

HOMEPAGE

## \$100 per square foot? Rent for prime office space puts Miami on par with New York City

BY ROB WILE

It's a new record price for Miami office space — and it's sending shock waves through the city's real estate market, at a time when companies are still trying to figure out their return-to-work plans as the coronavirus pandemic drags on.

Recent leasing activity at 830 Brickell, an office building under construction defined as Class A for its location, amenities and management services, has hit at least \$100 per square foot, area real estate brokers say. That puts the property on par with pricing in New York City at places like the World Trade Center and offices in Midtown East and Soho.

While individual firms at the 830 tower are not disclosing their leasing terms, companies that have recently signed leases for offices there include Microsoft, private equity group Thoma Bravo and Canadian investment group CI Financial. AerCap, an Ireland-based firm that is the largest aircraft financing group in the world, just signed a lease this week, too, at the coveted Brickell office building.

"There's a heightened demand for office space here, whether it's new-to-market tenants or local tenants expanding," said Ryan Holtzman, Miami-based managing director at Cushman & Wakefield real estate group. "\$100 — that's new in Miami's history."

Overall, the average listed rental price for office space in Greater Miami now stands at \$46.19 per square foot. That's about equal to prices in Boston, Los Angeles, and Oakland. West Palm Beach at \$39.48 per square foot and Fort Lauderdale at \$37.64 are not far behind.

The high watermark price follows a broader real estate market trend of residential rents also going up and up. Driven by out-of-state firms, mainly finance and technology companies, looking to tap into the Miami brand, the exploding rental prices are causing other longstanding firms to rethink their real estate strategies while they continue balancing the return to offices with remote work in the ongoing pandemic that began in March 2020.

"There's going to be disruption," said Steven Hurwitz, managing director and office agency lead for real estate services firm JLL. "You've got rental rates achieving new highs. When that happens parallel to existing firms that were here already, that creates a friction point."

## **BRICKELL NOT ON LOCAL FIRM'S RADAR**

For GOJA, an e-commerce firm that creates, buys, and grows brands on Amazon, the past four months of looking for new office space to accommodate its double-digit sales growth has been interesting, founder and CEO Walter Gonzalez said.

For the past five years or so, the firm has been located in Doral. But with the company's local workforce now in the triple digits and counting, a clear need to find new digs emerged.

"We've got to think about having enough space to grow, but we don't want to overspend," Gonzalez said. With people moving to Miami with seemingly unlimited budgets, he said, "That's made our run even more challenging than most."

While the Brickell neighborhood is viewed as a trophy destination since its transformation into a white-collar services mecca around the turn of this century, Gonzalez said it never was really on his radar. As the company plots a staggered return to the office after a year of remote work, commute considerations were key.

"It just doesn't make sense for us because of the traffic," he said. In addition to office prices, parking rates have soared, he said. "Between the traffic, the cost, the lack of parking, and the time to get in or out ... even if they were giving it to us for free, it just never made sense," Gonzalez said.

The company now expects to stay in Doral, where the best office space is going for closer to \$43 a square foot. It's also an easier commute for GOJA employees coming from other parts of South Florida.

"I think Doral is becoming much more viable for office space," the company's CEO said. "When we speak to our employees — and these are very high level professionals making very good salaries, the kind of professionals that you might also find in Brickell, when we take their pulse, very, very few want to move there because of the traffic. It's a cool place to work, but conditions that Brickell represents, especially if you're coming from Fort Lauderdale or Palm Beach, that last mile could take forever."

## **'NOT TRYING TO BE FAKE'**

Instead, it is businesses new to the area like Thoma Bravo, the private equity group based in San Francisco, that are increasingly soaking up inventory in downtown Miami. The vacancy rate for Class A space in Brickell now stands at 10.7%. Locally, only Coconut Grove and Miami Beach have lower vacancy levels.

Thoma Bravo partner Chip Virnig said the company chose Miami to stand out from other private equity or Wall Street firms, and chose Brickell for its lifestyle and amenities. Virnig said the company is hyper-conscious of its newcomer status and is doing everything it can to involve itself in the community, including donating \$250,000 to Surfside victims' families.

“We’re coming in here and not trying to be fake, we want to really be real,” Virnig said, noting the company is also working with local organizations like Feeding South Florida and the Boys and Girls Club. It also recently did a beachside cleanup.

But one Brickell landlord said it is becoming clear that only companies like Bravo, with more than \$91 billion in assets under management, will be able to afford or convince employees to live in that area. Rents there for two-bedroom and three-bedroom condominiums now start at about \$7,000 a month.

“Rents here have increased by 40% or more” in a year, said Realtor Michael Wiesenfeld, who owns property in the area. “So I think companies are going to have a bit of a challenge. ... Before COVID you could be a company and set yourself in Brickell and say, ‘Come, live work, and play in the heart of Brickell.’ Now the live part is going to be very hard to sell, because you’re going to be putting a big chunk of your disposable income on housing.”

Virnig said Thoma Bravo employees live across Miami.

## ‘FLIGHT TO QUALITY’

JLL’s data show clear winners and losers emerging among local office submarkets as pandemic-induced market dynamics play out. Class A office space in Brickell has increased 14% in price from pre-pandemic levels to an average of \$72.25 per square foot. The same type of offices in Coconut Grove, another booming local market, now fetch an average of \$67.90 per square foot, up 25%.

Those compare with \$55.80 per square foot just across the river for top-tier office buildings in downtown Miami, a 10% increase from pre-pandemic levels; and \$47.62 per square foot in Coral Gables, down 4% over the same period. Even the laggards may not remain so for long, as the gap between Class A and Class B office space in Miami-Dade County has narrowed. In the final quarter of 2021, the average Class A office lease cost \$51.81, compared with \$36.86 for Class B properties. Prior to the pandemic, it was \$49.91 versus \$32.68.

“It’s a flight to quality today, for both quality of life and in terms of returning to the office to create a better, new environment,” said Stephen Rutchik, executive managing director at real estate services firm Colliers.