



There's little doubt that Covid-19 cast a blow to office markets nationwide. But unlike other regions, a spate of business relocations could be the lifeline South Florida's office sector needs to bounce back strong.

In most U.S. metropolitan areas, office has been a dicey investment prospect, as experts fret over how much remote work will impact existing occupancy. South Florida isn't immune to that concern. But some industry insiders are bullish on the region's office market as companies, especially those in technology and financial services, flock to the region in record numbers.

The big question is whether these moves will make up for the hits to the office market during the pandemic. If so, this could lead to developers spending hundreds of millions of dollars on office construction and renovations to capture premier tenants.

Office occupancy declined throughout the tri-county region during Covid-19 as companies closed and downsized, and leasing activity stalled for much of 2020. Even at the end of the first quarter of 2021, the office vacancy rates remained significantly higher than they were 12 months earlier, according to statistics from both JLL and Colliers.

Vacancy rates will fall, as the amount of deals in the pipeline from relocations is the biggest he's witnessed during his career, said [Stephen Rutchik](#), executive managing director of the office sector for Colliers in South Florida. Some of those

companies leased space on Miami's Brickell Avenue in the \$80s per square foot, whereas 2020's top rents were in the \$60s, he said. That's high for South Florida, but much less expensive than New York or Boston.

"The number of financial service firms and family offices coming from the Northeast and West Coast is driving the bulk of our daily activity," Rutchik said. "The leading indicator is the residential market. We see many of the big names out there buying houses here, and we see them the same week or the next week touring the market for office space."

With Covid-19 vaccines widely available, more companies are bringing workers back to their offices. However, not all businesses will need as much space because more employees will work remotely.

Jeffrey R. Margolis, a partner at Berger Singerman and co-manager of its real estate practice, said the law firm has reduced the space it will lease in the new Main Olas Building in Fort Lauderdale. It's going from 25,000 square feet in its current office to 18,000 square feet there. The law firm was originally going to take a full floor, or just over 25,000 square feet, at Main Las Olas.

"We were able to cut some square footage because there are people we think are going to be working from home more and not need permanent office space," Margolis said.

Magnet for new tenants

South Florida has attracted solid corporate relocations and new regional offices this past year, but experts say an even bigger wave of big tenants is about to flood the market. Prominent companies, such as Goldman Sachs and Microsoft, reportedly have deals in place, but aren't ready to announce them yet.

Miami-based Related Group is best known for luxury condominiums, but office space is becoming a bigger part of its development strategy due to demand, President [Jon Paul Pérez](#) said. The company fully leased the extra office space in its new headquarters building in Coconut Grove and filled the new Annex office building in Wynwood with new-to-market tenants including D1 Capital and Founders Fund. Now, it's fast-tracking another office building as part of a mixed-use project in Wynwood, and it's in discussions with a single tenant that could lease the entire 140,000-square-foot office building Related is planning on Terminal Island in Miami Beach, he said.

"I thought I made the wrong decision pre-Covid because it was only Live Nation in [the Annex] and it was quiet," Pérez said. "But now we are looking to build more office."

As the Related Group seeks opportunities to build office, location and amenities will be key, VP [Nicholas Pérez](#) said. Executives want to be near their homes and great schools, and have access to fitness centers, private elevators and outdoor spaces.

Once Related's Coconut Grove office filled up, many tenants looking for space there shifted their interest to his office building at 3480 Main Highway, said [Raoul Thomas](#), CEO of Miami-based CGI Merchant Group. CGI bought the building during the pandemic with 25% of the space available. It's now fully leased with rents 15% higher than expected when he purchased it last year, Thomas said.

Tenants from the Northeast are signing longer leases than most South Florida companies and spending more on office interior improvements. He's signed over 10 out-of-market financial firms to deals in Coconut Grove and Coral Gables.

"We bought 300,000 square feet of conventional space over the past two years and we've taken massive advantage of that," Thomas said. "I wish I had more office properties now."

New York-based Related Cos. found tremendous traction leasing office space in West Palm Beach over the past six months, said [Gopal Rajegowda](#), managing partner for the Southeast. Its new 360 Rosemary building has leased 95% of its 300,000 square feet. It plans to break ground on One Flagler, another 300,000-square-foot office, in October because demand has been strong. Most tenants are companies from the Northeast and Midwest.

The companies are choosing West Palm Beach because it's near the town of Palm Beach, where many wealthy executives buy homes, and its access to the Brightline passenger rail and the airport, he added.

"A lot of these companies were looking pre-Covid, but during Covid it accelerated the discussions and they were willing to do transactions," Rajegowda said. "Many of them are setting up satellite offices. They aren't fully moving here."

Many big tenants looking for space in South Florida haven't signed deals yet, but they should by year-end, said [Tere Blanca](#), CEO of Miami-based brokerage Blanca Commercial Real Estate. Those companies are mostly looking for Class A space with great amenities. Class B buildings that haven't been upgraded in years could miss out on the new tenants and lag in occupancy and rent growth, she added.

