Institutional Owners are “Cautiously Optimistic” About the South Florida Real Estate Market in 2017

On February 9, 2017, Colliers International South Florida hosted the 10th Annual Industrial Owner’s Forum bringing together more than fifty of the top industrial owners and representatives from across the region for a roundtable discussion of the state of the industrial real estate market. Each owner shared their perspective on local market conditions, national trends and global influences. The following recap highlights some of the overarching takeaways from the discussion and an outlook for 2017.

What’s Ahead in 2017

Acquisitions: South Florida is maturing and solidifying its position as one of the top industrial markets in the U.S. Everybody wants to buy industrial assets in South Florida explains the group. However, as the capital for acquisitions continues to flow into the market, product availability and land constraints make it difficult to find a good deal. Most owners are willing to sell Class B and C assets but want to hold on to their Class A assets. Furthermore, construction financing is getting harder to secure. With these industry fundamentals, we can expect rents to continue climbing as we head in to 2017.

Construction Costs: Construction costs will most likely be flat in 2017 due to a slow down in condo construction. Developers are noticing that general contractors have been very competitive with construction pricing after years of increasing costs. New development construction costs are ranging from $70 to $100 per square foot for new Class A warehouse and for existing developments the costs range from $70 to $85 per square foot for the office component. The challenge today is the lack of available land to build upon in Miami-Dade, although land constraints is less of an issue as you push north. They are also experiencing extended due diligence procedures, averaging six months, to deal with cumbersome environmental and permitting issues. Owners noted that building out office in South Florida takes twice as long as any other market that they’re in. A lot of tenants are forced to holdover because space takes so much longer to build out here.

Parking Requirements: We’re seeing a significant increase in employee and trailer parking requirements for all sites nationwide, especially ‘last mile’ sites. This a requirement that was not on the radar 18 months ago. This used to be a requirement from larger tenants (300,000 square feet or more), but now, its not uncommon coming from smaller tenants in the 80,000 square foot range. This makes it more challenging since these tenants occupy much smaller lots. McCraney provided an example of reducing the building size to accommodate parking and trailer storage requirements.

Small Bay Flex Product: In small bay flex product over half of the deals are less than 20,000 square feet in size. The story in the small bay product is that the occupancy is almost above the functional rate of vacancy. With limited available options for tenants, rents are expected to increase in 2017 and owners are being more wary of tenant quality in preparation for the next downturn.

Trends by Submarket

Doral/Airport West: The proximity to the airport makes Doral/Airport West one of the most sought after submarkets in South Florida. Owners are experiencing “extremely strong” tenant activity with a pipeline of tenants waiting to backfill space if tenants move out. Participants from this submarket are finding tenant needs for larger spaces strengthen (100,000 square foot range), while fewer tenants are seeking mid-sized spaces (30,000 square foot range). Doral/Airport West also demonstrated strong tenant retention with high renewal activity. With the delivery of new and improved industrial buildings featuring taller clear heights, better overall building layouts and more sophisticated technology, one of the biggest challenges some owners face is the “flight to quality”.

Medley / Hialeah Gardens: The “flight to quality is real” explains the owners in Medley/Hialeah Gardens. However, being home to most of Miami-Dade’s newest industrial buildings has helped this submarket to attract tenants. The general owner sentiment in this submarket is that “activity now is higher now than it’s ever been” and participants are feeling “pretty confident that the market is holding and the demand is there” as we look ahead in 2017. Flagler Global Logistics began construction in 2016 on the first phase of Countyline Corporate Park, an 8 million square foot industrial park. While the first phase can be expected to deliver within 18 to 36 months, the full buildout is likely to take a couple of cycles estimated at five years or more.

