

As retail follows residential, face of downtown is altered

Downtown Miami's growth in 2017 will continue, but the pace of demand may change in some sectors, observers say.

Those looking to live downtown (including Brickell) may be encouraged that "the inventory is the highest we've ever had," said Ron Shuffield, president and CEO of EWM Realty International.

Last month, 2,333 condo units were available, compared with 833 in December 2012. That represents 36 months of unsold inventory, he said. "What we really want is a six- to nine-month supply. We're way above median prices, so there may be some rebalancing."

If that happens, pent-up demand will get the market moving again, Mr. Shuffield predicted. "There are buyers sitting on the sidelines with cash to spend. As soon as they sense prices are becoming more attractive, they're going to jump in quickly. They are prepared to buy if they see sellers are serious."

The Brickell/downtown area continues to feel strong demand, particularly from millennials who don't want to commute. "There are a lot of reasons to love it," Mr.

inventory, followed by Brickell/downtown," he said via email.

Other than his own project, only one is under construction: Paramount Miami, which recently broke ground.

"As for the projects still in pre-construction, they may be further delayed or abandoned altogether,



Experts remain uncertain about retail demand at Brickell City Centre.

better amenities, including residential," he said. "Downtown has some catching-up to do."

"The real head-scratcher for me is the market psychology," Mr. Barton said. "Why are CBD landlords so bullish? When you peel it back and look, we have an awful lot of space available. When

Shuffield said. Newer buildings have amenities including gyms, restaurants and retailers are flocking to the area, and train service will soon connect downtown to Fort Lauderdale and West Palm Beach.

“It’s a very exciting time, a time we’ve never had before, in that you can more easily avoid having a car. It’s so logical for it to happen, because we’re seeing people value their time more than they did in the past. We’re making progress, I think.”

The rise in downtown’s residential supply won’t impact projects that are financed and under construction, said Louis Birdman, co-developer of One Thousand Museum by Zaha Hadid Architects, which is completed up to the 30th floor. “While there are many projects planned, not all of them are being marketed, and even fewer are fully financed and under construction.”

Each slice of the area is distinctly different as far as projects currently in the residential pipeline, he said. “Edgewater has the most

which will help shrink the potential supply,” Mr. Birdman said. “We expect that very few new projects will actually begin construction in 2017, but it should be a good year for downtown for the projects that are well advanced in this cycle.”

Retail follows residential, it’s said, and that trend is occurring downtown.

“For the first time in 100 years, you’re going to see a brand-new downtown,” said Mika Mattingly, who represents Moishe Mana, the developer who has purchased large swaths of Flagler Street real estate and who is building a massive multi-use project in Wynwood.

“The drivers of that are All Aboard Florida and its Brightline service, and the renovation of Flagler Street,” she said. The street is being completely rebuilt and refurbished from the Dade County Courthouse to Biscayne Boulevard.

While she did not reveal the specifics, Ms. Mattingly said Mr.

Mana wants to create a shopping district downtown that will rival Rodeo Drive, Worth Avenue and Lincoln Road. “We will curate an international mix of tenants who will be off-center, unique, not to be found anywhere else.”

Mr. Mana, who does not ordinarily construct residences, might consider building some micro-units to complete his vision for downtown. “The product would really be geared to living in the city,” Ms. Mattingly said. There would also be food and beverage tenants on the ground floors of the retail buildings. “It’s about creating a neighborhood that would be inter-connected. With a mixed-use environment, you keep everything in one area for a true work/live/play experience.”

Flagler Street is a natural, she said. “You have Bayside to the east and Brickell City Centre to the south, with Flagler smack in the center. It’s the perfect storm.”

Improvements along Flagler Street will also benefit complete blocks to the north and south of

The retail picture downtown should be bright, he said. “You have more people living downtown, improving the demographics. Saks is open as the anchor for Brickell City Centre. Restaurants are coming in,” including a 500-seat dining spot in the EAST Hotel featuring cuisine from Uruguay. “These are things that are all good for retail.”

“Brickell City Centre is a game changer in the Brickell/downtown retail market,” said Barry Lapides, partner at the Berger Singerman law firm, via email. “Once all of the space is fully absorbed and the center is running on all cylinders, it will be a major attraction not just for the residents and workers in the corridor, but will attract patrons from everywhere.”

When it comes to office space, there are clear distinctions between the central business district and Brickell, said Charles V. Barton, managing director of JLL.

“Brickell has completely outperformed the CBD,” he said. Some space has been vacated by

tenants assess their options – and they have lots of options – why are rates being pushed where they are?”

According to JLL’s report for the fourth quarter of 2016, overall vacancy rate in the central business district were 18% and rents \$41 per square foot. In class A space, the vacancy was 16% and rent \$42. For class B space, which had a 22% vacancy rate, the asking rent was \$32 per square foot. The submarket is Miami-Dade’s largest, with nearly 15 million square feet.

Some tenants need to be downtown, Mr. Barton conceded, but “some will be questioning whether it’s really necessary to be in the market.”

Nor will relief come anytime soon in the form of new inventory, he said. Given the time and expense necessary to develop an office building, “prudent developers are not going to pull the trigger anytime soon,” he said. “Construction costs are at record highs right now, and residential

it, where landlords will be able to raise rates, said Jason Shapiro, managing director of Aztec Group. “Overall, it’s very positive for the entire area,” he said.

“I’ll be interested to see how the retail tenants in Brickell City Centre are doing in a year,” Mr. Shapiro said, “and whether sales per square foot will be healthy enough to justify the rental rates.”

large transactions, such as Akerman LLP’s move from SunTrust International Center at 1 SE Third Ave. to Brickell City Centre. But many buildings have vacancies, Mr. Barton said.

“The CBD suffers from traffic congestion and the perceived quality of the surrounding neighborhoods,” he said. “Brickell is a fully formed neighborhood with

is seen as the better use. Office space doesn’t fit the risk profile.”

Within five years, especially as the central business district adds population and amenities, developers might reverse that decision, he said. “The trend lines are clear that downtown has a nice future. But for now, the market would suggest that economic adjustments are in order.”