

Miami Office, Q4 2016

# Improving market fundamentals pave the way for continued growth in 2017

**Total Vacancy**  
11.6%

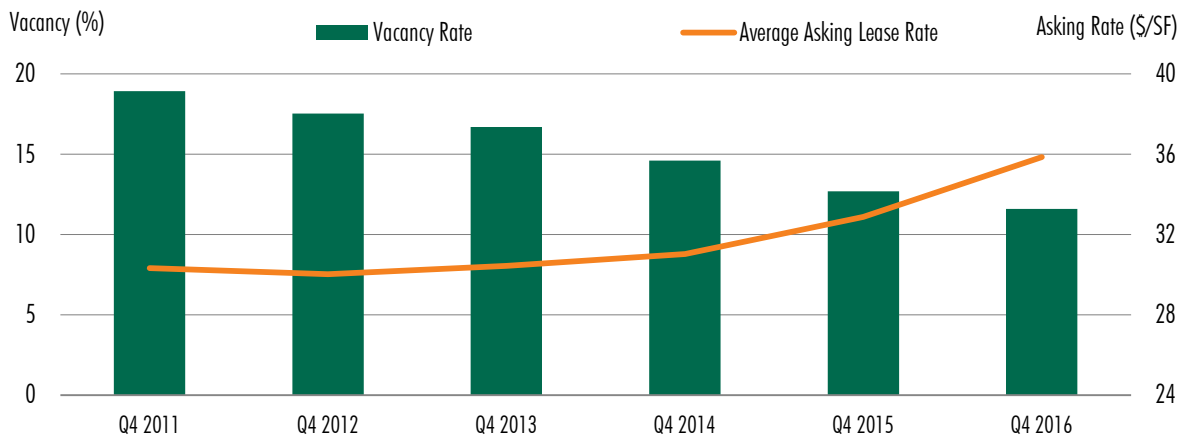
**Lease Rate – Class A**  
\$43.68 PSF

**Net Absorption**  
352,000 SF

**Completions**  
130,000 SF

\*Arrows indicate change from previous year.

Figure 1: Total Vacancy –vs– Average Direct Asking Lease Rate (FSG)



Source: CBRE Research, Q4 2016.

- Vacancy declined to 11.6% in Q4 2016, a reduction of 30 basis points (bps) quarter-over-quarter and 120 bps year-over-year, declining for 21 consecutive quarters.
- Net absorption during Q4 2016 was 351,554 sq. ft., with 82,370 sq. ft., or 23.4%, in the downtown submarkets and 269,184 sq. ft. in the suburban submarkets. Year-to-date net absorption was 999,368 sq. ft., slightly under net absorption in 2015 of 1.1 million.
- Miami’s CBD had over \$2.5 billion in investment sales since 2012, which was 50% of all office investment sales in Miami-Dade County.
- Among the suburban submarkets, Coral Gables had \$868.9 million in investment sales since 2012, the largest by dollar amount, followed by Airport/Doral and Miami Beach.

## ECONOMIC INFLUENCE

Miami-Dade’s steady economic growth is attracting more businesses and driving corporate expansions. A strong economy characterized by job growth and rising wages is setting the stage for another year or two of continued growth. The tightening labor market is motivating employers to focus on attracting and retaining talent resulting in increased wages for the first time in eight years. Economists expect wages to continue to rise in 2017 but not at the rate seen in the previous recovery of the mid-2000s. The highest increases in job growth in the Miami metropolitan area were in professional and business services; trade, transportation & utilities, and leisure and hospitality. According to the Bureau of Labor Statistics, the Miami metropolitan area recorded an increase of 18,000 jobs in the twelve months prior to December 2016,

