

As developers go on shopping spree, Miami retail has never been hotter

By Nicholas Nehamas



There's a gold rush on for retail in South Florida. Developers and mall operators want to renovate and expand shopping centers across the region. New retail is popping up, too, especially open-air "high-street" shops with surprisingly gourmet dining — a breezy contrast to the enclosed suburban malls of old. The cost of all that investment runs into the billions.

The timing may seem odd, given the obstacles: Economic slowdowns in Latin America, Europe and China. A strong dollar slowing tourist spending and a shaky stock market here at home. More and more people shopping online. But experts say the Miami market's fundamentals are strong and that there's room to grow despite fears of oversaturation when the new projects open up.

To list all of South Florida's retail activity takes heroic resolve: A 500,000-square-foot, open-air shopping center under construction at Brickell City Centre is set to open this fall. Traditional powerhouse malls such as Aventura, where the ATMs dispense \$100 bills, and Dadeland have expanded or are in the process of doing so. The ultra-luxury Design District will double in size in 2017. The Bal Harbour Shops would like to grow, too. In downtown Miami, the long-planned Miami Worldcenter project recently announced a major redesign. In North Miami, developers have rebranded the old Biscayne Landing site as SoLe Mia Miami. And city governments are spending big bucks to redo Miami-Dade's iconic retail arteries on Lincoln Road in Miami Beach, Miracle Mile in Coral Gables and Flagler Street downtown. Even industrial Doral is getting an infusion of upscale retail.

In Broward, Plantation's Fashion Mall is set to be demolished and replaced by an open-air shopping center. Meanwhile, America's largest outlet mall, Sawgrass Mills, is planning a new wing for full-price stores and fine dining while another developer wants to build a separate, 480,000-square-foot mall called Metropica next door.

And then, of course, there's American Dream Miami, a 200-acre complex slated for Northwest Miami-Dade. If given the green light by the county, it would be the U.S.'s largest mall.

For consumers, at least those who can afford the new shops, more and better options are a good thing in what analysts say is an underserved market. New jobs, even if mostly low-wage, will help the economy, too. But some locals worry that national chains geared toward wealthy tourists will keep squeezing out the small businesses that make South Florida unique. Either way, the growth isn't stopping.

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BUSINESSMONDAY

"It's really unprecedented," said Alan Esquenazi, a commercial real-estate broker at Continental Real Estate Companies. "The South Florida market is on fire. The demand from national retailers, as well as local and regional, is intense. The available space is lacking. Rents are rising quickly."

No one is making a bigger bet on South Florida than a Maryland-based real-estate investment trust that just finished a major local shopping spree, spending \$87.5 million on CocoWalk in Coconut Grove and \$110 million on the Shops at Sunset Place in South Miami.

"We've always had a strong desire to be in South Florida," said Chris Weilminster, executive vice president at Federal Realty Investment Trust. "This is a long-term play for us."

Weilminster said that tourist dollars pouring into Miami, as well as strong local demographics, make retail a good buy.

Miami actually outsold higher-profile shopping destinations such as New York and Los Angeles in 2014, according to a commonly used statistic collected by the International Council of Shopping Centers.

Sales for non-anchor tenants in South Florida averaged \$768 per square foot in 2014, ICSC found, well ahead of New York (\$581) and Los Angeles (\$566), as well as the national average (\$474).

"Everything is in this market's favor, particularly in the two areas we are investing in," Weilminster said.

But he and Federal's partners, local developer Michael Comras and Coconut Grove-based Grass River Properties, know they have a long road ahead, one that could cost tens of millions of dollars, and likely more, in renovations and rebranding.

During a recent visit on a rainy weekday afternoon, CocoWalk was practically deserted. Even on sunny weekends, the four-story, 198,000-square-foot mall can feel a bit like the aftermath of a zombie apocalypse, forgotten by locals and frequented instead by indiscriminating tourists and teens escaping mom and dad. The mall has had four different owners since 1998, not including the latest group. Vacancy rates hover at nearly 20 percent. Tiles are cracked, paint chipped.

"This really should be the crown jewel of Coconut Grove," said Comras, who also recently partnered on a massive \$370 million sale of an entire block on Lincoln Road. (That mega-deal, to Spanish billionaire Amancio Ortega, is another sign of how badly investors want to nab South Florida retail, brokers say.)

