

MIAMI OFFICE MARKET

Miami's office market experienced a stronger performance in the third quarter with more space absorbed than seen in the first half of 2018. Demand outpaced supply with more than 206,000 square feet absorbed. However, this improvement was unable to combat the vacancy brought on by new construction, as vacancy saw an uptick of 10 basis points from the previous quarter and was 70 basis points higher than the 10.8% vacancy rate recorded at this time last year. In spite of leveling conditions, asking rents in all three class segments have increased over the past 12 months, pushing the overall average up \$1.77/SF to \$36.53/SF. This is a 16.8% increase from the previous peak of \$31.28/SF recorded a decade ago. The advantage in lease negotiations remained with landlords, as minimal development of new speculative space and record-setting investment sales of Class A product have together pushed up rents significantly in key submarkets. The average rate for higher-end space rose from \$42.66/SF one year ago to \$43.47/SF. Demand for quality space fell slightly behind second-tier buildings with only 34,689 square feet of absorbed space. Class B led the market with 59,834 square feet of positive net absorption, and rates saw the largest year-over-year increase of \$1.44/SF to \$34.85/SF. Class C properties average rents increased to \$26.32/SF from \$25.22/SF over the past year, but saw 16,491 square feet of positive absorption during the quarter.

LEASING AND DEMAND

Leasing activity in third-quarter 2018 was down from previous quarterly performances, as 196 transactions totaling 408,000 square feet were reported, bringing year-to-date transactions to over 1.7 million square feet. Class A space held the number-one spot with 631,740 square feet, followed by Class B space with 549,750 square feet of deal activity. Class C space gained momentum with 500,000 square feet of Class C space deals so far this year. The majority of demand came from tenants already in the market, as renewals and small expansions led activity. Tenants who flew to quality during the Great Recession may tighten cost controls once they realize how expensive high-end Class A rents have become. Although higher-tier space has led demand, the gap in demand between Class A and lower-tier space is narrowing as both secondary sectors beat out higher-end space in third-quarter performance. Midsize to large lease transactions have significantly dropped in 2018. Legal service firms have taken the lead, recording 48,800 square feet leased so far this year, followed by the telecommunications sector with 47,267 square feet. Financial firms dropped from the number-one spot to round out the top three with 38,516 square feet.

INVESTMENT SALES

After an improved second quarter, one sale totaling 1.0 million square feet occurred during the third quarter, bringing 2018 totals to 2.7 million square feet for a combined total of \$519.6 million. The sale of The Landing at MIA office portfolio helped annual sales exceed the 1.8 million square feet that sold for \$550.0 million during the same period last year. Notably, the price per square foot dipped from \$308/SF to \$245/SF at the close of the quarter. This can be attributed to the decreasing sales of high-end Class A properties, while second-tier building sales have increased.

CURRENT CONDITIONS

Miami's office sector was the only market in the region to record positive absorption in the first three quarters, with the strongest performance in third quarter.

The Class A average asking pushed upward to \$43.47/SF, continuing to shatter the previous record during the last economic upswing.

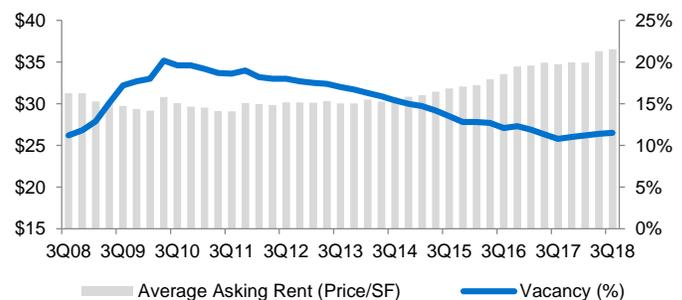
Asking rents for lower-tier space have begun to climb as well as landlord's across the board are pushing rates up.

Construction activity of new speculative product remained limited with healthy preleasing taking place in buildings currently underway.

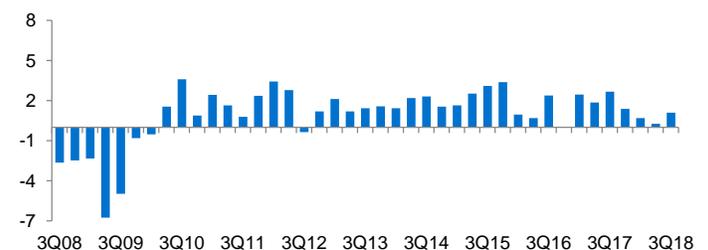
Miami saw only one investment sale with of Miami's largest office portfolio of 1.0 million square feet with Crocker's purchase of The Landing at MIA.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, 100,000)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	47.8 MSF	47.8 MSF	47.3 MSF	↑
Vacancy Rate	11.5%	11.4%	10.8%	↔
Quarterly Net Absorption	111,014	26,934	266,160	↔
Average Asking Rent	\$36.53	\$36.30	\$34.76	↑
Under Construction	353,781	540,781	909,094	↓
Deliveries	187,000	71,582	0	↑

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	11.3 %	28,871	28,894	\$56.84	\$38.45	\$49.22
Downtown Miami	7,379,689	0	19.1 %	139	131,481	\$46.63	\$36.86	\$38.60
CBD Total	14,057,912	0	15.4 %	29,010	160,375	\$50.91	\$37.38	\$42.20
Airport West	11,805,792	150,000	10.0 %	56,543	3,854	\$33.40	\$31.19	\$30.43
Biscayne Corridor	1,645,717	30,000	25.8 %	-7,111	20,193	N/A	\$36.02	\$35.63
Coconut Grove	590,803	78,000	13.9 %	6,092	7,003	N/A	\$35.61	\$34.26
Coral Gables	6,115,349	0	9.4 %	11,314	6,552	\$42.36	\$38.39	\$39.36
Coral Way	822,959	0	4.0 %	-8,660	-7,370	N/A	\$31.61	\$28.74
East Airport/Hialeah	838,179	0	6.5 %	0	29	N/A	\$18.35	\$37.81
Kendall/South Dade	4,291,946	0	9.8 %	31,284	20,354	\$42.10	\$29.58	\$30.00
Miami Beach	2,132,440	0	6.7 %	-12,604	-37,298	\$41.70	\$44.00	\$42.19
Miami Lakes	1,806,918	0	12.3 %	-2,496	36,616	\$28.22	\$23.53	\$24.18
Northeast Dade	3,225,129	95,781	6.3 %	12,980	10,345	\$45.75	\$34.81	\$30.39
South Miami	561,200	0	4.8 %	-5,338	-13,883	-	\$40.86	\$25.60
Suburban Total	33,836,432	353,781	9.9 %	82,004	46,395	\$37.97	\$33.64	\$33.27
Totals	47,894,344	353,781	11.5 %	111,014	206,770	\$43.47	\$34.85	\$36.53

MIAMI LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
SunTrust Bank	Brickell Office Plaza-777 Brickell Ave	Brickell Avenue	Renewal / Downsize	25,488
Kubicki Draper	Datran Center-9130 S Dadeland Blvd	Kendall/South Dade	Direct	20,511
Venture X	8350 NW 52 nd Ter	Airport West	Direct	14,076

SELECT SALE TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
The Landing @ MIA Office Portfolio	Airport West	\$192,700,000	\$171	*1,005,947

* Portfolio Sale does not include 3 flex-industrial properties totaling 125,000-sf