

THE REAL DEAL

Distressed sales coming in commercial

By Roger Drouin
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The commercial real estate market in South Florida, already stung by a slew of economic factors that first battered the residential market, faces a long road to recovery.

The commercial market slump casts a wide net in the region, and is likely to trigger distressed sales starting later this year and in early 2010 as owners face the double threat of shrinking revenue and the inability to refinance loans. And because unemployment is high — 9.8% in Miami-Dade County — people just aren't spending money, putting the squeeze on retailers.

Retail vacancy rates are rising across the region as consumer spending is down, individual borrowing options are diminished and tourism has dropped. Some markets such as Broward County's malls and Miami-Dade's specialty centers are near or above 10 percent vacancy, according to a retail report by the CoStar Group.

Miami-Dade County's overall retail vacancy rose from 4.1 percent at the end of 2008 to 4.6 percent in the first quarter of 2009. Palm Beach's vacancy went from 6.2 percent to 6.9 percent in one quarter, and was up from 5.1 percent in early 2008. In nine months, Broward County's retail vacancy rose to 6.4 percent from 4.6 percent.

Gavin Campbell, founder and managing partner of Miami-based private investment firm Steelbridge Capital LLC, expects the numbers to get worse in the later part of this year.

"The consumer in general is in the middle of long and painful de-leveraging," Campbell said. "Unemployment is over 10 percent, driving consumer spending down, and people can't use their homes as credit cards the way they used to. The net result is depressed spending."

Shopping centers anchored by large retail chains such as the now bankrupt Circuit City have seen the biggest increase in vacancies in all three South Florida counties. Closing these stores halts traffic into a center, pressuring smaller retail chains and mom and pop retailers, who soon can't make ends meet.

Declining international trade, from imports to foreign visitors' retail spending, will contribute to the elimination of 7,000 trade, transportation and utilities jobs in Miami-Dade, according to a recent Marcus & Millichap report.

Office is feeling the crunch also. Downsizing companies are leaving behind more and more open office space, from Palm Beach County's financial services hubs to Brickell, where the addition of new projects this summer will add to the glut of unfilled office space.

Distressed commercial sales have been rare, but Campbell expects that to change in 2010 and 2011.

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“We’ll see some of that in the back half of this year or next year,” Campbell said. “I haven’t seen many distressed sales, but what happened with General Growth bankruptcy shows the distress that is out there.”

Commercial properties are the next market to get hit by the credit crunch as investors’ revenues shrink and a batch of commercial loans expire in 2010, 2011 and 2012.

“In the best case scenario the strong owners will continue to tread water,” said Charles Foschini, vice chairman at CB Richard Ellis in Miami. “Buildings from AAA office all the way down are going to be impacted.”

Sinking vacancy rates will in turn push sale prices even lower. “If there is a high vacancy rate in a building, it’s hard for a buyer to get financing, so that depresses the value further. Investors will demand a higher return.”

South Florida retail has been hit by the economic downturn and drop in consumer spending, but looks relatively healthy compared to other Florida locales such as Naples, said Greg Masin, senior director of Cushman & Wakefield’s retail services.

Masin thinks local vacancy rates won’t go much higher. He described an environment where landlords drop leasing rates and new retailers enter the market. The combination keeps the market afloat as retailers move in to take advantage of lower rents.

“Rents have been on an uphill run in South Florida for 15 years and some people were priced out of the market,” Masin said. “A 20 percent cut in rent may be enough to push a business owner. You have the European retailer who wants to open a shop, and he wants to be in Miami.”