"When you look at the areas that surround Coconut Grove from Coral Gables to Key Biscayne to Pinecrest to South Miami, you have the best demographics year-round in South Florida," Comras added.

The new owners say they have plans to renovate CocoWalk and Sunset Place with sleeker, more contemporary finishes. They also want to relieve the heavy, fortress-like qualities that serve to cut the malls off from bustling downtowns in Coconut Grove and South Miami. That means bringing in a stronger mix of local, regional and national tenants ("newer, cooler, hipper," Weilminster said) and better dining options. They've tried things like

weekly cooking classes at other properties to get people interested in reconnecting with their local malls.

"People want to be immersed when they shop," Weilminster said. "You have to create something experiential ... That's how you get them off the couch and off the Internet."

Federal owns more than 90 properties with 21 million square feet of retail in 12 states, including major developments in California, Massachusetts, Pennsylvania, Virginia and Washington, D.C.

For now, the company is playing its cards close to the vest on CocoWalk and Sunset Place. But it does plan to release complete details of planned renovations at both malls within the next two years.

"The raw material is great," said Don Wood, Federal's CEO. "The product's not great. But we're going to change that. We have to listen to what the community wants and what the retailers want. It takes time."

"You can't do what worked in San Jose and plop it down in South Miami or Coconut Grove."

BOOM TOWN

The numbers don't lie. As the luxury condo boom dies down, retail has become one of the strongest sectors of the local commercial real-estate market. Retail vacancies of just 3.5 percent are near record lows for Miami-Dade County and are expected to fall even lower, according to a recently released report from TD Bank. Sales are up 4.5 percent, despite a strong dollar that has slowed tourist spending from Latin America and Europe, the report found.

"South Florida's economic growth since the recession and the number of new people moving into the state have really ramped up retail," said Michael Dolega, a senior economist at TD Bank.

Retail space across Miami-Dade rented for an average of \$33 per square foot in the fourth quarter of 2015. That's double the national average and 17 percent above Miami's pre-recession peak in 2007, Dolega said. The hottest sub-markets are Brickell (more than \$80 per square foot) and Miami Beach (more than \$70 per square foot), the bank found. Prime real estate on Lincoln Road goes for more than \$300 per square foot, according to brokers who work in the area.

The fastest-growing area in Miami-Dade? The Biscayne corridor along Miami's historic MiMo district, where retail rents have soared an average of 12 percent per year since 2011 as developers open up new restaurants, hotels and shops, including a boutique from luxury designer Trina Turk. More and more young people are moving into the urban core. In the last 10 years, downtown Miami's population has more than doubled to 80,000, according to the Downtown Development Authority.

But there are dangers: Federal Reserve bankers have warned of a possible bubble forming in commercial real estate. Eric Rosengreen, president of the Boston Fed, said in a speech late last year that low interest rates could cause investors chasing higher returns to take on too much risk, according to MarketWatch.

TD Bank, for its part, acknowledges that some markets may be too frothy, particularly the office sectors in New York,

Boston, Washington, D.C., and San Francisco.

But economist Dolega said Miami retail was not a high-risk market. "The risks do not appear to be concentrated in Florida," he said, adding that local demand was high enough to absorb the new supply in the pipeline. "According to our projections, all the inventory is going to be absorbed through 2017." Later in the decade, supply might start to outpace demand, but only slightly, he concluded.

"We would love to do more retail lending," said Ernie Diaz, regional president for TD Bank.

Even single-tenant properties such as gas stations, banks, fast-food chains and pharmacies are hot, as long as the tenants belong to a well-run national chain, said commercial real-estate broker Alex Zylberglait. "Demand has been on the rise in the \$1 million to \$20 million range mainly due to interest from foreign investors," Zylberglait said. "These assets are very hands-off and very safe, so they can put in the money and then sit back ... And there's a lot more demand than there is supply, meaning prices are rising."

But Mitchell Kaplan, who owns local favorite Books & Books, said he worries that all of the money pouring into Miami retail will mean higher rents and the demise of many small businesses. The bookstore has locations in Coral Gables, Bal Harbour and on Lincoln Road, as well as at the Adrienne Arsht Center and Miami International Airport.

