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Struggling tenants push for more favorable lease terms

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Even South Florida's high-end retail markets are feeling the sting of the economic collapse.

Rental rates in upscale locations are sliding as major retailers from Circuit City to Linens-N-Things close shop and leave large chunks of space unoccupied. Remaining tenants are seizing the opportunity to pressure landlords into changing lease terms.

"We are already seeing rent reduction requests from tenants," said broker Engin Yergin of Eastern Atlantic Realty & Investments in North Miami.

Aventura, historically one of South Florida's hottest retail markets, has been hard hit by the economic downturn and cutbacks in consumer spending. According to CoStar Group, rental rates in Aventura plummeted 24 percent in a year, going from \$43.85 per square foot in the fourth quarter of 2007 to \$33.35 in the final three months of 2008. The rate decline for the relatively small submarket, which has only 109 retail buildings, came even though vacant space shrank from 51,797 square feet to 39,748.

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Aventura peaked as a landlord's market in the first quarter of 2007, when rents averaged \$52.94 per square foot.

"There will be more downward pressure" on Aventura retail rents, said Yergin. "New construction on the north end is now being presented to retailers. Gulfstream Village is under construction and will bring [375,000 square feet of] brand-new retail to the market."

More than 30 restaurants and retailers have been signed for the first phase of The Village at Gulfstream Park in Hallandale Beach, due to open next February.

Further south, Miami Beach brokers cited that market's resiliency in 2008, but 2009 will bring numerous challenges to retailers on Lincoln Road and Collins Avenue. Some store operators are waiting out the beach area's peak sales season, which runs through the end of the month, before deciding whether to leave, said Greg Masin, senior director of Cushman & Wakefield's retail leasing team.

Lincoln Road rents averaged \$130 per square foot at the end of 2008 and should be relatively stable in the near term, according to Cushman & Wakefield. Collins Avenue rents averaged \$100 per square foot, but Cushman predicts they will decline sharply this year.

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"The real test for rents on the beach will come during the second and third quarter," Masin said. "Some people have been holding on for the [tourism] season, and if there's a point for them to leave, it will be this summer. There are a couple of spaces available on Collins that have been available for long enough to know that the market is not responding at that rate."

Coral Gables is another Miami-Dade market poised for a substantial drop in rental rates. A high concentration of restaurant space was added to the city last year, much of it on Miracle Mile. The glut of restaurants is proving to be too much for some tenants to handle, Masin said.

The vacancy rate in Coral Gables surged from 1.4 percent in the fourth quarter of 2007 to 3.4 percent in the fourth quarter of 2008, according to CoStar.

Miracle Mile rents averaged $40 per square foot at year's end. That will decline in 2009, according to Cushman & Wakefield.

Retail landlords in downtown Miami hope their cheaper rents will lure retailers from Coral Gables and Miami Beach. Lease rates in the Biscayne Boulevard corridor dropped from $25.04 per square foot to $24.39 in the fourth quarter of 2008, according to CoStar.

With thousands of new residents set to move downtown in the next five years, either as condo buyers or renters, the area is becoming more attractive to retailers, said Leo Zabezhinsky, economic development director at the Miami Downtown Development Authority. Zabezhinsky works with retailers in the area through the agency's Retail Advisory Board and several grant programs for landlords and tenants.

Broward County property owners are also coping with higher vacancies and lower rents. Broward registered the biggest decline in retail occupancy in the tri-county area, slipping from 92.1 percent to 89.7 percent in the second half of 2008, according to the 2009 Florida Retail Report. Average asking rents throughout Broward slid 1.68 percent

Downtown Fort Lauderdale registered a 13 percent decline in retail rents, from $31.63 per square foot in the fourth quarter of 2007 to $27.64 in the same period of 2008.

In Plantation, home to the Broward Mall and dozens of supermarket-anchored strip centers, the vacancy rate jumped from 2.8 percent to 9.5 percent in 2008. Yet rents were stable, rising from $17.14 to $17.64 per square foot during that period.

Average asking rents in Palm Beach County fell 1.62 percent in 2008, to $20.95 per square foot. Occupancies fell from 92.4 percent to 91.3 percent in the second half of 2008. By comparison, Miami-Dade County's occupancy rate dropped from 94.8 percent to 94.3 percent in the same period.

"Palm Beach is suffering the same issues as Broward," Masin said. "Not only are rents down, demand is down. More space is available on Worth Avenue. We are seeing the market soften from Boca Raton to Wellington."

In Delray Beach, for example, the vacancy rate jumped from 6 percent to percent in 2008. That lowered rental rates from $24.30 to $22.77 per square foot as more than 148,000 square feet of retail space was added to the submarket last year.

West Palm Beach was also hit with a spike in vacancies as the submarket's available retail space increased from 4.2 percent to 6.8 percent from the fourth quarter of 2007 to the end of 2008.