

SOUTH FLORIDA BUSINESS JOURNAL

COMMERCIAL REAL ESTATE

DEFYING GRAVITY

Why many industry insiders have faith in Class A office



By Erik Bojnansky – Reporter, South Florida Business Journal
Jan 4, 2024

The migration of out-of-state businesses to South Florida during the pandemic triggered a hunger for quality office space that can attract both clients and talented employees.

Yet with numerous companies scaling back on the size of their spaces, some industry insiders believe that South Florida’s office rents may have hit their ceiling.

But will that affect the value of top-tier Class A offices? After all, more than 5.3 million square feet of office space – the majority of it Class A – is slated to be built throughout the tri-county region, according to market reports from Colliers International.

Not likely say most real estate insiders. That’s because the demand for Class A office remains quite strong, especially among out-of-state companies that continue to enter the South Florida market.

“We have been very fortunate that people want to come down here [and] that people continue to move down here,” said Steven Hurwitz, JLL’s managing director and agency lead for South Florida.

It’s that flow of wealth, and new residents, that has allowed our market and other metro areas in the Sunshine State to thrive despite the high interest rates, inflation and slowed lending that has stymied other office markets across the nation.

And that has a direct effect on offices, said John Boyd, Jr., principal of The Boyd Co., a Boca Raton-based corporation relocation firm. Those new residents include job-creating executives and young professionals who don't mind working in the office – if the offices are nice.

“South Florida continues to defy gravity,” Boyd said. “There is still a steady demand for new office space.”

Office headwinds



Image: JLL

Steven Hurwitz, managing director and South Florida Lead for JLL.

This isn't to say that South Florida's office market hasn't taken some knocks.

Hurwitz of JLL said there's been a 20% year-over-year drop in “deal flow”, though he insists that South Florida's office market is still far healthier than it was prior to the pandemic.

“A lot of [companies] are still moving down here, though it is not the same amount of tenants as last year,” he said.

Office rents, meanwhile, continue to climb, but not as much as before, said Bert Checa, a principal of Lee & Associates' South Florida office. In his opinion, office rents have “peaked at this point” as the flood of new companies flowing to South Florida slows to a trickle.

“What landlords are trying to do is switch gears and they're trying to renew as many tenants as possible,” Checa said. Those concessions include offering tenants at least one month of free rent per year, he added.

Meanwhile, many office tenants have shrunk their space to cut expenses and adapt to new hybrid working patterns where staff works at least part of the week remotely.

This is particularly true in Miami-Dade County where office rents have climbed 40% since the onset of the pandemic to an average of \$57.74 per square foot in the third quarter of 2023, states a report from brokerage Avison Young. As of Q3, there was just under one million square feet of Miami-Dade office space on the market for sublease, said Donna Abood, principal of Avison Young's Miami office.

“This is a 32.4% increase, year over year,” Abood said. “This substantial increase in sublease space is a direct impact of the economic slowdown on corporate revenue, and the desire of these companies to reduce their overhead costs.”

And the classier the office, the higher the rent.



John Boyd, principal of The Boyd Co.

The average rent for a Class A office in Miami-Dade in Q3 was \$65.17 per square foot, Avison Young stated. In Broward, where the average listed office rent was \$38.25 per square foot, premium “trophy” space averaged \$65.17 per square foot. In Palm Beach County, where office asking rates were \$51.71 per square foot, trophy property rents averaged \$130.97 per square foot.

Crime, taxes and Class A

It’s the pricier Class A office space that dominates the leasing activity in South Florida as out-of-state companies continue to hunt for premium space, said Matthew Katzen, senior vice president of Lee & Associates.

“The new space, it goes quicker,” he said. “There are so many companies from the finance and tech world coming down here that there is not a lot of Class A space that is vacant.”

Indeed, Stephen Rutchik, vice chair of Colliers’ Miami office, said that the migration of companies heading to South Florida continues, though “at a more measured pace” than two years ago. And those companies want upscale Class A spaces, preferably in exciting downtown areas that lure employees to the office for at least part of the week.



Donna Abood, principal, managing director - Miami, at Avison Young in Coral Gables.

“That doesn’t always translate to a larger footprint or larger office,” Rutchik added. “But it does lead to a different and more collaborative environment.”

Still, not all companies are out to shrink their footprints.

For example, Seattle-based e-commerce giant Amazon is looking for 50,000 square feet of office space in the Miami-area. At present, Amazon’s 300 South Florida corporate employees operate from coworking spaces in Coral Gables.

