INVESTMENT FORECAST

OFFICE

Miami-Dade Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

2020

Stabilized Properties Attract Investors in Top Tiers; Value-Add Buyers Search for Class C Deals

Development outpaces new demand in the Miami office market. Construction more than quadruples the 2019 level as several projects that broke ground over the past few years top off. Although pre-leasing hovers around the 50 percent threshold, a sizable amount of the uncommitted space has delivery dates well beyond this year. Only one-third of the space in the five largest projects is scheduled for delivery this year, providing developers an extended timeline to fill upcoming space. The market's largest development, a 57-story skyscraper, will add 650,000 square feet in Brickell in early 2022. While supply is applying upward pressure to vacancy, demand struggles to keep pace. Office-using employment growth dips below the long-term average this year as employers struggle to find qualified workers in a low-unemployment environment while major expansions have been sparse. As a result, smaller leases will chip away at available vacant space, paving the way for a potential reversal in the supply-demand balance during 2021.

Investors focusing on Miami office properties. Class B office assets consisting of approximately 20,000 square feet are the sweet spot for investors, though activity persists up and down the quality scale. The average cap rate for mid-tier properties is in the low-6 to mid-6 percent range, relatively consistent with the previous three years. Cap rates are leveling and could stay near their current range barring a significant interest rate change. At the top of the market, institutional activity has softened in recent quarters. Large, stabilized assets typically transfer ownership at first-year returns below 6 percent. In the Class C sector, value-add deals garner plenty of attention. Small, low-occupancy assets are pursued by owner-users or investors with a tenant in tow. Average vacancy for Class C deals more than doubled between 2017 and 2019, indicative of the confidence buyers have in the long-term prospects for these buildings or locations.

2020 Market Forecast

Employment up 1.8% — Employers add 22,500 jobs this year, down from 26,700 in 2019. Office-using employment advances 1.6 percent, outpacing 0.9 percent growth last year.

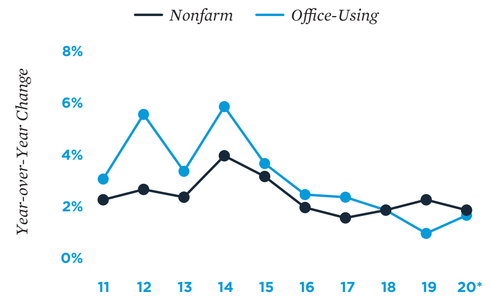
Construction 1.5 million sq. ft. — Developers are poised to bring more than 1.5 million square feet online in 2020, more than four times the 360,000 square feet completed in 2019.

Vacancy up 40 bps — New supply outpaces demand, lifting vacancy to 12.4 percent. Last year, vacancy compressed 30 basis points.

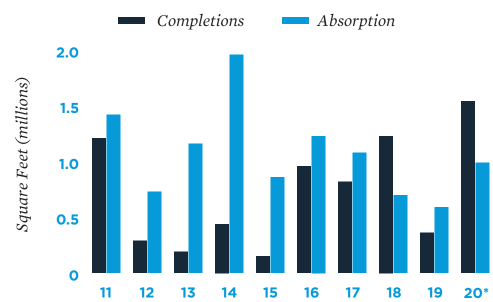
Rent up 2.1% — Overall rent growth lingers near the inflation rate as the average asking rent climbs to $35.65 per square foot by year end.

Investment — Investors mostly target small Class B properties with stabilized rent rosters this year. Class C assets with an attractive price point also generate attention from owner-users.

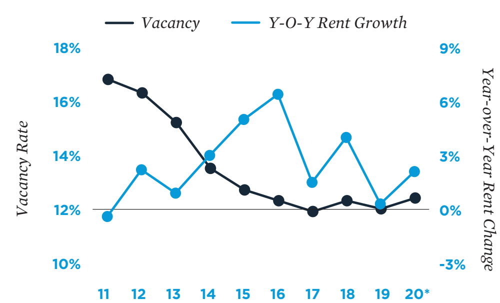
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



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

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