

From the South Florida Business Journal:

<https://www.bizjournals.com/southflorida/news/2019/03/08/s-fla-office-construction-reaches-high.html>

Real Estate Journal

## Cover Story: South Florida office construction reaches post-recession high

Mar 8, 2019, 6:27am EST

Subscriber-Only Article Preview | For full site access: [Subscribe Now](#)

The amount of office space under construction in South Florida has reached a level not seen since before the last recession 10 years ago, and a trio of billionaires could make those numbers rise even higher.

After years of multifamily and retail construction across South Florida, especially in downtown areas, the office market is finally catching up and keeping contractors busy. The slowdown in the condo market, plus concerns about the future of shopping centers, caused some developers to switch strategies in favor of office.

The trend could provide office tenants relief from the spike in rental rates they've shouldered in recent years. But it also creates modern office buildings that economic development agencies can use to recruit companies to the area. For owners of existing buildings, the pressure is on to renovate spaces to avoid losing tenants.

However, some brokerages have found that vacancy rates increased in parts of South Florida, and a few new-to-market buildings have been slow to secure tenants. Despite the region's strong employment growth, companies are still looking to downsize office space to house those workers.

Blanca Commercial Real Estate CEO [Tere Blanca](#) said she's received many calls from land owners with mixed-use projects in the works who want to reposition them as offices because "the multifamily rental and condo cycles are at the bottom."

The River Landing mixed-use project in Miami cut some of its retail space and added 135,000 square feet of offices to its top floors. Andrew Hellinger, a principal with co-developer Urban X Group, said the office vacancy rate in the Health District was virtually zero, and office rental rates would be as lucrative as retail rates.

According to Colliers International South Florida, there were 4.04 million square feet of office space under construction in the tri-county region in the fourth quarter, up from 2.77 million square feet a year ago. An



JOCK FISTICK/SOUTH FLORIDA BUSINESS JOURNAL  
Camilo Lopez, managing director of TSG Group, at Ofizzina, a new office building in Coral Gables.

additional 14.3 million square feet of office space is planned, Colliers said.

Three billionaire developers on the planning list – Stephen Ross of the Related Cos., [Jeff Greene](#) and [Vladislav Doronin](#) of OKO Group – appear to be aggressively moving forward on large office towers this year.

“We thought there was a lot coming online in Coconut Grove and [Coral] Gables, and the market proved it could absorb it pretty quickly without any real hiccups,” said [Steven Hurwitz](#), executive VP and director of office services at Colliers. “There is so much excitement and positive activity in South Florida that we’ve got a lot of runway left to absorb the amount of projects coming online.”

### **Brokers differ on absorption rate**

Leading commercial brokerages differ on whether there’s been recent positive or negative absorption of office space in South Florida, but most agree that workplace trends have made space harder to fill.

CBRE found positive net absorption of office space in all three counties, with a combined 960,000 square feet during 2018. Over the past five years, there’s been a net 8.4 million square feet of office space filled, with just 2.1 million square feet constructed, so it’s high time for more office buildings, said [José Lobón](#), executive VP of CBRE in Miami. Yet, many of the proposed buildings won’t move forward because securing big tenants through preleasing remains difficult, he added.

A Newmark Knight Frank report said South Florida’s office market cooled in 2018. The positive net absorption of 337,000 square feet was far below the prior year, and the vacancy rate increased as new buildings were completed. [Lance Benson](#), executive managing director of NKF, said the lack of supply in certain markets, such as Miami’s Brickell, has led to higher rents and warrants new construction. Some companies are moving from suburban locations to smaller offices in urban areas, where it’s easier to attract employees, despite the higher rents, he said.

JLL recorded negative absorption of 847,000 square feet of office in South Florida in 2018. [Matthew Goodman](#), managing director of JLL in Miami, said many tenants are “right-sizing” space to become more efficient. That means they’re using less square footage per employee, often with new office designs. More employees are also working remotely.

Law firms and big corporations have been especially active in right-sizing space, but that trend might be nearing an end, Lobón said. A CBRE study found that 82 percent of law firms in downtown Miami had recently finished right-sizing their space, so he expects absorption to pick up.

Blanca isn’t concerned about filling the new construction. Of the 330,000 square feet of offices on track for delivery in the Miami area in 2019, about 100,000 square feet are already preleased, she said.

“The deal cycle has become longer than we have seen historically in Miami,” Blanca said. “Major corporations have a tendency to start the process early for large transactions. A deal can take 12, 18 or 24 months.”

### **Facing the competition**

Owners of existing office buildings aren’t ready to watch prized tenants bolt for new buildings with high ceilings, spacious floor plans and fitness centers. Many are upgrading their spaces, hoping to ride the wave of surging rents.

Boca Raton-based Crocker Partners has followed the strategy of acquiring older office buildings and funding major upgrades to draw tenants and increase rents. Older office buildings often have the best locations and views in the city, an advantage that new buildings can rarely replicate, said [Brett Reese](#), senior VP and asset manager at Crocker, which owns 10 South Florida office buildings for a combined 5.7 million square feet.

In many of its buildings, Crocker added a gym, conference center, and a food and beverage vendor, Reese said.

"Everybody wants the new, shiny building," he said. "That is why we are renovating. Tenants are willing to pay for quality."

