

MARKET REPORT

OFFICE

Miami-Dade Metro Area

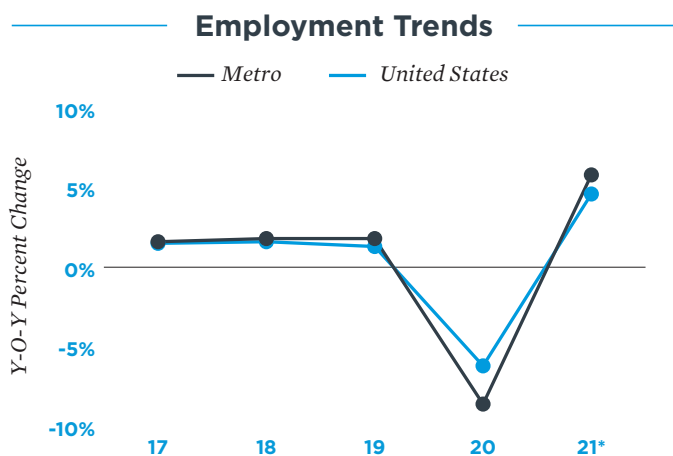
IPA
INSTITUTIONAL
PROPERTY
ADVISORS

4Q/21

Largest Delivery Volume in a Decade Could Hinder Miami Recovery, But the CBD Is Progressing

Leasing improves, though uneven conditions persist. The darkest days for Miami's office sector have seemingly passed. Three straight quarters of positive absorption provided stability after more than 2.1 million square feet was relinquished between April and September 2020. Nevertheless, more than 15 percent of the metro's inventory was vacant as of the second quarter this year, a level not seen since 2013. Conditions vary widely across submarkets, with some facing longer recovery timelines as others advance faster. The largest submarket, Miami Airport, had a first half vacancy jump that exceeded 300 basis points. On the other hand, availability fell 40 basis points during that span in the Central Business District as the vaccine rollout persuaded more firms to lease office space downtown.

Supply expansion may counteract demand momentum. As a result of projects stalled during the pandemic carrying into this year, coupled with an already sizable pipeline, Miami faces some near-term supply pressure. Completions will exceed the combined total of the previous two years by 45 percent in 2021. Looking at developments scheduled to finalize in the second half, three different submarkets will add more than 150,000 square feet of new space. In Miami Beach, the majority of the 510,000 square feet set to come online is fully leased by Royal Caribbean and Starwood Capital for new headquarters. Conversely, about 365,000 square feet of speculative space will deliver across the Wynwood-Design District and Coral Gables areas.



* Forecast
Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook



**65,000
JOBS**

will be created

EMPLOYMENT:

Miami's headcount grew by nearly 38,000 spots through the first eight months of 2021, putting a dent into the 105,600 roles lost in 2020. By year-end annual growth of 5.8 percent is expected. Traditional office-using gains are expected to exceed that pace.



**1,800,000
SQ. FT.**

will be completed

CONSTRUCTION:

Deliveries in 2021 are projected to double the previous year's addition and surpass the trailing-decade annual average by more than 1.1 million square feet. Inventory will expand by 1.9 percent this year, the largest rise since 2010.



**60
BASIS POINT**

increase in vacancy

VACANCY:

While net absorption returns positive for the first time in three years, the large volume of arrivals will keep vacancy moving upward. After availability jumped by a combined 330 basis points over the past two years, the rate will end 2021 at 15.6 percent.



