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Office space debate: downtown vs. outskirts

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When the economy was riding high, companies could pick their office space based on "location, location, location." In today's economic climate, though, that mantra is being challenged by another: "cost, cost, cost." Growing concerns over the bottom line have businesses reassessing whether a pricey downtown location is essential, or whether it is a luxury that can be avoided.

TrèsKoi Public Relations, for instance, considered space in downtown Miami or South Beach, but ultimately settled on The Bank building at Northeast 81st Street and Biscayne Boulevard.

"For a while we were torn on being in the mix of things due to the nature of our business," said principal Alexis Knapp. But the space is half the price of a more downtown location. "One of the worst things young businesses do is get sold on having a lively office space, and as a result pay a fortune," Knapp said.

Class A buildings in Miami's central business district averaged \$43.77 a square foot in the first quarter of this year, versus \$35.46 in noncentral areas of Miami-Dade, according to real estate services firm Cushman & Wakefield. In Broward, Class A rents in downtown Fort Lauderdale averaged \$33.49 a square foot, versus \$31.89 in other locations, the company reported.

"A 10,000-square-foot tenant can easily save over \$10 per square foot in rent, plus another \$5 to \$10 a square foot in parking fees. You can easily save \$200,000 a year by relocating your offices to the suburbs," said Dan Heisler, vice president of Adler Realty Services, which owns and manages properties in the Airport West area of Miami, including Office Park at Miami International Commerce Center.

Even small companies can see significant savings by moving away from downtown areas, and their moving costs are typically lower than those of larger companies. Atlantis Development, for instance, recently moved its four-person, 900-square-foot office from downtown Miami to Coral Way in order to save money in rent and parking.

"Parking kills you down there," said Andy Simon, one of Atlantis' principals. He said that visitors "could never find parking, and they'd end up spending \$10 or \$20 to park and not wanting to come in after a while."

But it's not just clients who are paying stiff prices for downtown parking. Employees also suffer. It can cost \$60 to \$150 a month per employee or client in a downtown location.

While rent and parking costs are higher in downtown areas, the current global economic downturn has recently given tenants the upper hand in rent negotiations, with property owners worried about them leaving and willing to negotiate on rental rates and concessions. However, those negotiations sometimes aren't enticing enough to keep businesses downtown.

'When the market's doing really well and people are focused on continuing to expand a thriving business, there's a rationale of, 'Why are we going to move?' " said Steven Hurwitz, a senior vice president at Continental Real Estate Cos. But in the current economy, he says "every tenant in this time is re-evaluating and double-checking every line item in their budget."

Besides rent and parking, other downtown costs are also higher. For instance, interior space buildouts tend to cost more in a congested high-rise area, and real estate taxes -- usually passed on to tenants -- are always higher in the downtown cores.

Reese Stigliano, a principal and broker with Berger Commercial Realty Corp. of Fort Lauderdale, thinks that as the economy tightens, more companies will move to suburban markets. "The suburban rental rates have dropped -- they're very aggressive now [and] there's quite a bit of sublease space available," he said.

Cost was the primary reason Northern Trust Bank recently decided to move its back-office operations from Brickell Avenue to Adler Group's Office Park at MICC. Free covered parking and amenities such as an on-site restaurant and health club and a shared tenant conference room made the bank comfortable with the move, said Matt Bittel, who works on leasing the center for Adler.

Just as important for Northern Trust, the Airport West location is convenient for its employees in western Miami-Dade and Broward. Employee access is an important factor in many companies' decisions on where to locate, with some doing ZIP code analysis to map their employees' commuting patterns. Companies also will look at where suppliers and customers are located as they evaluate their options.

Certain executive lifestyle issues also can trump other concerns and lead companies to move out of the downtown core. One often-cited issue is top executives' commutes. "They're rethinking whether they'd like to sit in traffic every morning, whether they need to be in a downtown high rise that takes 20 minutes from the time you park your car until you sit in your office seat," said William Holly of Holly Real Estate, whose company brokers, manages, develops and invests in commercial real estate around South Florida. Holly said commutes are causing some clients to move from downtown locations to offices in Coral Gables or Coconut Grove.

In these outlying areas, clients also are able to buy or lease entire buildings, Holly added. One group is looking at moving to a small, freestanding Class B building in Coral Gables, which will cut the company's rent by 30 percent yet still be close to Coral Gables' downtown amenities.

NOT AN OPTION

Despite the cost savings of moving away from downtown areas, not all companies are convinced that the bottom line should be the deciding factor in where to locate a business.

"We really have not seen, as we did in the last recession, a flight from downtown to the Doral or Airport West area," Holly said.

According to industry experts, many companies would never consider locating anywhere other than downtown Miami, Brickell, Coral Gables or Fort Lauderdale. Other firms that assessed their options have decided a downtown location is best, despite the added cost.

A prime example of this dedication to downtown is auto retail giant AutoNation, whose lease for its downtown Fort Lauderdale digs expires in 2010. It decided to stay downtown and will move just a few buildings over to 200 Las Olas Cir. The 105,000-square-foot lease for space in a building owned by Fort Lauderdale-based Stiles Corp. was one of Broward County's largest lease transactions when it was signed

late last year.

Companies not fleeing downtown areas have many reasons to stay. They may need to be near government offices, clients or business partners. For example, law firms often need easy access to the courthouses in downtown Miami and Fort Lauderdale, said Stiles President Doug Eagon. They also need to interact with other law firms frequently, so being close to them is important. The same can be said for accountants, financial planners and a variety of other business professionals.

Besides needing to be close to business partners, more accidental meetings occur in densely packed downtowns. "When you walk down the street, you run into people when you go to lunch . . . and you can conduct business in a very casual environment," said Alyce Robertson, executive director of the Miami Downtown Development Authority. "There's 190,000 people a day that come into downtown and Brickell. There's no way you can replace that synergy."

Finally, companies may feel they need the higher-end image of a downtown address.

"People locate on Brickell because of the name, the identification. It's more prestigious," said Michael Taylor, director of real estate for Miami-Dade County for Stiles. He manages 800 Brickell Avenue, which last year signed 85,000 square feet of leases with companies including TotalBank, Banco do Brasil and advertising agency Canil Saatchi.

FUTURE TRENDS

Some commercial real estate experts are even predicting that more companies will eventually be relocating into downtowns in the coming years, reflecting a larger trend of moving inwards.

While most in the industry believe rental rates in downtown Fort Lauderdale are as low as they're going to get, some expect rates will fall even further in downtown Miami during the next six months, as three massive buildings under construction get closer to completion. While it will still be more expensive to be in a downtown, lower rates could mean more companies will decide to remain downtown. Then when the economy makes a turn in a positive direction, more companies could look at downtowns, some say.

"The movement that started years ago of centralization is still there," said Alex Zylberglait, an associate vice president with Marcus & Millichap in Miami. "I think we're seeing a slowdown because of the economic crisis, but as soon as it goes away, I think we're going to see another wave of interest."

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