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Office market robust, but is a slowdown looming?



The Las Olas City Centre in Fort Lauderdale sold last year for \$220 million. (Stiles)

Low interest rates, strong job growth and a dearth of construction have combined to create a prolific market for office building investments in South Florida over the past five years.

But some real estate analysts predict the frenzy will fade in 2017, derailed by economics and a sense of inevitability.

Since the commercial sector started to rebound in 2012, institutional investors have made close to 300 deals for “Class A” office buildings in Palm Beach, Broward and Miami-Dade counties, according to figures from Real Capital Analytics compiled by Colliers International South Florida.

The firm tracked buildings worth more than \$2.5 million and bigger than 75,000 square feet.

In 2016, investors spent \$1.9 billion on 23 towers in Miami-Dade, while 19 Broward buildings sold for \$984 million, the data show. Both dollar amounts are the highest of any year during the recovery, and some of the region’s most prestigious towers have traded hands in the period.

The 1.1 million-square-foot Southeast Financial Center in Miami sold in November for \$516.6 million, while the 408,079-square-foot Las Olas City Centre in downtown Fort Lauderdale fetched \$220 million in September.

Palm Beach County’s signature sale happened in 2015 when the 423,323-square-foot Phillips Point complex commanded a \$245.5 million price tag.

Tom Capocéfalo, senior managing director for the Savills Studley brokerage in Miami, said the economic bounce-back led to business expansions that required more office space.

Broward ended 2016 with office vacancies at 11.1 percent, the lowest in eight years, according to Colliers. Among the newly signed leases: Liberty Power Corp. and State Farm Insurance combined for 56,000 square feet at the 185,000-square-foot Hotwire Technology Center in Fort Lauderdale.

Shrinking vacancies eventually pushed rents higher -- along with building values.

“As real estate and the economy have improved, there’s been a demand for office space, and there’s very little of it being developed,” Capocefalo said. “Landlords are saying, ‘This is an attractive time to sell and take my profits.’”

No significant office construction occurred in South Florida during the recession. What little available land is left will go toward housing, Capocefalo said, making it unlikely that the region will see many new office buildings in the coming years.

While that scenario bodes well for existing landlords, other factors threaten to undermine the office sales sector, market observers say.

Alex Zylberglait, a managing director for Marcus & Millichap, said rising interest rates in recent months will soften the market. Higher borrowing costs boost capitalization rates, putting a damper on pricing, he said.

Scott O’Donnell, an executive director for investment sales at Cushman & Wakefield, said he’s already noticed a change in the buying landscape.

“As the market becomes stronger, and the absorption fills up the vacant spaces, there are fewer buyers across the spectrum,” he said. “It’s a more difficult marketing process.”

As the end of the first quarter of 2017 approaches, the Colliers data show all three South Florida counties are on pace to fall short of last year’s sales prices.

Miami-Dade’s two sales so far have totaled just \$39.6 million, while four buildings in Palm Beach County have sold for \$65.1 million. Broward has one sale for \$86.75 million.

“You can’t have this run-up forever,” said Jonathan Kingsley, an executive vice president at Colliers. “At some point, it has to slow.”

Still, Christian Lee, of the CBRE firm, said he remains bullish on the investment sales market because few major metropolitan areas nationwide have so little office construction compared to projected absorption as South Florida.

Lee said he has more listings now than he did a year ago, and higher interest rates have made the cost of borrowing only marginally higher.

He said major institutional investors surveyed at a recent capital markets symposium in Phoenix indicated that acquisitions remain a major part of their strategy.

“I think the market is poised for a strong year on the investment side,” he said.

<http://www.sun-sentinel.com/real-estate/fl-bz-office-building-sales-20170317-story.html>