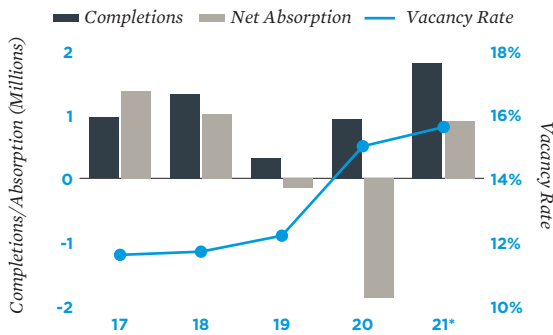
**3.5%
INCREASE**

in asking rent

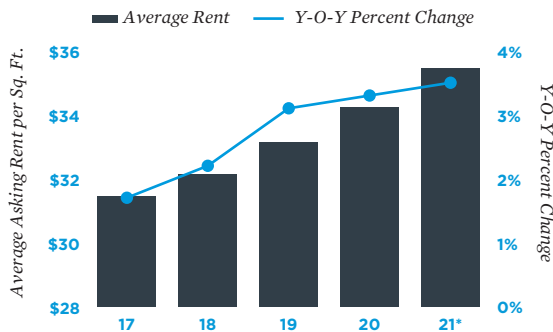
RENT:

Right on par with the 3.1 percent and 3.3 percent gains posted in the preceding two years, Miami's average asking rent will climb to \$35.45 per square foot in 2021. Improved demand for space and the influx of newly built complexes support the lift.

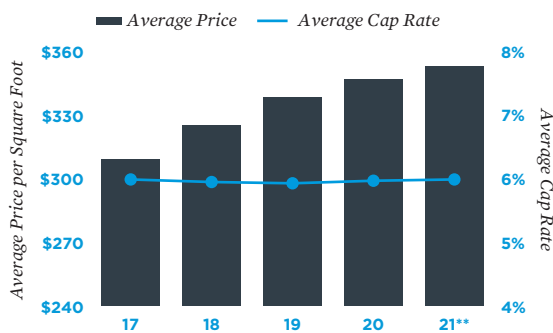
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q
Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Office
Alan L. Pontius
Senior Vice President, National Director
Tel: (415) 963-3000 | apontius@ipausa.com

For information on national office trends, contact:
John Chang
Senior Vice President, National Director | Research Services
Tel: (602) 707-9700 | jchang@ipausa.com

2Q21 - 12-Month Period

CONSTRUCTION
1,159,000 sq. ft. completed

- Completions during the yearlong stretch ended in June nearly tripled the prior period. Submarkets that added at least 200,000 square feet include Coral Gables, Coconut Grove and the Miami Airport area.
- As of July, almost 3.5 million square feet was underway throughout the metro with expected finalization dates extending into 2024.

VACANCY
210 basis point increase in vacancy Y-O-Y

- After vacancy increased 280 basis points in 2020, the rate inched up an additional 20 basis points in the first half of this year. Availability stood at 15.2 percent in the second quarter, an eight-year high.
- Class A availability soared 440 basis points to 23.3 percent while the Class B/C rate edged up 80 basis points to 11.2 percent.

RENT
3.4% increase in the average asking rent Y-O-Y

- Newly built space and the return of high-quality complexes vacated in the past year pushed the Class A average asking rent up 5.5 percent. The overall average office rate in Miami rose to \$35.10 per square foot.
- During the past year, 13 of the 17 metro submarkets registered asking rent increases, led by a double-digit surge in Coconut Grove.

Investment Highlights

- Nearly the same amount of office assets in Miami traded during the first half of this year as the entirety of 2020. On an annual basis ended in June, deal flow exceeded the total from the prior period by 50 percent. Strong private investor interest in the marketplace was evident as assets with price tags in the \$1 million to \$10 million range accounted for 70 percent of all closings.
- Office buildings that transacted had an average sale price of \$353 per square foot, which was 3 percent higher than the recording in the previous period. The average cap rate held steady at 6.0 percent. Compared with the other two major southeast Florida markets, first-year returns are about 50 to 70 basis points lower in Miami on average.
- Medical offices traded more frequently during the past year, with buyers most active in the Kendall and Miami Airport submarkets. Here, buildings have traded with an average sale price of \$280 per square foot with cap rates in the 6 percent to mid-7 percent band.