"Look at how Lincoln Road has lost its retail uniqueness," Kaplan said. "You don't want all of South Florida being dominated by national chain stores ... locally owned, independent businesses can't compete with the rents paid by the chains. We don't operate on a level playing field."

"Even the traditionally edgier places in Miami are seeing the influx of the national chains," Kaplan continued. "Look at Wynwood, look at Coconut Grove. All neighborhoods in Miami have become places where investors now prospect. They buy up real estate. They seek national chains as tenants since their ability to pay high rents makes their properties more valuable, and then they often flip their properties, making lots of money. The question to be answered is: Does that make our community better?"

THE MALL THAT STARTED IT ALL

Even the shopping center that launched luxury retail in South Florida is looking to keep pace with the new activity.

Bal Harbour Shops, which celebrated its 50th anniversary last year, wants to build a new wing that would double its size to about 800,000 square feet. (First, it needs to gain voter approval for a land-swap deal and end a high-profile and increasingly ugly tussle with neighbors.) The open-air shopping center boasts tenants that are the crème de la crème of luxury retail: Gucci, Prada, Valentino, Chanel, Armani. With sales at about \$3,000 per square foot in 2015, it remains the most lucrative shopping center in the U.S., according to CNBC.

But in recent years a few major tenants have left leafy Bal Harbour for bigger stores in newer locations. Louis Vuitton, Hermès and Cartier have all opened in the Design District, developer Craig Robins' new Midtown mecca for ultra-luxury retail, which is itself expanding. Vuitton also opened at Aventura Mall, owned by Turnberry Associates and Jackie Soffer, who is married to Robins.

"Vuitton had a 5,000-square-foot store here at Bal Harbour," said Matthew Whitman Lazenby, whose family developed and owns the shops. "They opened at 18,000 square feet in Aventura."

Lazenby said the Bal Harbour expansion, which he called "hugely important," would allow for stores to move into bigger spaces and would also create more restaurants and cafés. "That's how we can differentiate ourselves," Lazenby said. "With the experience we provide." He added that if the shops had been allowed to grow five years ago, when his family first proposed the expansion, it likely would have been able to hold onto now-departed tenants.

Current tenants agreed.

Books & Books opened in Bal Harbour 10 years ago, and owner Kaplan said he supports the expansion at the shopping center, which he praised for renting to a local business. "The more stores and eating venues that surround us in the Shops, the better we do. More stores bring us more business."

As for the Latin American currency crisis that has taken a bite out of tourist spending in Miami, Lazenby described it as a "temporary blip." Bal Harbour's business is roughly 80 percent tourist, 20 percent local.

As a result, he said sales have dropped about 10 percent in 2015. Other retailers that depend on foreign money have also reported sales dropping or flattening out.

"We've seen these cycles before, and we know they come to an end," he said.

While the Miami market is down overall, Design District developer Robins said his brand-new project, where a flagship Hermès store just opened, is bucking the trend.

"Eleven out of 13 of our stores that were open in 2014 actually grew in 2015, and several averaged gains of 25 to 30 percent," Robins said. "And we're only 30 percent open."

About 50 stores are open in the still-under-construction district, with that total expected to grow to more than 120 plus a hotel and 10 new restaurants by the end of 2017.

HIGH-STREET STYLE

One of the most obvious trends in Miami's retail boom is a preference for open-air, high-street spaces on the model of Fifth Avenue in Manhattan and Rodeo Drive in Beverly Hills. Traditional malls around the county have struggled as consumers turn to online shopping. Developers in South Florida want to piggy-back on the region's good weather, despite the advantages of an enclosed space.

"There are some very obvious benefits to being enclosed, air-conditioned and fully controlled," said Steve Patterson of the Related Group, which is developing a mixed-use project called CityPlace Doral with 250,000 square feet of open-air retail. "You have a shopping experience not impeded as much by weather. For the most part, it's

predictable. That's great for retail. The downside to it is it's expensive. The rents for the tenants are much higher than they would be for open-air."

