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The Manhattanizing Of Miami

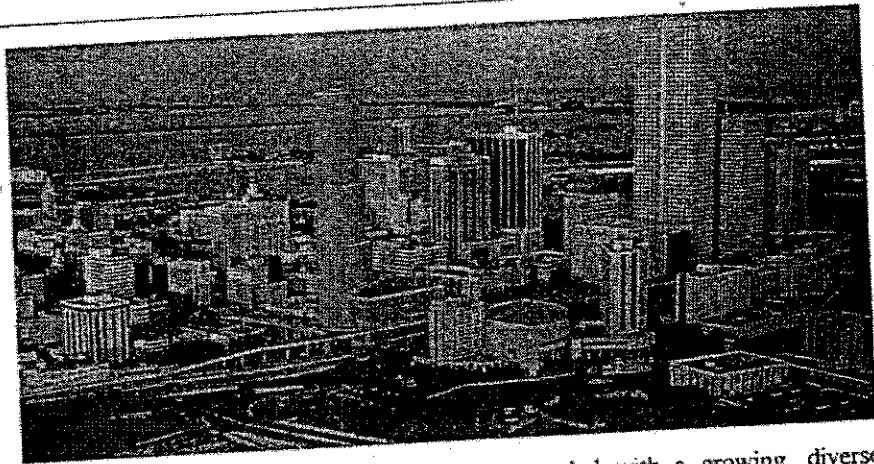
With Cranes on Every Corner, Downtown Miami Grows Up

By J.W. Elphinstone

Taking a walk in downtown Miami is like maneuvering through a construction minefield. "I look outside and I can see five cranes from my window alone," said Arnold Shevin, a partner with law firm Berger Singerman, which represents real estate companies. With the population booming and new urbanism spreading, Miami is undergoing a transformation from a midsize city to a metropolis.

"Downtown was primarily office. After 6 in the evening, everything shut down. It was literally very old, dilapidated buildings that no one wanted anything to do with," said Shevin, who is also a native of the city. But in the past few years, Downtown has seen a revival as developers arm-wrestle for available land to build residential projects.

According to the Miami Downtown Development Authority, nine buildings with 1,867 units—either rentals, condominiums or condo-hotels—have come on line since 2002. And 19 projects with 4,923 units are currently



under construction, while another 24 projects totaling 12,423 units are in the planning stages.

"The move east to the urban core area started a few years ago when developers realized that the large tracts of land in the west were severely limited," said Rosendo Caveiro, director of apartment brokerage services for Cushman & Wakefield Inc.

With the 24-hour city structure increasing in popularity across the coun-

try, coupled with a growing, diverse population and worse traffic congestion—Miami ranked ninth in the country for worst commuter traffic, according to the Texas Transportation Institute—developers are betting that residents will follow construction out of the suburbs and into the urban core.

According to William Holly, president of Holly Real Estate, development started with residences for moderate-income workers. But new projects in Brickell have shown that the population can support executive housing as well. "The population continues to grow, and it's quality growth with a tremendous amount of wealth seeking not only to invest but also to live. We're seeing a lot of international executives who are buying part-time residences," Holly said. Because the Euro is so strong compared to the U.S. dollar, many Europeans are purchasing condos instead of staying at hotels during business travel.

Others are not so sure that the population, despite its growth, can support the planned residential development. "People are still paying big dollars for residential, but the question is: What is fueling that?" asked Ford Gibson, president of San Remo Development L.L.C. "I'm told that it's a speculative buyer, not a big number of buyers looking for primary residences." So when the new developments are finally delivered in two years after interest rates have probably risen, will the buyer still be interested? "Let's put it this way: Don't be the last guy holding the bag," warned Gibson.

Frank Caplan, a partner at Berger Singeman, pointed out that the target market is not just relocating executives but residents who are already living in the suburbs and would need to sell their own houses before moving into Downtown. "It's not only the issue of the projects in Downtown competing

with each other. There are other very mature neighborhoods close to downtown Miami like in Coconut Grove and Coral Gables."

However, doubts are not deterring ongoing development, and that is bad news for office builders, who are consistently being outbid by their residential counterparts. "The vast majority of sites are being sold for multi-family or mixed-use with multi-family and retail components, at the expense of the office market," said Peter Harrison, senior vice president at Transwestern Commercial Services. "Prices are getting too high to justify office development."

He pointed to Allen Greenwald's recent sale of a two-acre parcel of land as evidence of the rising prices of land. Greenwald, a local real estate investor, bought the parcel earlier this year for \$16.5 million and then sold it four months later for \$34 million to a residential developer.

"This residential development will have far-reaching implications in 36 months to five years out. It will impact Class A office space," said Alan Kleber, director at Cushman & Wakefield. He pointed out that average Class A office rents in the Miami central business district rank sixth in the nation, following New York City, Washington, D.C., and Boston. And that rate will continue to escalate as office construction plateaus.

Down the road, after the buildout of the residential projects, office development will need to gear up to put the work in the live-work-play motto. "If you want people to live near where they work, they need places to work. In four years, we'll see a need for office space," Harrison said.

In the meantime, mixed-use project with an office component are filling an needs. And most of those development are showing up in Brickell, located just south of the CBD. The Offices at Four Seasons and Espiranto Sano have had no problems signing leases, sometime stealing CBD tenants and luring them to the newer Class A offices. HSBC, Fowler White & Burnett, Tew Cardena and PricewaterhouseCoopers are just few tenants that left the CBD for Brickell.

But most everyone agrees that urbanism befits Miami and that office and residential will eventually balance out. "In the end, what you see with Miami is limited space, with an ocean on one side and swampland on the other. The wide area is probably only a 20-mile stretch of land. Now, what other city does that sound like?" Kleber said, referring to the Big Apple. "I think New Yorker will soon see Miami as a microcosm of their city." ■