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Fresh Recruits Mitigate Pandemic's Blows to South Florida Office Leasing

Miami and West Palm Beach are coming out on top as choosy tenants seek "the corner office facing the water"

BY MIKE SEEMUTH

Office tenants new to South Florida – many with roots on Wall Street – are easing the impact of the COVID-19 recession on office owners and developers, particularly in Miami and West Palm Beach. The biggest city between them, Fort Lauderdale has been bypassed by corporate newcomers looking for ample space in South Florida. But that may change as a commercial migration to South Florida unfolds alongside a residential migration.

Among other financial outfits headed for South Florida, a private equity firm based near New York is preparing to open a 2,500-square-foot branch office at Alhambra Towers, a Class A building in Coral Gables, just south of Miami International Airport. “They say they plan to expand rapidly,” said veteran South Florida-based developer W. Allen Morris, whose company developed and still owns the building. “We are working out the final details with them right now.”

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“From what I’m seeing and hearing, most of the incoming business is coming into Palm Beach and Miami,” said Andrew Easton, vice president of Easton Group, a Miami-based commercial real estate firm. “I think these out-of-market tenants will bring enough space needs to suck up what’s left behind by the pandemic.”

New-to-market office tenants are hardly a cure-all, though, for the pandemic’s impact on depopulated South Florida office buildings. “Relative to the amount of [office] inventory we have, they’re putting a dent in it,” said Chad Massaker, a Palm Beach-based real estate agent with Compass. “But it’s a very small dent.”

Companies looking for what would be their first location in South Florida were shopping for a combined total of 1.8 million square feet in April, according to Blanca Commercial Real Estate, a brokerage with offices in Miami and Fort Lauderdale.

That is a fraction of the 112 million square feet of available office space in tri-county South Florida. In a first quarter 2021 research report, Cushman & Wakefield found that office vacancy rates overall in the three counties ranged in the mid-teens but were much higher in certain submarkets. Nearly 25 percent of the downtown office space in Miami and Fort Lauderdale was vacant.

But brokerage research also shows that South Florida landlords generally have been holding office lease rates steady, especially at high-end buildings with great views. Asking rates for office leases averaged \$38.68 per square foot in Palm Beach County, \$36.30 in Broward County and \$42.41 in Miami-Dade County during the first quarter of 2021, Cushman & Wakefield reported.

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“To say there’s plenty of office space is one thing. The amount of *good* office space is another thing,” Easton said. “These [new-to-market] guys want the corner office facing the water. There is not a lot of that. It’s still hard to find quality, water-view, Class A stuff in Miami. That’s what a lot of these guys want who are coming in.”

New In Town

Easton helped the principals of a New York-based wealth management firm open an office in the upscale Brickell Avenue area along Biscayne Bay, just south of Miami’s central business district. The firm employs a staff of about 20 in a 3,500-square-foot office at a high-rise called 999 Brickell and plans to do more hiring, Easton said.

“A couple of the senior partners said we’re done with what we’re doing in New York, let’s open a new group in Miami,” he said. “They felt there was a lot of growth and opportunity down here for them, on top of the tax savings.”

A federal tax overhaul pushed by Donald Trump early in his presidency, the Tax Cuts and Jobs Act of 2017, accelerated a pre-existing residential migration to Florida from New York and other states where state and local taxes are higher. It did so by disallowing the practice of deducting state and local taxes from income subject to federal tax. In late 2019, Trump himself changed residency from Manhattan to Palm Beach.

The outbreak of the COVID-19 pandemic shifted tax-driven migration to South Florida into overdrive, brokers and developers say, and some firms have followed their leaders to the tri-county region.

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“Many of the principals of these firms have personally bought significant residential real estate in Miami and Palm Beach. And they want to put their businesses close to where they live,” said Jonathan Kingsley, Fort Lauderdale-based executive managing director of brokerage firm Colliers.

Kingsley said new business arrivals in Miami are settling mostly in the central business district, the Brickell area, “and some micro-markets that are just north of downtown, like Wynwood, the Design District, and Midtown.”

New York City-based Blackstone Group made major headlines in March by purchasing 2 and 3 MiamiCentral, a two-building, 330,000-square-foot office property next to a passenger train station in Downtown Miami, where service to downtown stations in Fort Lauderdale and West Palm Beach is expected to resume after the pandemic eases.

Several months after putting a South Florida outpost in 40,000 square feet of leased space at one of the MiamiCentral buildings, Blackstone bought both office buildings from San Francisco-based Shorenstein Properties for about \$230 million, or 44 percent more than Shorenstein had paid 22 months earlier.

“The Class A-plus office market is on fire,” said Danet Linares, executive vice chairman of Blanca Commercial Real Estate. She led a team at her firm that handled the 40,000-square-foot office lease deal for Blackstone next to the Downtown Miami train station.

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Finance Frenzy

Blackstone's presence in Downtown Miami is part of a larger influx of financial firms. Downtown Miami's population of investment advisers registered with the U.S. Securities and Exchange Commission grew from 85 in 2019 to 111 in 2020, a 30 percent increase, according to a study by the not-for-profit Miami Downtown Development Authority (DDA).

Downtown West Palm Beach also is attracting large new-to-market office users with a taste for Class A space. According to media reports, New York City-based Elliott Group, a mammoth hedge fund firm, and New Day USA, a Maryland-based mortgage company, plan to lease a combined total of 90,000 square feet at 360 Rosemary, a 300,000-square-foot office tower under construction in downtown West Palm Beach. The developer of 360 Rosemary, New York-based Related Companies, led by billionaire Miami Dolphins owner Stephen Ross, expects to open the 20-story office building by the end of June.

