

The Weekly Take

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BIENVENIDOS A (WELCOME TO) MIAMI: THE MANY DIMENSIONS OF THE MAGIC CITY'S GROWING APPEAL

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Spencer Levy

I'm Spencer Levy, and this is The Weekly Take. From Billy Joel and Jimmy Buffett to U2 and beyond. More artists have sung about today's topic than I can count to quote the rapper The Fresh Prince for the first time on our air, Welcome to Miami. On this episode, I'm joined by a pair of Florida natives and Sun Belt real estate experts to sing the praises of a city that right now is perhaps the hottest destination on the map.

Allen de Olazarra

A good climate matters. We've also got the benefit of geography. It's an international city. It's a gateway city.

Spencer Levy

That's Allen de Olazarra, the chief operating officer of Parkway Properties. Allen's, a Miami native more than 20 years ago, became one of the very first clients of my real estate career. Today, his company manages more than 22 million square feet of assets, including a little over \$5 billion invested across the Sun Belt.

Shay Pope

COVID really, I think, accelerated the change by which people were making decisions around their professional lives or personal lives, where they lived, what was most important to them and really looking at South Florida and why it made sense to be here.

Spencer Levy

And that's Shay Pope, a senior vice president at CBRE, calling in from his office in Miami. Shay hails from West Palm Beach, graduated as a gator from the University of Florida and has worked with a host of occupiers across the southeast region, including our guest, during his 20 year career. We'll discuss how and why Miami is doing so well coming out of the pandemic, attracting new companies and investment. We'll talk about its diverse cultural identity and the development of a financial district that's been called the Wall Street of the South. We'll take a historical view and also look at Miami's emerging future as a tech hub, and what it means to be one of the most international cities in the world. On this episode, a Miami sound machine, a conversation about a real estate bright spot that also happens to be one of my favorite cities on the planet. That's right now on The Weekly Take.

Spencer Levy

Welcome to The Weekly Take, and this week we're going to be talking about Miami, perhaps the hottest real estate market in America today, certainly accelerated by the COVID crisis, but was doing well before. And to be honest with you, if I had my druthers, I'd be doing this interview right now in Little Havana with a cup of Cuban coffee in my hand, about to have a mojito at The Ball and Chain. But unfortunately, The Ball and Chain hasn't opened yet from the pandemic. But Allen, you've been in this market now for 40 years. What's different today about Miami that makes it so attractive?

Allen de Olazarra

Spencer, I don't think there's anything meaningfully different today than there was 40 years ago. That's my personal view. I think it's more an awareness, perhaps. But the baseline characteristics that Miami has, you know, it had in 2010 and 2000 and 1990 and 1980. Let's start with the weather, right? I mean, Miami is blessed with a subtropical climate that nine or 10 months out of the year, one of the most pleasing climates anywhere in America. And you know, a good climate matters. We've also got the benefit of geography. It's an international city. It's a gateway city. And as a practical matter, it's the gateway to Central, South America, Latin America and the Caribbean. For a long time, perhaps a well-kept secret for many. There has clearly been an acceleration in the last two years, somewhat precipitated by the pandemic. But these are things that have been going on for a long time.

Spencer Levy

So Shay, what's your perspective? Why does Miami seem to have gotten more attractive during the pandemic -- we're not quite out of it yet -- and what's driving that?

Shay Pope

I tend to agree with Allen in many respects. I moved here about twenty two years ago, and Miami was at that point in time, really still a dynamic, exciting, energetic city. The view of Miami as a multicultural gateway city that has a very broad talent base, it was somewhat under the radar screen to a certain degree and when people started to really dive into the talent base that's down here for all the other reasons Allen mentioned. I think that the migration was already happening before COVID hit. It absolutely accelerated. We were seeing some movement from private equity hedge fund technology companies that found that South Florida was a really great place to be. And I have to tell you for being here for as long as I have, it's you look at it, you say, why wouldn't you want to be in Miami or even South Florida, for that matter? COVID, I think, accelerated the change by which people were making decisions around their professional lives or personal lives, where they lived, what was most important to them and really looking at South Florida and why it made sense to be here.

