



Miami's Small, Boutique Office Market Could Be Coronavirus-Resistant

April 15, 2020 Deirdra Funcheon, Bisnow South Florida

The year was off to a sweet start for the Miami office market: 100K SF of positive absorption focused in downtown Miami and Brickell, much of that driven by move-ins of WeWork and Industrious, according to JLL.



Icahn Enterprises moved into the penthouse in the new Milton Tower trophy office property in Sunny Isles Beach. The average direct asking rent market-wide was \$43.78 per SF. Three Miami submarkets were named among the 100 most expensive in the country last year.

"Year-over-year, compared to what was happening in early first quarter last year, there was about a 30% increase in activity," said Tere Blanca, whose Blanca Commercial

Real Estate handles about 30% of local office leasing transactions. "It seemed like the market was on fire."

Then came the coronavirus. Now, local experts are predicting how the office market will be impacted both short- and long-term. And they are generally optimistic.

"There's not going to be any loss of office demand [long-term]," Crocker Partners Managing Partner Angelo Bianco said.

"If anything, working from home has proven the incredible importance of having an office," he said. "I imagine it's going to put positive pressure on rents, because people will do anything they can to get back in the office."

One thing Miami has going for it is tight inventory, Blanca said. In a two-year period during the Great Recession, 2M SF of new office space flooded the market. That's not the case now, she said.

The biggest project to watch would be 830 Brickell, a 57-story, under-construction downtown tower, where the anchor tenant is slated to be WeWork with 146K SF. But it would seem well-positioned: The developer is Russian billionaire Vladislav Doronin's OKO Group, along with Cain International, and it is not slated to be finished until sometime next year. Michael Dell's MSD Partners provided \$300M in construction financing.

Asked whether the coronavirus was affecting its plans, a spokesperson for OKO Group said in a statement that Miami remains very attractive and has among the lowest numbers of COVID-19 cases across major U.S. cities.

"We are continuing to build 830 Brickell, while following all guidelines and heightened safety protocols set forth by the city of Miami," the spokesperson said.

Most other buildings are smaller and "for the most part very strong," Blanca said. "All the ones we represent are very strong, generational or cash-rich owners that are in a good place."

Brown Harris Stevens Miami President Phil Gutman also said tight inventory is good for the market. He thinks small, boutique buildings will benefit as companies downsize their real estate needs.

"New York City has 450M SF of office space," he said. "Miami only has 45M."



Brown Harris Stevens Miami President Phil Gutman

Bianco believes that people will be risk-averse for about six months. Whether and how the coronavirus would affect pricing of assets beyond that would probably depend upon the rent roll of any particular building, he said. "We had many deals, over \$500M of transaction activity either on the buy side or the sell side" that were in the works before the coronavirus hit the U.S. with force last month, said Bianco, whose portfolio includes 11M SF of office space. All of those deals froze.

But he was grateful, since office is in a far better position than retail or hospitality. Crocker, which typically leases up buildings and sells them to institutional investors, has a tenant mix that is well-positioned to weather the economic storm — about 90% of rents were paid in April, Bianco said. Crocker hasn't laid off a single one of its 175 employees and is offering them indefinite medical leave. "You only have one time to do the right thing," he said. "There is no do-over."

Miami is the city with the second-highest concentration of coworking per SF behind New York City, according to Yardi Matrix, and it could be hit hard by small businesses folding. Bianco said some coworking operators were destined to fail anyway.

"Companies like WeWork and others cannot survive over the long term because there's a misalignment in assets and liabilities," he said. "It's a failed business model."

He predicted that landlords will continue to offer coworking directly as an option in buildings, and that operators like Industrious, which is more of a management company, will do well.

Blanca was more cautious than Bianco, saying tenants who had a pressing need for space or whose leases were about to expire did close deals in the past month, but clients who had a year or more to secure space were pausing their searches.

"I don't think there's any company of any size that's not currently sitting back and thinking, 'What do I need to address as we get back to work? From the corporate environment to employee safety?" Blanca said. "Landlords are thinking, 'What do we need to do operationally, from infrastructure to security systems, so that our property is a place employees and employers feel safe coming back to?'"

Large companies are assessing to what degree they can keep employees working remotely, and whether to downsize, she said. For safety reasons, companies are looking at spreading out employee seating and getting rid of couches and benches that encourage close contact.

"Densities adopted this past decade were pretty insane in terms of proximity to each other in the workplace," Blanca said.

Gutman represents Ofizzina, a new Class-A office condo building in Coral Gables, which only has seven of 54 units left to sell. There are only about 18 such projects in the market, he said. Office rents in Coral Gables have been about \$47 per SF and the vacancy rate sits around 9%.

Some buyers of Ofizzina's units are firms that are choosing to own their office space. But office-condo spaces are also attractive to investors, Gutman said.

"This is a safer, tangible asset, rather than putting money into the stock market," Gutman said.

During the real estate boom of the past decade, luxury condos were thought to be a better investment than offices as properties that could be easily rented or flipped.

But with a lot of residential inventory having come on the market, "as soon as you close, there are 47 units for sale and rent that are very similar," Gutman said. "A lot of people woke up to a reality check."