

INVESTMENT FORECAST

Office
Miami-Dade

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

2022

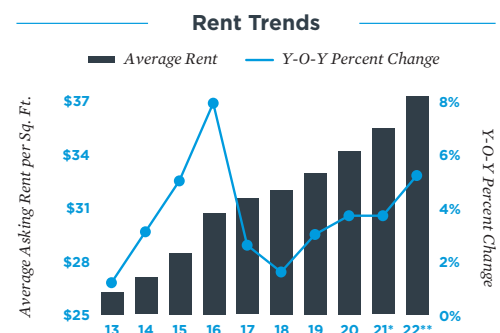
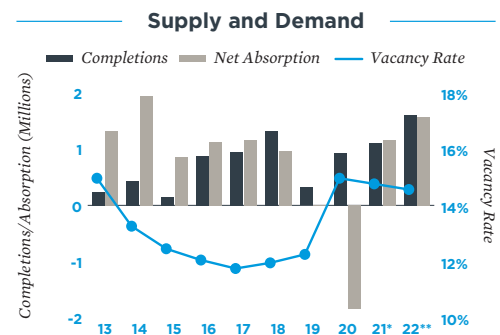
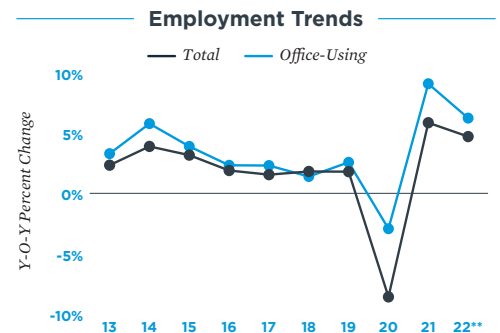
Fewer Restrictions on Businesses in South Florida Benefit Local Office Market, Attract Large Buyers

Office recovery in Miami ahead of national pace. The metro was among a handful of markets that recorded a vacancy decline in 2021, and more progress is anticipated this year as leasing activity stays healthy. The early reopening of the state following initial lockdowns and persistent business relocations to the area have served as a catalyst for space demand. Blockchain.com, for instance, is moving its headquarters from New York to Miami and plans to hire 300 local staff. Furthermore, the impact of subleases created by the health crisis is significantly lighter than some other markets. Locally, less than 1 percent of inventory is available on a sublease basis, compared to San Francisco, where 5 percent of inventory is being marketed under subleases. Despite the strong demand drivers prevalent in Miami-Dade County, some challenges are present. Approximately 1 million square feet of speculative space is under construction, matching the level of sublease space. Nonetheless, the outlook for the office market is brighter than most metros.

Miami investment market follows prior post-recession trends. The access to inexpensive capital has institutions and REITs moving into Miami as fundamentals improve and the prospect for a more robust recovery is elevated. Ongoing extensions to work-from-home practices in dense office markets in the Northwest and West Coast regions is encouraging national firms to leverage Miami-based operations for business functions that need to be performed in person. Through the first three quarters of last year, the number of transactions in the \$20-plus million price tranche had already eclipsed levels prior to the health crisis. The average cap rate for these deals was also in the same neighborhood as during 2019, a testament to buyer confidence. For all properties, the average first-year return entering the year is a shade under 6 percent, relatively unchanged since 2016. Elevated inflation rates could force the Fed to move more quickly to cool rising prices, putting upward pressure on first-year returns for the first time in a decade.

2022 Market Forecast

- Employment**
up 4.7%
The addition of 19,000 office-using positions this year will lift payrolls in this sector about 10 percent above the prior peak.
- Construction**
1,600,000 sq. ft.
Inventory growth amounts to 1.6 percent in 2022 as the pace of construction accelerates from the 1.1 million square feet delivered last year. Pre-leasing rests at 70 percent entering the year.
- Vacancy**
down 20 bps
This year's decline in vacancy matches the 2021 compression, pulling down the rate to 14.6 percent. Before the pandemic, availability was 12.3 percent.
- Rent**
up 5.2%
Owners will have sufficient leverage to raise asking rents this year to a mean of \$37.24 per square foot. Last year's 3.7 percent advance was one of the strongest in the nation.
- Investment**
Global capital will continue to pursue assets in the local office market as U.S. real estate is seen as a hedge against inflation. Latin American investors will play a larger role in deals in 2022.



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.