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Home » Real Estate » The Pain Spreads in Real Estate

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REAL ESTATE REPORT CARD

The Pain Spreads in Real Estate

Hotels are benefiting from increased tourism, but economic conditions are hurting other sectors of the commercial market.

by Richard Westlund

Office: Tenants' Market

Throughout Florida, office vacancy rates are rising. Financial and real estate companies are downsizing or going out of business. Tenant demand is tepid at best, and more than 8.5 million square feet of space is under construction.

"On a statewide basis, the first quarter was one of the most difficult ever in terms of office demand," says Larry Richey, senior managing director at Cushman & Wakefield in Tampa. "It's all tied to employment growth. While we expect to see the job market rebound in the second half of the year, the high level of construction will lead to higher vacancies around the state."

"We look at this as a temporary hiccup," says Tony Landa, senior vice president at Lutz Real Estate Investments, a Farmington Hills, Mich., investment firm that owns 809,000 square feet of office and industrial space in Tampa and recently opened an Orlando office. "Our long-term outlook is very positive, and we plan to buy more properties in the future."

South Florida's office market has been cushioned from the economic downturn by its entrepreneurial nature, says William Holly, CEO of Holly Real Estate/TCN Worldwide in Coral Gables. "That's been the strength of our demand, versus a national company that might decide to close its offices across the board."

While leasing activity has been slow in the first quarter, Andrew Rudzinski, CB Richard Ellis' managing director for Broward County, expects an upturn by year-end. "For the entire year, we expect leasing activity to be about the same as in 2007," he says.

Office construction is occurring at a moderate pace throughout south Florida, including several high-profile "green" projects: Brickell Financial Center in Miami, Lake Shore Plaza II in Sunrise and Lynn Financial Center in Boca Raton.

In Orlando, Skyrise Development Group expects to break ground this quarter on World Trade Center Orlando, a two-tower, \$200-million downtown office complex. Overall, demand and supply are fairly well balanced, says Phillip Faircloth, senior agent at Marcus & Millichap's Orlando office.

Jacksonville's office market is "stable and healthy," says Brad Chrischilles, a principal in CNL Commercial Real



COMING SOON: World Trade Center Orlando is expected to break ground this quarter. [Photo: Jeffrey Camp]

Office Space

Market	Sq. Ft.	Vacancy	Under

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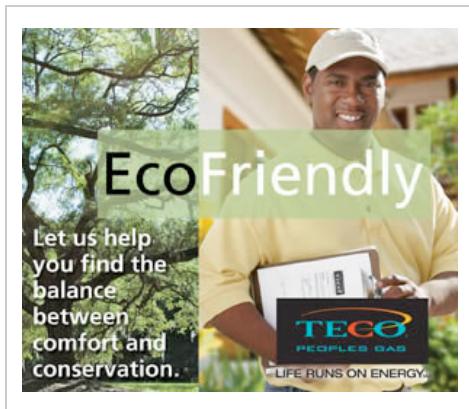
Estate's new Jacksonville office. "The velocity of tenant leasing is not as strong as it was two years ago, but there are still users like Fidelity Investments coming to Jacksonville." New Class A buildings in the Southside market include Butler Plaza III, WaterView II and Lakeside III. "There are several other projects that could come out of the ground if demand picks up," says Chrischilles.

Market	(millions)	Velocity	Construction
Miami	39.8	8.0%	4,131,577
Orlando	36.1	11.4	1,377,133
Tampa	32.7	14.7	975,000
Fort Lauderdale	24.6	12.6	386,000
Jacksonville	24.4	13.3	379,400
Palm Beach County	21.7	16.4	955,000
Saint Petersburg	13.8	17.0	0

Source: CB Richard Ellis, first quarter 2008

[previous] 1 2 3 4 5 [next]

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