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Warehouse condo boom visits Florida's industrial cities

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Residential condo sales may be languishing in many areas of the state, but industrial condos, also known as warehouse condos, are seeing a strong uptick in Florida's metros.

Unlike the large, distribution-sized facilities fit for Fortune 1000 companies, the warehouse condo trend has its appeal with smaller businesses - the plumbers, contractors, pool supply outfits and the like - that are looking to own rather than lease. With the U.S. Small Business Administration reporting that nearly 7,000 new companies launched in 2005 alone, the market is ripe.

"Warehouse condos offer economies of scale to the little guy who can't build because the land is too expensive," said Larry Walshaw, president of Business Condos USA, a Jacksonville-based developer of business, commercial and retail condominiums.

"Small businesses need an office, storage, warehouse space and oftentimes a showroom - not a big box. Warehouse condos fill that need."

Walshaw says the warehouse condo business is booming in Northeast Florida. Business Condos USA recently broke ground on a business and warehouse condo development dubbed The Lakeside Business Center in St. Augustine. The 48,000sf facility will include 20 units and a community truck dock.

Walshaw sold 15 of his 20 units almost immediately in a market where industrial vacancies are less than 5%. The units sold at the North Florida rate of \$90 to \$115 a square foot. Prices are a bit steeper in the Orlando market, he reported, running \$130 to \$150 psf, while landlocked South Florida gets top dollar at \$180 to \$200 psf.

Central Florida developers are also getting in on the warehouse condo action. In July, Small Bay Partners LLC, a Maitland-based warehouse condo developer, opened its first industrial condo facility in Sanford. The Monroe CommerCenter is a 73,650sf facility on US 17-92. Small Bay Partners pre-sold more than 15,000sf of the space, which was originally planned as a lease-up but converted to warehouse condos soon after construction began.

"We discovered a strong demand for industrial facilities in this area, and a condo facility offered more opportunity than rentals," said Geoff Longstaff, principal at Small Bay Partners, which developed the property in cooperation with NAI Realvest of Maitland. "We like industrial because it works in all markets, up or down."

From Longstaff's perspective, warehouse condos require less of an investment because owners don't expect crown molding and lush interior design. Rather, they expect ample entryways for truck deliveries and some outside storage.

Although many warehouse condo developers only build out a shell and let the owner do the interior buildout, Small Bay Partners plans to offer the entire package in order to control construction quality. His warehouse condos are selling for \$115 to \$160 psf, depending on the location within the facility.

Small Bay's next project will see 13 individual warehouse condos in an industrial park setting just north of the Orlando International Airport on Narcoosee Road. Each building will be colorized so that owners can tell truck drivers they are located in the "brown building" or the "blue building," for example. The new project will offer 120,000sf of industrial facilities.

In South Florida, the warehouse condo story is framed by conversions thanks to a shortage of affordable land and developer uncertainty about the long-term prospects of new construction, according to Paul Cohen, director of the Private Client Group at CB Richard Ellis in Miami. Warehouse condo converters, though, have to do a lot more than add a fresh coat of paint and install new landscaping around the entrance to sell a unit.

"Investors expect the warehouse to look more like an office building," Cohen said. That's because many investors plan to use it as an office-warehouse combo. Cohen noted that the office condo trend failed in South Florida at \$350-\$400 psf. But at \$180 psf, he added, warehouse condo conversions offer a means to split a 2,000sf facility in half. The front serves as an office and the back acts as a warehouse

complete with a roll-up door.

South Florida's industrial market, of course, is booming. Broward County holds the second spot on Arlington, Va.-based Friedman, Billings, Ramsey & Co.'s list of 43 major markets for industrial property. Broward County boasts a 4.4% vacancy rate. Miami-Dade came in fourth, at 2.6% vacancy and Palm Beach County ranked eighth at 5.4% vacancy on first quarter 2007 data.

Warehouse condos may be all rage in South Florida, but the market is cool in the Tampa Bay area, according to Robert Krueger, regional director of First Industrial Realty Trust's Central Florida region. First Industrial Realty Trust develops industrial properties across the nation. Despite some successful projects in the area, Krueger said warehouse condos represent too much work for too little profit.

"Warehouse condos are interest rate sensitive. As rates go up, these facilities will be less viable," Krueger predicted. "Businesses that are expanding will grow out of the space, and they may get stuck with it if the market is not ripe for selling. Larger companies can still afford to buy land in Tampa and build a facility that will meet their long-term needs."

Walshaw has a different view: If the business grows, the owner has attractive options. He can sell his warehouse condo at a gain or hold it as an investment and lease it to another small business in the meantime. "Warehouse condos appreciate quickly," he said. "After a couple of years, you can flip them and make a nice profit."

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