Figure 2: Market Statistics – Class A & B

Submarket	Class	Total Inventory (SF)	Direct Vacancy (%)	Total Vacancy (%)	Q4 2016 Absorption (SF)	2016 Net Absorption (SF)	Under Construction (SF)	Avg. Dir. Asking Lease Rate (\$/SF/FSG/G/MG)
<b>CBD</b>								
Brickell	A	4,190,374	10.2	10.2	43,684	304,385	0	51.62
	B	2,085,545	12.0	13.0	24,208	30,920	30,000	38.35
Downtown Miami	A	3,257,916	18.3	18.3	11,440	(2,283)	280,000	51.61
	B	2,311,954	20.8	20.8	(15,316)	(79,868)	0	34.45
<b>CBD Total</b>		<b>11,845,789</b>	<b>14.8</b>	<b>15.0</b>	<b>64,016</b>	<b>253,154</b>	<b>310,000</b>	<b>45.23</b>
<b>Suburban</b>								
Airport/Doral	A	4,571,997	5.2	5.4	60,181	107,696	246,085	32.18
	B	6,022,899	11.2	11.2	28,669	123,790	0	26.75
Aventura	A	1,250,700	6.1	6.5	(16,448)	(17,913)	0	47.94
	B	166,788	38.3	38.3	5,752	24,681	0	41.67
Biscayne Blvd.	A	668,820	20.3	20.3	52,551	58,051	41,923	41.00
	B	340,424	7.5	7.5	(10,497)	9,062	0	32.31
Coconut Grove	A	507,367	7.1	7.1	20,521	17,334	0	36.00
	B	601,071	5.4	5.5	1,276	10,268	0	34.29
Coral Gables	A	4,116,758	11.0	11.2	25,513	(12,037)	181,576	39.31
	B	2,992,508	5.8	6.0	(1,491)	34,663	0	34.27
Kendall	A	1,398,315	11.6	11.6	(18,326)	(39,799)	0	38.24
	B	2,109,424	9.5	9.5	37,568	80,878	0	25.84
Miami Beach	A	820,097	2.0	2.2	16,180	5,396	0	40.67
	B	889,535	6.2	6.2	5,342	37,099	0	39.21
Miami Lakes	A	517,331	20.1	20.1	2,093	23,730	0	27.84
	B	996,735	29.4	29.4	(28,758)	4,281	0	21.70
North Miami	A	560,752	8.5	8.6	27,795	56,172	184,689	26.34
	B	314,047	12.1	12.1	5,535	(3,290)	0	20.22
South Dade	A	0	0.0	0.0	0	0	0	0
	B	467,756	22.3	22.3	1,990	(3,640)	0	25.07
<b>Suburban Total</b>		<b>29,313,324</b>	<b>10.0</b>	<b>10.1</b>	<b>215,446</b>	<b>516,422</b>	<b>654,273</b>	<b>32.34</b>
<b>Overall Total</b>		<b>41,159,113</b>	<b>11.4</b>	<b>11.5</b>	<b>279,462</b>	<b>769,576</b>	<b>964,273</b>	<b>37.49</b>

Source: CBRE Research, Q4 2016.

Figure 3: Market Statistics – All Classes

Submarket	Total Inventory (SF)	Direct Vacancy (%)	Total Vacancy (%)	Q4 2016 Absorption (SF)	2016 Net Absorption (SF)	Under Construction (SF)	Avg. Dir. Asking Lease Rate (\$/SF/FSG/G/MG)	
Brickell	7,254,471	10.5	10.8	68,953	341,134	30,000	43.58	
Downtown Miami	7,584,293	19.1	19.1	13,417	(13,290)	280,000	40.51	
<b>CBD Total</b>	<b>14,838,764</b>	<b>14.9</b>	<b>15.0</b>	<b>82,370</b>	<b>327,844</b>	<b>310,000</b>	<b>41.57</b>	
Airport/Doral	11,710,099	8.6	8.7	95,063	299,715	246,085	27.82	
Aventura	1,549,296	9.6	9.9	(10,696)	6,768	0	44.98	
Biscayne Blvd.	1,596,699	13.7	13.7	42,387	58,960	41,923	36.10	
Coconut Grove	1,173,438	5.8	5.9	21,797	27,602	0	34.88	
Coral Gables	7,231,294	8.8	8.9	24,022	35,786	181,576	37.65	
Kendall	3,683,539	10.1	10.2	27,668	60,829	0	30.79	
Miami Beach	1,959,034	3.7	3.8	24,202	43,922	0	39.62	
Miami Lakes	1,953,195	24.1	24.1	(22,312)	63,590	0	22.55	
North Miami	1,423,572	10.7	10.8	65,063	77,992	184,689	25.39	
South Dade	467,756	22.3	22.3	1,990	(3,640)	0	25.07	
<b>Suburban Total</b>		<b>32,747,922</b>	<b>9.9</b>	<b>10.0</b>	<b>269,184</b>	<b>671,524</b>	<b>654,273</b>	<b>31.58</b>
<b>Overall Total</b>		<b>47,586,686</b>	<b>11.5</b>	<b>11.6</b>	<b>351,554</b>	<b>999,368</b>	<b>964,273</b>	<b>35.86</b>

Source: CBRE Research, Q4 2016.

representing a year-over-year gain of 1.6%. Unemployment declined to 5.0% in November 2016, down by 740 basis points (bps) since its highest levels in 2009 at 12.4%.