The most recent example of the shift toward high-street is Miami Worldcenter, a long-planned, \$1.7 billion, mixed-use development in downtown Miami that was derailed by the financial crisis in 2008. The latest twist-and-turn for the back-on-track project came last month when the developers announced they were replacing a planned enclosed mall with a smaller, open-air shopping center. That means Macy's and Bloomingdale's, Worldcenter's original anchors, may drop out. They need bigger stores than the high-street retail model can provide. (Not to mention the fact that Macy's, which owns Bloomingdale's, has faced seriously slumping sales. Last month, the retailer announced it would lay off more than 4,000 workers and close 36 stores across both brands.)

"Our original plan was actually for high-street retail," said Nitin Motwani, a principal with the Worldcenter development team. "But the retailers at the time didn't quite understand what was happening in our dynamic market. They wanted a mall."

But Motwani said that as once-deserted downtown Miami filled up with new condo towers, restaurants and museums, the needs of locals changed. They were ready to walk. "Because we had not yet started construction, we were able to realize that and design something that is more long-lasting and pays attention to the new norm for retail," he said.

The new plan calls for one- and two-story shops laid out over several blocks in downtown Miami where the mall would have gone. Outdoor cafes and pedestrian-friendly sidewalks, as well as a feature to provide shade, are all part of the plan, which hasn't been released yet, Motwani said.

The projected opening date remains fall of 2018.

Meanwhile, in Plantation, Worldcenter partner Art Falcone is leading a redevelopment of the bankrupt Fashion Mall, built in the 1980s. Falcone plans to tear down the mall and instead build a 250,000-square-foot open-air shopping center with 700 rental units on 35 acres. "We're targeting boutique tenants and smaller stores [for the retail]," Falcone said. "This is going to be a more Miami-type product than what you typically see in West Broward."

Another open-air project gaining steam is Brickell City Centre, the massive mixed-use development set to open its retail component in the heart of Brickell this fall. Developer Swire Properties is partnering with Lazenby, of Bal Harbour, and retail giant Simon Property Group.

Brickell City Centre features an open-air, 500,000-square-foot shopping center cooled by an innovative climate ribbon. Swire, a Hong Kong-based developer with a long history in downtown Miami, said it learned how to make open-air projects in hot climates work from its experiences in sweltering East Asia. "You can look around and see how successful the outdoor experience is in South Florida," said Debora Overholt, Swire's vice president for retail. "The weather in Miami is one of the major attractions. People come here to enjoy that instead of being in an enclosed shopping mall."

So far, Brickell City Centre has attracted high-profile tenants including Saks Fifth Avenue, which also anchors Bal

Harbour; the luxury dine-in movie theater Cinemex; and, according to one source, Florida's largest Apple store. "We really wanted to be in a premium market," said Jaime Rionda, chief operating officer of Mexico City-based Cinemex. "The area of Brickell and the amount and quality of tourists that arrive every year and stay for days and even weeks is incredible."

The company plans to open a 10-screen, 620-seat theater serving "sophisticated finger food" such as paninis, burgers and ceviche, Rionda said. Brickell will be its first U.S. location.

In Sunrise, an under-development, high-street shopping center called Metropica recently inked high-end restaurants Fogo de Chao and Kona Grill as tenants.

A FUTURE FOR OLD-SCHOOL MALLS

While some traditional malls around the U.S. may be in trouble, Miami-Dade's powerhouses are doing well.

Dadeland Mall in Kendall just completed a major redevelopment, adding a new 102,000-square-foot shopping wing and renovating and modernizing its food court. Neighbors such as Downtown Dadeland, which has 127,00 square feet of retail and dining, are piggybacking off its success. Dolphin Mall in Sweetwater also opened an expansion last year with five new restaurants and a 1,300-space parking garage.

And massive Aventura Mall, already Florida's largest, is embarking on a redesign of its own with a three-story, 315,000-square-foot expansion expected to open in 2017. (That plan is being challenged in court by Sears, which wants to develop its own open-air shopping village.)

In addition to Vuitton, new high-end stores have opened at the 2.7-million-square-foot mall, including Pucci, Tiffany and Longines. Jackie Soffer, who co-owns Aventura Mall, said its dining options haven't kept up with the tenant mix. New restaurants will be a major part of the expansion, as well as a VIP lounge, she said.

