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South Florida CRE to Continue Plunge in 2009

By *Crystal Proenza*

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MIAMI-Limited debt availability and declining property values will cause the South Florida commercial real estate market to continue its downward trajectory, at least for the first two quarters of 2009, according to local experts. Plunging values may begin to stabilize in the third quarter, but property fundamentals may continue to deteriorate based on unemployment. Although there is an overall lower demand for commercial real estate, local brokers expect that sometime in the next 18 months, sale and lease transactions will pick up and lift the region out of its slump.

"We are coming into a period of time in the commercial real estate industry with the most uncertainty I have seen in my 13 year career," says Alan Kleber, senior director with Cushman & Wakefield in Miami. "Taking into consideration weak tenant demand, additional inventory coming into the market, buildings purchased at unjustifiable pricing during the commercial liquidity boom, and debt coming to maturity creating additional stress for landlords, we are truly entering uncharted territory in 2009."

Public REITs, pension funds, private investors and any owner with CMBS loans maturing in 2009 face an especially difficult time because there is an inability on the part of lenders to work on loans that were securitized, unless there is a default, says Mark Gilbert, executive vice president of the capital markets group at Cushman & Wakefield in Miami. "And then there will be loans that go into default because the fundamentals of a property change, rents go down, occupancy goes down and there will not be enough cash flow to service the present debt." On the flip side, those developers that are in good standing with fundamentally strong properties stand a high chance of receiving assistance in the form of extensions provided they are the balance sheet loans, adds Gilbert.

Within the retail sector, expect a continuing increase in vacancy rates and difficulty with landlords in terms of refilling space, according to local brokers. "Participants in the market are in defensive mode, focused on refinancing properties with upcoming debt maturities and making sure capital is available for improvements or tenant replacement," says Casey Rosen, senior vice president with CB Richard Ellis' national retail investment group in Florida. In terms of sales, pricing will continue to weaken, bringing less properties to market and creating a lower overall volume of sales than 2008, he says. "We'll probably see an up tick in retail bankruptcy after the holiday season," that will be heavily linked to unemployment, he says.

"Without question the industrial vacancy factor throughout South Florida is going to increase several points," says Michael Silver, first vice president with CBRE in Miami. "Most companies that I have been in contact with are in consolidation mode or closing their South Florida operations and putting their space on the market for sublease," Silver reports. "That would also mean that rental rates and sale prices will decline due to the number of buildings being offered on a sale or lease basis throughout the market." In addition, many large industrial developers are expected to put new projects on the back burner until there is some strength in terms of absorption. "We're hoping we'll see some rebounding by the third quarter of 2009 and will start seeing more activity taking

place," he says.

"In every industry and every real estate sector and product type there is going to be a wait and see environment out there in which corporations just aren't going to make a move," says Tom Capocefalo, managing director for Studley's South Florida office. "Companies are going to wait for the economic climate to improve and will result in any occupier of space renewing, and probably not extending terms for longer than three to five years."

There will be a continued weakening of office market fundamentals, says Cushman's Kleber. "Landlords will be confronted with minimal demand from corporate users in parallel with additional supply coming into the market from the new developments and more subleases coming online." The lack of demand will cause significant landlord concessions to retain tenants and cautiousness on the tenants' part," says Capocefalo. One advantage for those businesses that are doing well is that if their space is up for lease renewal over the next few years, tremendous concessions can be achieved, he says, which would provide tenants with lower cost operating expense moving forward.

Despite much negative news coverage and a general lack of confidence in the market, the outlook for 2009 is not all bad, commercial real estate experts agree. "There's been an unprecedented amount of liquidity pushed into the marketplace and it will start to show up in 2009," assures Gilbert. Brokers agree that a rise in transactions could cause stabilization of the market in the third quarter.

"That assumption is all predicated on lenders being cooperative," adds Alan Kaye, managing director of Sperry Van Ness Kaye commercial investment group in Boca Raton. He says property values will also stabilize in the upcoming year, noting that there is so much cash on the sidelines that prices can not go much lower. "The fire sales of 15 to 20 cents on the dollar sales will not happen," he says.

Despite the oncoming hardships, real estate will always be a solid investment, experts assert. "Where do you invest your money?" asks Kaye. "Not the most well respected fund managers; the stock market is so volatile; and you can't put money in the bank right now.

Eventually that will lead people back to real estate—to something tangible and where they can see there is something real and viable they can feel confident in putting their money in."

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