**LEASING ACTIVITY**

Landlords are optimistic as asking rents continue to rise at a substantial pace and vacancy drops to the lowest rate since 2009. The average asking lease rate for Class A properties in the CBD climbed to \$51.61 per sq. ft., an increase of \$4.63 year-over-year or 9.9%. Average asking rates for Class A properties in the suburban submarkets rose to \$36.92, an increase of \$1.90 year-over-year or 5.4%.

Total vacancy declined to 11.6% in Q4 2016, down 30 basis points (bps) quarter-over-quarter and 120 bps year-over-year. Leases executed during Q4 2016 totaled approximately 621,000 sq. ft. in 120 transactions. Tenants seeking space in the market have requirements that total an additional 1.2M sq. ft. Creative industries and media entertainment were the top industries in the market, followed by business services.

**INVESTMENT SALES ACTIVITY**

Miami remains one of the world’s most attractive real estate markets because of its affordability on a relative cost basis compared to other global gateway cities. The market is perceived by some

Figure 4: Investment Sales (\$ millions)

Submarket	Property	Buyer	Seller	Building (SF)	Sale Price (\$)	Price per SF (\$)
Downtown	Southeast Financial Center	Amancio Ortega (Ponte Gadea)	JP Morgan Chase	1,225,000	516,600,000	421
Downtown	New World Tower	East End Capital Partners, LLC	The Witkoff Group	292,814	84,000,000	287
Miami Beach	Lincoln Place	16TH Street Partners LLC	Cousins Properties, Inc.	139,887	80,025,000	572
Coral Gables	Alcazar Tower	Pan American Group Inc.	Market Street Real Estate Partners	40,000	12,900,000	323
Kendall	Office Suites Two of Bird Road	David Hill/Adios 2 LLC	Adrian Family Ptshp Ltd	35,719	6,700,000	188

Source: CBRE Research, Q4 2016.

Figure 5: Significant Occupancies\*

Submarket	Property	Tenant	Transaction (SF)
Downtown	SunTrust Int. Center	State of Florida Office of the Attorney General	42,000
Miami Lakes	The 5875 Building	Lufthansa Technik Component Services Llc	31,691
Downtown	One Biscayne Tower	Zarco Einhorn Salkowski & Brito	26,186
Miami Lakes	The 5875 Building	Logisticare Solutions, LLC	18,656
Airport/Doral	Building 1300	University of Miami	18,328

Source: CBRE Research, Q4 2016.

\*Does not include renewals.

Figure 6: Significant Leases Executed

Submarket	Property	Tenant	Lease Type	Transaction (SF)
Downtown	Wells Fargo Center	Confidential Financial Services Firm	New Lease	150,816
Coral Gables	Douglas Entrance	Mastec, Inc.	Expansion/Renewal	65,000
Downtown	Southeast Financial Center	Cozen O'Connor	Expansion/Renewal	22,519
Airport/Doral	Building 1300	University of Miami	New Lease	18,328
Brickell	Two Brickell City Centre	McKinsey & Company Support Services	New Lease	16,926

Source: CBRE Research, Q4 2016.

foreign investors as a relatively young city with promising growth potential. Despite the strengthening of the U.S. dollar, cross-border capital investments increased in 2016 and growth is expected to continue into 2017 though perhaps at a more moderate level.

Miami’s CBD, which includes Downtown and Brickell, and Coral Gables remain the prime areas for investment due to their long-term growth potential. Miami’s CBD had over \$2.5 billion in investment sales since 2012, which is 50% of all office investment sales in Miami-Dade County with an average sale price of \$365.51 per sq. ft. Among the suburban submarkets, Coral Gables had \$868.9 million in investment sales since 2012, the largest by dollar amount, followed by Airport/Doral and Miami Beach with an average sale price of \$230.82 per sq. ft.

