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CocoWalk in Miami's Coconut Grove area features 150,000 square feet of prime retail space, home to leading restaurant and retail brands and a newly-built office building.

**It's a  
'Landlord's  
Market,' but  
Inflation,  
Supply Issues**

## **and Lack of Space Threaten South Florida Retail**

"Typically South Florida has a season of about six months where all of the snowbirds have come down from Canada, New York, and New Jersey. In light of COVID, all of those people came down, and then some more, and many of them never left," said Jaime Sturgis, Native Realty CEO.

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As South Florida's real estate industry has been sheltered from much of the negative effects of the COVID-19 pandemic, its retail sector is thriving as migration and continued demand for retail space from many new-to-market businesses rises. But there are challenges on the horizon as low supply meets increased demand, and inflation begins to bite.



Gregory Matus, the Managing Director of Investment Sales for Franklin Street. Courtesy Photo.

The limited amount of retail space available is also creating challenges for retailers, according to Franklin Street's managing director of investment sales Gregory Matus.

"Vacancies are tight across all three South Florida counties, creating a highly-competitive landlord's market and leading many retail tenants to turn to new construction," said Matus.

Matus said he's surprised that, despite the development in Fort Lauderdale, Broward County had the highest vacancy rate of all the South Florida counties.

Miami-Dade had the lowest with a 3.4% vacancy rate, followed by Palm Beach at 4.2% and Broward at 4.4%, according to Franklin Street's report.

Some corporations are having trouble expanding due to a short supply of space, according to Dave Preston, executive managing director of retail services at Colliers in Miami.

“It’s not hurting them too much, but at the end of the day, the larger corporations do need to show growth on their balance sheets. Long term, that could create issues,” said Preston. “Most likely, if they can’t find the perfect spot in South Florida, they’ll just allocate that growth to other parts of the country where real estate isn’t in such high demand or expensive at least temporarily.”



Dave Preston executive managing director of retail services of Colliers International.

Many experts agree inflation could pose a challenge as the costs for retailers and consumers goes up. According to the report, although visits to physical stores have gone up due to relaxed restrictions, an inflation backdrop of 1.2% in March and a total of 8.5% in the last year have caused a 40-year high.

If the cost of necessities such as gas and housing continues to rise due to inflation, sales could decrease as people opt to save their money. That’s according to Beth Azor, founder and principal of Azor Advisory Services, a Weston commercial real estate advisory and investment firm.

“Inflation will outpace wages. When that happens, the consumer—not the high-income consumer because they will have disposable income, but the average demographic—is going to have less money to spend at the restaurant or the retailer in your shipping center,” said Azor. “That’s definitely going to impact sales, and since sales are a function of rent, it will impact the ability of the rent that they can pay, too.”

However, even if sales growth does see a slight downturn, the overall spending in stores is still up more than 10% from pre-pandemic levels, according to Franklin Street's report.

## **Arrival of the the Snowbirds**

In many ways, retail in South Florida is doing better than it was pre-pandemic, according to Fort Lauderdale-based Native Realty CEO Jaime Sturgis. Though not all retailers survived the worse of the pandemic, most retail categories are back to normal.

“A lot of people have come out to support the local businesses, and they're opting to get a coffee at the local coffee shop instead of going to a Starbucks, and a lot of people have rallied around the community to keep it local,” said Sturgis. “Between the community activity and increased customer base from so many people that have come into town, we're busier than we've ever been in South Florida.”



Jaime Sturgis, CEO of Native Realty. Courtesy photo Sturgis said the migration to South Florida has brought more consumers, which helped retailers of all sizes do well during the pandemic.

“Typically, South Florida has a season of about six months where all of the snowbirds have come down from Canada, New York and New Jersey. In light of COVID, all of those people came down and then some more, and many of

them never left,” said Sturgis. “They moved their primary residence down to South Florida. There are a lot more people still coming from all over the country.”

On most of the new retail leases he’s worked on, Sturgis said the annual escalations are tied to the greater of a fixed percentage between 3% to 5% or the consumer price index, which he said is an interesting hedge against inflation.

“Traditional real estate has always been desirable as a hedge against inflation and now we’re seeing retail, in particular, be an asset class that is negotiating new leases to reflect the pressure of inflation in real time so that the value investor’s dollar match it and it does not get diluted,” said Sturgis.

Out-of-state restaurateurs from New York and New Jersey make up much of the new demographic.

“They closed down restaurants that they had run there for several decades and they’re relocating their businesses down here. That’s been interesting,” said Sturgis.

## **Drive-Thrus ‘in Hot Demand’**



Drive-thrus and second-generation restaurant spaces are very popular, according to Azor.

Beth Azor, founder and principal of Azor Advisory Services.

“If you have a drive-thru, you’re in hot demand and your rents could be up 30%, so that’s a huge trend,” said Azor. “Restaurants from New

York and other parts of the country are coming to South Florida to do business and they're looking for second-generation restaurant space."

Due to the high demand, there's almost no inventory remaining for second-generation restaurants. Azor said she's most surprised with the amount of food and beverage concepts that have come from outside of South Florida.

You've got companies and restaurants that come with one and then, all of a sudden, you hear that they're opening their three other concepts," said Azor. "It says that their sales are exceeding what they projected, and that's why they're expanding with their other brands and concepts as well."

