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COVER STORY

REFRESH OR REBUILD?

Mixed-use redevelopment fuels demand for suburban offices

BY BRIAN BANDELL, PAGES 14-16

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Like in many major metropolitan areas, South Florida's robust office market has long centered around its dense urban cores.

But as construction costs and downtown rents rise, more investors now turn to the suburbs – betting that lower land prices, easier access and a shifting workforce will make existing suburban offices a good value play.

Yet, not all office buildings are viable investments. While some suburban structures benefit from capital improvements to enhance their performance, for others, the real value lies in adding multifamily or replacing the building with more profitable uses.

"The story isn't that the office market is struggling. It's that the other [property] uses are performing so well, and the highest and best use of office land can be something else, like industrial," said Matt McCormack, senior director of capital markets in JLL's Miami office. "In any other market, it would remain office. But South Florida is so hot that it allows it to be something else."

Still, there are some suburban office markets with relatively high vacancy rates.

According to a first quarter report from Colliers, vacancy rates are more than 15% in Hallandale Beach, Sawgrass Park/Sunrise and Boca Raton North. That could ramp up redevelopment pressure. Even markets with relatively low vacancy rates such as Doral, Northwest Miami-Dade County, Hollywood and Boynton Beach have seen office buildings taken down to build multifamily, industrial or health care facilities.

The "commodity office" market – or spaces without good amenities, quality finishes, and restaurants within walking distance – is dead, and that's why there's more redevelopment, said Kevin Gonzalez, a senior VP and office expert in Colliers' Miami office. For example, when undesirable offices in Doral are demolished, tenants are displaced, which increases occupancy rates in higher-quality buildings that have been improved with renovations, he said.

Rent levels also play a big part in whether it makes sense to renovate a building or demolish it, Gonzalez said. If the amount of tenant



REINVIGORATE OR REDEVELOP?

Opportunities abound in suburban office market

BY BRIAN BANDELL | bbandell@bizjournals.com

improvements required to lease the building greatly exceeds the expected rental income, then it may make more sense to demolish it than lease it, he added. In an area with higher rents, that wouldn't be the case.

For instance, companies relocating to quality office space in Coral Gables that yields higher rents have leased nearly 867,000 square feet since 2021, with nearly half of that space rented by companies leaving downtown Miami or the Brickell Financial District, Gonzalez said.



JOCK FISTICK | SFB

Blanca Commercial Real Estate founder and CEO Tere Blanca at the Doral Concourse office building.

"Amenities and access are the two key drivers for a successful office product today," he said. "You need to provide talent with the environment that will make it exciting to come back to the office. Otherwise, tenants will go elsewhere."

Reinvesting in office

One key factor for suburban office markets worthy of investment is that they provide a lower cost, but a quality alternative to downtown offices, said Tere Blanca, chairman and CEO

of Miami-based Blanca Commercial Real Estate.

The Coral Gables office market has performed well because it offers an easier commute for those living south of Miami than the downtown and Brickell areas, while providing a vibrant environment, she added.

Blanca has also seen strong activity in Aventura, North Miami Beach and Bay Harbor Islands as those who live north of Miami seek closer workplaces.

"Not every tenant, even if they

TOP 5 LOCAL SUBURBAN OFFICE MARKETS WITH THE LOWEST VACANCY RATES



TOP 5 LOCAL SUBURBAN OFFICE MARKETS WITH THE HIGHEST VACANCY RATES



SOURCE: COLLIER'S

can afford it, wants to pay high rates in certain buildings," she said. "We have so much opportunity throughout the region for markets to develop into nodes of business."

However, to attract tenants to the suburbs, offices must provide an attractive environment, such as food services, event spaces, fitness areas and places to congregate outside, Blanca said. That has worked for her clients in Plantation and Miami's Waterford Business District.

While commodity offices that are functionally obsolete are being scrapped, there are plenty of well-located suburban offices that can be repositioned for success, said Darcie Lunsford, a senior VP in Colliers' Boca Raton office.

Spaces in Boca Raton, Coral Springs and Fort Lauderdale's Cypress Creek area have demand from tenants because many people live nearby and there is good highway access, she said. More apartment development in those three markets, in some cases replacing older office buildings, will add more residents and fuel demand for the remaining office spaces, she said.

Office buildings more than 50 years old with high vacancy rates are often more challenging to lease, and may work better as other property types, Lunsford said. Many suburban office tenants want smaller spaces with nice lobbies that feel like a high-end hotel, good kitchens and lots of glass, she said. As far as

location, tenants seek offices near restaurants and shops, not in the middle of an isolated business park with nothing else to do, she added.

