

MIAMI OFFICE MARKET

The Miami office market posted its ninth consecutive year of demand outpacing supply, bringing positive net absorption to more than 181,000 square feet. The fourth quarter saw the market's first correction in more than six years, as negative absorption was recorded. Moreover, vacancy increased by 90 basis points over the past year to 12.0%, the first year-over-year increase since the recovery began in 2010, which can be attributed to recent construction completions. Class A space led the market with 172,701 square feet of positive net absorption for the year, followed by Class B with a modest 16,352 square feet absorbed. The third-tier Class C segment struggled, as supply just outpaced demand with 7,593 square feet of negative absorption for 2018. The quoted average rate recorded its first decrease in four years, to \$35.89/SF from its record high of \$36.51/SF the previous quarter. The average rate was still \$0.90/SF higher than the rate of one year ago, but the recent drop can be attributed to the Class A average rate falling from \$43.46/SF from one year ago to \$42.21/SF, as the lease and occupation of newer and more expensive high-end space exerted downward pressure on average asking rates for lower-tier Class A buildings. Class B average asking rates increased to \$34.95/SF from \$33.84/SF one year ago, while Class C average asking rates climbed to \$26.19/SF from \$24.73/SF. These are the highest average rates ever recorded for these sectors of the office market. It is likely that asking rents will remain level as economic uncertainty continues into 2019.

LEASING AND DEMAND

Leasing activity in the fourth quarter totaled more than 508,000 square feet, a slight improvement from the previous quarter that brought the annual leasing volume to more than 2.3 million square feet, a significant decrease from the 3.2 million square feet of lease transactions recorded in 2017. Class A space accounted for 1.0 million square feet of transaction activity at the close of fourth-quarter 2018, followed by Class B space with 668,000 square feet. Class C remained consistent with previous years, accounting for 628,000 square feet of deals done. Most deals were either renewals or lateral relocations. More than 597,000 square feet of leases came from midsize or larger tenants. This was similar to last year's activity: The legal services industry remained in the lead with 133,000 square feet leased in 2018, followed by financial firms with 97,000 square feet. Taking third place was business services, which trailed closely behind with more than 92,000 square feet of deals done. Engineering, medical and insurance companies fell to the bottom with less than 15,000 square feet of transaction activity seen throughout the year.

INVESTMENT SALES

Only one sale occurred during the fourth quarter, which at 24,000 square feet represented a significant decrease in sale volume from the previous quarter. This brought 2018 totals to 2.7 million square feet valued at just over \$525.0 million, a slight increase from the 2.2 million square feet that sold for \$500.0 million at this time last year. The average price per square foot dipped slightly from \$245/SF to \$244/SF with no contributing factors, as sale prices held. Investment sales could decrease in 2019 amid growing concerns over a possible economic downturn.

CURRENT CONDITIONS

Miami's office sector saw supply outpace demand for the first time since 2012, pushing vacancy upward.

The Class A average asking moved downward after holding over \$43.00/SF during the previous seven quarters.

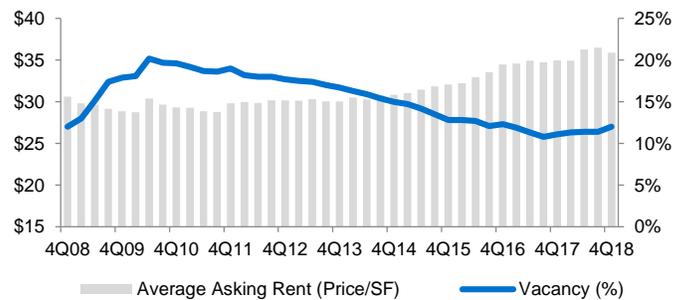
Asking rents for Class B space have begun to have more of an impact on the overall average pushing rates downward from the previous quarter.

Construction activity of new speculative product remained limited throughout the suburban submarkets with modest preleasing taking place in buildings currently underway.

