

MIAMI OFFICE MARKET

THIRD QUARTER 2017

Demand continues at a healthy pace in 2017

Rents keep rising across the market

ECONOMY

Job growth still robust, but wage growth is slowing

Miami's unemployment rate has fallen to its lowest level in a decade, with job growth seen in international trade, tourism, service sectors, and construction. In recent months wage growth has slowed, making this a more competitive market for attracting business. Moody's Analytics predicts that Miami will benefit from a rising stock market and a strong global economy over the near term. Miami is expected to continue outpacing national economic growth with a 3.9% rise in gross metro product in 2017, due to these factors as well as a highly skilled workforce.

DEVELOPMENT

Speculative development increases to meet demand

For much of the decade, office development in Miami has been relatively muted, but 2017 has brought the highest levels of new construction since 2010. While no new speculative space was completed in the first half of the year, the 246,085-SF Waterford at Blue Lagoon was completed in Q3, and there remain 592,083 SF under construction across four submarkets. Cumulatively, these projects are approximately 37% pre-leased. The largest of the projects are Two and Three MiamiCentral in the Downtown submarket. There are also two smaller projects underway in Coral Gables, and one each in Aventura and Coconut Grove.

VACANCY

Vacancy near a ten-year low in Miami-Dade

Q3 2017's vacancy rate of 12.6% is up slightly from Q2's 12.5%, which was the lowest rate reported here since 2007. This quarter's small uptick was caused by the delivery of the 246,085-SF Waterford at Blue Lagoon. Still, vacancy declined in several submarkets during Q3 and is below 15.0% in nearly all of them, including Brickell at 12.2%, Coral Gables at 8.9%, and Miami Airport at 11.1%. The Downtown submarket reports vacancy at 18.9%, up from Q2 and one of the highest rates in the Miami office market.

ABSORPTION

Demand continues to rise throughout 2017

In Q3 2017 Miami's office market absorbed 126,435 SF, slightly above Q2's level of demand and contributing to a YTD total of 348,845 SF. This compares favorably to 2016's annual absorption of 153,484 SF. Demand has risen in each quarter this year, remaining in a consistent range of 100,000-125,000 SF absorbed quarterly throughout the first nine months of 2017. Demand in Q3 2017 was strongest in the Coral Gables submarket, while year-to-date demand is strongest in Brickell.

FORECAST

Declining vacancy, continued rent growth

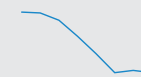
For the past several years the Miami office market has seen steady levels of demand and limited development, which has brought vacancy down from over 20% to the low teens. This in turn has given rise to strong rent growth across the market, with Class A asking rates now averaging over \$50.00/SF in Brickell and Aventura. In the fourth quarter of 2017, the market will add 318,000 SF of new product, which is approximately 50% pre-leased. This may lead to a short-term uptick in vacancy unless the remaining space is leased prior to delivery. Still, the long-term forecast calls for continuing rent growth and a vacancy rate that could reach single digits in the next 24 months.