Spencer Levy

Let's dig a little bit deeper into the Miami market and maybe get a little granular on submarket. Some of the fun places I go are Little Havana, Wynwood, some of the out of the Central Business District areas, but even some of those areas now are seeing more development as well. So, Shay, what are some of the submarkets that are seeing the most new activity and what type?

Shay Pope

Well, you know, Brickell, which is our financial district -- Wall Street in the South, as they call it -- is by far the most dynamic environment right now in terms of leasing velocity, rent growth, the number of companies that are moving there that are predominantly technology, hedge fund, private equity, asset management-related firms. Brickell is the most dynamic market I've seen in my entire career here in South Florida. And the scale by which rents have grown in a very, very short period of time is at historical highs. But there are other markets that have really started to see substantial growth and a lot of movement, predominantly because of new product that was delivered. By way of example, Coconut Grove has done exceptionally well. All the new developments that have come online there are essentially fully leased, but for a few small pockets of space. The Grove is obviously going through a resurgence of development there, the restaurants that are opening all the quality of life than it is to be in the Grove. It's a really special kind of boutique market that has really, I think, become top of mind for a lot of users across various industries. And then when it comes to, say, emerging markets, markets that people have talked about for a while that didn't necessarily see leasing velocity that people had expected even for COVID. During COVID, I would say more, so call it, within 2021 is Wynwood. Wynwood has done well. There's a lot of product to lease, but there is a substantial amount of demand in the system across various

industries: accounting, finance, tech, media, creative. The number of tenants that are exploring Wynwood or committing to space there is difficult to measure because it's happening so quickly. One other market that, of course, has been on everyone's radar screen in the press as of late is certainly Miami Beach, which has lacked quality office product for many years. Miami Beach is absolutely seeing a resurgence with Starwood's new headquarters. Reportedly that is, if not 100 percent leased, close to being 100 percent leased. You have new development planned in Miami Beach, and there is a lot of activity predominantly within the alternate investment management space for users that are looking at taking larger blocks of space in a market that's been generally tertiary in nature and comprised of smaller tenants.

Spencer Levy

You know, it's interesting. I cover the world. But when I was thinking about Miami before today's interview, I was thinking about Los Angeles. And the reason why I was thinking about Los Angeles was because Los Angeles has its two major business areas, which is Bunker Hill downtown and then the Century City area. But Los Angeles has gotten bigger and it's gotten bigger in the ways that Miami is getting bigger. So I would equate Santa Monica with Miami Beach. I would equate the L.A. Arts District with Wynwood. And seeing exactly the same trends for what I consider exactly the same reasons: live, work, play. People want to work now in some of the cool areas where they used to just play. Allen, what's your perspective?

Allen de Olazarra

Well, I think that's a pretty good analysis. You mentioned L.A. as an example. You've got a strong music scene in L.A. to this day. But, you know, Miami has had a great music scene for decades as well, and you can go back as far as the Bee Gees or KC and the Sunshine Band. I'm dating myself back to the '70s. But let's be clear, those guys grew up in Miami, chose to live and record in Miami, and Miami has to this day, a very, very strong music scene. Spencer, you and Shay both mentioned Wynwood, but you know that arts scene in Wynwood is remarkable. It's historically anchored by Art Basel, but it's grown to so much more than that. We talk a little bit about technology, Spencer mentioned, you know, technology companies taking a hard look at Miami right now. And fair enough, there clearly are some new to market technology companies looking here. But let's not forget that South Florida has had a leading role in technology for a long time. Whether you're talking about pharmaceutical technology and medical technology, you know, Miami has had that going for it for a long, long time. And to the point that we touched on earlier, when you start talking about the ability to attract and retain intellectual capital -- whether it's medical technology, whether it's wealth management, whether it's, you know, you name it -- being in a place that's pleasant to live, right? Great weather. Being in a place where there's lots to do, that whole live work place and you were talking about. But between you and me, I think this is my point from earlier. I think that trend was already in place pre-pandemic. And so when we look at the people that are moving to South Florida, they tend to be people that have accumulated capital or intellectual capital. They're quite well-educated. We're talking about demographic shifting of some of the best and the brightest in America that are choosing Miami. But they're coming from other cities like San Francisco, like New York, like Boston. You know, Miami is a relatively expensive city to live in unless you're coming from one of those cities, in which case it looks like an incredible value proposition. You're paying a fraction of the taxes. You can bring your capital and your intellect to a place where the weather's better. The

cost of living is lower. You're embraced for your diversity and you have an opportunity to flourish. Quite frankly, it's a very, very attractive proposition for many. And I think a lot of people are acting on it.

