

Miami’s office market has been steadier than expected but still facing some headwinds

Miami’s office market began to feel the effects of the pandemic during the third quarter, with net absorption dipping further into negative territory at the close of the quarter. Following the state’s reopening, the local economy is showing some signs of recovery with 70,900 non-farm jobs added back to the market since the end of April. The strongest recoveries have been within the Financial Services (+1.5% y-o-y) and Professional and Business Services (-3.8% y-o-y) job sectors, while the Leisure and Hospitality sector (-20.9% y-o-y) remains the most affected by layoffs.

During the third quarter, 408,461 sf of supply came back onto the market, pushing overall vacancy to 13.8%. Although many have been anticipating a large amount of sublease space will hit the market, most space that has come back online so far was a result of smaller tenants closing operations or companies downsizing their space. Sublease space has remained relatively in check, rising by 24 basis points (bps) over the quarter. However, that may change as the overall economic picture becomes more clear and tenants begin to re-evaluate their space needs.

Rental rates hold steady amid economic conditions

Despite the current economic climate, landlords have been holding rates steady. In fact, the overall average asking rate increased by 3.1% from \$40.24 to \$41.55 over the quarter,

largely due to the delivery of two high-end, speculative office projects at 545 Wyn and the Offices at River Landing in the Biscayne Corridor.

Leasing activity beginning to accelerate

Leasing activity rebounded slightly in the third quarter, up 45% from the second quarter, but remains significantly below last year’s leasing volume. The majority of the significant transactions this quarter were renewals as some tenants are opting to sign 12-18 month extensions while waiting out the effects of the virus and re-evaluating their space needs.

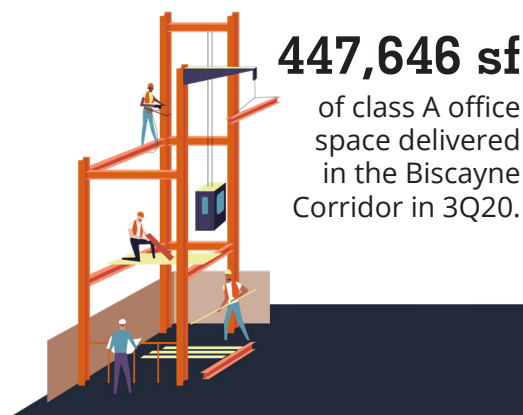
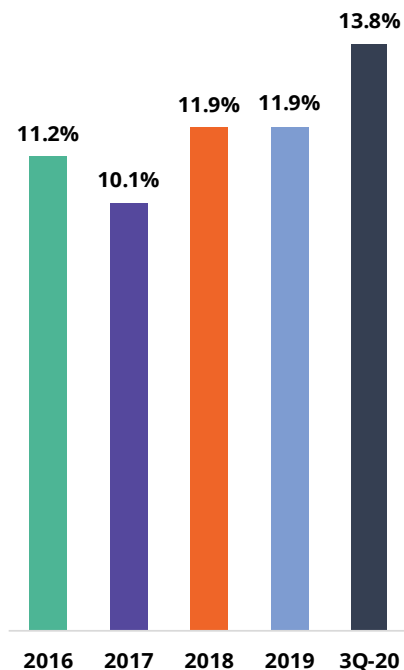
Investment activity making a slight comeback

After investment activity nearly came to a halt in the second quarter, activity has picked up slightly with two noteworthy investment sales closing during the third quarter. The largest sale was Two and Three Brickell City Centre to Northwood Investors for \$163 million followed by Centrum Doral’s sale to Banyan Street Capital for \$43 million.

Looking ahead toward 2021

While there are certainly headwinds on the horizon for Miami, the city still stands to benefit from the increasing number of companies relocating from high-tax states in the northeast. New-York-based private equity giant Blackstone recently announced that it will be opening a 50,000-sf office in the Brickell or Downtown area by the end of 2022.

