

Office inventory got boost

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While the residential real estate market suffered in 2006, commercial property surged in comparison. That doesn't mean it was an easy year.

Insurance premiums coupled with increased energy costs and property taxes cut cap rates. Many building owners saw their incomes halved - or worse. And some insurers rejected renewals on commercial properties.

Yet many office insiders were confident the market would survive. Demand exceeded supply across South Florida.

Mid-year 2006, even as scattered deals began falling apart across the region, CB Richard Ellis Executive VP Christian Lee predicted the new economics would not be catastrophic to the industry.

"People will find ways to adapt, survive and thrive," Lee said.

Record sales were reported in Miami Beach: The Lincoln sold for \$74 million, or \$458 a square foot, and Lincoln Place, sold for \$62 million, or \$440 a foot, according to Cushman & Wakefield.

Courvoisier Centre on Miami's Brickell Key is expected to sell for more than \$170 million, or \$476 a foot, according to broker Jones Lang LaSalle. Its owner - Gavin Campbell, president of Florida Office Property Co. - said inquiries have come from Dubai and Australia.

Miami has moved into the top-tier for office properties, fifth to Manhattan, San Francisco, Los Angeles and Washington, D.C., he added.

Campbell and others said they believe rental rates may inch toward \$50 a foot, even though the average asking rate in the downtown was \$35 per square foot.

"It's not a question of whether, it's a question of when," Campbell said.

Record rents were reported by CBRE in West Palm Beach and Boca Raton, as average price per square foot (triple-net) increased to \$20.55 and \$18.44, respectively.

In downtown Fort Lauderdale, Class A leases increased to \$19.78 per square foot (triple net), up 10 percentage points from last year, according to CBRE.



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Also, after a few years focused on residential building, developers once again sharpened their pencils in anticipation of future commercial construction projects.

Office Depot broke ground on a 625,000-square-foot global headquarters in Boca Raton. Flagler Development Group claimed it as the nation's largest build-to-suit lease in 2006 and is leasing it jointly with TIAA-CREF.

Five buildings totaling 642,101 square feet are underway in West Palm Beach, increasing the submarket's inventory by nearly 10 percent. Boca Raton boats 275,000 square feet under construction, but with most of the space pre-leased, the new inventory is not expected to relieve demand.

In Fort Lauderdale, Tom Crocker plans to build a \$175 million, 450,000-square-foot tower in the heart of downtown. Two more properties are expected to be delivered in 2007, both speculative: the 205,000-square-foot 200 Las Olas Circle and 62,000-square-foot Courthouse Place.

In downtown Miami, where no spec construction has been seen in a decade, Grouper Financial plans a 400,000-square-foot office tower at 222 Biscayne Blvd.

Site work has already begun on 750,000 square feet of offices at the Metropolitan Miami development. CBRE reports Tibor Hollo is also pursuing commercial construction in the central business district. Argent Ventures is to offer three 80,000-square-foot floors at the former Omni Mall in downtown Miami for offices.

Three more office towers are proposed in the Brickell Avenue financial corridor. Also, Flagler is building a new Burger King headquarters in Coral Gables and Flagler Station near Miami International Airport.

In the meantime, office condos have become the product du jour. Codina Realty Services estimated 6.1 million square feet of office condo projects in Miami-Dade County and 2.84 million square feet in Broward County. Palm Beach County, on the other hand, only has 1.1 million square feet.