Demand spurring spate of industrial space construction

BY MARILYN BOWDEN

With virtually no new construction and relatively low vacancies at the start of the recession, Miami-Dade's industrial market has been less affected than other commercial real estate sectors. Now, brokers say, demand is spurring a spate of speculative construction.

"The market is very strong," said Edward J. Redlich, vice president at ComReal Miami. "Vacancy continues to go down. It's now at about 7.5%. Just three years ago, at the beginning of the recession, it was at about 12%."

"There's a trend of expansion among logistics companies," said George Pino, founder and president of State Street Realty, whose assignments include the 4 million-square-foot Prologis portfolio.

"While most activity is from existing tenants, when they expand they leave smaller spaces behind, which is still positive absorption. And there are a few new tenants as well."

This activity has caused inventory to drop significantly in the past 12 months, said Steven J. Medwin, managing director of Jones Lang LaSalle Brokerage, and in good-quality buildings, rental rates are on the rise.

"Three years ago, the average was around $6.50 gross," he said. "Now it's somewhere between $8.25 and $9. At the peak it was about $10, so it's now only down 10% to 15%."

The availability of desirable space is much lower than the vacancy rate would indicate, Mr. Redlich said.

"About half the vacant space is either dysfunctional or overpriced," he said. "Tenants want good, functional space at the market rate, and some properties are outdated, with poor loading facilities, low ceiling heights, bad location and structural issues."

MIAMI-DADE INDUSTRIAL MARKET
First Quarter 2012

Market	Vacancy	Net Absorption	Average Asking Lease Rate (gross)
Airport-Doral	6.5%	576,971	$9.15
Central Dade	6.3%	104,330	$4.99
Hialeah	12.2%	315,081	$5.09
Kendall-Tamiami	3.1%	42,376	$9.33
Medley	4.1%	494,889	$7.10
Miami Lakes	5.9%	157,330	$7.55
North Central Dade	6.5%	(441,261)	$6.64
Northeast Dade	6.9%	19,700	$5.74
South Dade	5.4%	4,675	$6.65
TOTAL	**6.2%**	**1,273,911**	**$6.97**

Source: CBRE Research

Inventory dropped significantly due to demand: Steven Medwin.

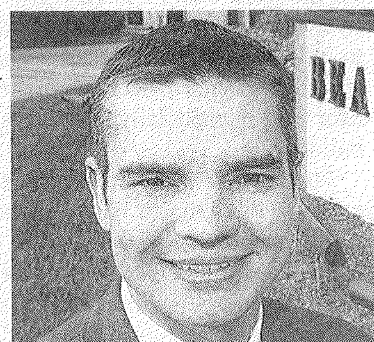
All of this has led to announcements of speculative construction to the tune of nearly 2 million square feet, Mr. Redlich said R– including the 185,000-square-foot Beacon Lake Building 13 and the 334,000-square-foot DCT Commerce Center – and smaller, local developers are looking for land to build more.

Investment sales, said Mr. Medwin, are "through the roof. The 4.2 million-square-foot Flagler Station sold for $340 million, or about $80 a foot, at a 5% cap rate. The 330,000-square-foot UPS building in Doral also sold for $80 a foot, and the three-building, 340,000-square-foot International Corporate Park was purchased by a major institutional investor for $46.6 million, or $137 per square foot, also with a cap rate in the low 5% range.

"That's the highest per-square-foot price in Miami I can remember. The low 5% cap rates also set records."

Mr. Pino said several factors are driving this bustle in the industrial market.

"Over the past three years," he said, "most businesses have been bare-bones operations. To continue to grow, they need to make decisions to expand and accommodate what we hope is a rebounding economy.



Vacancy fell from 12% to 7.5% in three years, said Edward Redlich.

"We're also seeing new companies coming into the market. Space requirements of 30,000 square feet or less are still the sweet spot in this market, but there are six or seven requirements for more than 100,000 square feet. I am working on two 150,000-square-foot deals right now.

"Exports are up about 30% from a year ago," Mr. Pino said. "Miami is the shipping center for Latin America, and infrastructure upgrades in the works right now to the 826-836 interchange and the port will allow Miami to accommodate what we expect will be growth in cargo."

The local economy is so closely tied to Latin America, Mr. Medwin said, that "it has benefitted from the rise of the middle class in Colombia, Panama and Brazil.

The expectation of an increase in demand due to the widening of the Panama Canal and dredging and infrastructure upgrades at the Port of Miami motivates some companies to expand or establish a Miami presence, Mr. Medwin said – among them his own firm, Jones Lang LaSalle.

"We have a group called PAGI – for port, airport and global infrastructure – that consults and brokers deals for and around transportation hubs globally," he said. "It was based in Los Angeles, but the main body just moved offices in Miami because they believe there will be a shift to the East Coast with the canal opening.

"Even if we capture just 5% to 10% of that business, that would be a meaningful demand increase in Miami."

On that front, some brokers remain cautious.

"Logistics companies are telling me that when the upgrades to the port are done, we will be able to accept super-freighters," Mr. Pino said. "So I think it will increase business somewhat, but I don't think it will be a game-changer."

"The Port of Miami expansion is a speculative development," Mr. Redlich said. "There's nothing that says because we build it, it will be used."