

RESEARCH

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The Growing Power of Tech on Miami's Commercial Real Estate Market

Miami's exploding tech footprint landed it on the list of emerging tech hubs according to our recently published paper, [Tech Markets to Watch and Why the Field's Getting Competitive](#). Throughout the past decade, tech companies and venture capitalists migrated in droves to Miami, surging population growth numbers as a result. Fintech – or financial technology – has been quietly bolstering entrepreneurial opportunities and growing steadily for years.

According to the U.S. Census Bureau, Miami's annual population growth went in the red from 2020-2021, shrinking by 0.57%. Miami is determined to gain credibility from the original power players of the tech industry despite a volatile housing market. While it boasts a business-friendly environment, low taxes, and desirable weather for workers to enjoy, the city's reputation of fun in the sun has traditionally attracted tourism rather than work, a difficult stigma to overcome. What the metro really needed was for prominent tech figures to experience firsthand just how viable the sector has become in the metro.

This is where the pandemic came into play. COVID-19 restrictions obviously derailed many parts of the economy, but the migration of people out of high-tax states, such as California, to Florida could not have been better for the metro's tech sector with the rise of remote work. The pandemic propelled Miami into one of the top relocation destinations in the nation, where Florida had lenient health protocols and remained more open compared to other states. As such, "transplant" tech workers from Silicon Valley decided to set up shop in Miami. While their intention was initially to just wait out these restrictions and move back to California once the pandemic was in the rearview mirror, some workers realized Miami could be more than a temporary destination and resolved to stay.

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VC Funding in Miami

A key element to any tech market is financing. Venture capitalists have noticed this trend and, for the first time, started investing heavily in the metro. After only investing \$3 billion in 2018 and then even less in 2019 and 2020, Miami received \$5.6 billion in 2021 in venture capital.

This begs the question: will this trend continue? There are still skeptics doubting whether Miami can reach the upper echelon of tech metros. We will need to examine whether the pandemic was simply a temporary and unique jolt for the tech industry or if its growth will be both sustainable and permanent.

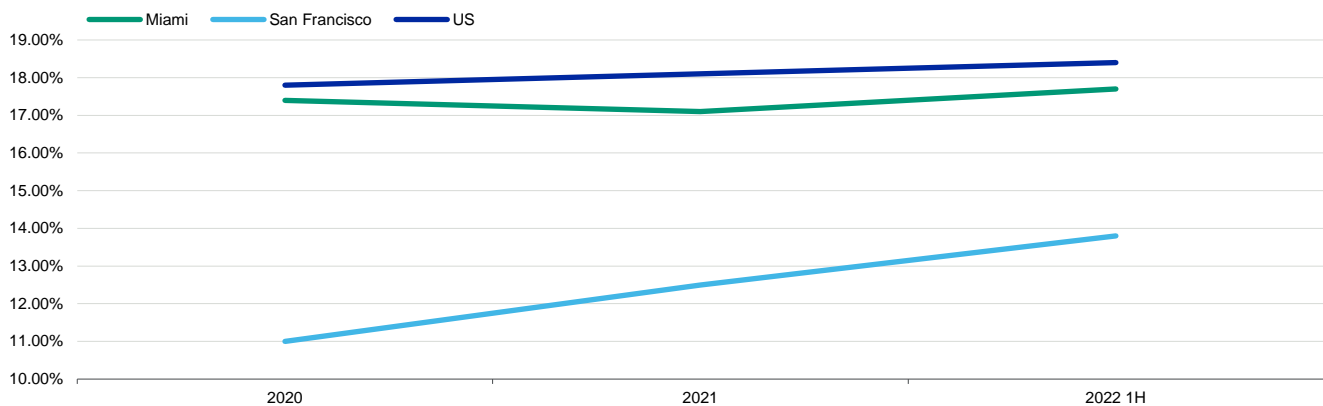
While Miami's low taxes and higher education are drawing tech startup innovators, the metro still has some factors against them.¹ According to "Miami's Tech Entrepreneurship Ecosystem 2012 to 2022," by the John S. and James L. Knight Foundation, Miami has six aspects that hinder not only tech, but all other sectors as well: shaky local transportation, too little affordable housing, questions of school quality, labor force gaps in general, too few minorities in higher level jobs, and climate change threats.

