

Airport West expecting high lease rates in new year

Industrial business parks have maintained 95% occupancy rates

BY MARILYN BOWDEN

Industrial brokers active in Airport West say the forecast for the area looks rosy throughout the next year — especially for landlords.

"My opinion is that it will be a good year," said George Pino, vice president of commercial sales and leasing at Flagler Real Estate Services.

"Right now we're looking at 5.5% vacancy. That rate has fluctuated from 5% to 5.5% over the past year, and I expect that positive direction to continue. The fundamentals are there to sustain long-term growth."

Airport West's industrial business parks, which comprise about 11.5 million square feet of the total space, have sustained a 95% occupancy, Mr. Pino said.

Rental rates in the county's largest industrial area, comprising about 49 million square feet, have increased a whopping 15% over the past 15 months, he said, but seemed to be stabilizing in fourth-quarter 2007.

"Going forward, I think we are going to see increases of 3%-4% annually," Mr. Pino said. This is the result of two factors: limited vacant space and a spike in operating expenses, especially the cost of insurance and property taxes.

That spike has given a competitive edge to large owners such as AMB with properties around the country, he said, because they are able to keep their insurance costs relatively low.

"In the case of my client AMB," he said, "they pay 17 cents per square foot for insur-



Alex Zylbergait, associate director in the National Office and Industrial Property Group of Marcus & Millichap, said there is a strong demand for quality product from the investment viewpoint in the area.

ance, versus \$2-\$3 a foot for a single-building owner. That advantage is fueling the volume of buildings being bought by these institutions. They are gobbling up real estate and setting record

sales prices as they go along."

Alex Zylbergait, associate director in the National Office and Industrial Property Group at Marcus & Millichap, which specializes in investment sales, said from an investment standpoint there is a strong level of demand for quality product.

"There's been a slight run-up in cap rates," he said, "and lenders are extremely cautious about underwriting. Consequently, in-place cash flow is paramount."

But even modest gains continue to attract capital, while marginal assets and locations with questionable tenants will be suffering from an investment standpoint.

Interest from institutional investors is increasing, Mr. Zylbergait said, "but not every product qualifies for that kind of capital, and they have already bought up whatever they could get their hands on in the last year or year and a half."

"So interest is there, but they are being more cautious, especially since the days of counting on sharply rising rental rates are gone. I think there will be a deceleration of growth in rental rates, which is healthy. It means the market is becoming normalized."

Jose Juncadella, founder and principal of Fairchild Partners and a 25-year veteran of the local market, said he sees rents continuing to go up.

"We are seeing it with deals we are doing," he said. "The lack of available space is causing landlords to ask for more rent, as are increases in operating expenses."

"But a lot of institutional investors and landlords say they are starting to get much better rates from insurance companies. What we need now is a reduction of taxes."

Mr. Juncadella said quoted rents, which are changing from gross to triple-net bases, are getting close to \$8 a square-foot triple net at the high end, which would translate to about \$10 a foot gross, "and I don't think we will see a whole lot of relief in rents until 2010."

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