Spencer Levy

How does the international nature of Miami drive the city?

Allen de Olazarra

That's a great question, Spencer, in my experience for many years, for really probably the first 30 years of my career, Miami was difficult to understand for much of corporate America. It actually operated as an international city, more than a conventional American city, to a point that was uncomfortable for most of corporate America. But let's be clear: ESG issues are front of mind across private companies and particularly public companies around the world, and we have a lot of corporate America that is decidedly not diverse. Right? So for the first time, really in my business career, there is a conscious focus on trying to build diversity into the fabric of a company in ways that are accretive. So in fact, cities like Miami, Atlanta, Houston, Los Angeles, New York that are incredibly diverse are incredibly attractive as places to recruit talent these days. Miami has always been diverse. No change there. But what has changed is a willingness of corporate America to continue expanding its presence in Miami, and by virtue of that take advantage of the diversity that is there to improve the character of their employee base. Quite frankly, we also have a big presence in Houston, and we are seeing decisions being made around that exact same set of value metrics in Houston as we're seeing in Miami.

Shay Pope

To add to that, Spencer, I believe that Miami is probably the number one location for Latin American headquarters anywhere in the U.S. So we have a number of industries that are here where a lot of the Latin American headquarters operate here with the executive team, sales teams and various shared services functions that serve as a hub, if you will, to various operations they have both within South America and Central America.

Spencer Levy

What makes Miami special or more challenging than some of those cities. As I mentioned it's an expensive city. And Allen also talked about ESG, and I agree with Allen completely on the diversity factor. But there is the ESG Plus or the resilience factor that's increasingly coming out from some investors talking about rising tides and flooding in Miami. Shay, what do you say about Miami versus the rest of Florida, touching on some of those issues?

Shay Pope

Well, I think Miami is pretty unique in that regard. From a resiliency standpoint our respective mayors, City of Miami, as well as Miami Beach, are very proactive when it comes to building resiliency, planning for the future, investing capital to protect against what's inevitable in terms of sea level rise. And so I think we really have made some proactive steps in the right direction about protecting ourselves. As far as Miami, relative to other cities within the state, some of its quality of life and the type of environment that people want to reside in. North Florida is markedly different than South Florida, and Miami specifically. There are different types of job opportunities. Different quality of life. Cost of living is certainly a big driver. I think those that are looking for a more dynamic environment with a lot of opportunity to enjoy the outdoors with the beaches, the art scene as out as AI mentioned previously. From an entertainment perspective, we have the Fillmore. We had the symphony. We have New World Center. This is just a very dynamic place where I think a lot of people -- particularly those that are in the younger parts of their career -- want to move to a dynamic place. And Miami out of anywhere in the state of Florida is really at the forefront of that.

Spencer Levy

Maybe I'll turn this question to you, Allen. As far as Parkway Properties you can buy anywhere. You can buy in Texas. You can buy in Florida. Walk me through the investment case for Miami versus the other Florida cities, focusing on Orlando and Tampa.

Allen de Olazarra

Well, again, there's been no real change, in my view, over the last 30 years, 40 years, if you like, in terms of what differentiates those cities. I do think there's going to be some changes coming, but let's talk a little bit about what's out there. So if it was technology related to medicine, pharmaceuticals, computers, that kind of thing, South Florida has been a leader right along. If it was technology related to the death sciences, if you will -- building rockets that can blow somebody up halfway across the world -- interestingly enough, Orlando gets the gold ring there. A little known fact is that during the Cold War and during the space race, America could not get its best and brightest aeronautical engineers and aerospace guys to live in the Cape Canaveral-Titusville area because everybody felt for sure that the Russians had a big red X on the map on top of Cape Canaveral, and one day I was going to drop an atom bomb there. So what they ended up doing was taking the University of Central Florida and kind of discreetly buried one of the top technical infrastructures on the planet on that southeast corner of Orlando and built the Beeline Expressway. And if you look at when the Beeline was built in the late '60s, it goes more or less directly from the University of Central Florida straight over to the Space Coast. And that was before Disney even existed. But the reason was so the scientists could go back and forth in 45 minutes. To this day, there is a technological hub at the University of Central Florida that is unrivaled anywhere in America. Then you jump to Disney for a minute, and what really distinguished them, in addition to the theme

