

COMMERCIAL REAL ESTATE

Office condos could lead to shortages of lease space, pros say

BY SUZY VALENTINE

The office-condo trend may provide a quick return for investors but will lead to shortages in commercial spaces that can be leased, a real estate expert says.

"Everyone is looking at where the best returns are, spurred by low interest rates," said Donna Abood, president of Abood Wood-Fay. "Around the corner, I foresee a crisis in office space. I don't see any product in office that can be leased coming online. It is a shortsighted solution."

A condominium is a form of multiple vertical ownership and isn't confined to the residential or commercial sector. But lenders haven't always appreciated that, a developer of office-condos said.

"It has been an educating process for banks, too," said Michael Konig of SMK Cape Horn, developing the 82,000-square-foot 1680 Michigan Ave.

"It's an attractive alternative for investors looking to buy sections of real estate as opposed to whole buildings," said Mr. Konig. "Portions of, say, 5,000 square feet or so may be purchased. The typical unit here is 1,000 to 1,500 square feet."

"We did 1110 Brickell Avenue and decided to progress," he said. "We are seeing a lot of buyers who like alternatives and want to diversify their portfolios. It is more popular than commercial leases."

A Brickell real estate and mortgage broker explained the attractions. "Office-condo developers are opting for well-located and heavy-trafficked areas," said Hank Rodstein, president of HR Mortgage and Realty Co. "It is influenced heavily by the South



Michael Konig: Bankers, who had been showing some reluctance, are starting to learn that office condos can be good investments.

American market, and as long as you own 51%, you can rent to a third party."

He identified nervousness over the glut of condominiums due in Miami over the next two years.

"Everyone is spooked by the amount of residential in downtown," said Mr. Rodstein. "It's all the talk in New York now, and banks are becoming leery of funding. There's a tsunami of condos coming on stream in central Miami."

There are other advantages to

the condo-office model, a banker says.

"It's a tactical move," said International Bank of Miami economist John Burford. "One of the things with the trend is that it brings the condo to the market sooner than with new construction—and that's a fairly good sign that people are worried."

It is part of a cycle, said Mr. Burford, in which there is either too much or too little development.

"It does swing," he said, "from

under-construction and pessimism to over-construction and soaring prices. There does seem to be an awful lot of supply, and it's difficult to see that that many offices are needed. They need to be ready now."

Senior commercial associate Kelly Smith of Abood Wood-Fay said he hasn't seen a more frenetic market in his 25 years in the business.

"People are paying prices which make little sense on an investment basis," said Mr. Smith.

"There are lots of dollars looking for investment. The stock market is down and interest rates are low. Company owners can borrow 90% of the cost fixed for 25 years at less than 7% and are locked into rates."

He said he has pondered whether the model could be adapted to shop spaces. "I asked someone whose specialty is retail whether condo-retail would follow," Mr. Smith said, "but I'm told as retail people prefer to rent, that's not happening yet."