Also, billionaire Kenneth Griffin plans on building his own office tower for his Citadel hedge fund on land he invested more than \$600 million assembling at 1201 Brickell Bay Drive in Miami. He’s also secured about 93,000 square feet at 830 Brickell, a 57-story tower that has attracted major companies and law firms such as Microsoft

and Sidley Austin. (Until 830 Brickell opens, Griffin's Citadel and Citadel Securities companies lease temporary space inside the Southeast Financial Center as Citadel's new headquarters.)

Griffin, incidentally, declared his intent to relocate the headquarters for his Citadel companies from Chicago last year. Among Griffin's stated reasons for moving out of the Windy City was rising crime.



He isn't alone. Corporate relocation scout Boyd said he's spoken to several company heads considering a move to Florida because they consider the cities where they live to be unsafe and mismanaged.

"There is a feeling among job creators and taxpayers that crimes are prosecuted in Florida," said Boyd, whose firm recently relocated from New Jersey.

Another factor pushing high earners and office-seeking executives to Florida is the lack of a state income tax. Once upon a time, households could deduct state income taxes from their federal income taxes. That deduction was limited to \$10,000 when President Donald Trump signed Tax Cuts and Jobs Act in 2017, which resulted in wealthy families moving their permanent addresses to states with low or nonexistent state income taxes.

Florida has no state income tax, no estate taxes and no snow. And after May 2020, the state banned local governments from enacting Covid-19 restrictions so it received a huge infusion of money and people following the pandemic.

The Florida Chamber of Commerce estimates that \$39.2 billion in net income flowed toward the Sunshine State between 2020 and 2021. About \$7.4 billion of that income went to Miami-Dade County, \$7.2 billion to Palm Beach County, and \$1.7 billion to Broward.

Office gold

Several office developers expect that stream of people, talent and wealth to continue.

In 2023, about \$1.14 billion was invested in the construction of new offices, said Adrian Barrios, South Florida business unit leader for DPR Construction. A similar amount is projected for next year, he added.

"We have actually seen an increase of commercial office activity and we saw a lot of new companies coming into the market," Barrios said. This includes a jump in tenant improvements for single-tenant office products, he added.



*Ken Griffin, Citadel Founder and CEO
Deborah Rodriguez/MDC 2023*

Jordan Rathlev, senior vice president of Related Southeast, a West Palm Beach subsidiary of New York-based Related Companies, said his company’s “lifestyle destination offices” in New York and South Florida are in high demand because they’re close to housing, retail, and restaurants and equipped with features such as amenity decks, gyms, and conference rooms.



*Jordan Rathlev, senior vice president of
Related Southeast.*

The Related Companies, headed by Miami Dolphins owner Stephen Ross, plans to build a 1,000-foot-tall tower with Hong Kong-based Swire in Miami’s Brickell Financial District. In downtown West Palm Beach, Related owns four Class A office buildings, including the recently finished 360 Rosemary, plus it’s now constructing One Flagler and preparing to break ground on a 24-story skyscraper called East Tower.

Both Brickell and downtown West Palm Beach offer the “live work” settings companies desire, Rathlev said. In West Palm, Related’s existing buildings are fully leased, One Flagler is 75% pre-leased, and letters of interest have been signed for 60% of East Tower’s space.



*Rendering of One Flagler
The Related Companies*

“We are building into the demand,” Rathlev said, adding that Florida checks all the boxes when it comes to lifestyle, no income tax, and a pro-business environment.

However, it isn’t just brand new office space that’s doing well. The revamped 28-story 801 Brickell Ave., which was originally built in 1985, traded for \$250 million in October, Colliers’ Rutchik said.

“In just that building we leased approximately 100,000 square feet ... in the last 12 months alone,” he said. “And going into Coral Gables we have seen prices [for office buildings] appreciate 25% in the past two quarters.”

Rutchik said he’s also noticed an uptick in leasing activity from not just new-to-market companies but also local businesses that have relocated to renovated or new office buildings in Doral and western Miami-Dade. So, the office market is heading into the new year with a “robust pipeline of activity.”

“South Florida is no longer a seasonable city. It is now a global, permanent destination,” he said.

But could developers overbuild and make Class A office less valuable?

Steven Hurwitz of JLL doubts it. Many of the office projects on the drawing board won’t come to fruition – and those that do, won’t be built all at once. After all, construction financing is expensive and hard to come by thanks to higher interest rates and tighter lending regulations, especially when it comes to new office product.

“I think we have a healthy pipeline of development,” Hurwitz said. “Based on where the capital markets are today. I don’t expect we will see an oversupply.”



A rendering of 830 Brickell