

COVER STORY

# ‘Wall Street of the South’

Flood of new companies raises region’s global business profile

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South Florida is used to being a winter escape for Northeasterners searching for sunshine. But now, they’re bringing their businesses with them.

Carl Icahn surprised the finance world when he announced that he planned to relocate his legendary hedge fund, Icahn Enterprises, to Miami from New York City in 2020. But to local economic development agencies, Icahn’s announcement was far from a shock. Instead, it validated their now years-long quest to transform South Florida into the “Wall Street of the South.”

In the early 2010s, the Business Development Board of Palm Beach County and Miami Downtown Development Authority spearheaded an effort to recruit hedge funds, private equity firms and wealth management offices to the tri-county area. The steady drip of new financial firms became a downpour after the Trump administration’s 2017 Tax Cuts and Job Acts put a cap on federal deductions for state and local taxes. This meant a loss for residents of states with higher taxes.

Business leaders say the influx of new financial companies could reinvent South Florida as a finance center to rival New York City or Chicago, cementing the region’s reputation as a global business hub. With those companies come professional services jobs, a key growth target for local economic development agencies fighting to move South Florida away from its reliance on the lower-paying hospitality and tourism industries.



Kelly Smallridge

“There’s a buzz about South Florida,” said Kelly Smallridge, president and CEO of the Business Development Board of Palm Beach County. “The finance industry used to see this as a place for fun, sun and beaches. But after the tax law, we’re getting almost daily inquiries from out-of-state companies with questions about what it takes to make the move.”

### Fruits of long-term strategy

The Miami Downtown Development Authority started small when it began recruiting finance companies in 2013.

“We had a Dunkin’ Donuts budget then,” said Nitin Motwani, a DDA board member and managing partner of Miami Worldcenter Associates. “We’d travel up to New York, buy coffee or a meal, and ask these executives to consider Miami.”

Early on, the proposal was met with skepticism. Executives questioned whether the area had the public transportation, infrastructure, education system or performing arts and culture to replace what they would leave in the Northeast. That skepticism still exists, but it’s beginning to erode as more finance businesses migrate to South Florida.

The DDA’s own data demonstrates the shifting sentiment. The agency reports there was a 95% increase in registered investment advisors in downtown Miami from 2014 to 2018.

“It wasn’t overnight,” Motwani said. “There’s probably been a 50% increase in interest after the tax law [was passed]. Before that, a lot of people were kicking the tires. Now we’re getting detailed calls with people asking, ‘What are the offices rents, [the] residential costs?’”

State leaders have noted the DDA’s success. Gov. Ron DeSantis’ administration recently adopted its recruitment strategy for a statewide effort to bring financial companies to Florida from Illinois, also considered a high-tax state.

Businesses that have relocated to South Florida from high-tax areas include Appaloosa Management LP, led by billionaire investment manager David Tepper. The company opened a branch in Miami Beach after Tepper changed his residency from New Jersey to Florida in 2016. According to media reports, the move stripped New Jersey of millions of dollars in personal income tax revenue.

Barry Sternlicht moved his hedge fund, Starwood Capital Management, to Miami Beach from Greenwich, Connecticut, in 2018 after changing his residency. Other high-profile finance players, such as Goldman Sachs Senior Chairman Lloyd Blankfein and Apollo Global Management founder Leon Black, have homes in the Miami area.

The 2017 tax reforms, which capped federal deductions of state and local taxes at \$10,000, only accelerated the trend, Smallridge said. The BDB has helped relocate more than 70 financial services companies, primarily hedge funds and



Kawa’s Felipe Lemos and Cristina Baldwin.

wealth management offices, to Palm Beach County since 2016, she added.

“We get an average of one or two inquiries a day after the tax reform law, because it’s hitting their pocketbooks,” Smallridge said.

### The trendsetters

Kawa managing directors Felipe Lemos and Cristina Baldwin said it took years to convince the industry that South Florida is a legitimate alternative to the traditional finance hubs of New York City and Chicago.

Founded in Miami Beach just before the Great Recession, Kawa, an investment firm with a 54-person staff and \$1.3 billion in assets under

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management, said out-of-state companies are only now seeing what they noticed a decade ago: Florida's low corporate income tax and absence of a personal income tax aren't the only reasons to do business in South Florida.

"We're close to erasing the negative bias some had about South Florida," Lemos said, pointing to the region's reputation as a party destination. "Now, companies are seeing the benefits we saw years ago. It's like a snowball effect; the local industry growth keeps attracting new businesses."

