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Plans for office space at Metropolitan Miami project cancelled

BY SHERRI C. RANTA

Office dynamics in downtown Miami continue to change after MDM Development's canceling of 500,000 square feet of new office in favor of a 72-story residential tower at the \$600 million Metropolitan Miami.

Developers, local real estate observers say, also note the high return residential condominiums in downtown bring these days, compared to rental rates for office space. "Class A rates are \$30 to \$32 a square foot," said Jack Lowell, vice chairman at Codina Realty Services. "You can't get a

reasonable return on capital costs at that rent compared to selling condos for \$375 a square foot. That's a good spread for the developer."

Initially, the MDM project did not have an office component but contained a 72-story condominium tower. Developers are going back to their original plans, said Gaby Garcia, a spokeswoman for MDM.

Metropolitan Miami, known as The Met, is a several-phase project planned to spread across 6 acres in the 200 and 300 blocks of Southeast Third Street.

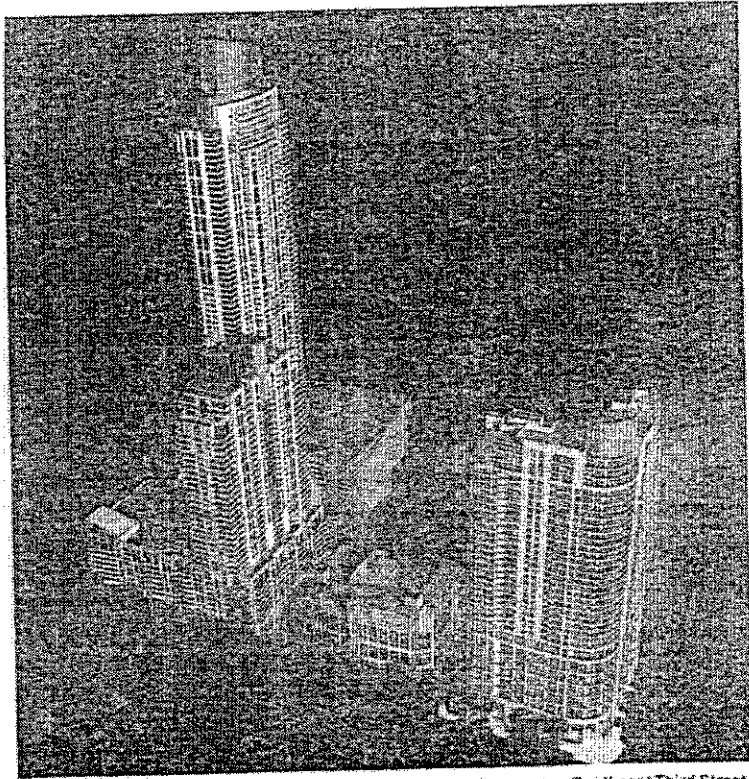
"It will be the tallest residential tower in Miami," she said. "Developers felt it was more suitable for the site to add a single-tower high-rise and not to add the office component to that. Obviously, with the strong sales of Met 1, they felt the market was strong enough to build a signature building."

Met 1, a 40-story tower with 447 units, is about 90% sold, Ms. Garcia said. Groundbreaking is expected in January. A sales center for the 72-story, 650-unit Met 3 tower is expected to open then.

Developers, Ms. Garcia, will consider building some office space for the project but an exact figure has not been determined. Codina Realty Services was marketing the larger office space for MDM as late as September.

"What this all means," said Mr. Lowell, "is that in all of downtown, there is no new office construction. The office market will steadily improve from the landlords' perspective—vacancies will drop and rents will go up."

Jones Lang LaSalle's third-



This is an artist's rendering of the Metropolitan Miami, a development on Southeast Third Street.

quarter report shows Class A vacancies of direct and indirect space at 16.1% in Miami's Central Business District, a combination of downtown's 12.8% and Brickell's 20.3% A. All office vacancies in the district stand at 15.4%.

Supply downtown and in Brickell is also shrinking, Mr. Lowell said. A 117,000-square-foot office building at 330 N. Biscayne Blvd. was recently purchased, he said, and will be converted to office condominiums.

550 Brickell, a Class C office building, will be demolished for a residential tower. Tenants, including Arquitectonica, are looking for new space.

Realtors have good things to say about the office market in Miami but say there are some drawbacks.

Positive absorption on Brickell is good news for landlords who are being squeezed by lower sublease rates, said Scott Strickland, vice president at Jones Lang LaSalle.

"We've seen large blocks of space, for the most part, being absorbed in the market," he said. "That bodes well for the landlords on direct space." About 50,000 square feet is under contract from the 70,000-square-foot sublease left by the departure of Barclay's. Subleases left by Arthur Andersen and Credit Suisse are mostly absorbed.

"We've seen some growth in the market we haven't seen in a while," Mr. Strickland said. "One bright star for us is at 701 Brickell, where the landlord signed AIG." The insurance company, 10th on

the Fortune 500 survey, will take the 23rd floor.

The move, according to Jones Lang LaSalle's report, is a relocation from New York and will bring in 60 jobs. AIG and Kraft Latin America, expanding operations in Coral Gables, are two multinational firms making long-term commitments in Greater Miami, the report stated.

William Holly, president of Holly Real Estate, is bullish on the Brickell office market, where his company represents Espirito Santo, one of the newest mixed-use towers with about 260,000 square feet of office.

"We've seen essentially all the new Class A office buildings under development in the past five years — Espirito Santo, Four Seasons and Mellon — do very well," he said. "Plus, there's very few if any new sites for office buildings on Brickell Avenue."

The residential boom emerging in downtown Miami, Mr. Holly said, bodes well for future office demand in the area. "In the short term, we'll continue to see the flight to the suburbs, but in the medium view, we'll see the re-emergence of downtown after the residences are built and the traffic lets up," he said. "Once we get through construction, we'll see a rosier picture for downtown."