South Florida Office Guide 2011
Education tenants occupy special niche

Eric Kalis
March 21, 2021

Office building owners in South Florida are seeing increased demand from educational institutions that added many new students during the economic downturn.

Those institutions — which include nonprofit Keiser University and for-profit colleges Kaplan University and Strayer University — are giving landlords more options to fill vacant space, but brokers say problems could arise when the economy improves and students return to the workforce.

For Arthur Keiser, chancellor and chief executive at Fort Lauderdale-based Keiser University, economic downturns have generated booms in student enrollment.

And more students means a need for more space.

Keiser, which completed the transition from a for-profit to nonprofit university in January, opened a new campus in northwest Miami-Dade County earlier this month and plans to debut a new Pembroke Pines campus on June 30. University officials are looking to further expand Keiser’s footprint in South Florida, particularly in southern Miami-Dade County.

Keiser is one of several educational institutions cited by brokers as aggressively seeking additional space. They also point to for-profit colleges Kaplan University and Strayer University.

More than 18,000 students are enrolled at Keiser, a career-oriented university that caters to adult students. About 200 employees are expected to be added to Keiser’s 3,500-employee staff this year.

"With the economic downturn, demand has pretty significantly increased," Keiser said. "Career colleges like ours are counter-cyclical. We've done well in downturns."

Calls to representatives of Kaplan and Strayer were not returned.
"Many educational [office] users are expanding their operations because a lot of people are going back to school to hone their skills for a new economy," said Steven Hurwitz, vice president at Coral Gables-based Continental Real Estate Cos. "Many markets within South Florida have seen an increase in demand from schools.

The education sector's growth has allowed university officials to relocate to office buildings that previously would not have been on their radar. For example, Florida International University signed a 10½-year lease in January to move its executive MBA program from the Macy's building in downtown Miami to 1101 Brickell Ave. The university is leasing 32,000 square feet at 1101 Brickell, which is owned by Florida East Coast Realty.

"The top floor of a department store is not ideal for what FIU is trying to accomplish," said John Marshall, principal at tenant representation firm CresaPartners. Marshall helped broker the 1101 Brickell lease.

"Imagine what will happen for the program when it is located in the heart of Brickell with signage next to some of the biggest companies in the world," Marshall said. "The demand from young executives is there."

While office property owners are thrilled to add universities to the current pool of available tenants, schools present unique challenges, particularly in how the space is used.

Most office tenants operate during regular business hours and are closed on the weekends. But educational tenants hold classes on nights and weekends.

The unconventional hours require additional capital improvements — and expenses — from landlords, according to Walter Robinson, senior vice president at commercial real estate firm Transwestern.

"A properly managed building will either charge extra for nights and weekends or set up the [heating, ventilating and air-conditioning] infrastructure to operate independently" from the rest of the building, Robinson said.

That is one reason office landlords will insist on a long-term lease for an educational tenant, he said.

"At the end of the lease term, you would have to change back to a traditional office use," Robinson said. "You need a long-term lease to support that."
Also, educational tenants require much more parking than other users. That can be a "limiting factor" when a university goes looking for space, according to Keiser, who added that most of his university's students drive to class.

Those issues can be avoided with build-to-suit deals in which a school leases land from a developer, who constructs a facility on the property to accommodate the tenant's needs. Keiser entered into a long-term land lease last summer with Boca Raton-based Procacci Development for its newest campus at 2101 NW 117th Ave. The 90,000-square-foot facility includes a separate 125,000-square-foot parking garage.

The Procacci-developed campus was planned by Keiser more than three years ago, before the recession took hold, Keiser said. Since then, prices of office properties have come down dramatically. Lower pricing, combined with the university's conversion from for-profit to nonprofit, has Keiser officials looking for buildings to acquire in the next two years.

"There are opportunities now to buy a property at significantly lower costs; you can't build today for the price of what you can buy," Keiser said. "In a for-profit environment, it is easier to [construct] buildings and lease [them] back. In a nonprofit environment, we can float educational revenue bonds as a method of financing."

The switch to nonprofit status does not necessarily mean Keiser will avoid ongoing scrutiny from Florida's attorney general, which is investigating several for-profit colleges over complaints about their enrollment practices. The state began the investigation last fall after 183 formal complaints were made to the federal Government Accountability Office against 15 schools, including Keiser and Kaplan.

The U.S. Department of Education is putting together a rule that could weaken for-profit colleges' ability to obtain federal grants for students if they struggle to find jobs after graduating.

The probes have gotten the attend of office building owners, according to Scott O'Donnell, senior vice president at CB Richard Ellis.

Landlords "are highly concerned about the future strength of for-profit colleges that don't have a strong track record financially, as it relates to graduation rates," O'Donnell said.
South Florida office landlords are just as worried that enrollments — and the need for space — will end when the economy is fully recovered.

"It could be similar to what happened to the mortgage business during the real estate boom," Marshall said. "Many people became mortgage brokers and demanded office space during that cycle. When it went bust, all of a sudden the market was inundated with sublease space.

But education tenants, while an "increasing factor" in the market, still occupy less than 1 percent of the region's office space, Robinson said. Students leaving school and rejoining the workforce would positively impact South Florida's economy — and the real estate market.

"In an economy as diverse as [South Florida's], the increase in absorption of office space would far outweigh the loss of demand from students," he said.