South Florida's proximity to the Latin America market, multicultural environment, burgeoning arts scene, more affordable office rents and lower housing prices make it an attractive option for

financial services company searching for a location to grow, he said. The DDA reports downtown Miami rents are \$33 a square foot cheaper than New York City's Midtown, which can translate to enormous monthly savings for firms that make the move.

For Univera Investments L.P., which relocated to Miami's Coconut Grove from California in 2014, a low-tax environment was only one part of the draw, COO Brandon Yarchin said.

"Taxes were an important consideration, but so was the overall quality of life for our employees, [and] the growing and modern nature of the city," he said. "We considered several other business-friendly states, but none matched what we found here in South Florida."

### Local connections bring new business

Many of the businesses moving to South Florida already have local ties.

Typically, it's because an executive has a home in the region, said Eugene Pollingue Jr., a partner at law firm Saul Ewing Arnstein & Lehr's West Palm Beach office.

"Almost universally, the clients I speak with already have a home in the area and then decide to become a Florida resident," he said, adding that most of those clients come from New York, New Jersey, and Greenwich, Connecticut. "We've seen so many relocations that, to me, West Palm Beach almost seems like a suburb of the Northeast."

The BDB's Smallridge agrees.

She said the agency ramped up its recruitment efforts about five years ago by examining who was buying \$6 million-plus homes in Palm Beach County. The BDB discovered nearly 100 CEOs had homes in the county, but no business presence. That's when it initiated an effort to persuade those executives to relocate their companies or establish an office in the area.

"The tax savings turn their heads, but quality of life seals the deal," Smallridge said. "The idea of not shoveling snow in the morning and taking a swim in the ocean before work is extremely attractive."

### The tax incentive

Pollingue said it's difficult to estimate how much wealthy migrants can save by establishing Florida residency. But considering that New York has a state personal income tax rate of 8.82%, as well as a New York City income tax that tops out at 3.8%, it's easy to see the appeal of a low-tax state like Florida.

The tax reform law, with its cap on tax deductions, doesn't reap the same savings for high-net-worth individuals, he said. That's why an estimated 452,000 New York residents relocated in 2018, according to the U.S. Census Bureau. Of those, about 63,000 moved to Florida.

One of those New Yorkers is President Donald Trump, who filed a declaration of domicile in Palm Beach County in October after a lifetime as a New York resident.

Changing residency isn't as easy as submitting paperwork, however.

Aware that they're losing sizable tax revenue, states like New York and New Jersey are closely tracking migrating residents to ensure they are really living in South Florida full-time, according to Ken Rios, who leads Kaufman Rossin's state and local tax practice.

"If they don't dot all of their i's and cross all of their t's - that includes everything from enrolling kids in local schools and registering to vote in the state - people moving here from the Northeast may still be treated as residents of those states," he said. "We handle a lot of individual income tax cases from states challenging a person's Florida residency because they believe they're only temporary residents."

### What lies ahead

Industry insiders believe South Florida has the culture, amenities, and a substantial finance industry that will continue to bring new businesses to the region.

But there's still one big concern: finding talent.

Questions about talent availability are among the top inquiries the DDA and BDB receive from out-of-state firms considering a move to the region. Many executives still worry the tri-county area doesn't produce the workforce needed to grow their businesses.

Florida Atlantic University's Financial Analyst Certificate Program aims to help the region meet demand for talent in the finance sector. Created in partnership with

Bloomberg, the program trains students for careers in financial services. It includes internship opportunities with local hedge funds, family offices, equity research firms and asset management firms.

Kawa's Lemos said finding and retaining employees can be a challenge, but he expects the influx of new hedge funds, wealth management offices and private equity companies to the area is boosting the region's talent pool.

"To be fair, the teams they hire can be small," he said. "But it brings benefits by attracting other professional services businesses, like more law and accounting firms."

Building out the finance industry will only bring more money to the region. And with that money will come new businesses and professional services jobs, which raises South Florida's national and global profile, the DDA's Motwani said.

A category that includes law, accounting, engineering and technology firms, professional services is already the second-fastest-growing sector in South Florida, behind education and health services.

"Whether these companies grow internally, expand to different industries or spin off to create a new firm, it's all great for us," he said. "Very few firms move here with 20 people and stay at 20 people. There's only room to grow." ❧

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### KELLY SMALLRIDGE,

President and CEO of the Business Development Board of Palm Beach County



Nitin Motwani