Industrial real estate on the move in Miami-Dade

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With industrial real estate sale prices in Miami-Dade County hitting record levels and vacancy rates dropping, there's suddenly a mini building boom under way in the warehouse district west of Miami International Airport.

After several years when industrial warehouse construction ground to a halt in Miami-Dade, there is now nearly one million square feet of warehouse space under construction or expected to break ground within the next month or two.

The vast majority of the space is being built without tenants because the owners are so confident in the market's future. And that's only the beginning. There are at least another two million square feet in the pipeline.

South Broward is also seeing a small surge, with 350,000 square feet under construction.

Construction is being driven largely by industrial investors with ready access to capital who have decided that South Florida, and Miami in particular, is a hot market where they want to own more property. As prices for acquisitions started to rise, they decided it simply made more sense to build.

"They're all looking at Miami as a tier-one city," said Jose Juncadella, principal with Fairchild Partners. "This is one of the best locations for them to have an investment because it's a constrained market and you have a lot of demand for land. We have great fundamentals."

That combination is driving prices up to record levels. More than six million square feet of industrial buildings changed hands in South Florida during the first half of this year at a transaction volume of $485.3 million, according to Jones Lang LaSalle, a national brokerage firm.

"The industrial market has bounced back faster than anyone expected," said Steve Medwin, managing director with Jones Lang LaSalle in Miami. "The institutions are all here scouring the market. They want to have that dot on the map. Each time a quality asset comes on the market, there's a tremendous number of bidders, resulting in much higher prices than anyone would
expect.”

The biggest of those deals was AEW Capital Management’s $340 million April purchase of the 4.2-million-square-foot Flagler Station Business Park from Fortress Investment Group. That deal, which included 33 buildings at a price of $81 per square foot, was the largest industrial sales transaction in the country for the month.

But on a per-square-foot basis, another recent deal set a Miami-Dade County record. Prudential Real Estate Investors paid $46.6 million or $137 per square foot to Eaton Vance for a three-building portfolio in Miami’s International Corporate Park.

This price run-up started last year and shows no signs of slowing down. While most of the action has been focused in Miami-Dade, Broward County has seen some isolated cases like REEF’s sale of the Weston Business Center late last year to TIAREF for nearly $85 million, or $125 per square foot. That was only 15 months after REEF bought the property for $95 per square foot. More recently, Industrial Developments International purchased 42 acres at the Davie Business Center in Fort Lauderdale for $21 million with plans to build a 750,000-square-foot business park.

“There are just not a lot of investment-grade properties available in Broward County,” said Harry Tangalakis, senior vice president of CBRE in Fort Lauderdale. “But we are starting to see new development again.”

Driving some of these high sales numbers and the building boom are the basic fundamentals of the market. Miami-Dade’s vacancy rate at the end of the second quarter was at 8.2 percent, with rates even lower in Medley at 5.8 percent and Airport North at 4.8 percent, according to Jones Lang LaSalle reports.

Average asking rental rates for the second quarter are at $4.60 plus taxes, insurance and common-area maintenance with rates the highest in Airport West at $6.13 plus the additional costs, according to Jones Lang. Vacancies have been declining since hitting a double-digit peak in 2009 at the height of the recession. Net absorption of vacancy space for the year to date is almost one million square feet.

“When you’re looking at the absorption rate, relative to the vacancy rate, it tells you there is still room for more development in this market,” said Todd Watson, a regional vice president of Denver-based DCT Industrial Trust, which last year acquired land for new development at Miami’s Pan American West Industrial Park. “Miami is the perfect example of those two trends coming together at the right time.”

Vacancies are slightly higher in Broward with a 9.9 percent vacancy at the end of the second quarter, according to Jones Lang. Average rental rates are $6.16, plus taxes insurance and common-area maintenance. Absorption is much slower with only about 364,00 square feet absorbed year to date.

Further strengthening the Miami-Dade market is the anticipated increased demand when the Panama Canal expansion finishes in 2014. Instead of all the large container ships from Asia heading to California with their cargo, they will now be able to head directly to the East Coast to make deliveries. Right now, Norfolk is the only eastern port set up to accommodate these ships,
but PortMiami plans to be ready.

