MARKET REPORT

Office

Miami-Dade Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

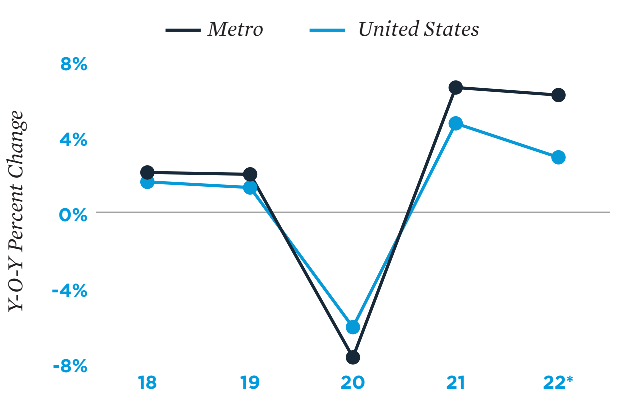
4Q/22

Miami Podiums in Rent Growth as Business-Friendly Environment Fuels Standout Space Demand

National expansions and local firms drive rapid vacancy recovery. After an impressive number of Northeastern transplants facilitated commendable hiring velocity in 2021, office employers have continued to bulk up staffing counts and ink new leasing commitments this year. Big-name employers are targeting amenity-rich buildings in Brickell and Miami Beach, where availability as of July sat well under levels reported at the onset of the health crisis. Meanwhile, smaller mom and pop firms are rapidly leasing lower-tier properties in less expensive submarkets, such as Northeast Dade. Moving forward, the metro's office fundamentals may receive an additional boost from its growing tech sector, with both Microsoft and Blockchain.com among some of the upcoming move-ins.

Economic growth translates to solid property performance. Firms absorbed a net of nearly 2.7 million square feet during the trailing year ended in June, the highest 12-month total recorded in Miami since at least 2007. Strengthening demand translated to vacancy declines of more than 100 basis points across all property tiers, with availability in mid- and lower-tier buildings falling to their lowest levels since 2007. While Class A vacancy is still elevated, substantial leasing activity over the past year drove a market-leading 12.9 percent increase in upper-tier asking rents. This gain enabled Miami to tie Palm Beach County for the most rapid marketed rate growth on an annual basis among major U.S. markets. These two metros were also the only markets to post double-digit increases.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook

75,000 JOBS
will be created

EMPLOYMENT:

Recruitment in traditional office-using sectors will continue at a notable pace in the wake of 2021's 8.5 percent jump. The 15,500 positions anticipated to be added by category firms will expand this portion of the employment base by 5.1 percent in 2022.

1,330,000 SQ. FT.
will be completed

CONSTRUCTION:

Developers are anticipated to add the second-greatest amount of square footage in more than a decade during 2022. Roughly 50 percent of this year's space stems from a single tower scheduled to come online in Brickell.

90 BASIS POINT
decrease in vacancy

VACANCY:

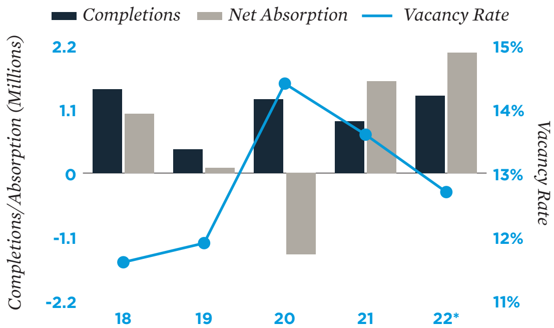
Record net absorption in the first half of 2022 will contribute to vacancy falling to 12.7 percent by the end of this year. During the five years preceding the pandemic, availability in the mid- to high-11 percent zone was the norm.

9.4% INCREASE
in asking rent

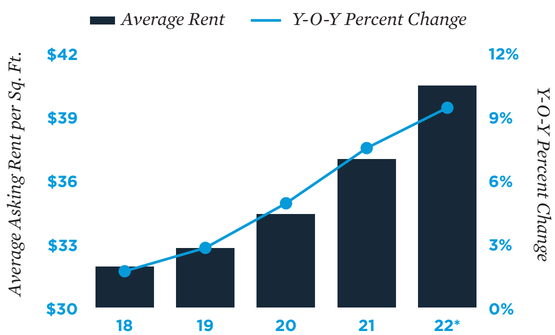
RENT:

The mean marketed rent will surge to $40.45 per square foot as Miami-Dade County records its fastest growth rate in at least 15 years. Furthermore, the metro ranks second among major markets nationwide for asking rent gains this year.

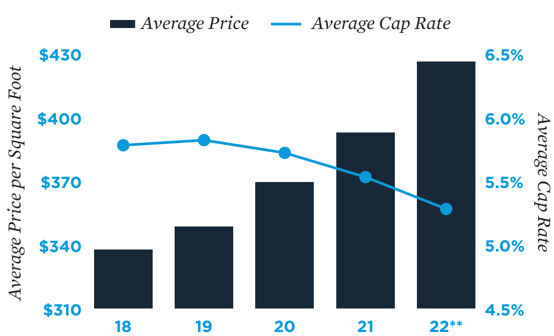
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

2Q 2022 - 12-Month Period

CONSTRUCTION

818,000 sq. ft. completed

- Development returned to a historically average level in the 12-month period ending in June, after 1.4 million square feet was added in the prior yearlong span. Completions are expected to accelerate in the second half.
- Roughly 80 percent of the space finalized during the past four quarters was delivered in either the Kendall, Miami Beach or Miami City submarkets.

VACANCY

190 basis point decrease in vacancy Y-O-Y

- Record 12-month absorption figures during the trailing year ended in the second quarter helped drive vacancy down to 12.5 percent entering July.
- Vacancy in the Class A sector compressed 220 basis points to 20.4 percent, 150 basis points above the pre-pandemic rate. Meanwhile, Class B/C availability stood at 8.4 percent in June, after a 190-basis-point decline.

RENT

12.8% increase in the average asking rent Y-O-Y

- The largest 12-month rent gain since at least 2007 was seen during the trailing year, pushing the mean marketed rent to $39.64 per square foot.
- Both the Class A and Class B/C sectors registered 12 percent-plus rent growth, elevating the segments' average asking rates to $48.98 per square foot and $34.92 per square foot, respectively.

Investment Highlights

- Increasingly robust leasing activity has motivated investors to seek out opportunities in Miami, facilitating a record number of trades during the trailing year ended in June. Despite mounting capital costs as the year progresses, transaction velocity increased from the first to the second quarter of 2022, marking an all-time high for trades conducted in a three-month span. However, rising interest rates will present further hurdles for deal flow in the latter half of the year.
- As more firms commit to spaces in the Northeastern portions of Miami-Dade County, investors are actively engaging with opportunities here. Trades typically feature lower-tier assets in the sub-$10 million tranche that can provide buyers with first-year yields above 7 percent.
- Buyers' substantial appetites for Southeast Florida office assets supported Miami's highest pricing gain in more than half a decade. During the recent 12-month interval, the metro's average price per square foot ascended by nearly 12 percent to $430. Yield compression was also notable, with a 30-basis-point decline compressing the average cap rate to 5.3 percent, and placing metro yields fifth-lowest nationwide among major metros.

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