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Looking for signs of life in downtown real estate

By Mary Shanklin, Orlando Sentinel

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(A previous version of this story incorrectly listed the occupancy for one of the downtown CNL towers. They are 98 and 99 percent leased.) The helicopter view of Orlando's city center shows a \$480 million NBA arena emerging on the west side and the seven-story GAI office building sprouting on the eastern edge. In between are a half-dozen new office, condo or apartment towers.

The street-level view provides a somewhat different, and grimmer, perspective, however. "For Lease" signs dot vacant first-floor windows along historic Church Street. Vacancy rates are up and rents are down throughout the downtown core in the past year. Chunks of the once-heralded Plaza office tower were auctioned off last week. Last month, 165 condo units at the Vue at Lake Eola were auctioned, along with parking spaces and empty ground-floor retail. And the imposing 55 West tower, built as condominiums, last year began renting units as apartments.

Even downtown's heralded new tenant, the KEL law firm, is growing in large part because of the slump in real estate, which has fueled the firm's caseload of more than 4,000 residential foreclosures.

"We're really expanding because the economy is so bad," said Matt Englett, a partner in the firm, also known as **Kaufman, Englett and Lynd LLC**. "I don't see it picking up. I haven't seen any companies ... expanding or being created, and that's worrisome to me."

Downtown Orlando's struggles started in earnest three years ago, when **SunTrust Banks Inc.** vacated about 150,000 square feet in its 30-story SunTrust Center tower at Orange Avenue and Church. The Atlanta-based financial institution downsized from 350,000 to 200,000 square feet.

"That was like putting up a brand new building downtown," said Matthew McKeever, senior director of office markets in Orlando for the commercial real estate brokerage **Cushman & Wakefield Inc.** "That's what really hurt downtown. By vacating that much space."

Since then, downtown businesses have been relocating from one city-center address to another in what McKeever describes as a "cannibalization," with few new players taking residence. Central Florida's core business district had a vacancy rate of 19.4 percent during the first quarter — up from 17.4 percent

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a year earlier, according to the latest Cushman & Wakefield report.

Despite the rising number of vacancies, key players in the market say they see green shoots beginning to emerge, though not enough to support new development. Long-unsold portions of The Plaza sold for more than minimum-bid prices last week. The March auction at the Vue drew nine bidders, and those properties sold for a combined \$25.9 million, or about \$6 million more than the minimum bids, said Orlando bankruptcy lawyer Scott Shuker, who represented the property.

James Heistand, founder of **Eola Capital LCC**, with its roots in downtown and commercial holdings of more than 16 million square feet across the eastern U.S., said he expects demand for office space to rise next year when the employment picture improves.

"Many tenants are being smart and saying, 'I'd better get my deal now. It's not going to get any better than this,'" said Heistand, who noted that One Orlando Centre, the North Magnolia Avenue tower also known as the Wachovia Building, is now 96 percent leased.

Other factors that will give downtown boost, according to Heistand: construction of the new events arena, the recent approval of a regional light-rail system, and the promise of a \$425 million performing arts center.

"If you didn't have those, it would be very negative," he said. "I think those are positive feeders."

He also expects financial institutions to begin growing again as they repay federal bailout fund. Such things will help drive occupancy in the core market, he said.

CNL Commercial Real Estate President Paul Ellis said that, while he thinks downtown core's recovery will be slow and long, it is favorably positioned compared with other major metropolitan downtowns because of the new venues and the planned addition of light rail.

Not surprisingly, some suburban companies are taking advantage of the down cycle to snap up lower lease rates and move downtown, Ellis said. CNL recently leased about 11,000 square feet in its second tower to **BE&K Building Group**, which had been in Maitland. The two CNL towers, which bracket City Hall, are now 98percent and 99 percent leased.

"We started to target suburban markets about 12 months ago," said Ellis, adding that the company has been "very aggressive" about marketing.

Even though some of the city center's highrises are showing signs of stability, downtown dirt is still apparently slow to sell. Pizzuti Cos. has preleased more than two floors in its planned, 11-story North Orange Avenue office building that would be called the Sevens, but it cannot launch the project until it is at least 60 percent leased.

Farther north, **Marcus & Millichap** is accepting offers on a 1.5-acre parcel on Ivanhoe Boulevard, near the Sonesta hotel and Orlando chamber of commerce. The land last sold for \$7.7 million in 2005, when it was the proposed site of a World Trade Center complex, but it is now listed as a short sale with no asking price.

A new building today, Ellis said, would need to charge tenants \$35 to \$40 a square foot to justify the construction costs. Yet downtown rentals rates are far less than that, averaging about \$27 a square foot, first-quarter report showed.

"We don't see the market fundamentals supporting new development for some time," he added.

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