

**MIAMI**  
**Q417 OFFICE MARKET**

## MIAMI OFFICE MARKET

The Miami office market posted its eighth consecutive year of demand outpacing supply, bringing positive net absorption to just under 791,000 square feet, the market's second-strongest performance since the recovery began. Vacancy shrank by 110 basis points over the past year to 11.2%, making Miami's vacancy rate the lowest in the region for the past 24 months. The demand for higher-tier space held, as Class A space led the market with 320,950 square feet of positive net absorption, while Class B space closed the gap with 258,896 square feet absorbed during 2017. The quoted average rate recorded four years of consecutive annual increases, to \$35.18/SF from \$34.52/SF one year ago. The average rate for higher-end space rose significantly, with the Class A average climbing 3.0% from one year ago to \$43.89/SF. Although rate growth has slowed since 2015, when the strongest year-over-year increase was recorded, Class A rents remained above historical levels. The Class B average increased to \$33.84/SF from \$32.75/SF, shattering previous records for second-tier space, while Class C rose to \$24.73/SF from \$24.00/SF one year ago. Asking rents for all three segments are reaching record highs. This trend should continue through 2018, as little development and no major shift in economic conditions will significantly impact the office segment.

### Leasing and Demand

Leasing activity improved from recent quarters, totaling more than 1.0 million square feet in the fourth quarter, while bringing year-to-date volume to over 3.3 million square feet, a modest increase from 2016. Class A space accounted for 1.6 million square feet of transaction activity, up slightly from one year ago. Class B followed closely with 900,000 square feet at the close of fourth-quarter 2017, while Class C remained stable from the previous year with 781,000 square feet of deals done. Most deals were renewals, expansions or lateral relocations. Over 668,000 square feet of leases came from midsize or larger tenants. This was up slightly from the past year. The medical industry took the lead with 173,000 square feet leased for the year, while business services followed with 102,000 square feet. An uptick in leasing by financial and education occurred during the year, with each sector completing over 74,000 square feet each. Hospitality companies, law firms and the real estate sector rounded out the bottom three with less than 30,000 square feet each.

### Investment Sales

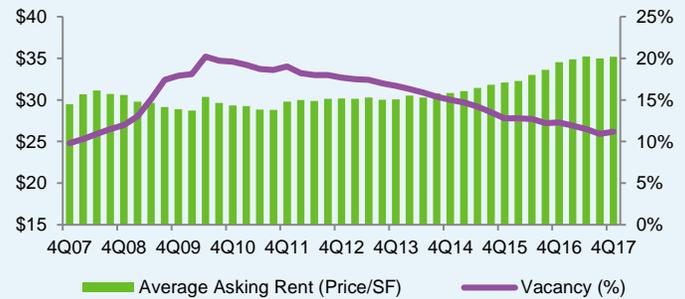
Eight sales totaling over 818,000 square feet occurred during the fourth quarter. This represented a slight increase in volume from the previous quarter, but it also brought 2017 totals to 2.2 million square feet valued at just over \$503.0 million, a considerable decrease from the 4.0 million square feet that sold for \$1.0 billion last year during the same period. The average price per square foot dipped slightly to \$245/SF, which can be attributed to the year's decrease in trophy building sales, which had sold for more than \$391/SF. There remains a high demand for trophy buildings, but as with most major high-end buildings traded hands over the last three years, there may be a limited amount of opportunities for well-leveraged property sales in 2018.

### Current Conditions

- Fundamentals held steady in 2017, as Miami's office market saw demand outpace supply and vacancy dip from last year at this time.
- Three years of fast-rising rents coupled with limited development and a lack of available large blocks of space could create sticker shock for companies with upcoming lease expirations.
- Class A asking rents in the Brickell submarket reached \$55.00/SF at the close of 2017.
- Tenants may star to push back as suburban submarkets and lower-tier space gain momentum.

