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Lack of flexibility among downsides of office-condo ownership

By C. GORDON LINDSEY

Office condos offer opportunities and risks. Those considering entering this growing field as buyers or developers should be aware of the pros and cons, experts say.

Henry "Hank" Bush was among the pioneers, and "for a time, we were the only ones in town who could speak from experience," he said.

He got acquainted with office condos in the mid-1990s when he was living in Atlanta, he said, and "held onto the idea" when he moved here.

"My eyes were open to the fact that a lot of people in Latin America and Europe own their offices, and I knew about the demographics here, so I thought it would be perfect," he said. "But no one had converted a building into an office condo. It was virtually unheard-of in early 2001."

He determined that 1000 Brickell, then owned by the Allen Morris Co., would be perfect, although it took a year to persuade the owner to sell.

"We took it to market in September '05, and within six months, we were able to get the majority of the units sold," he said. "Today, we don't have any units for sale. It's been very successful and surpassed our expectations."

Another pioneer was Michael Konig, managing director of SMK, who developed 1110 Brickell, a 95,000-square-foot



Henry "Hank" Bush: Brought idea for conversion from Atlanta.

building he said was the first office condo on Brickell.

"Back in the '80s, there were office condos, but they were small buildings to the west and none were done with the intent of taking an office tower and converting them into condos," Mr. Konig said. "But as the market strengthened and people were becoming aware of the benefits of condo ownership, it made sense for those interested in long-term business to invest in their business and invest in property."

One of the main pluses of condo office ownership is that it builds up equity, said Grant Killingsworth, a sales and leasing agent with Holly Real Estate.

"After you lease for five years, all you have to show for it is a box of rent receipts," Mr. Killingsworth said. "If you buy your condo, you not only pay yourself equity but you've attained the tax benefits. It's an

asset, you can sell it, you can lease it, and it gives you a lot of tax benefits."

On the other hand, there are risks for the office-condo owner, he said, noting that owning doesn't offer as much flexibility as leasing and the property's value might not appreciate if the market falls. In addition, for developers, he said, as office condos gain in popularity, the possibility of making a lot of money diminishes.

"The best time to get into it was last year and the beginning of this year," he said. "Returns start to diminish as more and more people become aware of the market, but it's still a great market because it's slow to catch up."

Miles Glascock, chief marketing officer for Hudson Capital, whose offices are in its office-condo tower at 4770 Biscayne Blvd., agreed that tax benefits "often tip the scale" but said office condos are not appropriate for everyone.

"They are ideal for smaller businesses, especially for professional services like doctors and lawyers who don't need to keep a lot of cash on hand," he said.

Also, as with residential condos, the owners own their units but also have a mutual interest in common areas such as halls and parking lots.

"Compared to dealing with the buyer who purchases a residential condo, you are dealing



Michael Konig: Developed what he calls first Brickell office condo.

with a much more sophisticated buyer who gets into the numbers and condo documents and wants to know, 'What can I do with the hallway that connects my space to the elevator?' or 'Can I change the lobby because I own part of it?' or 'Can I build in the parking space?' and so on," Mr. Glascock said.

In addition, he said, since the field is relatively new, lending institutions aren't comfortable with it, so rates are not as attractive as for those working with residential condos.

Lastly, he said, developing an office condo isn't quite as much a sure profit as residential condo conversion has been.

"Some people who are really bullish, you visit them 12 months later and they aren't so happy," Mr. Glascock said. "They are saying it's not a slam dunk compared to residential condos."

In his case, it worked out

perfectly because his company was looking for its own headquarters.

"It made financial sense for us to own our own building so that if we only sell out part of it and lease the rest, we're fine," he said. "We went in with a very conservative approach, and so far, we're on top of it a little ahead."

Mr. Bush said he's concerned because as the residential condo market ebbs, "I think some of the residential developers that don't have construction experience are seeing these (office-condo) projects and gravitating towards them," he said, without understanding that "the difficulty involved in office conversion is much higher than residential."

"You're dealing with a more sophisticated buyer, their expectations are higher, and their commitments require a longer lead time."

"If a developer is unable to execute his conversion plan, if they slip away," Mr. Bush said, "what do you do about the office that has made all its announcements and restructured its move and then it can't happen?"

Burt Checa, a leasing agent with Holly Real Estate, agreed.

"This is a more complicated business with longer-term leases, more complicated financing, and it's not as commonly accepted a business form as is owning your own condo," he said. "It's not a business for the fainthearted."



Voices Director Abigail Price-Williams, assistant county attorney; Richard Bond, HSBC vice president

HSBC Senior VP and Group Head George Crosby, Voices Director Veena Panjabi, HSBC Senior VP Antonio Suarez-Obregon at lunch.

Adela Mones and HSBC Senior Vice President and Deputy Manager Jose Ortega at Reflections lunch.