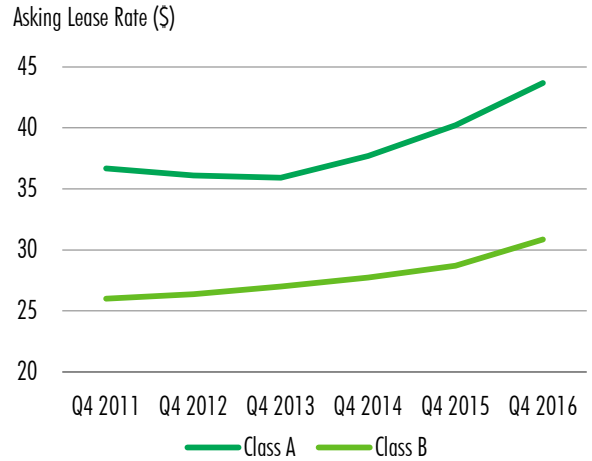
In the fourth quarter, Miami office investment sales totaled \$700 million, more than doubling Q3 2016 sales volume. The largest transaction of Q4 2016 was the sale of the Southeast Financial Center for \$516.6 million to Amancio Ortega of Ponte Gadea by JP Morgan Chase Ortega. The owner of the Zara apparel chain also purchased several contiguous properties on Lincoln Road Mall in Miami Beach for \$370 million in 2015. Both transactions were among the largest commercial real estate deals in Miami-Dade County in the last five years.

**DEVELOPMENT**

New inventory in 2016 totaled 352,783 sq. ft, which included Two Brickell City Centre delivering its second office tower of 129,676 sq. ft. in the fourth quarter. This is just 22% of total completions in 2010 at the height of construction, when 1.6 million sq. ft. hit the market.

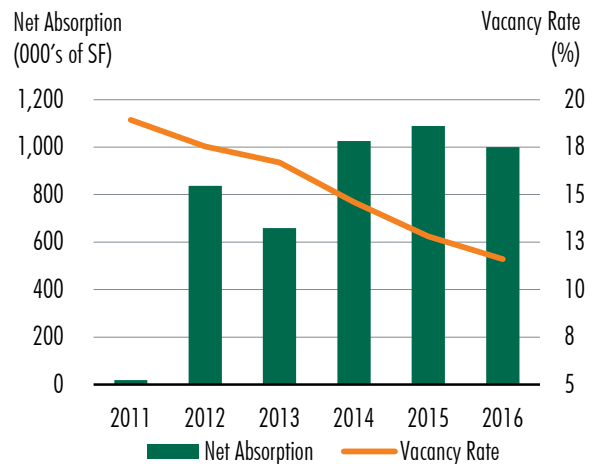
Though construction increased to 964,273 sq. ft. in Q4 2016, the nine projects under construction currently will increase office inventory by only 2.0%. Two and Three MiamiCentral will add a

Figure 7: Average Direct Asking Lease Rate (FSG/G/MG)



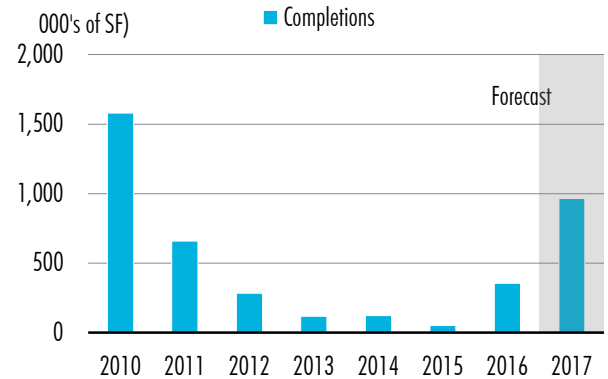
Source: CBRE Research, Q4 2016.

Figure 8: Net Absorption –vs– Vacancy Rate



Source: CBRE Research, Q4 2016.

Figure 9: Completions



Source: CBRE Research, Q4 2016.

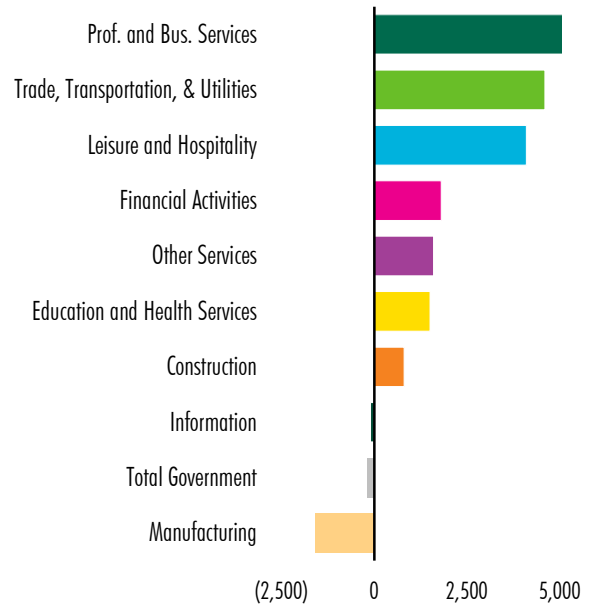
total of 280,000 sq. ft. to the current inventory, and 800 Waterford Way will add 246,085 sq. ft. New projects that broke ground included Canal Park Office at 3323 NE 163rd Street in North Miami scheduled to deliver 184,689 sq. ft., Giralda Place delivering 65,000 sq. ft. at 2222 Ponce de Leon Boulevard in Coral Gables and Brickell Heights Office delivering 30,000 sq. ft. of office space in the mixed-use property at 850 South Miami Avenue.

