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Photo by Maxine Usdan

John Scott with Cushman & Wakefield points out that many tenants in Miami-Dade pay full-service leases, leading to overages.



Photo by Marlene Quaroni

Mike Manno, managing principal with Steelbridge Real Estate, says an opportunity for tenants came with lower-than-expected fuel costs. For the balance of 2010, costs are expected to remain flat, he says.

Some businesses may get refunds after 2009 tallies

Looking forward, experts expect flat costs in new year

By MARILYN BOWDEN

As property managers begin tallying 2009 operating costs, they're optimistic that their estimates at the beginning of the year were adequate. Some say tenants could even see refunds. Looking ahead, 2010 costs are expected to remain flat.

"We're still receiving December invoices, so we haven't calculated final numbers for 2009," said Mike Manno, managing principal with Steelbridge Real Estate. "But we're seeing some interesting numbers. Our biggest items in expenses last year was utilities, particularly electricity.

"At the end of 2008, oil prices were spiking, and every little news blip raised the price of a barrel of oil. We received projections from Florida Power & Light based on that for electric cost that showed a significant increase from 2008 numbers.

"We estimated 2009 fuel costs to increase by about 11%-12% over 2008 numbers, but actually they came down. At the beginning of this year, we got a letter saying we would get a refund equaling about 4% of actual costs and 8% less than we had projected.

"So that's one number where we can say there is an opportunity for return to tenants." Tenants will be notified of results in early March, he said.

For 2010, Mr. Manno said, "we don't anticipate an increase in costs. That's unusual compared with other years. We were able to freeze or lower all of our contract services such as cleaning companies, garbage disposal, air conditioners and main-

tenance.

"We're still negotiating insurance, and we don't know about other items such as real estate taxes because we don't have the results of appeals."

In Miami-Dade County, the backlog of appeals of building assessments, upon which real estate taxes are based, is about a year, said Dan Heisler, executive vice president of Adler Realty Services. "We may get benefit from a reduction of assessed value," he said, "but then at some point they will increase the millage rate, so I don't foresee a huge decrease once we do get the benefit."

Adler handles management and leasing for 3.5 million square feet of commercial properties across Florida.

"We're doing a very aggressive review of all of our costs," he said. "We anticipate increases in the utility arena. Just recently the Public Service Commission turned down FPL's request for an increase in utility rates, but even though it was denied this time, it may come back again in the future.

"So we're budgeting a slight increase for that as well as water in 2010, because those are areas where we don't see costs decreasing materially."

Instead, Mr. Heisler

said, Adler looks for ways to reduce those costs through reducing consumption.

"We're installing energy-efficient devices and applying techniques to manage our buildings so that they consume less power," he said.

"We're taking a hard look at implementing any type of devices that have Energy Star ratings, as well as faucets and toilets that consume less water. With the whole green initiative, people are more open to using air [hand] dryers as opposed to paper."

Because of the volume of work it can offer, Adler ben-

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Dan Heisler

efits from economies of scale from service providers, Mr. Heisler said, but costs are regulated by the minimum wage, "so unless that goes down costs are not going to go down. There may be slight decreases in insurance, which we bid that out every year.

"So overall, we see operating expenses remaining stable."

The dynamics of computing operating expenses are different in Miami-Dade than in most other areas of Florida, said John Scott, director of Cushman & Wakefield's Client Solutions practice, because most office building leases are full-service, charging a base-year rate for operating ex-

penses, rather than net, in which those expenses would simply be passed through to the tenant.

"If ownership is using a base-year approach," he said, "they could retain any overage as part of their profit, they could re-invest it into the building or they could give it back to the tenant. But none that I know of say they would keep it as profit."

In 2009, he said, there were some reductions, but "nothing dramatic. The insurance market hardened, and there were very few decreases. Some buildings did receive tax reductions, but most did not.

"There is always lag on the utilities side, so even though

we saw fuel prices go down at the pump eight or nine months ago, they have not yet shown up in FPL bills, though there could be some reduction this year."

In 2010, Mr. Scott said, "people are still focused on trying to reduce expenses, but I think controllable expenses such as cleaning services will stay level or increase slightly.

"In uncontrolled expenses, we will likely see some increases.

"There will be pent-up demand for capital projects that were put off last year and moved into the 2010 budget, though some may slide them into 2011 budgets. That will help the construction industry."