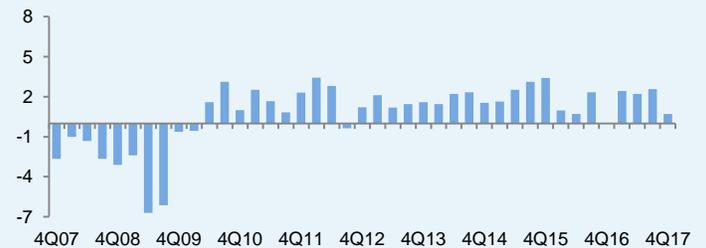
### Market Analysis

#### Asking Rent and Vacancy



#### Net Absorption

Square Feet, 100,000



### Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	47.4 MSF	47.2 MSF	47.2 MSF	↑
Vacancy Rate	11.2%	10.9%	12.3%	↓
Quarterly Net Absorption	71,085	257,303	(3,421)	↔
Average Asking Rent	\$35.18	\$34.99	\$34.52	↑
Under Construction	633,009	879,094	791,247	↓
Deliveries	246,085	0	132,280	↑

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**Miami Submarket Statistics**

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Brickell Avenue	6,678,223	0	11.7 %	43,108	153,084	\$56.31	\$38.92	\$46.75
Downtown Miami	7,060,693	310,648	17.3 %	-32,513	147,325	\$48.99	\$37.12	\$39.70
<b>CBD Total</b>	<b>13,738,916</b>	<b>310,648</b>	<b>14.6 %</b>	<b>10,595</b>	<b>300,409</b>	<b>\$51.77</b>	<b>\$37.73</b>	<b>\$42.03</b>
Airport West	11,805,792	150,000	10.1 %	53,716	259,409	\$32.65	\$30.75	\$29.60
Biscayne Corridor	1,593,218	0	23.7 %	1,243	32,068	N/A	\$33.97	\$33.14
Coconut Grove	590,803	0	15.1 %	5,914	1,475	N/A	\$36.08	\$34.41
Coral Gables	5,982,988	132,361	8.5 %	65,955	108,031	\$41.69	\$36.90	\$37.02
Coral Way	822,959	0	3.1 %	787	104	N/A	\$29.24	\$27.35
East Airport/Hialeah	892,179	0	6.1 %	3,089	31,376	N/A	\$20.51	\$25.07
Kendall/South Dade	4,291,946	0	10.6 %	-6,422	3,974	\$41.55	\$29.67	\$28.55
Miami Beach	2,131,494	0	4.9 %	-5,512	4,914	\$44.51	\$40.85	\$40.75
Miami Lakes	1,806,918	0	15.4 %	-8,873	47,056	\$28.16	\$23.11	\$23.34
Northeast Dade	3,225,129	40,000	6.6 %	-47,454	6,468	\$45.85	\$40.12	\$30.13
South Miami	561,200	0	4.2 %	-1,953	-3,624	N/A	\$44.00	\$34.77
<b>Suburban Total</b>	<b>33,704,626</b>	<b>322,361</b>	<b>9.9 %</b>	<b>60,490</b>	<b>491,251</b>	<b>\$37.16</b>	<b>\$32.06</b>	<b>\$31.22</b>
<b>Totals</b>	<b>47,443,542</b>	<b>633,009</b>	<b>11.2 %</b>	<b>71,085</b>	<b>791,660</b>	<b>\$43.89</b>	<b>\$33.84</b>	<b>\$35.18</b>

**Miami Lease/User Transactions**

Tenant	Building	Submarket	Type	Square Feet
Merrill Lynch	701 Brickell Ave	Brickell Avenue	Renewal	105,738
Florida Blue	Doral Court	Airport West	Direct	81,500
Bank of America	01 Brickell Ave	Brickell Avenue	Renewal	41,031
Brightline Florida	3 Miami Central-160 W 7 <sup>th</sup> St	Downtown Miami	Direct	24,225

**Select Sales Transactions**

Building	Submarket	Sale Price	Price/SF	Square Feet
*Lennar Corp Ctr 1-3-760 NW 107 <sup>th</sup> Ave	Airport West	\$40,000,000	\$135	295,663
9350 Financial Ctr-9350 S Dixie Hwy	Kendall/South Dade	\$33,000,000	\$314	105,173
50Forty on 7th	Airport West	\$10,900,000	\$132	82,763

\* Denotes Portfolio Sale