

What Recession? Miami CRE Leaders On The City's Economic 'Halo'

Alex Gratereaux, Bisnow South Florida



Winter is coming, and with it, a potential [recession](#) looms that already has the commercial real estate sector on edge — unless you're in South Florida.

"I think we are in a cautiously optimistic time period, and I don't think we are going to really feel it in South Florida, specifically, if we go into a recession," Two Roads Development President Brad Meltzer said this week at *Bisnow's* Miami State of the Market event. **"I think Miami has sort of a halo over it. There is a lot of good happening here."**

Downturn warning lights are flashing across the country, particularly for real estate. While the U.S. economy grew by 2.6% in the third quarter, residential investment dropped by more than 26% and nonresidential building investment dropped by over 15%, according to figures [released Thursday by the Bureau of Economic Analysis](#).

Just this week, CBRE announced it would [start cutting staff this quarter](#) to reduce costs; Alphabet, Google's parent company, [instituted a hiring freeze](#); and Meta Platforms, Facebook's parent, said it expects [to spend \\$2B this year](#) canceling office leases.

The economic uncertainty and the shift to hybrid work have had the greatest impact on offices around the country, with market fundamentals deteriorating over the summer. U.S. offices lost 11.4M SF of occupancy in the third quarter, and leasing activity declined by 3.6% from Q2, [according to JLL](#).

But in Miami, real estate leaders have embraced a Sunshine State of mind, predicting little impact, if any, on the city's red-hot office market. Class-A office rents in Miami jumped 17% year-over-year in Q3, according to CBRE data, and brokers say the city simply [doesn't have enough office space](#) for all the demand.

"I have been doing this for 30 years, and never before have we seen this much demand coming at once," Cushman & Wakefield Vice Chairman Brian Gale said.

The event on Tuesday was held at the Wells Fargo Financial Center in the heart of [Brickell](#), which Gale is marketing on behalf of owner MetLife Investment Management. He said onstage that the penthouse at the building is "15 minutes away" from being leased.

"I used say ground zero was really Brickell Avenue, that is where all the big tenants are. Brickell is tapped out," Gale said. "If you want 30K SF in all these beautiful buildings on Brickell, you have one option: Class-D space."

Office demand just tells part of the story — Miami has had among the fastest housing price and multifamily rent growth in the country in the last two years, although that segment of the market [has begun to cool](#). Also beginning to cool is the industrial market.

Malcolm Butters, the president of Butters, a construction and development firm based in Coconut Creek, said there has been "craziness" in the industrial market the last two years, so a slowdown is inevitable.

"Back in a normal year in Miami, they might do 2M SF to 3M SF, then they started doing 5M SF or 6M SF of absorption," Butters said. "So it's going to feel a little bit like a recession because we will be going back to 2M SF."

While Miami might be insulated from the worst of a possible recession, developers aren't insulated from inflation. Construction costs in particular have risen so much that they are starting to slow down development, Meltzer said.

"I think you are either going to see some projects stall a little bit or not happen for a little while," he said. "A former client of mine, his contracts are currently on hold. He is waiting. It depends on what market sector you are in, whether or not there is a market demand to increase the price or not to absorb some of the construction prices."

Some panelists said the market has been so hot that tenants have been able to absorb price increases, but locking in pricing as early as possible is critical — and difficult.

"Inflation has been in the headlines just about every day in the last year, so when we go to clients and we say, 'Hey, look, there's been a change,' they usually understand and think that it's for real, not just us saying that," Butters said.

Inflation and a recession are cyclical issues, and it is the secular change in Miami that has real estate players feeling so confident. The amount of wealth from cold-weather cities coming to town — best exemplified by Citadel CEO Ken Griffin going "all-in" on Miami — is still astonishing longtime industry executives.

"It is the first time in 20 years, for us that have been here for such a long period of time, that we are seeing that type of resident come to Miami," Rosso Development founder Carlos Rosso said. "I live in South Miami and I play tennis in a club called Coral Oaks. It is the first time in 20 years that I see people with chauffeurs coming to drop their kids off to tennis."

Beyond financial bigwigs, tech firms' hiring patterns have had a major impact on the area's economy. In 2021, Florida saw an influx of 10,522 new tech jobs, the second most in the country, [according to the](#)

[Computing Technology Industry Association](#). LinkedIn also found a [30% year-over-year increase](#) in IT and software jobs last year in [Miami-Dade County](#).

And while Miami has long attracted celebrities to party, more are opening retail businesses, like the first flagship of Rihanna's Savage X Fenty store [coming to Miami Worldcenter](#) and Pharell's [5K SF Billionaire Boys Club outpost](#) that debuted in [Wynwood](#) last week.

But the office market is where the momentum appears set to continue. Gale said 95% of demand is from tenants from other cities with much larger, and traditionally more expensive, office markets.

"They have over 90M SF of vacancy in Chicago today. Our entire office market is 55M SF," Gale said. "Rents are not slowing down. Even with talk of the recession, even with what is happening in the debt, capital market today. There is absolutely no slowdown."