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FINANCE

Why Palm Beach, Florida Is The 'New Greenwich' For Wall Streeters

JACQUELINE DETWILER, DUJOUR
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Neilson Barnard/Getty Images
The Palm Beach finance crowd can paddleboard whenever they please.

Behind a semicircular brick drive and a lawn as manicured as a putting green sits a 30,000-square-foot masterpiece of Italian Renaissance architecture called Casa Nana.

John Porter, a real estate associate for Corcoran who oversees some of the largest sales in Palm Beach County, Florida, points out the spiral staircase, built by famed 1920s architect Addison Mizner for the founder of the National Tea Company. "This home went for \$30.2 million in 2003; today that sum wouldn't be in the top 25 highest prices" of houses for sale in this area, Porter says. "Palm Beach real estate has gone from nothing going on to nothing left to sell."

Porter is giving me a tour of the so-called Billionaire's Row, a stretch of South Ocean Boulevard on the island of Palm Beach that is bordered by some of the highest hedges I've ever seen. Through gaps in the greenery appear stone fountains, elephant statues, pools the size of tennis complexes (next to actual tennis complexes), and more clay roofs than one could count. It's a monumental display of wealth, and it is rapidly expanding, not just here but in Delray Beach, Jupiter, Palm Beach Gardens and Boca Raton, as money pours out of the Northeast (and in some cases, from as far as London and Singapore) and into this already wealthy section of southeast Florida. Approximately 70 hedge and private equity funds are now headquartered here, many of which have set up shop in the last two years, jacking up home prices and spurring a countywide initiative to become, as some have said, "the new Greenwich."

For hedge fund managers who might normally be inclined toward Westchester or Connecticut, the allure of South Florida is as plain as grits on toast. The homes are sprawling; the Intracoastal Waterway is a yachtsman's paradise. It has a glittering social scene. During high season—October through March—there might be several fundraisers on any given night. Perhaps the key factor, however: In Florida, there are no individual income taxes, no estate taxes and no capital gains taxes. A hedge fund manager reporting \$1 million in income can expect to pay only the federal government, whereas his counterpart living in Connecticut pays that plus an extra \$67,000. And if the poor schmuck were still in New York City? He'd better be ready to fork over \$104,300.

As for why all of this is happening now, when Florida has long been a sunny tax haven, so to speak, financiers point to the upcoming application of Section 457A of the Internal Revenue Code. Before 457A was enacted, certain fees and related earnings could grow tax deferred in offshore accounts for up to ten years. But now, according to the section, hedge fund managers will need to funnel all of the fees that were deferred before 2009 and their related earnings back into the U.S. by 2017. If a manager lives in

Florida when this happens, he's much less likely to pay exorbitant state taxes on the whole amount. If he still lived in New York City? Fuggedaboudit.

It's the job of Kelly Smallridge, president and CEO of the Palm Beach Business Development Board, to ensure that hedge fund and private equity managers are informed of these benefits, in the hopes that they, and their firms, will become Palm Beach County's newest residents. She's developed a red-carpet tour that goes beyond looking at office space and real estate to include meeting headmasters at private schools, the school-district superintendent and the mayor and speaking with the governor's staff and CEOs who have moved their operations here. Plus, of course, a few nights on the town.

In the winter, when the well-to-do from all over the Northeast visit Florida for charity balls, the board hosts dinners and parties for prospective relocators and local captains of industry. Last year, Smallridge and company sponsored a soiree aboard a \$70 million yacht that featured Veuve Clicquot, caviar and live jazz. Guests—who included the CEOs of a national IT company, a major finance company and a land developer, venture capitalists, hedge fund managers and the creator of Goldman Sachs' prime brokerage division—took private tours with the captain of the yacht.

Smallridge is also working with former hedge fund CIO Dr. Rainford Knight to develop a club for local investment managers called SocialAlpha that encourages bankers in Palm Beach County's ritzy social scene to get to know each other. Even Florida governor Rick Scott has gotten involved, sending personal letters to friends and prospects from the Northeast (the governor is a former Greenwich resident and businessman) to convince them of Florida's merits.

Smallridge and Governor Scott are hoping to induce a snowball effect, and so far, it seems to be working. Every financier who moves south chips away at the primary reason to remain near New York City—the fact that everyone else is there. That's not to say it's been easy. Florida is still Florida, and popular opinion has not been kind. Even Palm Beach, which has for the most part dodged the insults hurled at the rest of the state, is known for its residents' apocalyptically bad driving and worse Hawaiian shirts.

"There was a fair amount of trepidation," says Al Rabil III, managing partner and CEO of Kayne Anderson Real Estate Advisors, who made the move from Armonk, New York, with 20 coworkers this summer. "But once everybody got past the stereotypes and actually came and looked, that changed." He says most of his employees weren't looking for bottle service and models anyway. The majority of those who have reached the upper echelons of financial management are married with children, and the appeal of a semi-tropical paradise with luxury restaurants, year-round recreation, and sophisticated socializing in a community far more tight-knit than Manhattan (yes, that's Donald Trump over there) is not lost on them.

Porter's tour of Billionaire's Row was part of a modified version of one of the Business Development Board's red-carpet tours that I took as part of researching this story. I ate breakfast at the clubby Top of the Point restaurant with some of the area's prominent financiers. A waiter in a captain's outfit served lobster rolls while a CPA, a lawyer and the executive director of the Palm Beach County Education Commission touted the area's benefits. I surveyed real estate and office space surrounded by miles of water without once having my foot stepped on by a tourist. You can see how all this might sway someone who's on the fence.

Exploring the sugary beaches of South Florida, one starts to wonder why Wall Streeters would be on the fence at all. Between the smiling locals and the shopping on Worth Avenue, the Hiaasen-esque stereotypes recede. What remains are the facts: Take-home pay is higher, commutes are shorter, and it's just as fabulous as Manhattan, at least for four months of the year. Meanwhile, no one in Florida even owns an ice scraper. With the Internet allowing more and more money managers to perform their work from nearly anywhere, there are few reasons not to make the move.

"Initially, it was a way to play golf and keep the wife and kids happy," says Brett Langbert, managing director and head of sales at I.A. Englander & Co. "But once we moved down, it became a quality-of-life issue. There are unlimited things the kids can do outside. I have to tell you, my wife and I are so happy we haven't had to go to one of those indoor bouncy-castle places since we got here."