parks was animation. Well, if you take that a step further now and you get into gaming -- gaming is, you know, animation run amok, right? And that gaming industry is anchored in Orlando with Electronic Arts. There's an intersection of technological capability in Orlando that doesn't exist in very many places around the country that continues to engender certain demand. Each city in Florida has got its own idiosyncrasies. You know, Miami is the one that has attracted human capital and actual capital more effectively than the other four key cities in the state.

Spencer Levy

So Shay let me turn to you. How much of South Florida is one market? Is it different markets? And how much is infrastructure helping the case to make it one market?

Shay Pope

Well, having grown up in West Palm and working in Miami when I first entered my career, I can certainly attest to productive employees are usually those that arrive in the office that are relatively happy employees. And being in traffic for an hour and a half does not really yield a great start to the day. So traffic has historically, and even more so today, been obviously an inhibiting factor to recruiting talent -- particularly for those that live in West Palm, but wanted to work in Miami, where there's a lot of job opportunities across various industries. The depth of companies that are in Miami and the job opportunities across different skill sets are certainly deeper here than they are in, say, West Palm Beach, although West Palm Beach has certainly experienced its own growth as of late, particularly in downtown West Palm, as it relates to new companies moving in from, say, hedge funds, private equity firms and even those outside of those sectors. Each market is unique and has its own set of challenges and benefits. Miami If you wanted to be here, it's hard to justify living in West Palm and working in Miami. But when the Bright Line was brought online, it was right before COVID hit, the Bright Line really changed the game as far as recruiting talent. It was a conversation we were having with our clients daily about, you know, what does this do in terms of attracting from a broader talent base? And how important is it to set operations up close to one of the Bright Line hubs that can make it much easier for commute for your talent to live in downtown West Palm, but has an unbelievable job opportunity and say, Downtown Miami or in Brickell? Well, this really, I think, changed the game and enabled companies to bring talent in that ordinarily they would not be able to attract because two hours on I-95 in the morning is just intolerable.

Spencer Levy

So Shay let's talk about the Bright Line a little bit more for those people who don't know the Bright Line, It's the train that's brand spanking new that goes from Miami to West Palm today. But they're going to soon be extending it, as I understand it, to Orlando and then possibly another spur to Tampa. And by the way, I've been on the Bright Line several times, and it is literally the nicest train I've ever been on and I've been on trains in Europe. You sit in some of the nice sections on that train, and it is first-class experience all the way. So I could definitely see people not only using it from West Palm to Miami, but having quite an experience doing that. But not all areas of Miami are created equal. When I visited Downtown Miami, it's underdeveloped. It's older buildings. We're not seeing a lot of tenants moving down there.

So Allen, you've been in this city for 40 plus years as a professional and longer than that living here. What about Downtown Miami? Does it see a resurgence?

Allen de Olazarra

Yes, no question. It's already experiencing it. Look, one of the interesting things about, let's call it just the central business district for just a minute, right? And we can differentiate between Downtown and Brickell. But the Central Business District has been balancing residential development with commercial development for 40 years. Right. The first high rises that you saw popping up on Biscayne Bay were happening on Brickell Avenue. Old single-family homes that were several acres on the bay were replaced by buildings that are now iconic parts of the Miami skyline. Some of Arquitectonica's first great high rise buildings that were in the skyline shot on Miami vice sequences back in the early '80s. That was the pioneering days of condominium development and urban residential living in what is now the CBD. And so you've had thousands and thousands of brand new residential units delivered into Downtown Miami and what we used to refer to as Overtown-Park West, which is the area immediately north of Downtown, headed up towards the Design District, or Wynwood. That area has enjoyed spectacular growth from a residential standpoint. I'm going to say it's incremental growth from an office standpoint, but it's not without notice. I mean, it's very real. And it's not technically part of Downtown, but it nestles right up next to Downtown on the north end and benefits from the residential and retail infrastructure of Downtown. You could argue that Brickell is a little bit further ahead of Downtown just by virtue of the fact that there's more residential, more office, more ground floor retail. But frankly, Downtown's got something the Brickell area doesn't have. And that's available land. A lot of that land is in play right now. There's new development underway as we speak. I would say the vast majority of it is still residential, but I'm aware of a couple of noteworthy sites that are being entertained for office right now that 25 years ago, you would have never imagined would ever have an office building located there. I think the prospects for Downtown are great.

