

# Bay office condo market promising as tenants turn into owners

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by Michael Hinman

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Staff Writer

Office condominiums continue to grow in popularity, much the same as those type units that people can call home.

However, the question remains as to whether purchasing business space rather than leasing is a sign of continued economic growth or builders trying to keep their profits close in an ever-evolving market.

Nearly a third of the more than 1.1 million square feet of office space now under construction in the Tampa Bay area is geared toward the office condo market, according to research by Colliers Arnold Commercial Real Estate Services. Slightly more than 45,000 square feet of that is being developed at the Signature Place mixed-use complex in downtown St. Petersburg.

Alan Feldshue, a managing director of office services with Colliers Arnold's Clearwater office who is handling sales and marketing for the commercial and retail components of Signature Place, said developer Joel Cantor is simply responding to demand for more office condos.

"A lot of people are paying higher rents, up to the low to mid \$20s

(per square foot), and rents continue to escalate," Feldshue said. "It's starting to be a little smarter to move into your own building rather than lease."

Following Miami's lead

Office condo purchase prices at Signature Place range between \$325 and \$350 per square foot, Feldshue said. Direct lease rates in the Tampa Bay area averaged just above \$19 per square foot, according to Collier Arnold's second-quarter figures.

That means buyers of office condo units - especially at Signature Place - will see an immediate payoff, where if they had leased on the average it would take more than 15 months to collect, Feldshue said.

Even with more than 300,000 square feet of office condo space in development, the Bay area continues to lag behind other markets in this niche, especially Miami-Dade County, where CB Richard Ellis research shows some 60 properties totaling more than 4.5 million square feet either under construction or already completed in the area.

Much of that growth, as it has been locally, has been sparked by lower interest rates as well as increasing costs to lease. How long the office condo market will last, however, will depend a lot on how well those interest rates continue to hold, said Paul Cohen, director of the private client group at CB Richard Ellis in Miami.

"Everyone knows it has a shelf life," Cohen said. "This market is fueled by the (Small Business Administration) loans because the majority of the buyers put down 10 percent. So, if you go to the SBA and borrow money at less than 10 percent, it makes sense.

"Once you get above 10 percent, that really puts a damper on the market. We're at 8.5 percent right now. The closer you get to 10

percent, the slower it gets."

Cohen said he started doing office condo conversions when SBA interest rates were at 11 and 12 percent, which meant it took 18 months to two years for him to sell inventory.

Whether everyone wins in the end with condo development is a chicken-or-egg situation, Cohen said.

"Developers will do condos if there's a condo market," he said. "If people will buy condo units, and they'll pay you \$150 per square foot as they do down here now when it only costs you \$100 per square foot to convert, you'd make a \$50 (per square foot) profit.

"It's considered good to buy a building and get a 10 to 14 percent return. Here, you're talking about developers who can make 40, 50 even 100 percent return," he added. "That's why people are doing it. But it really needs to start with the actual buyers."

Creating office condo awareness

Getting demand simply requires making businesses more aware of the office condo option, Feldshue said. Awareness is growing as strong developable land is being eaten up in the Tampa Bay market, and absorption remains strong.

Although a single brick has yet to be laid on the Signature Place site, Feldshue said nearly 25 percent of the 44,000 square feet of office condo space the project will offer is already under negotiations.

"Given that the (former BayView Tower currently on the construction site) is just coming down, for us to be able to lock in some of these people right now is just a plus for the project," Feldshue said.

Cohen said he believes the Bay area office condo has room for continued growth.

"In Tampa, it's just starting to come to fruition now," he said. "It may take four or five years before it's accepted, but I believe it will."