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Dwindling supply, rising demand strengthens Beach market

By Tom Harlan

Miami Beach's long-depressed office market may be strengthening through a decrease in supply and an increase in demand.

At the end of the third quarter, more than 63,360 square feet of office space was leased in the city, putting the vacancy rate at 24.1%, down from 25% at the beginning of the year, according to reports from Cushman & Wakefield.

The market struggled this year, said Diana Parker, a director at Cushman & Wakefield, but is starting to recover. The vacancy rate is high compared to the county average 15.7% but should decrease due to current trends, she said.

Tenants such as mortgage companies and other support businesses looking for 3,000 to 5,000 square feet are flocking to the city, Ms. Parker said.

She said the city is generating interest from tenants looking for Class A space in the 10,000- to

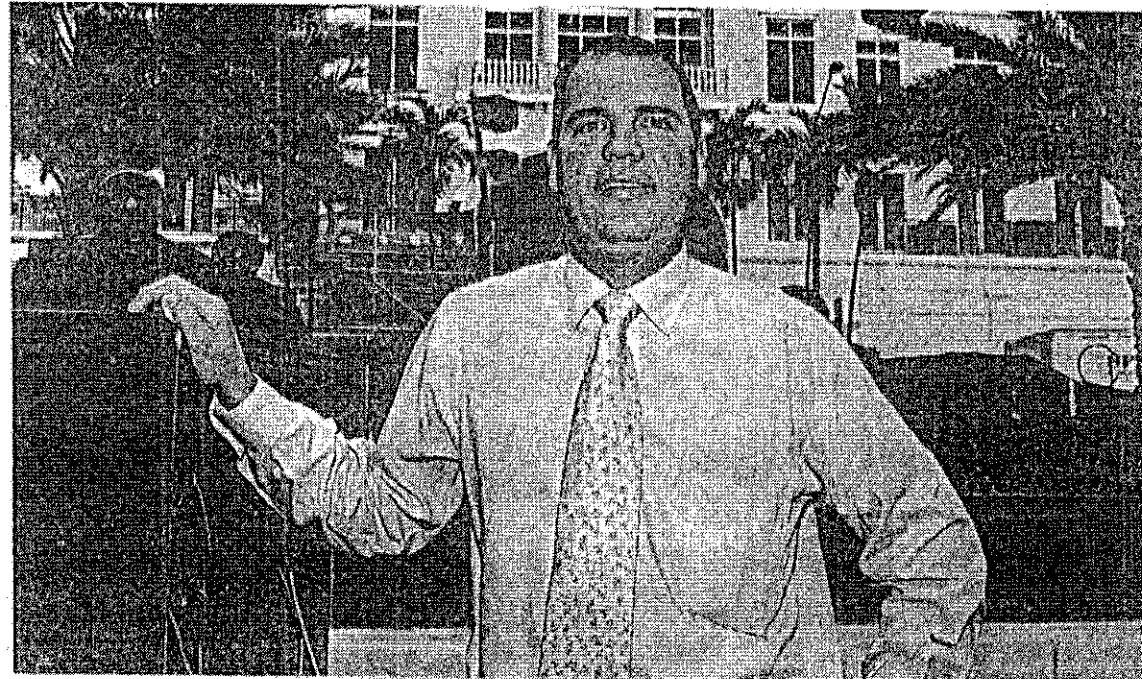


Photo by Maxine Usdan

William Holly: After Lincoln Place, Beach market 'tanked and has been on life support ever since.'

18,000-square-foot range.

Global athletic supplier Nike last month signed a 17,000-square-foot lease for space on Washington Avenue, and designer Hugo Boss earlier this year signed

a 9,800-square-foot lease.

The trend of office buildings being converted into condos should help absorb some of the space available for lease, Ms. Parker said.

William Holly, president of Holly Real Estate, said two office buildings, one off Lincoln Road and the other on Michigan Avenue, have been converted to office condominiums recently. But

the reduction in supply for lease will be minor because of the amount of space that has come on the market in the past three years, he said.

Mr. Holly said the previous market was fueled by Latin American film and music companies and Internet firms that rented office space on the Beach in the mid-1990s.

In the late '90s, developers were excited about the market and built a critical mass of Class A office space on the beach.

Mr. Holly said the pinnacle of the market was when Lincoln Place, a Class A building on South Beach, opened and was leased to a host of tenants such as Merrill Lynch. "After that building came online with record leasing, the market tanked and has been on life support ever since," he said.

But during the past four months, there have been signs that the market is coming back with increased activity. Entertainment and computer businesses and executives interested in the Miami Beach lifestyle have become attracted to the area, Mr. Holly

After having their buildings sit vacant for a few years, landlords have renovated their buildings to accommodate office users, he said, adding that landlords are starting to abandon the notion that rates are going to climb back to the levels of the 1990s.

Overall, the better locations with more aggressive landlords are leasing faster than those sticking to the old rental-rate structure, Mr. Holly said. Some landlords are offering incentives such as free rent to get over the hump, he said.

Wayne Pathman, managing partner at Pathman Lewis, said the outlook for the Miami Beach office market is positive with commercial property values increasing and companies such as Lennar moving their corporate headquarters to the city.

"The Beach offers something a little different than the larger municipalities," he said. "It's a resort community and offers those things associated with a resort community."

But many developers are looking to convert their properties to condos instead of renting, he said, adding that office and residential condos give developers a bigger bang for their buck. "It's the new age of office space."

But Miami Beach's office rental market is attractive to companies, Ms. Parker said. She said international events such as the Latin Grammys and MTV Music Awards provide the area with invaluable marketing.

"Today, the Beach has Class A office space to compete with Brickell and Coral Gables," she said, adding that companies are interested in office space on Lincoln Road, south of Fifth Street and near the medical industry on the Arthur Godfrey corridor.

"We are back on the cusp of being in the entertainment world's spotlight," she said. "Companies in the entertainment realm definitely have Miami Beach high on their list."