THE REAL DEAL
SOUTH FLORIDA REAL ESTATE NEWS

South Florida office landlords are offering sweeteners to lure tenants amid the pandemic

Brokers cite concessions that were unthinkable pre-pandemic

By Wade Millward
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Javier Lopez and 2525 Ponce de Leon Boulevard, Coral Gables

As the date approached to renew their office lease in Coral Gables, Javier Lopez and his partners at the Kozyak Tropin & Throckmorton law firm contemplated negotiating tactics.

To improve the office ambiance and make employees feel welcome when they return from remote working, Lopez envisioned new furniture, more offices rather than cubicles, a small gym with showers for employees, and studio space outfitted for Zoom calls with clients and judges.

With help from the landlord, that vision is becoming reality.

"Not many businesses are willing and able to sign an 11-year, 22,000-square-foot lease right now," said Lopez, 39, who took over earlier this year as the firm's youngest managing partner. "And we are very optimistic for our firm's future."

In South Florida, where office rents have not been squeezed as much as in other areas amid Covid-19, incentives are abounding. Brokers cite concessions that were unthinkable pre-pandemic, such as one-to-two-year leases, more funding to improve tenant spaces and more generous rent abatements.

An influx of companies from other states exploring office space, coupled with the continued lack of available space, emboldens landlords to keep rents consistent despite the current economic landscape, brokers say.

Kevin Gonzalez, a vice president at CBRE's Miami office, said his team has seen prospective office tenants asking for 510,000 square feet during the pandemic, roughly the same amount of square footage signed in total in the last three years for new-to-market deals.

At the same time, brokers say landlords are wary of reducing their asking rates, for fear they won't be able to get back to record highs once the office market regains its strength.

"It's a lot easier to get back a 5 [percent] to 10 percent decrease, than a 60 percent decrease," said Jonathan Kingsley, executive managing director of office services at Colliers International's Fort Lauderdale office.

South Florida's third quarter office vacancy rates were generally higher than in New York and Los Angeles, due in part to large deliveries of new space in Miami and West Palm Beach, according to a JLL report. Miami's vacancy rate was 17.3 percent, Fort Lauderdale's was 13.9 percent and West Palm Beach's was 15.6 percent. That compares to 9.6 percent in New York and 15 percent in Los Angeles.

Still, in the third quarter, concessions and other negotiating tactics allowed average office asking rents in South Florida to hit new highs, despite the record office vacancy rates across the tri-county area, according to a Colliers International report.

Miami-Dade County had the region's highest average asking rate in the quarter, at $41.68 per square foot. Broward had the lowest average asking rent, at $33.59 per square foot.

Incentives are helping, brokers say.

Before the pandemic, leases under three years in South Florida were rare. If a tenant negotiated an allowance to improve the office, a landlord might have allotted $70 a square foot in a class A building — provided the tenant signed a 10-year lease to allow time for the landlord to recoup that expense, said Ken Morris, managing principal of Sunrise-based Morris Southeast Group.

And while a landlord may have allowed a half-month of free rent for every year on a lease signed before the pandemic, Morris has seen some landlords revert to one month for every year on the lease, something he hasn't seen since the Great Recession.

"It's still anybody's guess how long this is going to last," he said.

According to JLL's third quarter report, 15 of the largest metro areas in the country saw average office rents drop by more than 1 percent from the second quarter to the third quarter. Only six metro areas saw office rents rise more than 1 percent during that time.

Miami was among the 30-plus metro areas that saw office rents stay relatively level, with a 0.6 percent increase in average rents. Fort Lauderdale ranked No. 3 in the country for highest rate increase, at 2 percent, reaching $36.31 per square foot, according to JLL. Nashville ranked first with 2.7 percent growth, and St. Louis ranked No. 2 with a 2.1 percent increase.

Meanwhile, subleasing has grown nationwide. Kingsley of Colliers said his team handled three subleases last year, and has had 12 this year due to Covid-19. In Fort Lauderdale, the difference between subleasing rents and direct asking rents can be as much as $11.75 a square foot, one of the highest differences in the country, according to the JLL report.

The current climate is forcing landlords to think creatively about what to do with vacated space, Kingsley added, citing a client that may fill about 20,000 square feet of vacated office space with a co-working brand. Another might add a small clinic on the ground floor for rapid Covid-19 testing to help make workers feel more comfortable about returning to their offices.

Tenants are also expressing more interest in low- to mid-rise buildings in the suburbs where they won't have to ride an elevator or maneuver a crowded lobby area, and spend less time commuting, Kingsley said.

Still, South Florida's office market's future remains uncertain, Morris said. Even if employees are itching to leave their homes and return to the cubicle, companies should consider the savings of a reduced office footprint. One of his clients went from 13,000 square feet to 10,000 square feet on a $30 per square foot lease for seven years, saving more than $500,000 in overhead.

"When it comes to a lease deal, it's just math," he said.

Kozyak Tropin, the law firm that signed a lease renewal amid Covid-19, closed its offices for three months at the start of the pandemic. Now, about a third of the firm's 60 employees — 30 staffers, 30 lawyers — are voluntarily coming into the office, said Lopez, who has been with the firm for nine years. The law firm has occupied its offices in 2525 Ponce de Leon for about 20 years, he said.

While law firms are sometimes seen as behind the times, with an emphasis on faxes and in-person meetings, improved digital technologies have reduced the size of office libraries. The adoption of teleconferencing is now continuing to reshape office space.

Lopez expects permitting for the new office to last three months with buildout taking at least another six months. He may even consider employee requests for an in-office daycare — useful for the four Kozyak employees expecting children since the start of the pandemic.