Preston said he's seen an increase in health clubs, such as yoga and fitness centers and medical deals, as well as as urgent care facilities and cannabis dispensaries in retail areas across South Florida.

"They're taking a lot of the out-parcel locations in the suburbs," said Preston. "We're also seeing banks consolidated."

A shift in buying behavior has lifted sales at many brick-and-mortar operations across the country, according to a Marcus & Millichap retail sales research brief.

## **Are Physical Stores Rebounding?**

In South Florida, Sturgis said he's seen an increase in brick-and mortar-stores offering online ordering services, such as ordering in advance and curbside delivery.

“They’re also taking advantage of outdoor seating. A lot of that loosened up during COVID. Culturally, I think it’s more in demand than it ever has been,” said Sturgis. “From a restaurant perspective, a lot of people want the outdoor opportunity. We have very good weather and we don’t have to contend with snowstorms and blackouts.”

Retail vacancy is constricted in all of South Florida due to low supply and increased demand, especially for second-generation restaurants and bars.

“We get at least 10 calls a week for those types of uses,” said Sturgis.

Wynwood, Brickell and the Design District are some of the most popular Miami-Dade submarkets where retail tenants are hoping to find space. Flagler Village, 13th Street and downtown Fort Lauderdale are still the most active retail locations in Broward. In Palm Beach County, popular retail spaces are still predominantly in downtown West Palm Beach.

Retailers have already fully recovered and are expanding in Miami at faster rates than what’s been seen in nearly a decade. That’s according to Franklin Street’s Q4 2021 South Florida Retail Report.

“South Florida has benefited greatly from fewer restrictions and closures surrounding COVID-19. People know our area is open for business, and that has served as a boon to the retail market,” said Matus. “Additionally, because there are still restrictions around international travel, domestic travel to South Florida has increased, which is having a huge positive impact on the local retail market. Throughout the rest of 2022, we expect people to continue opening businesses and investing their money in South Florida at a substantial rate.”

## **Areas to Watch**

The newly-renovated mixed-use property CocoWalk in Miami's Coconut Grove commercial district is now 100% leased and has opened new dining concepts and retailers with 150,000 square feet of prime retail space.

Following the openings of Sushi Garage, modern American restaurant Botánico Gin & Cookhouse in late 2021, and also American bar and grill Key Club this year, the neighborhood's only movie theater is making a comeback.

The cinema, Cinépolis, will debut with a brand-new theater this winter, which aims to draw in more consumers to other concepts in the retail center, such as soon-to-be-open restaurants Ariete, Navé and Chug's, by Ariete Hospitality.

Narbona Natural Foods & Farm Market, an 8,253-square-foot specialty market that features produce from farms in South America, will have a butcher shop, fresh pasta and a bakery with a selection of gourmet cheeses, craft beers, wines and coffees. The CocoWalk location will be Narbona's second market to open in South Florida.

It's hoped that the cinema's renovation will reactivate the live, work, play lifestyle in Coconut Grove, according to Michael Comras, CEO and president of The Comras Co.

"The return of Cinépolis, the top shops already open and our upcoming restaurant debuts by several of Miami's leading hospitality groups will further enhance the lifestyle, dining and shopping experience the new CocoWalk has to offer," said Comras.



The new retailers will join national, regional and local concepts, such as PLANTA Queen, Mister 01 Extraordinary Pizza, Sweetgreen, Salt & Straw, Edite Mode, Bluemercury, FP Movement, Europann, Edite Mode, The Spot Barbershop and School of Rock.

Preston said East Delray is a market to watch as demographics evolve from older generations to young families and professionals.

“It’s one of the hottest places to live in the country. There’s been a push for high-quality food and beverage concepts that are planting their flag in that market. Restaurant performance is off the charts. It’s a beautiful area that continues to grow,” said Preston. “It’s smart growth and, the way things are going, it’s just going to become a more interesting destination for South Floridians.”

Azor said some of the hottest retail areas in the tri-county area are Aventura, Doral, Pinecrest, Westin, Davie, Plantation and West Boca. They’re doing well due to the high disposable income of surrounding residents.

“Tenants want high sales, sales come from high-disposable income and you need to have the higher income to go out to eat five times a week,” said Azor. “That’s what’s supporting and fueling the growth.”

Matus said he’s excited about Kendall Square, a shopping center about a 15-minute drive away from Pinecrest on Kendall Drive at 13710 SW 88th St. in Miami. The shopping center is owned by Kendall Square Investors, which is led by Adam J. Tiktin, who hired the Miami commercial real estate agency Saglo Development to handle leasing and management.

“It is a 17,545-square-foot shopping center, anchored by a free-standing Taco Bell and a First Bank, and including tenants such as Papa Johns, El Mayoral, Deco Nails and Diva’s Nectar Bar,” said Matus. “There is only one vacant 900 square-foot unit, which is available and is completely built out as a hair salon and ready for immediate occupancy.”

The shift of wealth to South Florida plus the anticipated pent-up spending from domestic travelers and international investors and customers will continue to drive the retail market, the way Sturgis sees it.

“It will largely be a continuation of the past couple of years,” said Sturgis. “As a whole, the sector will continue to do quite well.”