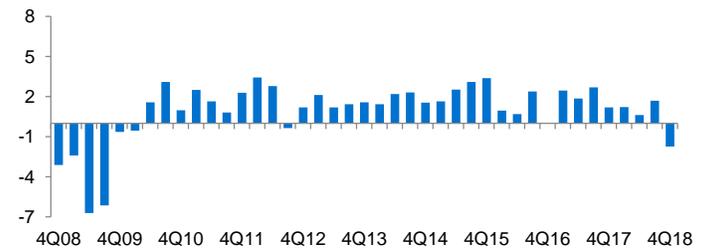
Miami saw only one small investment sale during the fourth quarter as transaction activity slowed during the second half of 2018 with the average price per square foot holding steady from one year ago in the Mid

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 | 48.2 MSF | 48.0 MSF | 47.7 MSF | ↑ |
| Vacancy Rate | 12.0% | 11.4% | 11.1% | ↑ |
| Quarterly Net Absorption | (173,540) | 169,130 | 119,091 | ↔ |
| Average Asking Rent | \$35.89 | \$36.51 | \$34.99 | ↔ |
| Under Construction | 697,801 | 746,066 | 741,009 | ↔ |
| Deliveries | 190,000 | 187,000 | 246,065 | ↑ |

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 | 10.9 % | 27,122 | 56,016 | \$53.93 | \$39.13 | \$44.15 |
| Downtown Miami | 7,379,689 | 0 | 17.5 % | 76,025 | 271,513 | \$46.31 | \$37.83 | \$37.27 |
| CBD Total | 14,057,912 | 0 | 14.4 % | 103,147 | 327,529 | \$49.39 | \$38.24 | \$39.58 |
| Airport West | 11,955,792 | 100,000 | 12.5 % | -176,522 | -169,425 | \$33.89 | \$31.39 | \$31.92 |
| Biscayne Corridor | 1,645,717 | 245,781 | 26.3 % | -8,193 | 12,000 | N/A | \$35.40 | \$35.21 |
| Coconut Grove | 590,803 | 161,733 | 14.7 % | -4,728 | 2,275 | N/A | \$35.67 | \$34.31 |
| Coral Gables | 6,115,349 | 0 | 9.7 % | -27,565 | -12,736 | \$42.83 | \$38.43 | \$39.69 |
| Coral Way | 822,959 | 0 | 3.4 % | 5,099 | -2,271 | N/A | \$31.29 | \$29.71 |
| East Airport/Hialeah | 892,179 | 0 | 8.8 % | -24,152 | -24,123 | N/A | \$18.35 | \$35.77 |
| Kendall/South Dade | 4,291,946 | 0 | 10.5 % | -29,145 | -8,791 | \$43.75 | \$29.79 | \$30.50 |
| Miami Beach | 2,132,440 | 0 | 6.3 % | -760 | -31,710 | \$41.39 | \$43.94 | \$42.01 |
| Miami Lakes | 1,806,918 | 0 | 12.0 % | 4,475 | 41,091 | \$28.34 | \$23.22 | \$24.25 |
| Northeast Dade | 3,336,711 | 190,287 | 6.4 % | -1,512 | 75,186 | \$47.11 | \$35.19 | \$32.03 |
| South Miami | 561,200 | 0 | 7.2 % | -13,684 | -27,567 | N/A | \$40.39 | \$24.62 |
| Suburban Total | 34,152,014 | 697,801 | 11.0 % | -276,687 | -146,071 | \$37.87 | \$33.44 | \$33.79 |
| Totals | 48,209,926 | 697,801 | 12.0 % | -173,540 | 181,458 | \$42.21 | \$34.95 | \$35.89 |

MIAMI LEASE/USER TRANSACTIONS

| Tenant | Building | Submarket | Type | Square Feet |
|------------------------|--|----------------|---------|-------------|
| UBS Financial Services | Miami Tower-100 SE 2 nd St | Downtown Miami | Renewal | 36,698 |
| Quest Workspaces | 2525 Ponce De Leon Blvd | Coral Gables | Renewal | 22,702 |
| IPD Analytics | Country Club Ctr-19550 W Country Club Dr | Northeast Dade | Direct | 15,460 |

SELECT SALE TRANSACTIONS

| Building | Submarket | Sale Price | Price/SF | Square Feet |
|----------|-----------|------------|----------|-------------|
|----------|-----------|------------|----------|-------------|

* No significant investment sales took place during 4Q18.