Miami vs San Francisco vs US

Here's how Miami differs from the rest of the nation. Because of the previously noted reasons, Miami's office vacancy rate dropped from 17.4% to 17.1% from 2020 to 2021, while the national figures saw an increase from 17.8% to 18.1%. Miami reacted more in line with the national average as the metro's vacancy rate rose from 17.1% to 17.7% between 2021 to the second quarter of 2022, while the national average rose from 18.1% to 18.4%.

When compared to established tech markets like San Francisco, Miami looks even better. The California tech hub saw vacancy rise from 11% in 2020 to 12.5% in 2021 and then even higher to 13.8% by the second quarter of 2022.

Figure 1 Miami/San Francisco/United States Vacancy



While Miami vastly outperformed San Francisco vacancy rates and the national average in 2020, then reverted to national trends after 2021, asking rents tell a different story. As with vacancy rates, Miami's asking rent growth also surpassed the national average in 2020 with a 2.1% increase for the metro, while San Francisco grew by 1.2% and national growth was only 0.4%. This did not stop in 2020, though. Miami posted a 1.9% rent increase in 2021 while San Francisco dropped 1.9% and the national average stayed flat. The first half of 2022 tells a similar story: Miami's 0.6% increase is again outperforming San Francisco's 0.2% rise, while falling just short of the national average rent increase of 0.7%. It will be interesting to see how the year plays out.

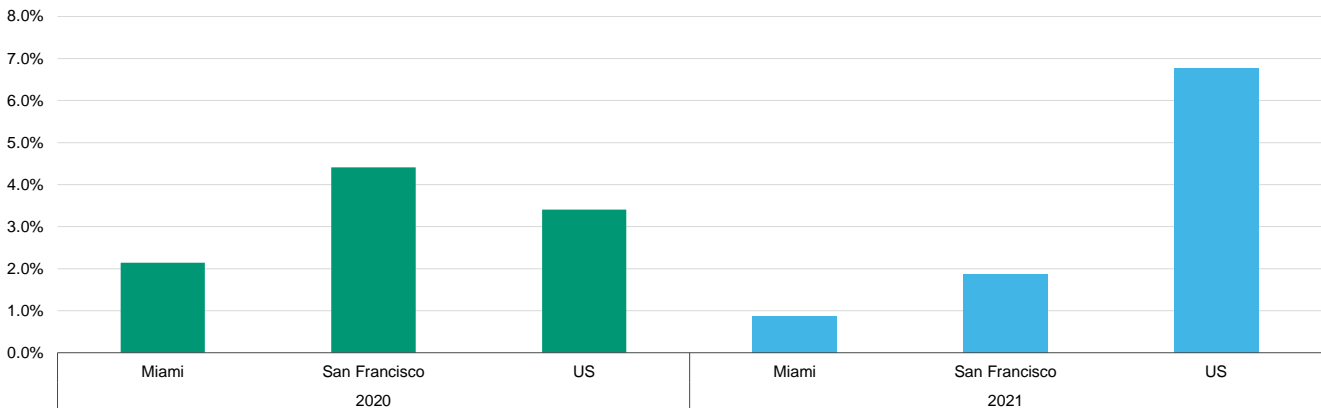
¹ Dalhberg, Nancy. "Miami's ecosystem regains its runner-up global ranking in Startup Genome report. Here are the top findings." Refresh Miami, June 14, 2022

Figure 2 Asking Rent % Chg - Miami vs San Francisco vs US



While office rents overtook San Francisco and the nation, STEM wage growth did not. Not only did Miami's 2.1% growth lag behind the 3.4% nationally and San Francisco's 4.4% for 2020, but that gap only intensified in 2021 as Miami's 0.9% growth fell well short of San Francisco's 1.9% and the national average of 6.8%.

Figure 3 Computer & Math Occupations Wage Growth - Miami vs San Francisco vs US



Is Tech tipping the scale?

The tech boom brought about rapid economic growth in Miami, but at a cost. Population gains place extreme stress on local infrastructure, especially so in a city that has long been due for an update. Heavy traffic, poor road conditions, and unreliable public transportation are problematic, especially so for a growing city like Miami. Without sufficient attention, funding, and adequate maintenance, it is unclear how well the metro will hold up and support the inflow of additional residents. While there is a lot of money flowing in, talent has yet to keep up and, potentially leading to an imbalance, in affordability and infrastructure issues.

