

Better than expected: Real estate vacancies standing in single digits

BY MARILYN BOWDEN

While Downtown Miami's long-awaited rehabilitation has been slowed by economic upheaval, its real estate markets are in general doing better than expected.

Of the 23,000 condominium and rental units built in Greater Miami since 2003, 5,074 are situated in the downtown core, between the Miami River and Interstate-395, according to Leo Zabezhinsky, associate in economic development at the Downtown Development Authority, better known as the DDA. Another 847 will be delivered by the end of this year.

The median sales price for a condo in the Greater Miami area dropped 43% between March 2008 and March 2009, according to The Florida Association of Realtors; it's currently \$151,000. Realtor sales recorded for the same time period are up 59%.

Pete Zalewski, principal with the consultancy Condo Vultures, reported that 52% of new downtown condos are owned by investors and second-home buyers. Condo Vultures includes the Biscayne and Brickell corridors along with the central business district in its downtown coverage.

"Our findings suggest that investors, not end users, are the primary reason that development was ever able to occur," Mr. Zalewski said. "That being said, Greater Downtown Miami now has a critical mass of residential product that is poised to attract more and more residents, assuming the pricing is right."

Retail targeting residents is now beginning to come in to the downtown core, said Robert Geitner, the DDA's senior marketing manager.

"We have a number of new businesses opening over the course of the next six months," he said. "They are restaurants primarily, which the central business district hasn't seen in quite some time, because they are open at night. We are hearing that new residents are coming and making up a new clientele."

Since 2005, Mr. Zabezhinsky said, "we have counted 45 new

'We have a number of new businesses opening over the course of the next six months.'

Robert Geitner

retail or restaurant openings, including six in 2009. We are expecting about seven more to open before the end of the year."

The new restaurants cater to different price points, said DDA Executive Director Alyce Robertson, "from luxury such as Area 31 in Epic to Bali by Loft 2, which is also doing a banner business for takeout."

The DDA conducted a foot-traffic survey at the intersection of Miami Avenue and Flagler Street on a recent weekend, Mr. Zabezhinsky said, and while the results aren't yet tabulated, preliminary impressions are encouraging.

Larry Gautier, a broker at Colliers Abood Wood-Fay who is marketing a restaurant space at South Miami Avenue and Southeast First Street for Macy's as well as office space above the retail store, said some retailers understand that "economically, this is the time to get in."

"Some condos are empty, but there are more people living downtown now, and while there are clearly some challenges, there are some terrific opportunities."

Mr. Gautier, who chairs the Miami-Dade Sports Commission, said he thinks "an international sports-oriented restaurant bar" in the Macy's restaurant space "could kick off some excitement downtown. There is no international sports entertainment niche in Miami-Dade County, and the demographics clearly support it."

As the great-grandchild of the proprietors of downtown's first retail store - TN Gautier Grocery, opened in 1896 - Mr. Gautier is bullish about the area's future.

"If Steve Perricone did not open up that one restaurant in Brickell, there would be no Mary Brickell Village; if Neisen Kasdin

did not allow set designers for Miami Vice to repaint one building, we would not have any renovation of Miami Beach," he said. "It just takes one 'wow' location, and the rest will take care of itself."

The vacancy rate in downtown's office towers is still in the single digits, at 9.2%, according to a first-quarter report from Jones Lang LaSalle - if you don't count the growing shadow market of space available for sublet, which brings the total to 11.5%. Absorption for the first quarter across all classes was -0.7%.

"The market continues to get worse," said Jones Lang LaSalle Senior Vice President Richard Schuchts. "There's a wide range between what people are offering as face rates and the aggressive proposals that come down for a good-credit tenant."

"It's overbuilding that will be the tipping point."

With the next nine to 18 months, 1.8 million square feet of new class A office space is poised to become available in downtown and Brickell.

"I am seeing some asking rents come down," Mr. Schuchts said, "and that did not occur in the last downturn."

According to Jones Lang LaSalle's first-quarter report, current requirements in the downtown market include the law firm Bilzin Sumberg for up to 100,000 square feet; law firm Hunton & Williams for up to 70,000 square feet; Wachovia Securities for up to 40,000 square feet; the law firms McDermott, Will & Emery and Kenny Nachwalter, each for up to 23,000 square feet; Verizon for 15,000 square feet, the law firm Jones Walker for up to 10,000 square feet, and New Times magazine for up to 10,000 square feet.

"As a desirable tenant, a good strong law firm is hard to beat right now," said Mr. Schuchts, who represents Hunton & Williams. "But overall, Miami companies are doing pretty well."