In addition to Elliott Group and New Day USA, Goldman Sachs also is expected to lease office space in downtown West Palm Beach, said Steven Hurwitz, Miami-based managing director of brokerage firm JLL. Hurwitz said in an April 9 interview that more major office leases for new-to-market companies were pending in West Palm Beach and the Brickell area of Miami: "Several high-profile deals that are not yet public will be announced soon."

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“We are executing on the strategy of locating more jobs in high value locations throughout the US, but we have no specific plans to announce at this time,” a Goldman Sachs spokesperson said, in reference to the West Palm Beach office.

Citadel Securities has [closed its temporary trading floor at Four Seasons Resort Palm Beach](#), which the firm opened last year as a refuge from the pandemic, and the employees who worked there have returned to Chicago and New York, as Commercial Observer reported. But a corporate sibling, the Citadel hedge fund, reportedly plans to open an office in Miami’s Brickell area.

In January, Business Insider reported that Citadel was preparing to lease 80,000 square feet at 830 Brickell, a 57-story office building now under construction. Meanwhile Microsoft is in [active lease negotiations](#) to take between 40,000 to 42,000 square feet at the property, as CO reported.

Microsoft is not alone. Other technology companies on the West Coast also are among the new-to-market office prospects in South Florida. Hurwitz said a California-based tech executive explained South Florida’s appeal this way: “You’ve got a really good work force here, we like the lifestyle and quality of life, and the cost of doing business is much less expensive.”

A deepening pool of local tech talent is a major draw. Brokerage firm CBRE conducted a study that shows the number of tech jobs in South Florida grew by 14,700 from 2015 through 2019. The 28 percent increase was the tenth-fastest growth rate among 75 U.S. and Canadian metropolitan markets.

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But with many of their employees working remotely, the post-pandemic office needs of many tech companies – and many other types of companies – could be much smaller than their pre-pandemic footprint.

Scenic Group, for example, is moving its U.S. headquarters from a 6,500-square-foot office in Boston to a 4,000-square-foot office just south of Fort Lauderdale in Hollywood, the third-largest city by population in Broward County. Scenic Group, an international operator of river cruises and land tours, is moving its U.S. headquarters to the sixth floor of a seven-story office building called Presidential Circle, which is near Interstate 95 and Fort Lauderdale’s international airport and cruise port.

The firm picked the location to be closer to the cruise industry in South Florida, not to flee higher taxes in Massachusetts, said John Stunson, the company’s vice president of finance for U.S. operations. Many of Scenic Group’s employees have worked remotely since the start of the COVID-19 pandemic, so the company “right-sized” its headquarters for an in-office staff of about 15 at the Hollywood location, Stunson said. “All of our employees in Boston are going to be retained,” he said. “Essentially, what we are doing is migrating to a remote workforce.”

San Francisco-based Zumper, an online service for apartment seekers, plans to open a hub office in Miami with as many as 150 employees. Zumper CEO Anthemos Georgiades announced plans to open hubs in both Miami and Los Angeles in an April 2 post on Twitter. The company “won’t open an office space while our COVID-related, working-from-home policies are still in place,” Miranda Harper, a spokesperson for Zumper, said in an April 5 email. “But we are considering both downtown [Miami] and Wynwood as potential future office locations.”

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Broward County Blues

The new wave of big-name, new-to-market office users has largely bypassed Fort Lauderdale and the rest of Broward County. “Miami is getting a lot of action. Palm Beach is getting a lot of action. We are not getting any of that,” said Joseph Byrnes, senior vice president of Berger Commercial Realty/CORFAC International, a brokerage based in Fort Lauderdale.

There is a wide selection of spaces in Broward County, where negative absorption of office space totaled 763,000 square feet last year – “more than 57 percent of all the space given back in South Florida during 2020,” Newmark Group said in a research report on the tri-county office market. Through the fourth quarter of 2020, “Broward continued to feel the brunt of space returned to the market.”

“Broward has been a little skipped over by the larger players,” said Kingsley, the Colliers executive. But he also said the county has a steady inflow of smaller new-to-market office tenants “that wouldn’t necessarily hit the radar like the major financial firms that have opted to go to West Palm Beach and Miami.”

Moreover, two big names in finance – Blackstone Group and Shorenstein Properties – have made big bets on Main Las Olas, a 1.4 million-square-foot, mixed-use project with office space that just opened in downtown Fort Lauderdale.

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Shorenstein formed a partnership with Stiles, a Fort Lauderdale-based real estate firm, to develop the mixed-use property, and Blackstone provided debt financing for the project. Late last year, the first office tenant, a local law firm, moved into the 25-story, 369,809-square-foot office building at Main Las Olas, which also encompasses a 27-story, 341-unit apartment building and a ground-floor Publix supermarket.

Outside of Florida, Fort Lauderdale and Broward County lack the name recognition of Palm Beach and Miami, said Scott MacLaren, president of Stiles. “If you’re sitting up in Stamford, Connecticut, or New Jersey, you know the name Palm Beach, whether it’s because of Donald Trump or some other big name that has lived on that island for years,” he said. “You also know what Miami is, right? But a lot of times, you don’t necessarily know Fort Lauderdale.”

Nevertheless, at least one out-of-state company has leased office space at Main Las Olas but has not yet announced the deal, and more new-to-market tenants may land there. “We’ve had numerous tours for people from out-of-state,” MacLaren said. “Some which have gone ahead and signed in other submarkets – and others that we are actively negotiating with.”

UPDATE: This story has been updated since publication to include comment from Goldman Sachs.