

STATE FOCUS: **Florida**

# Rays of Development Light in Sunshine State

Huge mixed-use projects could bring millions of square feet of new retail, office and residential activity to Miami and Orlando

By Jennifer LeClaire

Rental rates may be below peak levels in Florida, but that's not stopping plans for new development. From office and retail to multifamily, rays of light are breaking the Sunshine State's development clouds even while landlords look to regain occupancy and rental rate losses from the Great Recession.

Now, multi-million- and even multi-billion-dollar mixed-use projects are in the planning stages. The first half of 2011 witnessed positive signs in markets that once suffered severe office gluts. Multifamily, retail and hospitality are heating up. And public-private partnerships are helping get deals done in metro markets.

"In several asset classes, cap rates have dipped down pretty deeply," says Paul Ellis, president of CNL Commercial Real Estate. "In some cases you've seen 100- to 200-basis point drops over the past six months. General transaction activity is increasing as the debt markets have loosened up and banks are willing to lend again."

Development is hardly in full swing in Florida, but mixed-use projects may soon be the exception. Recovering capital mar-



Swire Properties, based in Hong Kong, is moving ahead with plans for Brickell CitiCentre, a 4.6-million-square-foot mixed-use development in Miami. It's among a handful of large projects on the drawing board for the Sunshine State.

kets, and a healthy dose of foreign investment, are leading to mammoth mixed-use project plans.

DeBartolo Development acquired Summerport Village, a 196-acre mixed-use development site near Orlando, and plans to develop class A multifamily units, an assisted living facility and 130,000 square feet of retail. DeBartolo also purchased Mills Park, a 14.5-acre site in Downtown Orlando and plans to develop retail, multifamily and office there.

Genting Malaysia Berhad has announced Resorts World Miami, a \$3-billion project that includes hotel, convention, entertainment, restaurant, retail, residential and commercial facilities. Espacio USA plans to develop a large-scale mixed-use complex combining office, residential and retail

space directly across from the Genting property at 1400 Biscayne Center. Then there's Brickell CitiCentre, a \$700-million, nine-acre mixed-use development in the heart of Miami's Brickell Financial District.

"There's less than two years of condominium inventory left," with the area's residential condos now 85% occupied, says Miami city commissioner Marc Sarnoff. "The inventory was absorbed five times faster than anyone has anticipated. This development means \$5.6 million worth of ad valorem taxes. On a scale of one to 10, this is an 11."

Following three years of volatility that saw market dynamics swing in favor of tenants, Florida's premier class A office buildings are stabilizing. Office vacancies have hit a two-year low in the Miami-Dade County

market. The overall vacancy rate fell to 16.8% at mid-year 2011, down from 18.6% reported at the end of the previous quarter, according to Cushman & Wakefield.

Despite a glut of office space, 1450 Brickell leased 65% of its space just one year after opening its doors. Likewise, Brickell Bay Office Tower, which has closed leases totaling more than 100,000 square feet in the past six months, is now 91%

occupied.

"A lot of foreigners are investing in residential real estate, and that has had a positive impact on commercial real estate," says Christian Driussi, vice president at Brickell Bay Office Tower. "There are still some office buildings that need to be very aggressive, and 600 Brickell is going to increase vacancy in the market temporarily when it comes on line later this year. Rates should

climb higher in the next few years."

The big question mark is 600 Brickell, which will deliver about 600,000 square feet of space this November. But Steven Hurwitz, a senior vice president at Continental Real Estate, isn't panicking. "South Florida has a limited number of new entrants to the market, so 600 Brickell's lease-up will cause additional occupancy gaps," he says. "But that story has already unfolded somewhat with the three new buildings that came on line in 2010. I don't expect a bloodbath."

In nearby Coral Gables, there is a spike in pre-leasing activity at new class A properties such as 396 Alhambra. Coral Gables has been one of the region's strongest markets, due largely to its urban appeal. "Tenants are taking advantage of current market conditions and looking to occupy high-quality product," says David Valdez, executive vice president at Blanca Commercial Real Estate. "They're looking at total occupancy costs and the value they're buying."

Farther north, the Orlando office market recorded positive net absorption for the first time in five years in the second quarter, thanks to job growth and constrained supply. Marcus & Millichap Real Estate Investment Services predicts the vacancy rate will decline this year to 16.5%, even as small investors continue to re-enter the market. Still, rent growth is expected to lag behind occupancy improvements for several quarters. "Most of the activity has been reshuffling the deck," says Ellis. "Because rents are depressed, you see a lot of suburban tenants moving into the CBD."

Tampa Bay's office market is also seeing improvements. Tenant demand still hasn't recovered, but vacancy is improving slightly, setting in at 18.7% in Q1, according to C&W. James Soble, a partner with Ruden McClosky's Tampa office, sees signs of life in specialty projects.

"There are some corporate expansions in the area looking for additional and new office space," Soble says. "We may see a pickup in transaction business as long as interest rates stay low."

Florida's multifamily sector is firing on all cylinders, with vacancies declining in Miami, Orlando, Tampa and many other markets, and rental rates beginning to inch up. Multifamily financing deals are getting done across South Florida, and experts say more capital sources are available for investors. Although Freddie Mac and Fannie Mae still offer advantages, there are other attractive options on the market.



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New development is also on the boards. One of the biggest announcements this year on the development front is a joint venture between the Related Group and International Sales Group. The JV plans to break ground on as many as six new high-rises in the next 12 months. And Pollack Partners purchased a 4.36-acre land parcel in Downtown Orlando for \$3.7 million.

"This sale shows that there are opportunities that warrant new development, when the location is right," says Kane Morris-Webster, a retail and land specialist at Colliers International Central Florida. "Moving from speculators to selling to end-users and new development is a clear signal that things are improving."

The big story in Florida retail is the impact of the gradually improving economy and the influx of new-to-market retailers. As economic factors and consumer confidence strengthen, retailers that previously lacked a presence in key Florida markets are looking to make a move into the state. As these tenants lease up space, rental rates are increasing in some South Florida and Orlando markets and cap rates are improv-



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ing at quality retail centers.

"We're definitely seeing the tide turn at this point. More retailers are kicking the tires," says Sabrina Meerbott, a leasing associate at Continental Real Estate. "The mid-sized boxes are starting to get absorbed.

There's a lot more pent-up demand in South Florida than other Florida markets, but we're seeing recovery across the state."

On the hospitality front, property values are finally beginning to rise. Hotels are once again viewed as desirable assets across the state and new development is under way in the Tampa and Miami metros.

Cases in point: Aztec Group closed a \$4.8-million construction loan for the Comfort Suites Airport/Cruise Port in Fort Lauderdale and a \$3.725-million refinance for the Days Inn Miami Airport North. Capmark Bank closed a \$100-million note sale on the Omni Center and Hilton Downtown in Miami.

"The banks are loosening up a little, but it's still tough to get financing," says Bernie Wolfson, president of Miami-based Hospitality Operations, which is developing the Hampton Inn & Suites Brickell. "We were able to get it because we're going after a market segment that's not adequately served in the Financial District of Downtown Miami—a mid-priced option." ♦

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