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Owner-lender relationships get sticky amid value declines

By Marilyn Bowden

Miami-Dade's industrial and retail sectors are showing some signs of strengthening, but market experts say lack of access to capital continues to be a thorny issue.

"The economy currently is such that the trickle-down effect is coming down to the commercial real estate market," said Soneet Kapila, principal of Kapila & Co., CPAs. "It has been slowing down for some time, especially with bankruptcies among big-box stores.

"A lot of these properties are either undergoing restructuring or seeing a continuing decline in values, putting more pressure on the relationships between owners and lenders."

Complicating the picture is the maturation of commercial mortgage-backed securities, or CMBS, loans, he said.

"There are highly complex negotiations," Mr. Kapila said, "and there are still a lot to come up in 2011."

Lack of financing continues to plague the industry, he said.

"There is no real new money on the table, and liquidity had been dried up for quite a while." In the case of an owner-operated property, Mr. Kapila said, "it's not uncommon for the principals to purchase at a discount some of the secured debt linked to the real estate.

"The key for them is to manage the debt structure combined with a lower income stream."

Mr. Kapila said he expects lower rents driven by current market conditions will lead to a realignment of value for many commercial properties.

Fourth-quarter statistics for the county's industrial sector show that absorption has increased dramatically, said Mike Silver, first vice president at CB Richard Ellis. In 2009, he said, there was 6.9 million square feet of negative absorption; 2010 ended with about 5 million square feet of positive absorption.

Photo by Marlene Quaroni

"The economy currently is such that the trickle-down effect is coming down to the commercial real estate market," states Soneet Kapila.

"That's a huge turnaround in one year," he said. Vacancy, which had crept up to between 10% and 11%, is now around 8%, according to CBRE's research.

"In Airport West we're actually seeing some slight increases in rental rates in certain Class A industrial parks," Mr. Silver said.

"It's the good quality space that's leasing," said Wayne Schuchts, senior vice president with Flagler Real Estate Services. "Big companies that have a lot of cash on their balance sheets right now are making some moves – tenants such as Carnival Cruise Lines, Caterpillar Logistics and Emerson Electric.

"The C properties that cater to small entrepreneurial tenants who are still challenged by lack of capital are experiencing drops in occupancy and in values."

In addition, Mr. Silver said, rents are still being discounted in other markets such as Hialeah and Liberty City, and are now as much as 50% off from the peak of the market in June of 2007.

A flurry of sales activity in December by industrial REITs and other investors is in general indicative of their need to put money out before the end of the year, Mr. Silver said – but sales activity was stronger in the second half of 2010 than earlier in the year from all user types.

In the retail sector, "the worst of the market is behind us," said Mark Gilbert, executive vice president in the Capital Markets Group at Cushman & Wakefield.

"There are clear indications that the fundamentals are improving," he said. "On an overall basis, I think occupancies have dropped to their lowest in this current cycle and will start to improve. In general, they have started to stabilize, and we should see improvement in 2011 in terms of occupancy rates. Rents may see some stabilization, with some limited improvement in rates."

The second half of 2010 saw a substantial increase in pricing of retail properties over the previous six months, Mr. Gilbert said, and "there's a fair amount of evidence that pricing will improve as fundamentals improve, though not on a cap rate basis."

Demand is highest for necessity retail, particularly grocery-anchored centers, he said. "Then I would say discretionary retail is improving in urban markets where demand remains strong.

"Kendall, West Kendall, Aventura, downtown and South Beach have been very robust. The sales of shopping centers that took place in 2010 are indicative of institutional confidence."

Miami-Dade County has significantly less retail space per capita than any other county in the state, Mr. Gilbert said, and that makes it attractive to national retailers.

"We're fortunate," he said, "in that Dade will be identified as a place for expansion by retailers that have not been here before, which helps our county. We are the economic engine for South Florida."