The $1 billion vehicle tunnel is under construction. The port channel will be dredged to a depth of 50 feet to allow the passage of larger ships. The rail connection linking the port to a Florida East Coast Railway yard in Hialeah is being restored. These projects are expected to help the port’s cargo business double in the next decade and triple by 2035.

Miami already benefits from its position as the Gateway to Latin America, where demand continues to increase for shipping goods to Latin America and the Caribbean.

“The Panama Canal expansion only enhances that growth,” said Brian Smith, executive director with Cushman & Wakefield in Miami. “The demand is real today. The pent-up demand has been coming for two years because companies were hesitant to make a move.”

As the economy rebounds and with his business growing, industrial tenants like Jose Aguirre are taking advantage of the opportunity to expand. Aguirre’s business, Miami International Freight Solutions, has been growing steadily over the past four years and he is optimistic about the future. He recently moved his warehouse from Hialeah to Miami Lakes, increasing from 121,000 square feet to 190,000 square feet. His company ships largely electronics and apparel to Latin America.

“We thought it was the right time to lock down a long-term lease,” Aguirre said. “We don’t think prices are going to stay this attractive for much longer.”

The cost of building new industrial property didn’t work during the boom days when land in Miami-Dade skyrocketed as high as $1 million per acre, or about $23 square foot. But during the recession when prices dropped to about $400,000 an acre, or $9 per square foot for raw land, the numbers started to add up.

Malcolm Butters, president of Butters Construction & Development, was one of the first to see that opportunity. As prices started falling during the recession, Butters tied up three pieces of land in Miami-Dade for new industrial development, then started looking for capital partners. For Butters, which typically has done most of its work in Broward and Palm Beach County, this was a chance to expand into Miami-Dade.

“We have always wanted to be in Dade, but the economics never seemed to work in our favor,” said Butters, who initially secured the land now being used by Liberty Property Trust, KTR Capital Partners and Industrial Income Trust. “Dade is by far the biggest industrial market in the Southeast and one of the top three or four markets in the whole country.”

With top assets selling between $80 and $110 per square foot, Butters was able to show investors that they could build new developments for $80 a square foot or below. That made the numbers workable. Butters currently is working on three new industrial projects in Miami-Dade, representing 2.5 million square feet of space.

The biggest of those projects is the building of Miami International Tradeport with Liberty Property Trust, which invested about $20 million last year to acquire 126 acres that had been owned by cement and concrete firm Tarmac America. The project will include more than 1.6 million square feet of warehouse and distribution space, with the first 150,000 to be delivered next year and the
entire project built out over as long as a decade.

This project will mark the Miami-Dade arrival for Liberty Property Trust, a Pennsylvania-based, publicly traded real estate investment trust. The company has been in South Florida for about 15 years and owns about two million square feet of office and industrial property in Broward and Palm Beach counties. But to move into Miami-Dade, the company didn’t want to just purchase one small building.

“Pricing has gotten to the point where development makes sense,” said Andy Petry, Liberty’s vice president. “At the current pricing levels, what people are paying for older product we can build better, newer product. The right time for us to go in was when we knew we could get a larger presence in the market.”

Developers and brokers say they don’t see any problem finding tenants to fill the space because the growth still only amounts to about a 1 percent increase in total supply.

“This product is going to be absorbed pretty quickly based on the current business,” said Eric Swanson, executive vice president of Flagler, which plans to break ground on the South Florida Logistics center later this year and has land in Hialeah for a future business park. “There are a lot of tenants trying to grow and relocate to Florida. There are not many choices right now where they can locate. If somebody needs a large block of space in West Miami Dade and needs it now, that’s hard to find.”

George Pino, president of State Street Realty, estimates there are more than 10 tenants in the market each shopping for more than 100,000 square feet of space. Pino, who handles the leasing for Prologis Beacon Lakes among other projects, already has signed an 80,000-square-foot tenant that will take up more than 40 percent of the new space under construction.

“When was the last time you heard of a building that was halfway built and it was half pre-leased. Normally, tenants like to see it, touch it and feel it,” Pino said. “This is the most active I’ve seen the market in five years.”

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