"We know where we have voids in our property, and one of the voids is food," Soffer said. "We've now upgraded the selection from a shopping perspective. But with all the luxury sales we have in the mall, and the customers we have in the mall, we're not catering to them as far as restaurants are concerned."

The changes at the mall mirror the way developers have remodeled Miami as a destination for the global elite.

"Ten years ago, a person from New York used to eating at New York-quality restaurants would not have a huge selection [in Miami]," Soffer said. "Now they can come here and eat at a different restaurant every night for a month and not feel like they were sacrificing."

Miami leads the nation

The Miami metro area, which includes Broward and Palm Beach counties, has more sales per square foot for non-anchor tenants than any metro area in the U.S., according to a commonly cited statistic.

Miami: \$768

Washington, D.C.: \$608

New York: \$581

Denver: \$579

Los Angeles: \$566

Source: International Council of Shopping Centers

Doubling down on South Florida retail

Across South Florida, developers and mall operators are making a big bet on retail. Nearly all of Miami's major shopping centers are expanding or rebranding. And new retail is popping up, too.

- 1 **Metropica:** A long-dormant mixed-use project in Sunrise is back on track with plans for an upscale 480,000-square-foot mall.
- 2 **Sawgrass Mills:** The country's largest outlet mall (2.2 million square feet) is moving in a new direction with a 118,000-square-foot expansion featuring full-price shops and sit-down restaurants.
- 3 **Fashion Mall:** The same group developing Miami Worldcenter plans to tear down this bankrupt enclosed mall in Plantation and replace it with open-air, high-street retail.
- 4 **American Dream Miami:** A developer is planning what would be America's largest mega-mall in northwest Miami-Dade. The county must approve the massive 200-acre complex.
- 5 **Aventura Mall:** Florida's largest mall at 2.7 million square feet plans to get even bigger with a three-story, 315,000-square-foot addition.
- 6 **Bal Harbour Shops:** America's most profitable mall wants to double in size to 800,000 square feet but needs to win approval from Bal Harbour voters.
- 7 **Downtown Doral:** Retail at this 120-acre, mixed-use project tends towards convenient businesses such as dry cleaners, banks and salons, as well as trendy restaurants.
- 8 **CityPlace Doral:** The Related Group is bringing about 250,000 square feet of retail and restaurants to the industrial suburb of Doral.
- 9 **Design District:** Craig Robins, the main developer in this ultra-luxury, open-air shopping area, plans to nearly double his holdings with 60 new stores and restaurants.
- 10 **Dolphin Mall:** The outlet Dolphin Mall in Sweetwater added five restaurants, a 1,300-car garage and valet parking in a renovation that opened in September.
- 11 **Lincoln Road Mall:** A makeover for Miami Beach's iconic open-air mall by the architect of New York's High Line will see the tourist-heavy area become more pedestrian and bike friendly.
- 12 **Island Gardens:** Stalled for 14 years, a \$600 million mixed-use project on Watson Island with 220,000 square feet of retail is finally making progress, its backers say.
- 13 **Miami Worldcenter:** The developers of 27-acre Miami Worldcenter recently changed their plans from an enclosed mall to open-air, high-street retail.
- 14 **Flagler Street:** A two-year, \$13 million reconstruction of downtown Miami's struggling retail artery will mean wider sidewalks, new trees and modernized utilities.
- 15 **Brickell City Centre:** This \$1.05 billion development in the heart of Brickell will be anchored by department store Saks Fifth Avenue.
- 16 **Miracle Mile:** This prime strip of Coral Gables shops and restaurants will undergo a \$21 million reconstruction in the spring to draw more pedestrians and sidewalk cafes.
- 17 **CocoWalk:** A Maryland-based company bought Coconut Grove's foundering mall last year for \$87.5 million and plans a badly needed renovation and a new mix of tenants.
- 18 **The Shops at Sunset Place:** The same group that bought CocoWalk threw down \$110 million for this South Miami mall, which is in similar need of renovation and a new tenant mix.
- 19 **Dadeland Mall:** One of Miami's most popular suburban malls recently renovated its food court and also added a new 102,000-square-foot shopping wing.