

MIAMI OFFICE MARKET

FOURTH QUARTER 2017

Vacancy in Miami reaches a 10-year low Construction increases to meet the demand

ECONOMY

Miami continues to benefit from strong fundamentals

Miami's unemployment rate has fallen to its lowest level in a decade, with job growth seen in the international trade, tourism, and transportation sectors. In recent months wage growth has slowed, making this a more competitive market for attracting business. Moody's Analytics predicts that Miami's economic growth will continue to outpace the nation due to its ability to attract a talented and productive workforce. The area will also benefit from a rising stock market and a strong trade environment.

DEVELOPMENT

Speculative development rises to meet demand

For much of the decade, office development in Miami has been relatively muted, but 2017 brought the highest levels of new construction since 2010. While no new speculative space was completed in the first half of the year, two projects totaling 370,000 SF were completed in the second half of the year. At the end of 2017, there were 421,733 SF under construction across three submarkets. Cumulatively, these projects are approximately 42% pre-leased and the largest is Two MiamiCentral (194,352 SF) in the Downtown submarket. There are also two smaller projects underway in Coral Gables, and one in Coconut Grove.

VACANCY

Vacancy reaches a ten-year low

Q4 2017's vacancy rate of 12.1% is down from Q3 and is the lowest rate recorded since 2007. This quarter's declining vacancy was the result of healthy absorption combined with limited deliveries. Vacancy declined in most submarkets during Q4 and is below 15.0% in nearly all of them, including Brickell (11.5%), Coral Gables (8.7%), and Miami Airport (9.9%). The Downtown submarket vacancy ended the year at 19.9%, up slightly from Q3 and one of the highest rates in the Miami office market.

ABSORPTION

Demand was strong throughout 2017

In Q4 2017, Miami's office market absorbed 145,693 SF, slightly up from Q3's level of demand and contributing to an annual total of 528,495 SF. This compares favorably to 2016's annual absorption of 213,701 SF. Absorption was consistently strong throughout 2017, indicating healthy demand by office using industries. Demand in Q4 2017 was strongest in Brickell, while at an annual level demand was strongest in the Miami Airport submarket.

FORECAST

Declining vacancy and continued rent growth

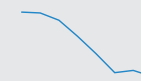
For the past several years the Miami office market has seen steady levels of demand and limited development, which has brought vacancy down from over 20% into the low teens. This in turn has given rise to strong rent growth across the market, with Class A asking rates now averaging over \$50.00 PSF in Brickell. In the first half of 2018, the market will add 325,000 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 includes 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



