

MIAMI TODAY

WEEK OF THURSDAY, MAY 6, 2010

WWW.MIAMITODAYNEWS.COM



Smaller office buildings sell, but normal activity still distant

BY MARILYN BOWDEN

After more than a year of a virtual halt to sales activity in the office arena, the first quarter of 2010 showed some signs of renewal, brokers say, particularly among smaller properties, but normal market activity is still a distant hope.

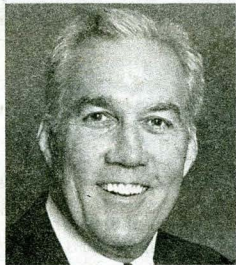
According to Stephen E. Gaunt, a senior vice president at Cresa Partners, only six office properties of more than 25,000 square feet sold in Miami-Dade County in the past six months.

"Compared with the paralysis of last year, there was more activity in the first quarter," said Alex Zylbergait, associate director of the national office and industrial properties group at Marcus & Millichap, "but the nature of the deals is different. It's smaller deals that are getting done."

"Generally speaking, the quality assets — those with good location, age and condition — are holding value much better than non-quality assets, but they are not selling for what they used to. Cap rates, though lower for the good stuff, are going up across the board."

But the gaps between what owners and potential buyers see as a fair price continue to be a barrier, he said. So does the gap between what buyers are looking for and what's on the market.

"People want buildings with predictability of cash flow and stability of tenants," Mr. Zylbergait said, "but in general



"In one instance, the bank stepped in and wouldn't let an owner lease his building because the lease rate wouldn't service the debt."

Stephen Gaunt

owners are not disposing of those. Available inventory is properties that are entirely or highly vacant. If somebody is going to buy something unstable, they will want to steal it."

Matthew Adler, president of Adler Realty Services and chief investment officer of The Adler Group, said the purchase of office product is one of the company's major investment strategies, but the kind of deals he's looking for are still few and far between.

"For us, financing is not the issue; leverage is the problem," he said. "There are not a lot of assets with reasonable sellers."

"We don't consider ourselves bottom-feeders. We don't want to buy a distressed property. We'd much rather buy a performing property from a motivated owner. We want a good return and fair underwriting based on what we think cash flows will be."

Most sales, Mr. Zylbergait said, are cash deals.

"Private investors rely on get-

have purchased at a high price, and now the value of the property is less than the underlying mortgage.

"Also, a lot of owners refinanced and took money out, but didn't put it back into the property. So they are sort of handcuffed to that situation."

As a result, he said, more and more properties are coming onto the market.

"The bank that has a loan on the property is also a player," Mr. Gaunt said. "In one instance, the bank stepped in and wouldn't let an owner lease his building because the lease rate wouldn't service the debt."

And with lease rates continuing to dip, he said, business owners have to ask themselves whether it makes more sense to lease rather than purchase.

Some banks are selling repossessed assets, Mr. Zylbergait said — particularly "stuff they consider not that attractive. They are becoming more flexible in the pricing, so we will see some sales at distressed pricing."

"I think activity will pick up a little more by the end of this year. For savvy operators who know how to operate and lease, it's a great time to buy, especially if they have cash. When the market returns, they will be very well positioned."