**OUTLOOK**

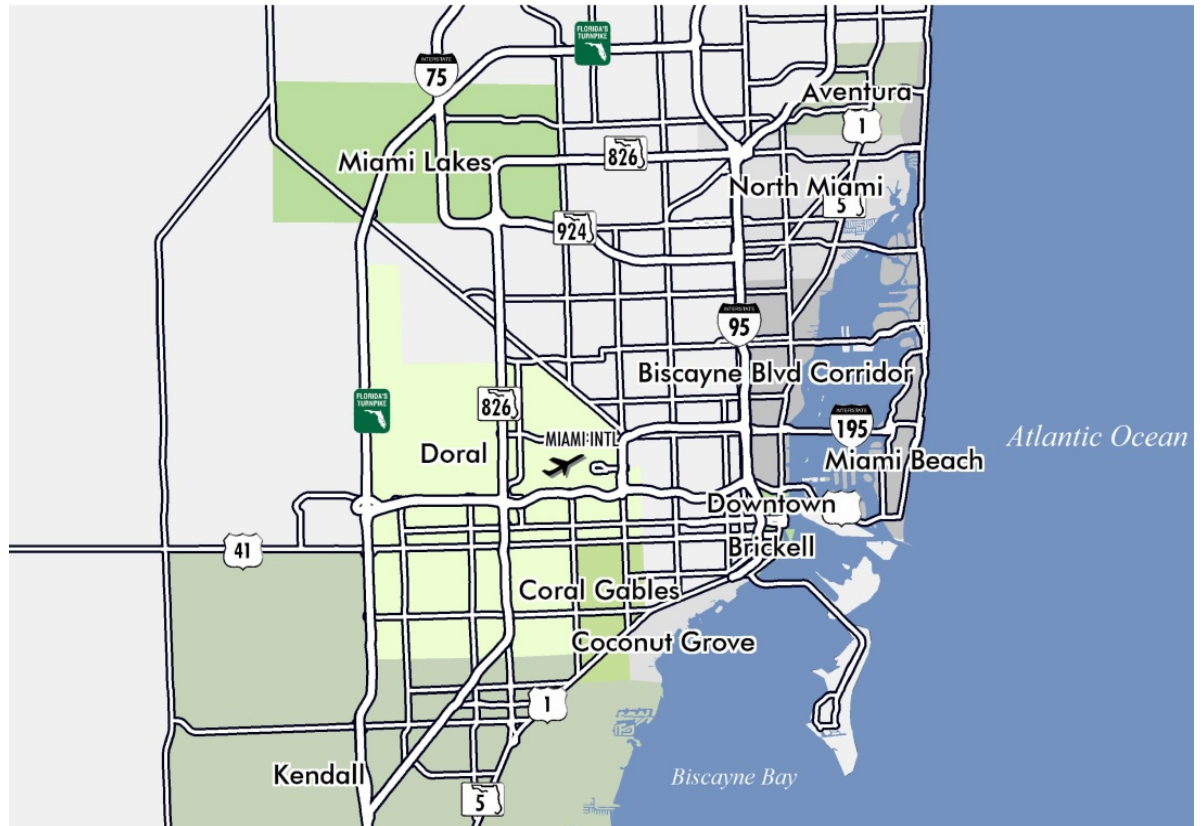
The commercial property market landscape in 2017 will be characterized by continued strong leasing and sale fundamentals. As for the economic landscape, the Miami market continues to grow moderately and add jobs. Employment gains continue to be strong, with unemployment dropping to 5.0 % in Q4 2016, contributing to demand for housing, office, retail and industrial properties.

While many speculate about the end of the current economic cycle, the fact that the recovery has been slow and steady has led experts to believe the current growth cycle will continue into the foreseeable future.

Figure 10: Job Growth by Sector – Change in Employment



Source: U.S. Department of Labor, Bureau of Labor Statistics, December 2016.



Market Coverage: Includes all competitive office buildings 30,000 sq. ft. and greater in size in Miami-Dade county. Excludes: single occupancy, government and medical buildings.

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