"People who live in Parkland and the suburbs don't want to commute downtown," Lunsford said. "CEOs asked themselves, 'Do I really need to go all the way downtown? Unless I'm an urban-centric finance or law firm, do I need to be downtown, or can I get a nice space closer to where my folks live?'"

In some suburban markets, there's been a heavy shift toward medical office space because of demand from health care providers, said Bert Checa, a principal in the Doral office of commercial brokerage Lee & Associates South Florida. Medical offices are resistant to the remote work trend, so building amenities to lure back workers isn't a priority. But they do require decent common areas, adequate power supply for equipment, and abundant parking – at least four parking spaces for every 1,000 square feet of office, he said.

And many Class B offices in South Miami and Kendall are being converted to medical office because they are near hospitals, he added.

"Suburban office rents remain at an all-time high, but demand has started to cool down," Checa said. "Office users that can sustain high rents are medical because doctors are highly profitable."

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KEVIN GONZALEZ, Colliers



DARCIE LUNSFORD, Colliers

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Adding multifamily to office

Offices remain viable in some suburban markets, but there's an opportunity to enhance a site's value by adding multifamily. Rosenblatt said.

Isaac Toledano, CEO of Aventura-based BH Group, has several such projects in South Florida. He's partnering with PEBB Enterprises and Related Group to build apartments and retail at the ODP Corp. headquarters in Boca Raton, while keeping two of the site's three office buildings. He's also working with Related to build a Viceroy-branded condominium next to BH Group's office building in Aventura.

Toledano said they bought the Boca Raton offices for far below replacement value, and adding apartments and retail – including an Equinox gym – has enhanced office rental rates.

In many cases, it's worth keeping office buildings in place because companies and executives relocating to South Florida from other states are looking to open offices here, Toledano said.

"If you are buying an office building in a great location, you have a covered land play," he said. "So, you have some cash flow and, if you get development rights, it's a home run."

Toledano said multifamily as a complement to office strategy works best for offices in prime locations, not struggling Class C buildings in subpar areas. He teamed with Related to demolish the former American Express office complex in Plantation and replace it with apartments.

Evan Rosenblatt, senior VP at Boca Raton-based PEBB Enterprises, said he applies a value-add strategy with office by improving the property to boost occupancy rates. With the ODP headquarters deal, its multifamily and gym are part of that strategy, and he expects it will make more money than if it remained all offices. PEBB bought several offices in Boca Raton during the Covid-19 pandemic, and their occupancy rates have significantly improved, Rosenblatt said.

"We ended up buying office when a lot of other people in other parts of the country feared that type of development," he said. "We felt confident that office in Boca Raton was still a good purchase."

Industrial replaces office

Fairly large office buildings have been



MATT MCCORMACK,
JLL



BERT CHECA,
principal at Lee
& Associates
South Florida



ISAAC TOLEDANO,
BH Group



Foundry Commercial's David Blount

FOUNDRY COMMERCIAL

demolished in suburban markets to build warehouses. That includes the former Ryder System headquarters in western Miami-Dade and a former Baptist Health South Florida office in Boynton Beach. Similar plans are in the works for the former Tracfone Wireless headquarters in western Miami-Dade and the former Assurant office near Cutler Bay.

While suburban offices have dropped in value, industrial sites have experienced strong demand amid record-high rents for warehouses, therefore some suburban office campuses are more valuable for industrial development, said David Blount, a Miami-based principal with industrial builder Foundry Commercial. The most attractive office sites for redevelopment are those with zoning in place that allows industrial, no major long-term office tenant leases to deal with, and sites of at least 5 acres, he said. That's why the Baptist Health deal in Boynton Beach worked

for Foundry, as the health care provider vacated the entire building and industrial development was already permitted there.

Not only has industrial rent increased, but investors are paying lower capitalization rates for industrial than for most suburban offices, Blount said.

"We weren't able to do this five years ago," he said. "It's just that the valuations of office have flipped upside down."

The loss of existing office to industrial and other uses is actually a positive for the remaining office buildings in the area, JLL's McCormack said. More than 4.3 million square

feet of office space in Miami-Dade is set to come offline through redevelopment or user purchases, representing nearly 10% of the county's office market. Additionally, about 1 million square feet of office in Broward County and 390,000 square feet in Palm Beach County are scheduled for redevelopment.

This should further decrease office vacancies and provide upward pressure on rents, because leasing activity remains robust, McCormack added.

"Investor sentiment soured on office after Covid, but not all office is bad office," he said. "Office is poised for the greatest comeback of any sector this decade." Z

"If you are buying an office building in a great location, you have a covered land play. So, you have some cash flow and, if you get development rights, it's a home run."

Isaac Toledano, CEO, BH Group