

## **Experts expect office space glut in downtown Miami**

*Competition for tenants fierce as vacancy rates soar*

By Elaine Walker, The Miami Herald

Crave more modern office space? Looking to slash expenses?

It's a great time to be a commercial tenant in downtown Miami or the Brickell Avenue financial district, thanks to a glut of new office space that will begin flooding the market next year.

But for everyone else in the downtown commercial real estate game -- lenders, brokers, bankers, construction workers -- there's a disaster brewing, the likes of which hasn't been seen since the 1980s.

The recession already has businesses downsizing or closing. At the same time, there are no new tenants moving into the area and vacancy rates have soared to 15 percent -- a level unseen since 2004.

Meanwhile, two behemoth office towers -- Met 2 Financial Center and 1450 Brickell -- are to be completed next year. Another tower, Brickell Financial Centre, might open in 2011.

The future health of a revitalizing downtown area will depend on the ability to absorb as much as 2 million square feet of new office space -- nearly the equivalent of sprawling [Sawgrass Mills](#). In a good economy, the market absorbs 250,000 square feet of space a year. Analysts estimate it could take three to seven years for the space to be rented, extinguishing many hopes for new construction and the jobs it creates.

How it all plays out could have serious implications for an economic recovery that has begun to take root elsewhere but hasn't quite made its way to South Florida.

**"In the short term, it will present quite a challenge," said Alyce Robertson, executive director of Miami's Downtown Development Authority, which is working to recruit new [companies](#) to downtown.**

Until that happens, competition for tenants will be fierce, giving an edge to shoppers like Hunton & Williams. "It's nice to be wanted," said Marty Steinberg, managing partner of the law firm's Miami office. "It's like dating. We're one of the larger tenants in the market so it puts us in a good position."

The tenant game of musical chairs will take years to play out. The big question: When the music stops, who will get stuck with the empty chairs?

"The vacancy rates are going to go up another 10 percent by the end of next year," said Chris Lovell of the real estate services firm Studley. "It will be the office space equivalent of the condo situation."

### MOST THREATENED

The biggest danger looms for buildings carrying lots of debt, declining values and increasing vacancies.

"It's the buildings that traded in the last five years or went through a refinancing that are in a challenging situation today," said Jonathan Kingsley of [Grubb & Ellis](#) brokerage. "The existing landlords who are smart are realizing they better maintain a tenant at some cost or discount rather than lose them to a new building."

In 2007, the top buildings in the market were quoting lease rates of \$40 to \$46 per square foot. Today, rents at those same buildings have dropped to \$30 to \$36 per square foot -- preboom prices.

# Sun-Sentinel

December 29, 2009

Circulation: 202,421

For tenants with stable businesses and good credit, it's a chance to upgrade and lock in lower rents. Many are signing deals as long as 15 years versus the average five- to 10-year lease.

"There are more options for tenants today than there ever have been," said Barbara Liberatore Black, founding partner of Cresa Partners, which represents about 10 tenants shopping for space. "These tenants are very curious to see what they can get."

Hunton & Williams is considering staying at 1111 Brickell Ave. versus moving. The factors to consider: landlord stability, neighboring tenants, if the building is "green" and more. "It's not only about dollars and cents," Steinberg said.

But some suggest that a tenant with a lease expiring in 2011 or 2012 will do better making a decision next year. As the new buildings start opening, industry experts say there will be even more fallout.

"From a landlord's perspective, it's only going to get worse," Lovell said.

Brickell Financial Centre's solution is to wait out the market. Foram Group dramatically slowed construction more than eight months ago and is waiting to finish the building at 600 Brickell Avenue until the market improves.

"We're in a unique position of being able to redefine our construction schedule and re-evaluate the marketplace," said Loretta Cockrum, chairman and chief executive of Foram Group. The building has no debt, which is why Cockrum says it can afford to wait.

But local real estate brokers say the delay is more about Foram Group's inability to obtain favorable financing. Cockrum and President John Breistol say this isn't true and they can finish at any time.

Meanwhile, Met 2 and 1450 Brickell are aggressively courting new tenants.

Met 2, 345 SE Second Ave., touts its mixed-use project that will include a restaurant by renowned chef Daniel Boulud, a JW Marriott Marquis and the first Hotel Beaux Arts Miami, a new brand of Marriott's luxury portfolio.

The 1450 Brickell building, at the south end of the avenue away from traffic congestion, has amenities that include glass built to withstand winds of up to 327 miles per hour and a second backup generator.

At both buildings, the first tenants to sign leases have been able to score plenty of perks. Brokers say the most aggressive deals include one-year free rent, free moving costs and up to \$100 per square foot to cover the cost of building out the new office space.

"A lot of these deals, they don't break even until the seventh or eighth year," said Richard Schucts, who handles tenant representation at [Jones Lang LaSalle](#).

Law firm Greenberg Traurig, financial services company Deloitte, and Business Centers International were the first to sign at Met 2, a joint venture by MDM Development Group and [MetLife](#).

Law firm Bilzin Sumberg signed with Brickell Financial Centre in 2008, but both sides agreed to cancel the lease. This fall Bilzin became the first tenant to commit to 1450 Brickell by Alan Ojeda's Rilea Group.

Relocating gives tenants who have been in one building for decades a chance to redesign and often reduce space. Greenberg Traurig's offices will be more than 20 percent smaller when the firm moves, eliminating a library and dining rooms.

"It gives us an opportunity to use our space more efficiently," said Matt Gorson, president of Greenberg Traurig. "We

# Sun-Sentinel

December 29, 2009

Circulation: 202,421

can take advantage of changes in technology."

## ANOTHER WAVE

Another wave of new lease deals could come early next year. Both Met 2 and 1450 Brickell expect tenants to start moving in by the second half of 2010.

"Because we have an owner with a long-term perspective, we're in a position to lease this building at a good pace, but not in desperation mode," said Tere Blanca, whose company is handling 1450 Brickell.

Brokers say at least two dozen tenants are actively shopping for space that would collectively fill 500,000 to 800,000 square feet. Among those said to be looking: [Wachovia](#) Securities, H.I.G. Capital, BNY Mellon, [JPMorgan](#) Chase, Wachovia bank, [Verizon](#), Berger Singerman law firm, Onboard Media and Barclays bank.

In some cases, they may be after a better deal with their existing landlords.

But it's tenant beware.

"You want to make sure they can deliver and that you're properly protected if they don't," said Steven Hurwitz, of Continental Real Estate Companies. "It's about 'Is the elevator going to be fixed very quickly if it breaks? Are you going to be upset when the air conditioning goes off at 5 p.m.?' "

Landmark older buildings, including [Bank of America](#) Tower and Wachovia Financial Center, are trying to persuade tenants to stay put by investing millions in renovations. They're also trying to renew tenants before leases expire and extending leases at lower rates.

"In a market like this, you want to make sure you're not losing tenants over market conditions," said Tony Puente of Fairchild Partners, who handles leasing for Bank of America Tower.

Wachovia Financial Center is already marketing the spaces that Bilzin and Deloitte will vacate and touting the advantages of a debt-free building, said Don Cartwright of Cushman & Wakefield, which handles leasing at Wachovia Financial Center.

But it's not going to be easy to keep tenants.

"2010 everyone is anticipating a bloodbath," said [Scott Strickland](#), of Jones Lang LaSalle, which represents the owners of 1221 Brickell. "I think you'll start to see more sanity coming back in 2011."