12.1%

Down from Q3 to a new low

ABSORPTION



145,693 SF

Up from Q3 for a strong year end finish

528,495 SF

Year end absorption total

RENTAL RATE



\$35.94 PSF

A new record high for asking rents

UNDER CONSTRUCTION



421,733 SF

Most in Downtown and Coral Gables

AVERAGE SALE PRICE



\$244 PSF

Down slightly from previous 12-month period

JOB GROWTH



2.0%

Annual growth in 2017 again outpaces the U.S. average

MIAMI OFFICE MARKET

FOURTH QUARTER 2017

MIAMI OFFICE MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	DIRECT VACANT (SF)	DIRECT VACANCY RATE	SUBLEASE (SF)	TOTAL VACANT (SF)	OVERALL VACANCY RATE	4Q NET ABSORPTION	YTD NET ABSORPTION	UNDER CONSTRUCTION (SF)	AVERAGE QUOTED RENT PSF (FULL SERVICE)
URBAN SUBMARKETS										
Downtown Class A	4,920,968	1,049,944	21.3%	16,820	1,066,764	21.7%	27,297	-65,695	194,352	\$44.94
Downtown Class B	3,260,841	564,307	17.3%	0	564,307	17.3%	8,477	4,023	0	\$27.57
Downtown Overall	8,181,809	1,614,251	19.7%	16,820	1,631,071	19.9%	35,774	-61,672	194,352	\$39.14
Brickell Class A	4,949,098	419,531	8.5%	80,346	499,877	10.1%	30,135	136,808	0	\$51.34
Brickell Class B	2,268,317	303,211	13.4%	25,577	328,788	14.5%	35,370	48,142	0	\$35.40
Brickell Overall	7,217,415	722,742	10.0%	105,923	828,665	11.5%	65,505	184,950	0	\$44.32
Urban Submarkets Total										
CBD Class A	9,870,066	1,469,475	14.9%	97,166	1,566,641	15.9%	57,432	71,113	194,352	\$48.15
CBD Class B	5,529,158	867,518	15.7%	25,577	893,095	16.2%	43,847	52,165	0	\$30.78
CBD Overall	15,399,224	2,336,993	15.2%	122,743	2,459,736	16.0%	101,279	123,278	194,352	\$41.91
SUBURBAN SUBMARKETS										
Aventura Class A	790,195	67,250	8.5%	2,165	69,415	8.8%	-21,075	-31,748	0	\$48.55
Aventura Class B	106,000	2,326	2.2%	0	2,326	2.2%	654	1,774	0	\$44.78
Aventura Overall	896,195	69,576	7.8%	2,165	71,741	8.0%	-20,421	-29,974	0	\$48.34
Coconut Grove Class A	547,332	24,267	4.4%	0	24,267	4.4%	9,343	22,676	95,000	\$43.76
Coconut Grove Class B	614,688	17,816	2.9%	0	17,816	2.9%	-578	14,366	0	\$33.03
Coconut Grove Overall	1,162,020	42,083	3.6%	0	42,083	3.6%	8,765	37,042	95,000	\$40.60
Coral Gables Class A	4,659,152	362,482	7.8%	33,585	396,067	8.5%	-1,969	137,689	132,381	\$41.26
Coral Gables Class B	2,477,625	221,602	8.9%	2,150	223,752	9.0%	-8,118	-46,932	0	\$35.05
Coral Gables Overall	7,136,777	584,084	8.2%	35,735	619,819	8.7%	-10,087	90,757	132,381	\$39.06
Kendall Class A	1,303,684	201,653	15.5%	0	201,653	15.5%	17,666	101,581	0	\$38.10
Kendall Class B	2,732,197	244,871	9.0%	3,574	248,445	9.1%	4,600	25,707	0	\$27.95
Kendall Overall	4,035,881	446,524	11.1%	3,574	450,098	11.2%	22,266	127,288	0	\$31.35
Miami Airport Class A	5,219,224	484,723	9.3%	63,635	548,358	10.5%	30,830	78,512	0	\$33.05
Miami Airport Class B	6,319,387	586,795	9.3%	3,330	590,125	9.3%	4,208	129,844	0	\$26.98
Miami Airport Overall	11,538,611	1,071,518	9.3%	66,965	1,138,483	9.9%	35,038	208,356	0	\$29.29
Miami Beach Class A	840,849	71,031	8.4%	10,300	81,331	9.7%	-193	-32,896	0	\$48.88
Miami Beach Class B	1,660,585	113,936	6.9%	3,885	117,821	7.1%	5,572	-20,947	0	\$38.74
Miami Beach Overall	2,501,434	184,967	7.4%	14,185	199,152	8.0%	5,379	-53,843	0	\$42.63
Miami Lakes Class A	378,441	77,231	20.4%	0	77,231	20.4%	1,869	25,651	0	\$25.31
Miami Lakes Class B	1,272,221	320,812	25.2%	0	320,812	25.2%	1,605	-60	0	\$22.66
Miami Lakes Overall	1,650,662	398,043	24.1%	0	398,043	24.1%	3,474	25,591	0	\$23.21
Suburban Submarkets Total										
Suburban Class A	13,738,877	1,288,637	9.4%	109,685	1,398,322	10.2%	36,471	301,465	227,381	\$38.39
Suburban Class B	15,182,703	1,508,158	9.9%	12,939	1,521,097	10.0%	7,943	103,752	0	\$29.76
Suburban Overall	28,921,580	2,796,795	9.7%	122,624	2,919,419	10.1%	44,414	405,217	227,381	\$33.86
MIAMI-DADE TOTAL										
Overall Class A	23,608,943	2,758,112	11.7%	206,851	2,964,963	12.6%	93,903	372,578	421,733	\$42.25
Overall Class B	20,711,861	2,375,676	11.5%	38,516	2,414,192	11.7%	51,790	155,917	0	\$29.07
Overall Class A & B	44,320,804	5,133,788	11.6%	245,367	5,379,155	12.1%	145,693	528,495	421,733	\$35.94

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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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