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Commercial Real Estate

Miami may sell land to deal with budget crisis

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Facing a $45 million budget shortfall, the city of Miami is considering selling off real estate in a market that heavily favors bargain-hunting buyers.

Miami Mayor Tomás Regalado has acknowledged the city is in such financial distress that unloading properties is inevitable.

The idea that Miami could be a distressed seller brings back memories of the 1990s, when the state created an oversight board to prevent the city from going bankrupt.

During that time the city sold the bayfront land, on which American Airlines Arena was later built, to Miami-Dade County for $27 million. That property, at 601 Biscayne Blvd., is now assessed at $138.41 million, according to the county appraiser.

The city expects a $17.8 million decline in revenue this year, according to a report by city budget director Michael Boudreaux. Significant budget cuts and staff reductions seem unavoidable.

Regalado and City Manager Pete Hernandez did not return calls seeking comment.

The city owns 155 properties, according to the county appraiser's office, and if Miami officials are serious about selling, there would be no shortage of interest from investors, said David Moret, principal at Coral Gables-based Continental Real Estate.

"There is a tremendous amount of capital sitting on the sidelines," Moret said. Investors "are extremely frustrated that the flood of opportunistic assets has not hit the market like everyone hoped. Quality assets are seeing interest at pricing that is better-than-expected in the eyes of sellers."

Many city-owned properties are vacant parcels, such as parking lots or undeveloped properties next to city-owned buildings. Such properties would be attractive to some commercial users, Moret said.

"Improved, entitled land in good locations, especially out-parcels, [generate] interest from banks and fast-food operators," he said. "If I were the city, I'd look at well-located out-parcels, which can be sold quite easily. Bigger vacant tracts are more complicated."

If the city has properties that are not producing revenue or part of future development plans, selling the land would be wise, even at a discount, said Jay Caplin, managing principal of Steelbridge Capital in Miami.

Although "it is a difficult time to be selling anything," Caplin said, "it may be prudent to be disposing assets that have no long-term instrumental value to the city."

Vacant city properties that could be attractive to investors include:

■ 501 Brickell Ave., a 2-acre parcel next to the 500 Brickell condo building.

■ 3501 Rickenbacker

Causeway, a 6-acre property near Marine Stadium Marina.

■ 2546 S. Bayshore Drive, a 4-acre parcel next to the Fresh Market in Coconut Grove.

■ 3800 NE First Ave., a 0.72-acre parcel in Miami's Design District.

At least one city commissioner, Marc Sarnoff, would oppose selling real estate to help fill budget holes.

"I'm not privy to what [properties] could be sold, but I am very circumspect on the idea of selling assets to deal with budget problems," said Sarnoff, who chairs the commission. "Until we get our house in order, we have no business considering the sale of assets."

The city needs to focus on adding park space, not reducing its land holdings, said Steve Hagen, chair of the parks and public space committee of Miami Neighborhoods United. Vacant properties that could later become parks should not be sold.

"Four out of five of the city's districts are incredibly park-deficient," Hagen said. "I certainly would not want to see any raw land that could be park land sold."

If the city does attempt to sell properties, one advantage a municipal government has over other real estate owners is that it controls the property's land-use and zoning, said attorney Dennis Mele, a partner in the Fort Lauderdale office of Ruden McClosky.

The city's ability to rezone a property to a more profitable use would generate a wider range of suitors, Mele said, who was city manager of Coconut Creek from 1984 to 1989.

Purchase contracts can be drafted to make approval of a zoning or land-use change a condition of closing.

"This is particularly true for properties with [municipal] use zoning," Mele said. "Unless the city was selling to another government, almost any buyer would want another category. The government has more ability to increase a property's value than a private seller would."

Moret said that making a sale contingent on a land-use or zoning change does have its drawbacks:

■ The deal would take longer to close, delaying the city's cash infusion.

■ The city would likely have to reduce its asking price "to compensate the buyer for that risk," Moret said.

"In a perfect world they could raise the necessary capital without [selling and] going through re-zoning," he said.

Even with existing demand from investors, an unconventional approach is necessary for Miami to make a substantial dent in its shortfall, Moret said.

One potential strategy — sale-leasebacks of properties — is rare among governments but common in the private sector, Moret said.

In a sale-leaseback, the city would sell a building to an investor and sign a longterm lease as the tenant. The city gets an infusion of cash from the sale and the new owner receives a steady income stream.

Governments outside of Florida have already embraced sale-leasebacks. Arizona's Department of Administration sold $735 million in sale-leaseback financing for state prisons and other government properties to raise money in January.

California has hired CB Richard Ellis to attempt to sell several state office buildings through sale-leaseback deals to raise up to $660 million, the brokerage company said.

What city properties might be suitable for a sale-leaseback deal?

Two potential candidates are City Hall at 3500 Pan American Drive and the Miami Riverside Center, a building at 444 SW Second Ave. that houses administrative offices.

“If the city is willing to enter into a long-term lease, there are viable sale-leaseback scenarios where it could raise some capital,” Moret said. “Not just for City Hall, but for smaller annex buildings.”

Steelbridge would be interested in discussing sale-leaseback opportunities with city officials, Caplin said. But due to city charter requirements, such a transaction would likely require a lengthy public bidding process and approval from commissioners.

There is not much precedent for municipal governments to go the sale-leaseback route, Mele said.

A sale-leaseback could meet short-term needs by putting a property on the tax rolls and bringing in revenue, he said. But adding annual rent payments to existing operating expenses could nullify those gains over time.

“If you are already coming off a negative annual budget you may be putting yourself in a more negative situation,” Mele said. “My guess is the lease payments would probably be more than the increase in revenue. I’m not sure it’s a good choice.”

Property values have declined in most real estate sectors, which could deter the city from pursuing sales, Mele said.

The city is not much different than cash-strapped private property owners who are considering unloading assets.

“When selling at a time when the market is not up, you wonder if you are losing money and could do better by waiting,” Mele said. “But if there is a property [the city] is not using for anything and doesn’t need, then selling it is an option. If it needs money now it is like any other seller.”

Selling properties is only one of many cost-cutting measures Miami would need to take to emerge from its shortfall, Moret said.

But if the city chooses the right assets to put up for sale, it could avoid making another sale like the American Airlines Arena land deal.

“I guarantee the city has assets and the ability to unlock value,” he said. “It has to take an analytical approach and determine which assets are most valuable and which ones would be giving something away.”