

MIAMI OFFICE MARKET

The Miami office market appeared to endure its second setback within the span of a year, as supply outpaced demand during the third quarter of 2019, resulting in 130,783 square feet of negative absorption. The resurgence in supply brought year-to-date absorption to 35,448 square feet, representing more of a balanced market. The vacancy rate rose 20 basis points from the previous quarter and 90 basis points from one year ago to 11.9%. This is the highest rate recorded since the second half of 2016, as construction completions coupled with slowing demand have added more vacancy over the past year. The need for quality space still held, as Class A space leads 2019 with 52,990 square feet of positive net absorption, followed by lower-tier Class C with 23,357 square feet. Secondary-tier space continued to struggle this year, as the Class B segment saw supply outpace demand with 69,940 square feet of negative net absorption so far in 2019. The quoted average rate recorded its first year-over-year decline in six years, to \$36.46/SF from \$36.47/SF at the close of third-quarter 2018. The average rate for higher-end space also saw its first dip, as the Class A average decreased to \$42.48/SF from \$43.64/SF. For the most part, asking rents have appeared to level off, as lower-tier Class A rental rates are having a greater impact on the overall average than landlords that are decreasing rental rates in response to shifting market conditions.

LEASING AND DEMAND

Leasing activity in the third quarter of 2019 was consistent with previous quarterly performances, as 218 transactions totaling almost 850,000 square feet were reported, bringing year-to-date transactions to 2.5 million square feet. Renewals, lateral relocations and small expansions are dominating leasing activity, as many deals inked during the downturn have begun to expire. Tenants that flew to quality during the Great Recession may tighten cost controls once they realize how expensive high-end Class A rents have become, although this trend has yet to take hold. Class A space held the number-one spot with 1.6 million square feet, followed by Class B space with 535,000 square feet of deal activity. Class C space followed closely behind with 454,000 square feet of deals so far this year. Midsize to large lease transactions continued their decline in the first three quarters of 2019, as only 1.0 million square feet of deals were completed. Real estate-related companies led with 507,000 square feet leased so far this year, which can be attributed to the success of coworking deals in combination with The Related Company's third-quarter deal totaling 157,000 square feet. The professional and business services sector remained in second place with 153,000 square feet, while financial firms moved up to round out the top three with 140,000 square feet.

INVESTMENT SALES

Eight sales totaling almost 1.2 million square feet occurred during the third quarter of 2019, bringing 2019 totals to more than 1.8 million square feet valued at \$596.0 million. This was down from the 2.7 million square feet that sold for \$519.6 million during the same period last year. Notably, the price per square foot rose significantly, to \$330/SF at the close of the third quarter from \$245/SF one year ago. This can be attributed to the third quarter's keynote sales of 800 Brickell, which sold for more than \$600/SF, and Brickell Bay Office Tower, which sold for \$480/SF. Increased Class A sales in 2019 have significantly pushed up the average.

CURRENT CONDITIONS

Miami's office sector saw its second correction within the past twelve months as supply outpaced demand and vacancy has increased 120 basis points from the 10.7% low recorded during third-quarter 2017.

The Class A average asking rate saw a slight uptick from the previous quarter, but still below the \$43.64/SF peak recorded one year ago.

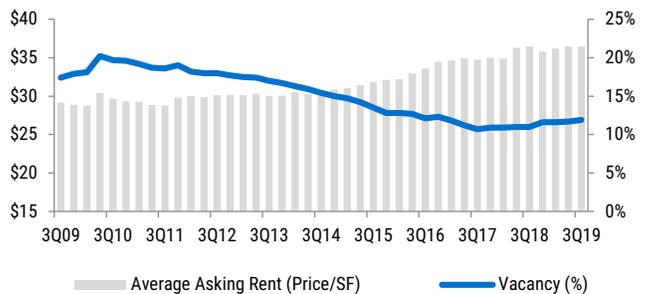
Over 1.5 million square feet of new office inventory was under construction, the most seen since the recovery began in 2014.

830 Brickell, a 490,000 square-foot Class A building in Miami's Brickell Submarket, broke ground during the third quarter.

