
Downtown Miami is getting the world’s attention with a rebound that has taken the Magic City from revitalization to full-blown renaissance.

It wasn’t that long ago—2008 to be exact—that Macy’s was sitting on the fence about making a long-term commitment to Downtown Miami. Wal-Mart passed over a bayfront site near the Adrienne Arsht Center for the Performing Arts that same year. And a flood of high-rise condo development (along with about two million square feet of soon-to-arrive office space) led many to predict the urban core would become a class A ghost town.

To say that Downtown Miami’s revitalization efforts met with mixed reviews in the face of tremors from the global recession would be an understatement. The predictions were often of doom and gloom in the wake of the real estate boom.

Fast-forward three years, and Downtown Miami is winning over former naysayers in what may be the biggest renaissance story in the country. Although the road has sometimes been painfully slow, and though there are admittedly miles to go before the Magic City realizes the full potential of the promised 24/7 international epicenter, Downtown Miami has not only escaped the prophesied doom and gloom, it has also emerged as one of the fastest-growing markets in the country.

“Private development Downtown is sparse after the last cycle,” says Leo Zabezhinsky, manager of Business Development, Real Estate and Research at the Miami Downtown Development Authority. “We’re now seeing infrastructure development. The Miami Art Museum broke ground. The port tunnel is under construction. The baseball stadium is getting built. The Metro Rail connection will offer a direct line from Downtown to the Miami International Airport next year. The government is working to support the private development we’ve seen over the past decade.”

Residential Starts the Renaissance

Downtown Miami’s regeneration starts at the very point of perceived weakness: residential. Eighty-five percent of the 25,628 condo and apartment units constructed here since 2003 are occupied, according to an independent Residential Closings & Occupancy study. That’s a 31% increase since June 2009.

Conducted by Lewis Goodkin and Craig Werley of Goodkin Consulting/Focus Real Estate Advisors, the report signals a strong demand for urban living in Miami for the first time in the city’s history. According to the study, 78% of the condo units built during the building boom in the Downtown Miami area have been sold. Unsold inventory has now fallen to roughly 4,960 units—a 40% drop since 2009.

“Sales and rental activity Downtown has outpaced even the most bullish projections,” says Lewis Goodkin, principal of Goodkin Consulting. “Assuming these rates continue, the remaining inventory could theoretically be sold out within 26 months. This is remarkable considering that some

Delivered to the market last year, the 580,000 square-foot 1450 Brickell tower is more than 65% occupied with a variety of corporate users, some new to the market altogether.
analysts believed it would take nearly a decade to reach absorption.”

Goodkin says Downtown Miami now stands as the healthiest condo market in the country, in large part due to the high volume of foreign buyers who brought hard cash to the closing table. The Distressed Condo Relief Act also buoyed the market by amending the Florida law to protect bulk buyers and assignees from developer liability. Ruden McClosky attorney Mark Grant, one of the bill’s co-authors, anticipated that the law would help the market absorb excess inventory and prevent struggling condo associations from going bankrupt—and they were right.

“Under the new law, developers who buy eight or more units in a condominium are protected until July 1, 2012,” Grant says. “Bulk buyers can rent units out or even resell them without being classified as a developer. Because of this new law and because of the flood of buyers from South America, the distressed assets have worked out a lot faster than many of us thought they would.” Still, he adds, the mass of foreclosures would temper the demand for new construction.

While the foreclosure crisis has yet to be resolved, Downtown Miami’s market is stabilizing faster than many others in the nation. The bulk buyers are largely out of the equation now, at least in the city’s core. “The market has solidified much quicker than anyone could have imagined,” agrees Warren Weiser, chairman and co-founder of Continental Real Estate Cos. “We saw some of the most prolific building of residential units in the country, so seeing Downtown Miami stabilize over the past 12 months has been phenomenal. The distressed residential assets have been picked up by very strong financial groups that can handle these properties.”

**The Curse Becomes a Blessing**

Booming residential sales are having a direct impact on other commercial sectors. Consider the population growth: More than 70,000 people now live in Downtown Miami, an 80% increase from 10 years ago, according to the latest Miami DDA Population & Demographic Profile. The population is expected to grow to 85,000 by 2014 as the remainder of the new housing inventory is absorbed.

