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Markets

Fund Managers Are Ditching Wall Street for Florida

By Lynnley Browning and Gillian Tan

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- Officials are intensifying efforts following new $10,000 limit
- Investment firm I Squared's founders said to relocate to Miami

Florida's long-running effort to lure Wall Street hotshots is gaining traction thanks to a provision in the federal tax law that hits residents of high-tax states.

The Sunshine State's most recent conquests are two of the founders of I Squared Capital, Sadek Wahba and Adil Rahmathulla, who are among executives relocating to Miami from New York, according to a person familiar with the moves. The private equity firm plans to open an office in Miami later this year, said the person, who spoke on condition of anonymity. A company representative declined to comment on the relocation and the reason for it.

The former Morgan Stanley dealmakers, whose infrastructure firm will manage more than $12 billion in assets after its second fund closes later this year, stand to benefit tax-wise -- as would any other executives from the financial industry who make the move from New York or Connecticut. That's because Florida doesn't have a state income tax and its property taxes are relatively low, whereas the tri-state area has among the highest property taxes in the country.

Their relocation rewards years of work by Florida officials to entice the investment crowd with promises of warm weather and zero state income taxes. The federal tax law's new cap on state and local tax deductions at $10,000, which includes property taxes, has reinvigorated their campaign. Money managers in high-tax states may have previously written off hundreds of thousands of dollars in property taxes annually.

"SALT has been the No. 1 theme when we speak with finance companies" about relocating or opening branch offices in Miami, said Nitin Motwani, a lead developer of a $2 billion skyscraper in Miami. "Naturally, we are in favor of getting rid of that deduction, because it's great for this market."

The hope among Florida officials is that the personal tax hike will motivate investment managers to buy homes in Florida, and eventually move business operations down south.

Read about how the tax law fueled talk of exodus from Greenwich

In April, members of the Miami Downtown Development Authority traveled to midtown Manhattan and Stamford, Connecticut, for a “spring outreach” trip to sell their city to financial professionals. The tour included a roundtable discussion with executives from Morgan Stanley’s institutional equity division and a lunch at the Tommy Bahama restaurant with the Managed Funds Association, the main lobbying group for hedge funds.

Two meetings also took place about confidential deals code-named “Project Apple” and “Project Sunshine,” according to a copy of the itinerary obtained by Bloomberg News.

Christina Crespi, the acting executive director of the Miami authority, declined to comment on the April trip. Alisha Tischler, an outside spokeswoman for the group said that another fund was in late-stage discussions to relocate, but declined to name it, citing confidentiality agreements.

Hedge fund billionaires relocating to Florida for tax reasons is nothing new, with marquee names like David Tepper, Paul Tudor Jones and Eddie Lampert moving in recent years. But Florida officials are banking on the new law being the final push to rebrand Miami as “Wall Street South” and Palm Beach as “Hedge Fund South.” As the tax bill was being negotiated last year, Florida Governor Rick Scott, a former resident of Greenwich, Connecticut, made trips up north to court investment firms.

There may be even more movement since the Internal Revenue Service signaled it’s likely to block efforts by high-tax states like New York, New Jersey and Connecticut to use charitable contributions to circumvent the $10,000 cap.

Office Space Tours

The most recent government figures show about 14,600 Connecticut residents decamped to Florida from 2015 to 2016, the highest number since at least 1999, according to demographer William Frey, a senior fellow at the Brookings Institution. Frey said it’s reasonable to expect the numbers to increase in 2018 and beyond thanks to the tax law.

Separate state statistics show that Florida is adding jobs in finance and Connecticut is having trouble retaining them. During the 12 months ending in April, Florida gained 14,700 jobs in financial activities, a broad category that could include workers at banks, while Connecticut lost 500 jobs in the industry.

Connecticut’s numbers are likely to deteriorate even more when Barry Sternlicht moves his firm Starwood Capital Group to Miami Beach. Employees at the $55 billion real estate fund were told in May that the group will be moving its Greenwich headquarters to Miami Beach by 2021, according to Catherine Smith, the commissioner of Connecticut’s Department of Economic and Community Development. Sternlicht paid $17 million in 2015 for a Miami Beach waterfront lot. An outside spokesman for Starwood declined to comment.

"It's the tax tail wagging the dog," said Mark Pateman, a managing principal at commercial real estate brokerage Cushman & Wakefield in West Palm Beach. "If you pay 10 years of Connecticut taxes, it starts to add up real quickly." Pateman said his monthly tours for office space have tripled following the tax law and he's seeing high interest among smaller proprietary traders.

It may take at least a year to see any noticeable movement of Northeast companies to Florida office space, according to Barbara Byrne Denham, a senior economist at Reis Inc. Denham added that companies in New York may ultimately choose to stay put given how little office rents have increased there over the last few years.

Financial firms may open a branch office, at least at first, to test the waters, said Michael Corcelli, the founder of the Florida Alternative Investment Association, a trade group. "You generally don't move your entire operations overnight," he said.

'Marquee Address'

"Funds used to really want that marquee address in Greenwich, Midtown or Stamford, but that's no longer an impediment," said Mitch Ackles, president of the Hedge Fund Association trade group. "Taxes are a catalyst."

For its part, Connecticut is trying to block any relocations. Smith, of the Department of Economic and Community Development, said her office is wooing funds to make sure they stay put, and stepping up its efforts through emails, phone calls and drop-in visits. In recent years, the state has offered financial incentives to get firms such as Bridgewater Associates LP to stay.

The state depends upon personal income tax receipts to fund about half of its annual budget, with a hefty chunk coming from Greenwich, Westport, Stamford and Fairfield, according to state figures.

Still, Connecticut representatives will have to battle aggressive Florida officials like Kelly Smallridge, who's head of Palm Beach County's Business Development Board. Twice a month, Smallridge drives around the gated estates of Florida's Palm Beach County in her black Mercedes E300, checking ritzy areas like Jupiter and Manalapan for signs of mansions about to be renovated or torn down.

She cross-checks property records for owners who are financial professionals from New York or Connecticut, then calls or emails them with a pitch to bring their business, too.

"We will always want the whole enchilada," Smallridge said.