

# MIAMI TODAY

December 28, 2016

## Development barriers keep Gables office rental rates strong

By Catherine Lackner

Strong barriers to development, including little developable space, have kept office rental rates strong in Coral Gables, said Jack Lowell, executive vice president of Colliers International. "It's a very strong submarket," he said.

Coral Gables appeals to a specific type of tenant, he said. "Nationals want to be in the central business district, but local decision-makers want to be in the Gables. Those engaged in trade want to be near Miami International Airport."

There are exceptions: Regions Bank and Bocado both have headquarters in Coral Gables, he said.

At \$30 to \$35 per square foot for most class A space (with the exception of Alhambra Towers, where rates can top \$45), "rental rates are not as strong as in Brickell, but they are steady," he said. "The market is fairly robust, and there have not been many new buildings delivered."

2020 Salzedo, the office and apartment complex built by Codina, is the only recent arrival, and the developer occupies half the office space, Mr. Lowell said. Mediterranean Village, a mixed-use complex in the planning stages on Ponce de Leon Blvd. south of Miracle Mile, will add 300,000 square feet of offices, he added.

"We've seen very good activity

with both of our buildings," which are at 150 and 220 Alhambra Circle, he said. Morgan Stanley extended its lease and added one floor in 220 Alhambra, he said. "The owner, Mercantil Commerce Bank, is very happy."

Office rental rates don't generate the returns that would appeal to most developers, Mr. Lowell said. "Right now, the economy favors mixed-use, including some residential," he said. "It's an exciting time. The marketplace is making the transition to residential," with some mixed-use projects being built in the Bird Road corridor south of the city's core. "The good news is that there is equity capital looking for a home in Miami. With cap rates at 4% and this strong flow of capital, the market should continue to be strong."

The City of Coral Gables plans to demolish its public safety building at 2801 Salzedo St. and build a new, modern facility north of Miracle Mile within three years, city officials announced last fall.

The city agreed to rezone the parcel from governmental to commercial high-rise use to encourage development — possibly an office building — on the site. "The building is street-to-street, so a developer could have full floor plates on that site," City Manager Cathy Swanson-Rivenbark has said. That, coupled

with a desirable location and the fact that a developer wouldn't have to go through a re-zoning process, makes the property very attractive, she added.

But, says Joe Hernandez, an attorney with the Weiss Scrota Helfman Cole & Bierman law firm, a developer would have to think long and hard about putting an office building there without having an anchor tenant signed. "Building on spec is risky."

With construction costs running at about \$500 per square foot, a developer would have to lease the majority of the building at \$40 per square foot, minimum, to make the deal work, Mr. Hernandez said.

"The market is not bursting at the seams," he said. "The bigger buildings still have space available."

Nevertheless, it is a strong market, he said. "We all think Coral Gables is going to grow, though not like Brickell. People are buying property and land-banking it in the North Ponce area."

Population growth is expected, too, though it won't be explosive, he predicted. "And with more people will come more office space."

The Coral Gables office market has historically stayed strong in good economic times and bad," said Scott Levine, a partner in the Rennert Vogel Mandler & Rodriguez law firm. "I

would be surprised if there is not a receptive market for the 14-story office tower project on the city site," he said.

"The project could likely support rents in the high \$30s per square foot. Overall, rising interest rates could drive further rent growth in Coral Gables. The city fared reasonably well during the Great Recession, and I would expect it to remain an attractive spot for investors and tenants."

"We are one of several submarkets to have a single-digit vacancy rate," said Thad Adams, senior vice president of The Allen Morris Company. "Vacancies run about 8% throughout the whole market and demand is strong for all asset types."

At the class A Alhambra Towers, which the company developed, a tenant moved out of 3,500 square feet; within 60 days it was leased again, he said. "We're 100% leased, at rates in the mid \$40s per square foot."

New-go-market tenants, both domestic and international, have made a strong showing, he said. "We are very much involved in representing tenants," Mr. Adams said.

He predicts a sunny future for the city. "Honestly, as density in the central business district gets higher and higher — with correlating traffic — we're going to benefit

We're centrally located, with a strict zoning code, and far less density. Extremely high barriers to entry and few available development sites are going to support rental growth."

"Coral Gables continues to strengthen as a market," said Keith Edelman, a principal of Avison Young. "Its location is uniquely positioned to compete with two other submarkets: Miami's central business district and Airport West. The Coral Gables market offers a convenient location that presents a financial advantage to downtown and it has an amenities advantage when compared to Airport West. The continued demand for office space remains vigorous, with healthy net absorption, a decrease in vacancies, and an increase in asking rates."

"The Coral Gables submarket has a total of 40 new development projects in the planning stages that include approximately 1.5 million square feet of office space," said Scott Goldstein, also a principal of Avison Young. "Given that these planned and proposed developments are mostly multi-use projects, there is heavy hope that Coral Gables will continue to grow, expeditiously, in the next three to five years, enough to support the amount of development in discussion. We are concerned that this anticipated pipeline could set the stage for a negative impact on the market. However, we also expect that the recent increase, and future increases, in interest rates will help manage the development delivery."



Jack Lowell



Thad Adams



Cathy Swanson



Scott Levine