

# Cushman's Holtzman On Miami's Hot Class A Office Market

By *Nate Beck*

Law360 (June 15, 2022, 3:26 PM EDT) -- In March 2020, Ryan Holtzman wondered if he'd soon be selling carbohydrates instead of Class A office space.

The managing director at Cushman & Wakefield's Miami office feared the pandemic would wipe out the corporate office market entirely.

"We're in the midst of COVID. No one's going to go back," he said. "I even contemplated, 'Do I sell everything and move to Colorado and open a bagel shop?'"



Ryan Holtzman

Holtzman's concerns haven't come to pass. Instead, Miami has become a destination for companies fleeing the Northeast, California, Chicago and other markets. Executives and their employees began flocking there for the laid-back lifestyle, tropical climate, tax policies and lack of COVID-19 restrictions, Holtzman said.

On Tuesday, financial services firm A-CAP announced it would lease 20,000 square feet of space in 830 Brickell, a 640,000-square-foot, 55-story Class A office tower that's the largest of its kind under construction in the city. A-CAP joins Microsoft, WeWork and other firms in committing to the building. Canadian financial firm CI Financial will also lease an entire floor, while private equity firm Thoma Bravo has agreed to rent the top two floors once it's finished.

Holtzman, who represented developers OKO Group and Cain International in the transaction, said the building is now 60% leased ahead of its expected completion in December. Such a feat would have been unthinkable before the pandemic, when Class A office leases typically ranged between 5,000 and 10,000 square feet, he said. New leases now regularly run 20,000 square feet or more.

New-to-market tenants made up 40% of the 4 million square feet of active office deals in the first quarter, according to data from Miami firm Blanca Commercial Real Estate. Last year, deals from newcomers made up 21% of all office transactions — compared with 5% in 2019.

Newcomers are mostly looking for high-end space. Class A offices saw 1.25 million square feet of positive absorption since 2018, according to Blanca. Meanwhile, Class B office space saw 1.31

million square feet of negative absorption in that period.

Rents for Miami Class A office space now fetch over \$100 a square foot — putting the city in line with New York City, according to Avison Young's first-quarter market outlook. Holtzman said space at 830 Brickell has since risen to \$125 a square foot.

Philippe Houdard, who owns four co-working spaces in the Miami area and is a board member of the Miami Downtown Development Authority, said the influx of high-paying jobs to the city comes after a nearly decade-long effort to diversify the city's economy.

Once defined by hospitality and real estate industries, Miami is adding legal, technology and finance firms that Houdard said is helping to bring new opportunities to the region. The city's low taxes, good quality of life and concentration of talent should help protect it against rising inflation and other uncertainties in the broader economy, he said.

"That continues to be the bedrock of our pitch for Miami," Houdard told Law360. "Irrespective of what transpires in the economy, the pool will remain. Will the flow be as strong as 2021? That remains to be seen. But we're encouraged by everything we're seeing."

Law360 spoke with Holtzman about how the city is adapting to its recent status as a corporate destination. The following interview has been edited for length and clarity.

### **How has Miami's Class A outlook changed since the pandemic?**

We ended up having an incredible year during COVID, which was counterintuitive. The large corporations were still confident we were going to have a post-COVID world, that we were going to see the light at the end of the tunnel.

During COVID, a lot of these executives from the hedge fund world, the private equity world, came down here and rented homes with their families to escape the confines of, like, a Manhattan.

I was getting calls from these CEOs saying, "Hey Ryan, tell me about Miami." And so it was more of a conversation about why Miami versus why a specific office building.

Once these folks realized there were so many great reasons to come — no [income] taxes in the state, quality of life, you can have a yard and a pool, you can bike and walk everywhere, its sunny 95% of the year — these folks are like, "You know what, I'm going to take a gamble and move a portion of my company."

It's a snowball effect. It's a herd mentality in the office world, where companies want to be together. We're starting to see that in droves right now. A lot of the tenants are 100,000 square feet, all the way up to 300,000 square feet. We've never seen that before, and they're all looking for the best-quality buildings.

### **What was the city's office market like before COVID?**

Pre-COVID, it was a lot of mutual switches, tenants moving around. And then during COVID, we started to see the venture capital world come. We started to see smaller hedge funds — big names but smaller footprints.

I gotta give credit to Mayor [Francis] Suarez. With that one tweet, we started to see a bunch of tech that moved from California to Miami. Then Peter Thiel's group moved to Wynwood, and everyone wanted to be around them. So Wynwood has become the epicenter of the tech startups, while Brickell maintained its reputation as a destination for best-in-class professional services firms.

When did it become clear to you that Miami was becoming a destination for Class A office users?

We started seeing big names move down — Blackstone, Millennium Capital, T1 Capital, Sequoia Capital, Point72 Asset Management, Apollo. These are some of the biggest names across the U.S., between New York, Chicago, California.

The future I see is a slew of new development of quality assets. And we're going to see some of the larger users come in — the large banks that circled eight years ago but never pulled the trigger.

It's all happening at once. It's like a gold rush of talent and a gold rush of capital that's moving here.

### **What's the rationale behind a corporate relocation to Miami?**

Quality of life for daily employees. Americans move so fast and work so many long hours. Miami was just the epicenter where you can have that balance. You can have the best quality of life during the day and night, but also make the money that you want to make.

Is there enough Class A office space to go around? What spaces are companies occupying while new office space gets built?

During COVID, there was sublease space that hit the market — tenants giving back space, trying to right-size.

All these new-to-market companies were taking sublease space, they were taking temporary space. All the co-working space in the city is fully subscribed. They are all full. A lot of the firms that were assigned leases in 830 are there, in co-working space. They are waiting for 830 to deliver so they can move in.

These firms are willing to move into a legacy building in order to wait for that opportunity to be in the best-in-class office space.

### **How are record-high rent prices for Class A office space affecting Miami's market?**

It's not swaying tenants at all. We're still a discount compared to major cities like New York, even Chicago, San Francisco or Los Angeles.

What I've realized is, it's not so much the dollar amount, it's the fact that these companies are willing to pay, not whatever it takes, but they're willing to pay more to hire the best in class to provide their employees the best daily life possible.

Companies don't look at folks as numbers anymore; they are worried about whether they are happy.

### **Are you concerned rising home prices or a lack of inventory could affect the growth in corporate relocations?**

There is a slew of new development on the multifamily front — condos and apartments.

I don't think it's going to be a deterrent. It does seem like the market's crazy. You have alligators on one end and sharks on the other, so there's only a finite amount of space.

People are willing to live a little bit further, not having to be in the center of it all or taking public transportation. The spread is moving further out to other urban locations in south Florida, but you can live elsewhere and still work in Miami.

*--Editing by Philip Shea.*