The result: Downtown Miami’s retail and hospitality markets have flourished during a time when many are struggling. Since 2008, 120 net new businesses have opened, joining a crop of new luxury hotels, including the Kimpton EPIC Hotel, Viceroy Miami, Tempo Miami and the world’s first JW Marriott Marquis. In fact, Downtown is now home to more four-star hotels per capita than anywhere else in South Florida.

Now, the hotel landscape is beginning to diversify. Construction of the 15-story, 221-room Hampton Inn & Suites Miami Brickell-Downtown topped off in early 2011. The delivery will mark an important boost to Downtown’s inventory of mid-

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LEO ZABEZHTINSKY
Miami Downtown Development Authority
range hotel rooms. High-end properties account for roughly 55% of the market, while mid-range rooms make up only about 1,000 of Downtown’s 6,500 rooms, according to the DDA.

“Until a few years ago, land prices downtown were out of sight because condo developers were overpaying for the land,” says Bernard Wolfson, president of Miami-based Hospitality Operations and developer of the Hampton Inn & Suites project. “This parcel was originally earmarked as an extension of an existing condominium. The land prices now allow us to offer a moderately priced lodging product within walking distance of a half-dozen luxury hotels.”

When the Hampton Inn comes on line later this fall, it will also deliver 10,000 square feet of street-level retail and restaurant space to the market—the largest contiguous block of restaurant product now available in the Brickell Financial District.

The timing seems ideal for the market entry as condos and office space in Brickell continue to fill up. “The Hampton Inn property offers an ideal setting for a mid-range restaurant in a submarket that has seen diminishing supply,” says Lyle Stern, president of the Koniver Stern Group, the exclusive retail broker for the project.

Meanwhile, Stiles is planning to develop a Publix-anchored urban retail shopping center at 18Biscayne in Downtown Miami. Slated for an early-2012 opening, the 57,200-square-foot, three-story center is located in a prime area in the entertainment district, close to the Adrienne Arsht Center for the Performing Arts. The project includes a 49,200-square-foot Publix supermarket with bakery, pharmacy and café with outdoor seating, as well as 8,000 square feet of additional retail space fronting Biscayne Boulevard.

“This is as in-fill as you can get,” says Robert Breslau, president of Stiles Real Estate Investment Services Group. “Within 1,000 feet of our property, there are four major condo projects already completed, and over 1,100 units are within a short walking distance to our building. There are very few sites in Miami where thousands of people can literally walk across the street and get their groceries and dinner and wine and walk back home.”

On the heels of Publix’s decision, Whole Foods Market announced plans to open an organic grocery store as part of the Metropolitan Miami complex at the intersection of SE Third Avenue and SE Second Street. Whole Foods, which first inked a
deal at the Met in 2004 but backed out when the economy shifted, will open its doors in 2013.

In all, close to 200 new restaurants and retail businesses have opened Downtown in the past five years. Jason Press, a senior retail associate at Continental Real Estate Cos., expects Downtown Miami’s momentum to grow exponentially in the years ahead. “Between the hotels and the residents, there are plenty of people to drive nighttime activity and support the retail and restaurants that have been opening,” he says. “Whenever Whole Foods goes into an area, it changes significantly over the next five to 10 years. Whole Foods is a pioneer and a huge catalyst for development.”

The Office Equation

Two towers—1450 Brickell and Wells Fargo Center—added 1.6 million square feet of class A office space to the Downtown Miami and Brickell markets in 2010, representing the largest delivery in more than a decade. That figure would have been even higher, but 600,000 square feet at the Brickell Financial Center (now known as 600 Brickell) was stalled when financing dried up during the global economic crisis. The 40-story project is now scheduled to come online later this year.

There are signs that demand for South Florida’s trophy real estate assets persists despite economic volatility. I&G Miami purchased the landmark Miami Tower office building for $105.5 million in February, for example, and the developers of 600 Brickell received $130 million in financing to complete the project.

“It’s the antithesis of the perfect storm,” says Carey Stiss, an attorney at Bilzin Sumberg. “It’s like a jack-rabbit start, where all of a sudden the market has turned from dead to explosive. There’s a lot of money out there that wants to be invested. We’ll see more deals happening as sellers realize there is a market demand.”