At the Boca Raton Innovation Campus, Crocker turned vacant space into amenities for tenants, and now it's near full occupancy, he said. In dealing with empty space at the Citigroup Center in downtown Miami, Crocker created turnkey suites from 1,500 to 4,000 square feet ready for quick occupancy on short-term leases, which increased the leasing velocity, he said.

After a major renovation at 100 Biscayne in Miami, rent has increased from the low \$30s per square foot to the low \$40s, and 70,000 square feet in leases were signed in 2018, said [Jonathon Yormak](#), managing principal of building owner East End Capital.

"These tenants are looking for a more modern product," he said. "The older stock of building is not where the demand is."

---

### Urban areas target of office boom

Much of the new office construction is taking place in core urban markets, as opposed to the suburbs. However, there are some nontraditional office markets emerging, such as Miami's Wynwood. Here's a look at some of the booming office construction markets:

#### Coral Gables

TSG recently finished its **Ofizzina** office condominium, a 98,000-square-foot building with a spa, showers, massage room, laundry concierge and rooftop terraces. TSG Managing Partner Camilo Lopez said he inked \$55 million in sales, or about 82 percent of the building. Many of the buyers were family wealth offices, financial firms and lawyers, he said. For the remaining inventory, TSG is building out interior spaces to lease.

Agave Ponce is building the **Plaza Coral Gables** with 289,998 square feet of office in its first phase, in addition to retail, apartments and a hotel.

"We have seen the appetite for Class A office space in Coral Gables," said Greg Swartz, executive asset manager with Agave Ponce, which also owns 396 Alhambra Circle. "That factored into the design for the Plaza with larger floor plates, which are super-efficient for companies that want full floors."

#### Fort Lauderdale

Stiles Corp. and Shorenstein Properties are building 357,000 square feet of offices at **The Main Las Olas**, the first new major downtown office tower in a decade. Preleases from Akerman, Berger Singerman and BBX Capital Corp. helped secure the construction loan.

Preleasing is a challenge because most companies won't consider their space needs more than 18 months out, and The Main Las Olas will deliver in late 2021, Stiles Realty President Paul Marko said. Yet, buildings designed with open floor plans, larger windows and big amenity spaces will draw tenants from older buildings, he said.

## Brickell

OKO Group, led by billionaire Vladislav Doronin, and Cain International plan to build more than 500,000 square feet of offices at **830 Brickell Plaza**, according to a Miami broker familiar with the project. The developers received a major boost from WeWork's 146,000-square-foot prelease in the proposed 56-story tower.

Miami is a tough market for preleases, and construction will take about three years, so the developers hope to start work this year, the broker said. By the time it opens in 2022, he envisions rents at about \$70 a square foot.

## Wynwood

The first two Class A office buildings – **Wynwood Garage** and **Cube** – were recently delivered in this trendy Miami arts district. The **Annex** and **545wyn** are under construction, and another two are proposed. So far, co-working has been the dominant tenant, with leases by WeWork at Wynwood Garage and Spaces at Cube.

East End Capital Managing Principal Jonathon Yormak doesn't have any leases to announce yet for the Annex building he's co-developing with the Related Group. The 60,000-square-foot office is weeks away from completion.

"It's a little bit like lemmings," he said. "Once you see the first commitment or two and the quality of who that is, it will be a domino effect and you will hear a lot of news very quickly."

High asking rates have held back lease deals in Wynwood, where some developers seek Brickell-level rents, Loeb said.

## Coconut Grove

**Mary Street**, **One Cocowalk** and the **Optimum** are office buildings under construction in Miami's Coconut Grove. One Cocowalk is 50 percent leased thanks to co-working firm Spaces, and Mary Street is essentially full, with CPA and advisory firm Kaufman Rossin moving there.

Office space is so tight in Coconut Grove that landlords hold all the cards in raising rents, and new buildings are filling up quickly, said Hensley Loeb, director of research at JLL.

## West Palm Beach

Palm Beach billionaire Jeff Greene started site work in fall 2018 on **One West Palm**, a mixed-use project with 200,000 square feet of offices and resort-style amenities. At 426 feet, it'll be the tallest building in Palm Beach County.

Greene, who has yet to announce preleases, said he's self-funding the \$300 million project.

Meanwhile, the Related Cos., led by billionaire Stephen M. Ross, plans to break ground on its 297,000-square-foot **360 Rosemary** office at CityPlace in three to six months, Senior VP Gopal Rajegowda said. Due

to its location near the Brightline rail station, higher ceilings and advanced technology, he said the building will have a leg up on older offices in town.

“Tenants who want to be in South Florida are going to other cities [because] the Class A office [here] is 98 percent occupied,” Rajegowda said. “With this building, there will be a huge opportunity for us to capture those businesses.”

---

### **BY THE NUMBERS: Other office buildings under construction in South Florida**

- **The Edison I**, Pembroke Pines: 165,000 square feet
- **Optima Plaza North**, Hallandale Beach: 334,227 square feet
- **DiVosta Towers**, Palm Beach Gardens: 220,000 square feet
- **850 LeJeune**, Miami Airport: 200,000 square feet
- **Ivory 214**, Aventura: 104,544 square feet
- **Milton Tower**, Sunny Isles Beach: 102,287 square feet
- **Forum Park**, Aventura: 102,000 square feet

*Source: Colliers International South Florida*

#### **Brian Bandell**

Senior Reporter

*South Florida Business Journal*

