

Land scarcity, building costs keep industrial market tight



Paul Isenbergh: 'There's an extreme lack' of industrial land.

By CATHERINE LACKNER

It's a good time to be an owner or landlord of industrial property in South Florida, observers say. Lack of suitable sites for development coupled with spiraling construction costs have kept the industrial real estate market tight.

As compared with conditions at the start of the year, "the market has stayed the same in that there's an extreme lack of available industrial land," said

Paul Isenbergh, senior vice president of industrial services at Grubb & Ellis.

"The Miami-Dade County market continues to tighten up, and vacancy is decreasing. There's very little new product out there," he said.

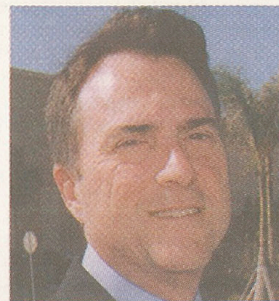
Landlords of new Class A space — including Beacon Lakes, built by Codina Construction Corp., and Beacon Station, owned by Flagler Development Corp. — command rates of \$10 per square foot gross, "but second-generation space in Medley is now approaching \$9 per square foot," Mr. Isenbergh said.

In Airport West, considered an industrial hub, "we're seeing \$8 to the high \$9s gross, but some landlords are quoting close to \$10 — every deal is different," Mr. Isenbergh said.

Even where there haven't been rent increases, "it's a landlord's market, and they are somewhat reluctant to cut deals such a reconfiguring space for a tenant. They know they can wait. For the smaller non-credit tenants, sometimes it's 'take it as is, with paint and carpet.'"

The scarcity of land, combined with the special needs of industrial tenants, including parking for trucks, as well as access to rail lines, airports, and highways, is driving this trend, Mr. Isenbergh said.

While construction costs for industrial space ran about \$25 per square foot in the past, two busy hurricane seasons have created a drain on raw materials and labor, forcing costs to about



Jose Juncadella: Residential builders stalled industrial zoning.

become the priority."

Even if home prices continue to decline, it's unlikely any residential land will be repurposed for industrial use, he said. "You might see some demolition of old buildings and some new ones going up, but the regulatory process to change the use of a piece of property is complicated and lengthy. There's still a lot of pressure to zone for residential, so it's not easy."

"The Miami-Dade industrial market continues to be vibrant," said Mike Silver, first vice president at CB Richard Ellis, "and that applies to the entire suburban inner core areas. We're experiencing historic high occupancy levels and shortages of certain sizes and types of space. Landlords who keep their fingers on the pulse of the market are getting, in many instances, rents in excess of \$10 per square foot.

"Interestingly enough," he continued, "if you go to the older industrial markets, including East Hialeah and Little Haiti, the demand is still great. There's no great discount for areas that are not typically viewed as the prime Class A suburban space."

There won't be an industrial building boom to ease the market, Mr. Silver said. "Developers work the deal backwards, and look at what they have to spend to get the return they need," he explained. "Because of the cost of land and the cost of construction, you will see very little new spec industrial space being built."

\$60 a square foot this year.

"So we're seeing institutional investors — pension plans and fund advisors — buying older distribution buildings and refurbishing them," Mr. Isenbergh said. "They're expecting rents to roll and eventually they'll get 5% to 6% return, and they'll be happy with that."

"The market continues to be very tight," agreed Jose Juncadella, a principal at Fairchild Partners. "We're seeing vacancy rates at less than 2% and rental rates continue to go up. There's not much on the market for sale, either."

He blames the scarcity of land for industrial use on "too much pressure by residential developers," which has not eased up even in the face of a stalled housing market. Though some land is master planned for commercial use, including industrial use, "there is not a lot of it," he said. "We've experienced a growth in our population of about 9% each year, and that has been constant, so residential land has

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