East Hialeah / East of MIA: Owners in the East Hialeah market are seeing a lot of interest from large tenants with the delivery of Centergate at Gratigny. There have been few deliveries of new product in recent years and the area is heavily dominated by C-class buildings. Build out costs have been low in this submarket as well as low operating expenses that have also helped to attract tenants.
Miami Gardens: In Miami Gardens, EastGroup has plans to develop an industrial park on 61 acres of land that it bought from Calder Race Course in 2016. Although it’s very early in the process, EastGroup is undergoing its due diligence while working with the City of Miami Gardens to get its plans approved. EastGroup targets the first quarter of 2018 to start construction.

Southwest Broward: The overall sentiment from Southwest Broward industrial owners is that the market is very tight and market drivers remain healthy. Owners shared stories of tenants signing leases within 24 hours of viewing space and described this activity as reminiscent of being “top of the of the cycle.” Strong fundamentals have led to 3% rent bumps each year and few tenant concessions. One of the struggles of a tight market is that you risk losing good tenants that need room to expand. The strength of the market is luring investor attention. Investors are scouring the market for opportunities and pursuing buildings that are not on the market and paying above market price.

Pompano Beach/Deerfield: Butters Group and Blackrock plan to develop on 26 acres of land that it bought in 2016. Phase I will consist of 320,000 square feet of speculative industrial buildings and Phase II will encompass another 60,000 square feet. Two of Butters existing industrial buildings delivered this year are about 75% leased with rents achieved well-above $8 per square foot (NNN) and pushing up to $9 and $10 per square foot. Tenants are mostly distributors of household improvement goods such as granite distributors.

Palm Beach County: Focusing our attention further north in Palm Beach County, owners describe the market as “thinner” than Miami-Dade but activity is increasing as tenants push north. Palm Beach is strategically located on the route between Central and South Florida. McCraney Property Group is currently constructing Turnpike Business Park and describes West Palm Beach as a friendlier environment to work describing the ease of the permitting process. Average deal sizes are slightly smaller in Palm Beach quoting 20,000 square foot as the perfect size. The deal signed by Southern Wine and Spirits spanning 28,325 square feet at McCraney’s Turnpike Business Park reflects the warehouse demand that’s driving new development in Palm Beach. The strength of the market has allowed owners to refinance deals. In 2016, McCraney secured a $65 million loan to refinance its legacy assets leading to longer team debt at a much more favorable rate.

Outlook: “Cautiously Optimistic”

We head into 2017 with strong market fundamentals. Owners were optimistic about the general economic conditions and strengthening demographics. We expect these to continue driving a steady flow of demand in line with delivery of new supply. In particular, there’s a growing demand for cold storage facilities and owners remain positive about e-commerce and the demand for space it generates. However, these sentiments were balanced by South Florida’s dependency on a fluctuating Latin American economy as well as uncertainty surrounding increasing interest rates and our administration’s handling of trade issues. To safeguard against a possible downtown or dip in the market, owners emphasize credit quality rather than pushing rates. To summarize the sentiments of the room, owners remain “cautiously optimistic” about 2017 while looking over their shoulder periodically to check a “train” is not coming to run them over.
BROKERAGE:
Steven Wasserman, SIOR
Executive Vice President
+1 954 850 6487
steven.wasserman@colliers.com
Erin Byers
Senior Associate
+1 786 493 3178
erin.byers@colliers.com
Kenneth Krasnow
Executive Managing Director &
Market Leader
South Florida
ken.krasnow@colliers.com

RESEARCH:
Verity Mosquera, MBA
Research & Consulting Manager
South Florida
verity.mosquera@colliers.com

Copyright © 2017 Colliers International.
The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

About Colliers International

Colliers International is a global leader in commercial real estate services, with more than 16,000 professionals operating out of 554 offices in 66 countries. A subsidiary of FirstService Corporation, Colliers International delivers a full range of services to real estate occupiers, owners and investors worldwide, including global corporate solutions, brokerage, property and asset management, hotel investment sales and consulting, valuation, consulting and appraisal services, mortgage banking and insightful research. Colliers International has been recognized and ranked by the International Association of Outsourcing Professionals’ Global Outsourcing 100 for 10 consecutive years, more than any other real estate services firm.