Tech and financial companies such as Goldman Sachs and Citadel announced their relocation to Miami, bringing their skilled talent pools with them. As the population expands, the already strained housing market will strain further with near record low supply. This industry often boasts high salaries and work-from-anywhere arrangements, likely prolonging the widespread migration. Other professional businesses are expanding by riding tech's coattails and catering to the industry's high growth. Tech employees from New York, California, and other expensive metros view Miami's rates as comparatively reasonable. Some employers are even covering relocation costs and paying their employees' rents in advance as they search for housing².

² Acosta, Deborah. "Miami Locals Are Steamed Over Relocating New Yorkers Driving Up Apartment Rents." *The Wall Street Journal*, May 10, 2022.

As single-family homes and asking rents reach historic highs, locals are at risk of being priced out. Wealthy tech and finance employees migrating to Miami are displacing lifelong residents, often resorting to renting for longer periods due to tight inventory and escalating scarcity that is already a concern in the market.

Miami has consistently ranked as one of the least affordable metros before and after COVID-19. Our current quarter data shows that Miami's [rent-to-income ratio](#), a relation that is determined where monthly rents are divided by monthly income, ranks it second highest at 40.5%, only trailing New York as the most unaffordable metro at 59.5%. Asking rents are also among some of the highest at \$2,048, while the national average is \$1,724. At 3.3%, rent growth in this metro had the top standing of the 82 metros that Moody's Analytics CRE tracks since the previous quarter.

Although Miami is a highly desirable city, the rapid decline in affordability will hurt migration and force many to reconsider comparable options that are more cost effective as the metro is becoming a playground for the rich. **The professional business services industry has long been a strong economic driver for Jacksonville and may potentially serve as an alternative, with asking rents at \$1,383 and rent growth declining 0.2% since the previous quarter.**

According to U.S. News & World Report, California has 27 schools ranking in the top 250, compared to 11 schools in Florida. Established tech markets like those in San Francisco and the surrounding Bay Area have concentrations of high-ranking universities such as Stanford University, UC Berkeley, and UC Davis. Correspondingly, these markets have more skilled tech talent entering the labor pool and a strong foundational network for college recruitment. Even though Miami's popularity continues to attract tech firms, there is an imbalance among the tech jobs and tech degree graduates here given that there is a lack of world-class university presence.

To compete, Miami must attract more students interested in tech. While the University of Miami is a high-ranking institution, it needs necessary funding to expand opportunities and partnerships that would meet workforce needs. Miami's Mayor Francis Suarez realizes the labor force gap among minorities in higher paying careers and has been working towards recruiting a diverse workforce. He stated, "The single most important thing we can do as a city is bolster our talent pipeline and establish an educational system that feeds directly into these high-paying careers and that delivers equal opportunity to every student."

In response, Tech Equity Miami, can perhaps bridge this gap as it is available to all residents. This initiative was created to give equal mobility to all who participate, designed to enrich development in the tech and startup environment. This inclusion opportunity in the tech industry can help residents earn enough to afford to live in the metro. Not only is it essential for Miami to attract a highly educated workforce, but it must also empower and provide equal opportunities for progress within the community.

Concentration of Tech

Some metros are more suited for certain types of tech. For example, Nashville's substantial healthcare industry lends itself to tech startups that are focused towards that specific sector. So far, Miami has been most attractive to the fintech world and stealing companies from rival tech city, New York City, has become increasingly commonplace. Companies like FundKite, a fintech company that provides funding for small businesses via an online process, recently moved its headquarters from New York to downtown Miami. FundKite chose Miami because it has become a good hub for the financial industry and has a lot of good talent and workforce available.³ What's made Miami such a good financial hub is a combination of all the major companies that have established a presence there, such as Google, Twitter, Facebook, Uber, and Lyft. The city's entrepreneurial spirit boasts the second-best startup density in the nation with 247.6 startups per 100,000 people.

The Miami/Fort Lauderdale metro is also sixth in the nation for the percentage of total US entrepreneurs. Why? Partly, it is the number of options to raise capital in the area. Between the regions 150 banks and 500,000 accredited investors, there is no shortage of ways for startups to find funding. The hope is that this combination of bringing in established companies and an environment that encourages self-starters will lead to workers from some of the best companies in the world connecting with each other and continue innovating.