QUARTERLY SNAPSHOT

8.5 YEARS

CURRENT QUARTER

VACANCY



12.6%

Essentially unchanged from Q2

ABSORPTION



126,435 SF

Up from Q2, in line with recent demand

RENTAL RATE



\$35.77 PSF

A new record high for asking rents

UNDER CONSTRUCTION



592,083 SF

Most of that in Downtown and Coral Gables

AVERAGE SALE PRICE



\$350 PSF

Up from previous 12-month period

JOB GROWTH



2.0%

Projected annual growth in 2017 to again outpace the U.S. average

MIAMI OFFICE MARKET

THIRD QUARTER 2017

MIAMI OFFICE MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	DIRECT SF VACANT	DIRECT VACANCY RATE	SUBLEASE SF	TOTAL SF VACANT	OVERALL VACANCY RATE	3Q NET ABSORPTION	YTD NET ABSORPTION	UNDER CONSTRUCTION (SF)	AVERAGE QUOTED RENT PSF (FULL SERVICE)
URBAN SUBMARKETS										
Downtown Class A	4,796,516	926,769	19.3%	16,696	943,465	19.7%	25,458	-66,848	318,000	\$44.28
Downtown Class B	3,407,941	598,576	17.6%	6,100	604,676	17.7%	5,177	48,079	0	\$27.44
Downtown Overall	8,204,457	1,525,345	18.6%	22,796	1,548,141	18.9%	30,635	-18,769	318,000	\$38.35
Brickell Class A	4,947,867	440,505	8.9%	63,101	503,606	10.2%	20,279	144,888	0	\$52.08
Brickell Class B	2,499,818	377,503	15.1%	27,414	404,917	16.2%	-9,535	-7,373	0	\$35.65
Brickell Overall	7,447,685	818,008	11.0%	90,515	908,523	12.2%	10,744	137,515	0	\$44.30
Urban Submarkets Total										
CBD Class A	9,744,383	1,367,274	14.0%	79,797	1,447,071	14.9%	45,737	78,040	318,000	\$48.24
CBD Class B	5,907,759	976,079	16.5%	33,514	1,009,593	17.1%	-4,358	40,706	0	\$30.91
CBD Overall	15,652,142	2,343,353	15.0%	113,311	2,456,664	15.7%	41,379	118,746	318,000	\$41.70
SUBURBAN SUBMARKETS										
Aventura Class A	872,524	61,604	7.1%	0	61,604	7.1%	-9,616	-8,510	46,702	\$50.80
Aventura Class B	212,500	10,135	4.8%	0	10,135	4.8%	3,323	-3,100	0	\$40.55
Aventura Overall	1,085,024	71,739	6.6%	0	71,739	6.6%	-6,293	-11,610	46,702	\$48.57
Coconut Grove Class A	547,332	33,610	6.1%	0	33,610	6.1%	2,895	12,401	95,000	\$43.80
Coconut Grove Class B	614,688	25,238	4.1%	0	25,238	4.1%	6,065	6,944	0	\$32.70
Coconut Grove Overall	1,162,020	58,848	5.1%	0	58,848	5.1%	8,960	19,345	95,000	\$40.45
Coral Gables Class A	4,740,016	364,702	7.7%	31,674	396,376	8.4%	93,023	139,677	132,381	\$41.31
Coral Gables Class B	2,520,125	253,055	10.0%	0	253,055	10.0%	-2,879	-41,630	0	\$35.45
Coral Gables Overall	7,260,141	617,757	8.5%	31,674	649,431	8.9%	90,144	98,047	132,381	\$39.26
Kendall Class A	1,253,684	219,019	17.5%	0	219,019	17.5%	31,853	34,215	0	\$39.50
Kendall Class B	2,757,582	282,528	10.2%	3,574	286,102	10.4%	-11,382	17,332	0	\$28.05
Kendall Overall	4,011,266	501,547	12.5%	3,574	505,121	12.6%	20,471	51,547	0	\$31.40
Miami Airport Class A	5,219,224	522,018	10.0%	28,990	551,008	10.6%	50,784	75,862	0	\$34.00
Miami Airport Class B	6,435,448	731,504	11.4%	6,073	737,577	11.5%	-67,627	32,404	0	\$26.05
Miami Airport Overall	11,654,672	1,253,522	10.8%	35,063	1,288,585	11.1%	-16,843	108,266	0	\$29.07
Miami Beach Class A	840,849	70,838	8.4%	10,300	81,138	9.6%	-2,383	-32,703	0	\$48.65
Miami Beach Class B	1,592,468	124,398	7.8%	4,922	129,320	8.1%	-382	-31,264	0	\$40.07
Miami Beach Overall	2,433,317	195,236	8.0%	15,222	210,458	8.6%	-2,765	-63,967	0	\$42.98
Miami Lakes Class A	417,048	81,553	19.6%	0	81,553	19.6%	3,029	22,479	0	\$24.20
Miami Lakes Class B	1,314,443	337,895	25.7%	0	337,895	25.7%	-11,647	5,992	0	\$22.00
Miami Lakes Overall	1,731,491	419,448	24.2%	0	419,448	24.2%	-8,618	28,471	0	\$22.45
Suburban Submarkets Total										
Suburban Class A	13,890,677	1,353,344	9.7%	70,964	1,424,308	10.3%	169,585	243,421	274,083	\$39.02
Suburban Class B	15,447,254	1,764,753	11.4%	14,569	1,779,322	11.5%	-84,529	-13,322	0	\$29.51
Suburban Overall	29,337,931	3,118,097	10.6%	85,533	3,203,630	10.9%	85,056	230,099	274,083	\$34.01
MIAMI-DADE TOTAL										
Overall Class A	23,635,060	2,720,618	11.5%	150,761	2,871,379	12.1%	215,322	321,461	592,083	\$42.45
Overall Class B	21,355,013	2,740,832	12.8%	48,083	2,788,915	13.1%	-88,887	27,384	0	\$28.80
Overall Class A & B	44,990,073	5,461,450	12.1%	198,844	5,660,294	12.6%	126,435	348,845	592,083	\$35.77

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METHODOLOGY

The information in this report is the result of Transwestern's ongoing analysis of key for lease office buildings. Quarterly statistics are based on a defined inventory of multi-tenant, Class A and Class B product of 30,000 SF+; this excludes medical, government and most office condos.



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