strong. "We're shining in the state as a market, especially in industrial real estate in relation to our international population and companies," Bosch tells GlobeSt.com, noting the short distance to Central and South America during times of rising fuel costs.

"Overall the market is slow," says Juncadella. "We're not seeing a tremendous velocity of deals, but there are still strong indicators that things will get better once the perception of recession dies down."