Spencer Levy

Are we seeing any rezoning in Miami that might lead to more office development? Then I have a second question for you on resilience because I think Shay's answer earlier, as related to the resilience of Miami, you know, gave a pretty positive note about how city leaders are trying to help the city for sea rises and things like that. But the perception from many investors I'm hearing today, more investors are saying they're concerned about those issues. So two questions: zoning and resilience of Miami. Allen?

Allen de Olazarra

Well, first of all, Miami did pass a new zoning code, a comprehensive new zoning code, a few years ago that is in place now and is impacting development. You know, I'm not going to get into all the particulars, and frankly, I don't even think I know all the particulars. But it does have a lot to do with encouraging density in certain areas, discouraging density in other areas, encouraging affordable housing by giving credits to density if one's prepared to add those affordable

housing units, focusing on things like view corridors and light and traffic and retail and so on and so forth. There's a fair amount of development that is underway pursuant to that new code. And frankly, I think on balance it's pretty thoughtful and effective. I know I owned properties that would have been adversely affected by the zoning at the moment that that zoning was put into place because it did take away some discretion and flexibility that the owners of property had. But it hasn't slowed anything down whatsoever. And I think it's being implemented pretty effectively now. Now, as far as resiliency and climate change and sea level rise and things like that, I think it's sort of mind-numbing to imagine what a Category five hurricane could do. And you've got to remember 90 percent of the improvements that are in that corridor were put there prior to any of the current building code, hurricane code steps. Right. I mean, Hurricane Andrew, for example, was in 1992. There's only been a handful of office buildings built in all of Downtown in Brickell since 1987. Miami has vulnerability there. Now, having said that, I don't think it's significantly different from the vulnerability of many other cities around the country. San Francisco and L.A. have the risk of catastrophic earthquake damage that probably makes a piddly hurricane pale by comparison. Right. And we've seen what can happen when a relatively minor hurricane hits someplace like New York City, right on an absolute basis. I'd be the first to say any business that chooses to locate in South Florida ought to have a hurricane plan. You know, some sort of continuity of operations in mind. I don't think that's a reason not to come here, though. And then as far as the sea level is concerned, I mean, look, Miami Beach has frankly done a very good job of defending because they built a dune across the ocean side and a seawall across the bay side that really wraps around the entire city, and then have a series of pumps to pump rainwater out. So I would say Miami Beach is probably ahead of most municipalities. There are low spots in the Brickell area that are wet on a king tide. I frankly don't think the City of Miami is quite as far along in terms of doing what needs to be done to defend against sea level rise. That is my personal view. There is plenty that could be done. It's going to be terribly expensive. But I think it's worth it and we ought to get busy with it.

Spencer Levy

Since Allen went into great depth on hurricane risk for South Florida, I'm going to tell you about a bird that lives in South Florida, and the bird is called the Ibis. And the Ibis Bird, which is iconic and I believe is the symbol of the University of Miami, I'm told is the last animal to leave the swamp before a hurricane and the first to return. And if that is in fact true, which is why I think my University of Miami, or The U as they call it, picked the Ibis as their bird. That's a story of resilience. It's a story of a city coming back. And Shay, we have seen a greater diversity of new businesses coming down to Miami in the last two years, if not 10 years than ever before. Don't you think that'll make the city more resilient?

Shay Pope

If you look at it historically, there were companies that looked at South Florida, and there were a lot of decision drivers that suggest being in Miami or southward in general made a lot of business sense. The concerns generally were: is the talent base is deep enough, and if we open a headquarters here, a large operation there, will people move here to work in South Florida? Similarly, there were people that said, Well, if I'm in various tech industry up in New York City or San Francisco and I want to move to South Florida if I, as I continue the growth in my career path, if I want to leave the company I go to work for, are there enough opportunities for me to go work elsewhere within the tech sector in South Florida? And I think really we've seen a paradigm shift. And that the companies are moving here, the talent is moving

here, and we now have more than ever a critical mass that was here before, but I think it's much deeper. And I think it transcends various industries, especially within the tech sector now that it had historically. So when I think of resiliency, I'm thinking of it from an employment perspective. And I think that we now have more companies and more talent here that will see continued growth as a result of that for the foreseeable future.