Fintech also encompasses cryptocurrency. Miami, arguably more than any other metro, is betting big on crypto and while the journey has had many ups and downs, the metro's belief in the new currency is as strong as ever. As crypto is now in another low,

³ Bojnansky, Erik. "Fintech moves headquarters to Miami from New York." *South Florida Business Journal*, June 3, 2022.

some have a positive take. University of Miami business technology thought leaders are categorizing the most recent crash as a shakeout that will fortify the industry overall.

“This shakeout points to the fact that we can now see that some business models and projects some companies are funding do not work, and that’s good for crypto—and in the long run an important sanitation of the industry,” said Ola Henfridsson, Schein Family Endowed Chair and professor of business technology at the University of Miami Patti and Allan Herbert Business School. Miami Mayor Suarez is continuing to push forward, as he too believes in the long-term viability of crypto. As other cities are frightened off by the volatility and uncertainty that comes along with this new digital currency, Mayor Suarez doubles down on welcoming entrepreneurs, startups, and crypto giants. His recruitment of crypto heavyweight Blockchain, a company responsible for 28% of Bitcoin transactions since 2011, from New York City to Miami will only bolster Miami’s attractiveness to these startups. **As the future of cryptocurrency plays out before our eyes, Miami’s future as a tech powerhouse may very well hinge on that outcome.**

Fintech and cryptocurrency are not the only tech sectors that Miami is trying to win over. Miami’s location provides it a unique opportunity in a mostly untapped sector of tech: climate. Miami is more at risk from the effects of climate change than many other cities. News coverage exposed that Miami’s surrounding waters rose six inches over the last 25 years and scientists predict sea-level rise of five to six feet in South Florida by the year 2100. These developments have been a cloud hanging over the metro for years, but if handled correctly could also bring a terrific opportunity for the emergence of Climate Tech: a new business model or technology that reduces the amount of carbon in the atmosphere, including how we manufacture things, how we get around, how we cool or heat our homes and offices, how we produce our food, and where we get our energy. There is currently no tech hub for this new developing subsector, leaving Miami to fill that gap if desired. The metro is on the frontline fighting these battles, making it a great candidate to defeat them.

With world leaders pledging to achieve a carbon-neutral economy by 2050, and investment in climate tech more than doubling in 2021 to \$87.5 billion, Miami could not only find solutions for their future but also profit along the way. Recently ClimateTrade, a Spanish startup that is developing tools to unlock decarbonization at scale, just chose Miami as its new US headquarters because it witnessed Miami becoming a hub for both innovation and sustainability and the influx of technology companies. It was seen as an advantageous place and the right moment to start scaling their US business.⁴

What’s next for Miami’s tech market?

METRO	TECH DIVERSIFICATION	PRESENCE OF TECH EMPLOYEE	CORPORATE TAX	CLIMATE	PRESTIGE COLLEGE	POPULATION GROWTH	VENTURE CAPITAL	INFRASTRUCTURE	AFFORDABILITY
Miami	Headwind	Headwind	Tailwind	Headwind	Headwind	Headwind	Tailwind	Headwind	Headwind
San Francisco	Tailwind	Tailwind	Headwind	Neutral	Tailwind	Headwind	Headwind	Neutral	Tailwind

Tech is still a relatively smaller presence but it’s certainly growing fast as evidenced by the increased amount of venture capital and tech companies pouring into the city. Recession fears are intensifying while labor costs increase, and interest rates continue to rise. As a safe bet against the market’s decline, many tech companies are implementing hiring freezes and even laying off employees. Microsoft, Netflix, and Tesla are among some tech giants that recently cut jobs. Miami based Reef Technology, a “unicorn” startup is laying off 5% of its workforce – which could be up to 750 of its 15,000 employees.

During the second half of 2021, tech employment in Miami declined, suggesting that the temporary spike is not likely sustainable. While tech layoffs are taking place all over the country, startups are taking the biggest hit, and this could help explain Miami’s drop in employment for computer and math occupations in 2021 since the metro relies heavily on entrepreneurship.

Much remains uncertain. While Miami might rival Silicon Valley, they still have their own valuable draws that, if cultivated correctly, can prove to have legitimate staying power instead of being a flash in the pan.

⁴ Kaminer, Riley. “ClimateTrade establishes Miami HQ to expand decarbonization platform stateside.” *Refresh Miami*, July 18, 2022.

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