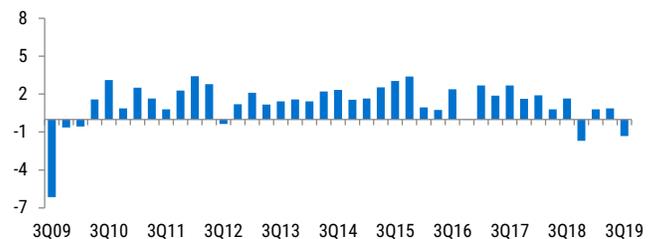
Investment sale activity fell below levels from one year ago, but an increase in Class A transactions coupled with two keynote CBD sales pushed the average sale price per square foot significantly higher from one year ago.

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	48.4 MSF	48.4 MSF	48.0 MSF	↑
Vacancy Rate	11.9%	11.7%	11.0%	↑
Quarterly Net Absorption	(130,783)	86,257	165,565	↔
Average Asking Rent	\$36.48	\$36.46	\$35.49	↔
Under Construction	1,531,287	1,040,018	868,948	↔
Deliveries	0	89,705	197,000	↑

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	490,000	12.6 %	-35,453	-118,339	\$55.99	\$40.70	\$48.69
Downtown Miami	7,379,689	0	16.3 %	-27,867	85,270	\$47.00	\$39.87	\$37.85
CBD Total	14,057,912	490,000	14.6 %	-63,320	-33,069	\$50.70	\$40.18	\$41.41
Airport West	11,955,792	100,000	12.6 %	-69,831	-83,916	\$34.58	\$31.80	\$32.21
Biscayne Corridor	1,880,937	298,000	27.4 %	13,605	90,032	\$40.00	\$37.35	\$36.72
Coconut Grove	590,803	161,733	15.8 %	0	-6,264	N/A	\$37.37	\$36.38
Coral Gables	6,115,349	291,267	9.2 %	12,614	28,111	\$41.84	\$38.96	\$38.86
Coral Way	822,959	0	3.7 %	2,135	-9,521	N/A	\$29.96	\$28.60
East Airport/Hialeah	892,179	0	8.3 %	3,031	4,276	N/A	N/A	\$38.64
Kendall/South Dade	4,291,946	0	7.4 %	9,081	88,276	\$43.87	\$29.16	\$30.24
Miami Beach	2,132,440	0	6.0 %	-11,269	-13,996	\$46.56	\$36.83	\$38.92
Miami Lakes	1,806,918	0	13.5 %	-12,149	-25,883	\$29.58	\$24.11	\$25.18
Northeast Dade	3,337,549	190,287	5.9 %	-4,337	5,619	\$45.48	\$33.56	\$32.55
South Miami	561,200	0	8.7 %	-10,343	-8,217	\$32.25	\$37.26	\$28.01
Suburban Total	34,388,072	1,041,287	10.8 %	-67,463	68,517	\$37.68	\$33.37	\$33.63
Totals	48,445,984	1,531,287	11.9 %	-130,783	35,448	\$42.48	\$35.70	\$36.48

MIAMI LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Lennar Corporation	Waterford @ Blue Lagoon-5505 Blue Lagoon Dr	Airport West	Direct	156,000
Rialto Management	Southeast Financial Ctr-200 Biscayne	Downtown Miami	Direct	48,000
Infinity Insurance	Doral Concourse	Airport West	Renewal	40,000
Bolton Global Capital	Four Seasons Tower-1441 Brickell Ave	Brickell	Direct	20,707

SELECT SALE TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
*Offices @ Flagler Station-9675-10451 NW 117 th Ave	Airport West	\$85,750,000	\$221	387,360
Brickell Bay Tower-1001 Brickell Bay Dr	Brickell	\$157,000,000	\$480	344,454
800 Brickell-800 Brickell Ave	Brickell	\$125,500,000	\$602	208,325
Offices @ Doral Square-8600 NW 36 th St	Airport West	\$37,000,000	\$253	146,000

*Denotes Portfolio Sale