Spencer Levy

I think you said the key word there, Shay. It's not just the companies moving, it is the depth of the existing and the ability to attract new talent. And I think the beauty of South Florida and Florida overall, for that matter, is the in migration, both domestically and foreign. And by the way, thank you to my producer who told me that the mascot of the University of Miami is actually named Sebastian the Ibis, who knew? I'm going to ask everybody for their final thoughts. So I'm going to look into our crystal ball starting with you, Allen. Five years from now, looking back, what do we see in Miami that's different than today?

Allen de Olazarra

I think you're going to see more of the same, only better. That's my view. I think Miami will continue to attract both intellectual capital and investment capital at a pace that's disproportionately higher than most other cities in America. I think this vanguard that's come down in the last couple of years, whether it's precipitated by tax changes or by the pandemic, you know, as they report back to their friends and colleagues, -- whether they're in California or New York -- the answer is going to be this place is great. I can't believe it took me this long to make the move. You should come, too. My view is that while we're seeing a dramatic acceleration over the last couple of years, I think that it will continue to accelerate. There's nothing that I can see that will diminish America's enthusiasm for living in South Florida.

Shay Pope

One point Allen made that I certainly want to reiterate is that for those that have moved here that historically people thought, gosh, Miami, you know, I went to Miami Beach for bachelor parties and it's so much fun. South Beach is a great place to go and visit. Miami has got some really dynamic parts to it, but gosh, I don't know if I could live there, and I was with the guy the other day that moved from San Francisco with his whole family here. During the pandemic, they had a shift in the priorities of their professional and personal lives. And they elected to move the Coconut Grove. And he absolutely loves it. And he's telling all of his friends, former coworkers in San Francisco, this is a great place to be. So I do think that the trend is going to continue. I do think that we might see some challenges within, particularly in the private schools. We're going to see capacity challenges and I think that's already unfolding and I actually just have a one year old, so I'm a little bit of a late bloomer, but I'm hearing from those that private schools are at capacity. I have to think that we'll see some additional capacity being built out within the private school sector throughout South Florida, perhaps new private schools opening to be able to handle the demand from those that are moving here. And I think that absent any significant shift in the economic cycle, that we'll continue to probably have some challenges with housing prices. We've got barriers to entry. You really can't build any more single-family homes. You can go vertical, and that's certainly

something we've seen happen in the last two development cycles. But by a large, I think that might be able to continue to thrive, and I think it will be an even better place to live five years from now.

Spencer Levy

Well, from Prime 112 to Joe's to the Kith store - my son's favorite, by the way -- The Ball and Chain Bar in Little Havana, Miami, has so much to offer. And I think in honor of Gloria Estefan and the Miami Sound Machine, I think the rhythm is going to get you down to Miami. And with that I want to thank my old friend and guest today Allen de Olazarra CEO and EVP at Parkway Property for joining us. Allen, thank you.

Allen de Olazarra

Thank you, Spencer.

Spencer Levy

And I want to thank my friend and colleague Shay Pope, senior vice president at CBRE Miami also for joining us today. Shay, thank you.

Shay Pope

Thank you, Spencer, always a pleasure.

Spencer Levy

For more on Miami and on our show, please visit our website: [cbre dot com slash The Weekly Take](https://www.cbre.com/the-weekly-take) as we move from the Sunshine State into the rest of our fall schedule, we're looking at some really interesting shows coming up, including an episode in which we will follow up on CBRE's recently published Data Center Operation Index with a conversation about that thriving sector. We're also working on some truly timely topics, too, covering wellness and healthy buildings with acclaimed authors and public health experts Joseph G. Allen and John D. McCumber. And more. For now, please remember to share a link to the show and subscribe rate and review us wherever you listen. Until next time, I'm Spencer Levy. Be smart. Be safe. Be well.