

## Businesses flow from afar into Brickell, downtown offices

By CATHERINE LACKNER

The office market in the central business district and Brickell is solid, observers say, and not likely to be blown off course anytime soon.

"The market in downtown and Brickell is tight," said Neisen Kasdin, office-managing partner at Akerman, LLP, and vice chair of Miami's Downtown Development Authority. "The last spurt of new buildings came into the market 10 years ago, with 1450 Brickell, 600 Brickell and the Wells Fargo Building."

Two new offices buildings that are part of Brickell City Centre and the Miami Central office buildings that were part of the Brightline launch leased up quickly, he added.

There is a relationship between demand for office space and the influx of new residents — even some just testing the waters — from the Northeast, he said. "As businesses and individuals relocate from New York, New Jersey, Connecticut and Illinois to avoid paying state income tax, as well as for the lifestyle, there's greater demand for office space."

While the downtown authority has waged a successful campaign to lure hedge funds, family offices and financial services firms, "The vast majority are finding their way here on their own, by word of mouth," Mr. Kasdin said. "The whole Brickell area has become very dynamic and desirable, partially because it offers a non-auto-dependent lifestyle. It's not only millennials who want that lifestyle."

"The big story is going to be April 15, when people from the Northeast see how the new tax law is going to affect them," said Tom Byrne, senior vice president and commercial broker at EWM Realty International. Taxpayers will no longer be able to deduct state and local taxes from their federal tax returns, which eliminates a substantial



The last spurt of office buildings opened in city's core a decade ago.

deduction for many. It will contribute to the influx of buyers from the Northeast that has already begun, he predicted, and that will boost office demand.

"There are 400 million people above us (in the US and Canada) and 400 million below us (in Latin America) and that, combined with Florida's favorable tax status, will keep demand strong," Mr. Byrne predicted.

The central business district is a likely beneficiary, because it's become a 24-hour destination, he said. "Like Coral Gables, downtown has become a place where you can go out at just about any time and get a good meal or find something to do," he said. "Miami has come into its own."

The central business district and Brickell have captured 56% of new-to-market office transac-

tions, said Danet Linares, vice chair of Blanca Commercial Real Estate and a board member of Miami's Downtown Development Authority. "Brickell leads in absorption" of the four major office markets (downtown, Brickell, Coral Gables and Airport West) and has a lower class A and B vacancy rate (at 10.4%) than the downtown-Brickell market as a whole (15%), she said.

"There is more vacancy downtown, but that's only going to increase rents," she said. Class A, top-tier buildings downtown are fetching \$52-\$56 per square foot, and \$60 per square foot is not unheard of, she said. "New class A buildings are pretty full. Miami Central is 90% leased."

"It doesn't hurt that 92,000 people live downtown now,

which is up 40% since 2010," she said. "You can live very close to your office and walk to work. Downtown has the most public transportation of any of the markets, and Brightline has helped. Tri-Rail coming in later this year will help, too."

Across the Miami River, a deal at 1450 Brickell was recently signed for \$65 per square foot, Ms. Linares said. That building is 99% leased. And throughout the downtown/Brickell market, 89% of leases signed are renewals, which speaks to tenant loyalty.

"Savvy investors are realizing that we have a lot to offer, and investors remain very bullish on downtown and Brickell," Ms. Linares said. "They realize this market offers a stabilized return on investment and rents will continue to rise."

What prospective tenants in this submarket are looking for is hotel-like amenities, said Jonathon Yormak, a principal of East End Capital. The company owns and recently renovated 100 Biscayne, formerly the New World Tower. "They want a brand-new lobby, new bathrooms, a gym, shared conference space. It's not dissimilar from a hotel."

The central business district today offers "mostly older stock; a lot of older buildings that have not seen significant capital investment. The way we see the market, there's a lot of opportunity to refurbish that older stock."

An obstacle: 85% of the demand is for spaces of less than 10,000 square feet, Mr. Yormak said. "There aren't a lot of very large tenants in Miami," meaning users that want 50,000 to 350,000 square feet of space, he said. "And it's not particularly affordable," when compared to cities like Nashville, TN, which is attracting large-scale tenants.

Nevertheless, "we're very bullish, longer-term, because of tax changes in the Northeast," Mr. Yormak said. Family offices and hedge funds are doing well,

and other companies are taking initial steps" to investigate the Miami market, he said.

"The performance of Brickell/ Downtown Miami office market, relative to suburban submarkets in South Florida, is primarily driven by the emergence of the CBD as a true live-work-play destination," said Stephen Rutchik, executive vice president Colliers International, via email. "Additionally, the CBD offers tenants various modes of public/private transportation via Metrorail, Metromover, Brightline, bus, trolley, Citi Bike and soon to include Tri-Rail, and tenant utilization of these modes of transportation has increased dramatically. Among other changes, we have also seen the beginnings of migration of some tenants from Fort Lauderdale to the Miami CBD."

Demand is likely to remain strong even if an oft-predicted 2019 recession does materialize, he added. "Hopefully, the combination of a more diversified tenant base and more global creditworthy tenants, along with the densification of office space, will mitigate any impact of a potential recession."

"The Miami central business district is supported by strong fundamentals but has recently experienced a marginal uptick in vacancy," said Christopher Dubberly, director of leasing at Transwestern, via email. "We are experiencing historically high rental rates and diversification of the tenant base."

"Congestion is a byproduct of the success of the CBD and has caused a few tenants to look at alternative submarkets (i.e. Coral Gables), but there has not been a significant migration," he said. "The district has been transformed in this real estate cycle and there are few substitutes for a tenant who needs to be downtown (reinsurance firms in Brickell, law firms or financial institutions). They are part of the fabric of the CBD tenancy."