And if recent CBD office leasing is any indication, activity will gradually chip away at the market’s vacancy rate, which currently hovers around 24%, as per Grubb & Ellis. A slew of office leases in the past two quarters proves that tenants are migrating to an urban core that has emerged as a true corporate hub. Case in point: 1450 Brickell, which has a total of 580,000 square feet, is more than 65% occupied after opening in March 2010. The property has attracted corporate users like Amex, JP Morgan Chase, City National Bank, HFF, Bilzin Sumberg law firm, Bank Caja and BNY Mellon. It’s also brought in more than 60,000 square feet of new-to-market users, a sign that businesses are beginning to expand and are looking to Downtown Miami.”
“As the metropolis matures, urban areas with high concentration of residents and good employment and amenities will win over other areas,” says Tere Blanca, CEO of Blanca Commercial Real Estate, the exclusive broker for 1450 Brickell and One Broadway.

While there has been a clear flight to quality, some of Downtown Miami’s older buildings are finding success. Completed in 1985, the 32-story, 717,535-square-foot Brickell Bay Office Tower is 90% leased. Christian DiRusso, vice president for the property, expects the building to hit 95% occupancy by the end of the second quarter. “I’m bullish about how the Brickell area will perform this year,” he says. “I remember when Brickell wasn’t a pleasant area to walk in. Now, you see people walking their dogs or jogging or pushing baby strollers, even late into the evening. The whole area has changed.”

The Next Wave

Downtown Miami is no longer a ghost town after dark. In fact, the recovery is defying expectations. Yet the current wave of growth is only the beginning; as the economy improves and confidence rises, expect to see more development over the long term.

But what will be the driving force that will spur developers to come off the sidelines and break ground on new projects? The DDA’s Zabezhinsky hinted at some of the public projects in the works that will support Downtown in the next development wave, but there is also a cultural aspect that is helping complete the city’s international profile.

The Adrienne Arsht Center for the Perforiming Arts has lured more than $1 billion in new investment to the urban core. “We had 450,000 people attend festi-vals, music and dance theaters last year,” says Mike Eidson, chair of the Arsht Center. “That’s as many people as the Miami Heat brought Downtown.”

There are high hopes that the Miami Art Museum, which is scheduled to open its doors in 2013, will add to that impact. “I’m most looking forward to the expanded possibilities that the new facility will unlock on the programming side,” says MAM director Thom Collins. “From large-scale touring exhibitions that will expose Miami to the world’s finest art works, to meaningful educational programs for students young and old, the new Miami Art Museum will be a showcase for the power of the visual arts.”

Meanwhile, advances in health, technology and life sciences are breathing new life into the Downtown’s industrial market. For instance, the University of Miami Life Sciences & Technology Park is being developed in the emerging health district at the northwest corner of Downtown Miami. The privately funded research and development facility will serve as a hub for
continued innovation and commercialization within the biotech industry.

“Just as the arts are feeding Downtown’s ‘next wave,’ UMLSTP is helping fuel the region’s fast-emerging health district, which now stands as one of the largest healthcare and research footprints, with six hospitals and over a dozen research institutes,” says Joseph Reagan, Jr., vice president of Wexford Science & Technology, UMLSTP’s developer. “With the addition of UMLSTP and other major research institutes, Downtown Miami stands to benefit as the ‘gateway’ between both the booming biotech industries in Latin America as well as the business infrastructure and capital in North America and Europe.”

On the commercial development front, Rilea Group is looking to dust off plans for a new residential project on Brickell Avenue this spring. “We will first see investors buying land, which is already happening,” says Alan Ojeda, CEO of the Rilea Group. “All the old timers have already bought land, and some are buying land for future projects now.”

Blanca says development over the next five years is likely to be west of One Broadway. She expects new development to complement the existing retail, residential and commercial office projects that exist at Southeast 15th Broadway Street and Miami and Brickell Avenues. Any forecast begs the question, “What is the tipping point for Downtown Miami? When will the city realize its full potential?”

Blanca is looking at a three- to five-year window for new office developments of any size to come on line.

“In the shorter term, the next cycle of development should be centered around retail and services to support the growth of residential,” she says. “Developers should continue to provide affordable, high-density multifamily housing for young professionals and others who want to live and enjoy Downtown Miami. We’re getting calls for retail space that we can’t accommodate. There is a tremendous demand.”