Blanca has the top three floors of the new Optima Onyx Tower in Hallandale Beach leased, and is in talks for more of the space. [Ariel Bromberg](#), a co-

developer of the building, said amenities such as a pool and a gym will make employees want to come to work, rather than work from home.

Still, landlords don't necessarily need new buildings to attract premier tenants. [Mukang Cho](#), CEO of Boca Raton-based Morning Calm Management, recently completed major renovations to the office at 205 Datura St. in West Palm Beach, introducing indoor and outdoor meeting spaces, and signed new tenants in technology, private equity and a hedge fund. Companies have found employees don't want to live in costly cities like New York, so they need an outpost elsewhere.

"Companies are going where the talent is," Cho said. "In most states around the country, the office market is out of favor. But in places like Florida and Texas, it's highly competitive."

Companies rethink office needs

Experts are divided on whether the post-pandemic world will mean companies use more or less office space over the long term. But it's clear that remote work has impacted how offices are used.

A study by the University of Chicago's Becker Friedman Institute for Economics found 21% of post-pandemic work will be from home, compared to just 5% before Covid-19. Many employees say they'll even take a pay cut to work from home.

[Nicole Anderson](#), owner and CEO of West Palm Beach-based human resources firm Mend LLC, said more clients are now considering a shift to remote operations or downsizing their office space. Some have opted for 600-square-foot mini offices so remote employees can drop by for meetings.

"Most are rethinking their offices because they have been remote this whole time and realized they can perform effectively," Anderson said. "Especially with how bad Covid impacted small businesses, if we can cut costs on office space, but keep our employees, we are going to do it."

Many companies are right-sizing their office space to reflect a partially remote workforce, but also creating larger workstations for employees and keeping a little extra space in case there's a rebound in in-office work, said [Matthew Goodman](#), a managing director with JLL in Miami who specializes in tenant representation. The net effect is a smaller office footprint, but companies want to be flexible in case new hires prefer to work in the office.

That will lead to more available office space as companies contract, but Goodman is confident it will be filled by relocating businesses.

At Boca Raton-based CP Group, one of the largest office building owners in Florida, there hasn't been a significant trend of tenants downsizing due to remote work, Managing Partner [Angelo Bianco](#) said. There has been uncertainty about how they'll use space in the future, which led to some renewed short-term leases.

"At the beginning of this, I was very concerned. But now I'm less concerned," Bianco said. "Younger employees, in particular, really want to be back in the office. They are learning and being ambitious. Being part of the firm's philosophy and culture is really important to them."

Also, just because a company allows remote work doesn't mean it will reduce its office space.

Modernizing Medicine has kept all of its space at CP Group's Boca Raton Innovation Campus. [Daniel Cane](#), CEO of the electronic medical records company, said it will maintain flexibility so employees can work from home and personalize their schedules. The company will pivot to a hybrid model with hotel-style office spaces for employees switching between remote and in-office work more regularly.

Certain types of businesses, such as call centers and law firms, are more likely to downsize because the pandemic proved many of their job functions can be handled remotely, said [Stephen Bittel](#), chairman of Miami Beach-based commercial real estate firm Terranova. Clients are less likely to visit law offices now because they see meetings can be handled well remotely. Yet, Terranova remains bullish on the South Florida office market and hopes to purchase another building in Coral Gables due to relocations from the Northeast.

"We could hardly have written a better headline for what is going on in South Florida than what is happening," Bittel said.

Coworking looks to capitalize

Relocations and hybrid work models could both be huge wins for local coworking centers.

WeWork's Miami locations have boasted increased occupancy, as they benefited from relocations and businesses opening satellite offices, said [Errol Williams](#), VP of the coworking company's Atlantic region.

"Instead of having a single space, companies are embracing a hybrid approach," he said. "Companies are ready to come back and work, but they don't want a traditional space."

Coworking fits the hybrid model well because it supports those who work full time in the office and hybrid workers, Williams said. If all employees show up at once, WeWork can rent out conference rooms. Companies can also expand rather quickly, he added.

Pipeline Workspaces co-founder and CEO [Philippe Houdard](#) said he was initially concerned the pandemic would hurt his coworking centers. Instead, occupancy was above 95% in several locations, he said. He's benefited from executives moving to South Florida and companies that find coworking convenient for hybrid workers.

Thomas said CGI Merchant Group's Nexus Workspaces executive suites business has benefited from companies choosing a decentralized work model. For example, companies based in Miami can host employees who live in Broward or Palm Beach counties in Nexus' suburban locations closer to home to avoid long commutes, he added.

That trend boosted revenue at Nexus to record levels in the second half of 2020, he said.

"This recovery was a lot faster than anybody expected," he added.