

# Downtown Miami Office Space Being Sold Off To Investors

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August 25, 2014



150 SE 2nd Ave. was converted into condos

*AM Holt*

various luxury office building projects." Solution Group announced Ofizzina 1200 last week, featuring 97,000 square feet of office space with 47 office suites on a 28,502-square-foot parcel. The 16-story Mediterranean-style building with ground-floor retail and restaurant space will replace a two-story cylindrical office building.

Lopez said he's already placed between 60 percent and 70 percent of the building with interested buyers and is targeting a sales price of \$600 per square foot. Most investors are potential end-users rather than speculators, Lopez said. Lopez promises "the Ofizzina brand will not be a one-off," suggesting there's enough investment appetite to support similar projects.

The fact Solution Group has been able to harness new construction money from office condo investors is remarkable in the current real estate climate, where most developers are focused on significantly more profitable mixed-used residential towers.

Interest from Latin American investors—in particular Argentine entrepreneurs used to such investments back home—is bringing the South Florida market in office condos back from the dead.

Willing to pay top dollar for office space, the investors have not only been behind a recent flurry of transactions involving existing office space but also are credited with spurring the first office development announcement in Miami-Dade County since 2012.

"There's not a lot of opportunities to buy in many places where [office] investors want to be," said Camilo Lopez, president of the Solution Group. His company is using commitments by office condominium investors as a catalyst to build a Class A office building at 1200 Ponce de Leon Blvd. in Coral Gables. "The expansion Miami is having is enough to support not just one but I believe

Yet it's only the latest manifestation of how demand for office ownership is bubbling through the South Florida real estate market. In March, a company led by two Italian entrepreneurs bought 49 office condos at 1200 Brickell Ave. in Miami's financial district. In May, Argentina's Coto supermarket family bought 19 more units in the same building and later paid a record-breaking \$125 million for a riverfront development site in downtown Miami.

Owners of office condos in downtown Fort Lauderdale and Boca Raton facing foreclosure have recently filed legal actions to delay surrendering their properties, suggesting the landlords believe there's an upside in those assets.

## Condo Conversions

Meanwhile, investor demand has prompted several Miami real estate companies to engage in complex transactions converting an office building to condos and selling the pieces to myriad buyers. Victor Ballestas, a principal at Integra Solutions LLC, bought the Chase Bank building at 150 SE Second Ave. in a 2012 distressed sale. His company paid \$16.47 million for the asset, or \$131 per square foot. He said the original play his company had in mind was a "price per pound acquisition" that revolved around upgrading the infrastructure and renting to mid-market tenants.

"We didn't consider the condo conversion because we didn't think that market was coming back for awhile," Ballestas said. But while working on the improvements, Ballestas said, "A friend of ours approached us who does a lot of business with South American investors. It's investors that were buying residential condos at \$300 per foot and were accustomed to getting 7 or 8 percent in returns but are now getting squeezed on that market and not seeing those yields."

Ballestas said his company sold its stake in the Chase building to investors at around \$285 per square foot, and they are leasing office space at about \$30 per square foot.

Like Lopez, he will try it again.

"We're doing the one across the street, the Ocean Bank building," he said.

Nearby, One Flagler at 14 NE First Ave. in downtown Miami plans a condo conversion that will sell its 141,000 square feet to investors, the Daily Business Review has learned. Following a \$7 million renovation of the 1952 building, the goal is to sell office suites at \$285 per square foot, according to a broker arranging the marketing.

Fabio Faerman, commercial division vice president at Fortune International Realty, told the DBR that investors can expect returns of 4.5 percent from renting the properties. Like Ballestas, he said the influx of money is coming from Latin American and European buyers looking for a cash-producing assets and feeling squeezed by the thin margins on residential condo rentals.

"The condo office product always gets hot when the residential market gets too saturated with product available for sale," Faerman said.

## Institutional Skip

Fernando Levy-Hara, a developer and principal of the Aventura-based mckafka Development Group, said he's hearing a lot about interest in condo conversions. While his company is focused on other projects, including residential development in Miami's Edgewater neighborhood, Levy-Hara developed a 100,000-square-foot Class A office building in Aventura during the last cycle that he said "sold off in six months."

In this cycle, "buying it as a rental and turning it into a condo is a quick way to make money," Levy-Hara said. "You buy at \$180 [per square foot] right now, and for sure can sell at \$300 right now." Levy-Hara said Miami-based real estate companies are in an especially privileged position to take advantage of that arbitrage opportunity. Many Latin American investors drawn to Miami prefer buying office space over residential stock in their home countries, where the legal system makes it difficult to evict deadbeat residential tenants.

Additionally, Levy-Hara said, "Latin American buyers will generally prefer to fully own a smaller business over being a partner in a larger business. They worry they're not the owners who have the last word when deciding to later sell when taking decisions."

Those cultural idiosyncrasies provide a steady drip of willing buyers for office condos.

At the same time, the institutional investors who own South Florida office buildings "are not equipped to be in the condo office business," Levy-Hara said, and will gladly leave money on the table for a buyer willing to take the property off their hands, he said.

"Have you ever had lunch with a banker from one of the big institutions?" Levy-Hara asked rhetorically. "Bring them to lunch and explain to them you have a tremendous condo conversion play, and they'll tell you, 'Look, I thank you for your time, and I'll pay for this lunch, but there's just no way I am touching this. I'd have to explain it to my director, and he'll have to explain it to the board, who's going to have to explain it to the bank president. Thanks, but no thanks.' "

## Office Construction

As for whether the office condo investment appetite was strong enough to support new office development, both Levy-Hara and Ballestas suggested we could be on the cusp of such a dynamic. Ballestas specifically said office condo resale prices would need to increase by about 33 percent for most projects to hit the boards.

Levy-Hara said development was still tilted toward luxury mixed-use development in many parts of South Florida, but it's possible office-zoned lots in cities like Coral Gables, Surfside and Miami Beach would be redeveloped as new office condo towers.

Because of the historically strict zoning in those cities, developers that buy real estate zoned for offices face uphill battles if trying to get a zoning change and might find the highest and best use of the land is office condo.

Of development, Ballestas said, "I actually think it's a very smart play because it's a bit of a contrarian play, and contrarian plays can do well in a saturated market."

"You're seeing so much condo development, that maybe it's smart to be the guy who's set to be delivering office space."



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