Historical 5-Year Vacancy Trend



55.1 MSF

Total office inventory in the Miami office market

(550,141) SF

Direct Y-T-D net absorption as of 3Q-2020

13.84%

Overall vacancy

\$47.87/SF/FS

Average rental rate for class A space

Market by the numbers

Airport / Doral										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	5,508,500	887,583	120,509	\$39.17	83.89%	16.11%	2.19%	18.30%	213,081	(223,873)
Class B	6,433,791	644,094	28,066	\$31.27	89.99%	10.01%	0.44%	10.45%	0	37,451
Total	11,942,291	1,531,677	148,575	\$35.84	87.17%	12.83%	1.24%	14.07%	213,081	(186,422)

Aventura										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	1,354,585	186,394	11,154	\$51.88	86.24%	13.76%	0.82%	14.58%	0	36,707
Class B	365,935	24,894	5,028	\$45.25	93.20%	6.80%	1.37%	8.18%	0	(6,267)
Total	1,720,520	211,288	16,182	\$51.10	87.72%	12.28%	0.94%	13.22%	0	30,440

Biscayne Corridor										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	1,903,044	652,528	0	\$53.91	65.71%	34.29%	0.00%	34.29%	265,290	12,700
Class B	1,220,234	113,451	0	\$36.58	90.70%	9.30%	0.00%	9.30%	33,177	50,677
Total	3,123,278	765,979	0	\$51.34	75.48%	24.52%	0.00%	24.52%	298,467	63,377

Brickell										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	4,648,272	406,849	25,947	\$57.08	91.25%	8.75%	0.56%	9.31%	613,000	(45,081)
Class B	2,945,831	391,265	26,548	\$39.78	86.72%	13.28%	0.90%	14.18%	0	(21,728)
Total	7,594,103	798,114	52,495	\$48.60	89.49%	10.51%	0.69%	11.20%	613,000	(66,809)

Coconut Grove										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	637,465	53,711	0	\$53.17	91.57%	8.43%	0.00%	8.43%	190,762	(4,398)
Class B	727,856	86,145	3,263	\$37.74	88.16%	11.84%	0.45%	12.28%	0	(37,174)
Total	1,365,321	139,856	3,263	\$43.66	89.76%	10.24%	0.24%	10.48%	190,762	(41,572)

Coral Gables										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	4,390,304	488,500	50,192	\$43.14	88.87%	11.13%	1.14%	12.27%	455,008	(108,579)
Class B	2,714,248	296,686	10,275	\$35.89	89.07%	10.93%	0.38%	11.31%	0	(82,075)
Total	7,104,552	785,186	60,467	\$40.40	88.95%	11.05%	0.85%	11.90%	455,008	(190,654)

Downtown Miami										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	5,096,314	1,032,599	59,741	\$51.63	79.74%	20.26%	1.17%	21.43%	0	4,891
Class B	3,205,789	600,865	6,360	\$29.36	81.26%	18.74%	0.20%	18.94%	0	(21,803)
Total	8,302,103	1,633,464	66,101	\$43.43	80.32%	19.68%	0.80%	20.47%	0	(16,912)

Kendall										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	1,356,034	124,482	143	\$39.54	90.82%	9.18%	0.01%	9.19%	0	11,101
Class B	2,981,968	252,430	19,915	\$32.26	91.53%	8.47%	0.67%	9.13%	0	(72,316)
Total	4,338,002	376,912	20,058	\$34.67	91.31%	8.69%	0.46%	9.15%	0	(61,215)

South Gables / South Miami										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	479,766	19,084	8,286	\$46.35	96.02%	3.98%	1.73%	5.70%	0	22,207
Class B	1,555,299	107,393	3,259	\$41.72	93.10%	6.90%	0.21%	7.11%	0	(42,375)
Total	2,035,065	126,477	11,545	\$42.41	93.79%	6.21%	0.57%	6.78%	0	(20,168)

Medley / Hialeah										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	392,864	23,472	0	\$32.74	94.03%	5.97%	0.00%	5.97%	0	4,120
Class B	442,793	17,489	0	\$21.86	96.05%	3.95%	0.00%	3.95%	0	(6,582)
Total	835,657	40,961	0	\$28.09	95.10%	4.90%	0.00%	4.90%	0	(2,462)

Miami Beach										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	666,440	79,971	0	\$53.40	88.00%	12.00%	0.00%	12.00%	0	(20,920)
Class B	1,860,847	183,591	0	\$44.47	90.13%	9.87%	0.00%	9.87%	0	(7,664)
Total	2,527,287	263,562	0	\$47.18	89.57%	10.43%	0.00%	10.43%	0	(28,584)






Miami Lakes										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	413,955	82,238	0	\$29.91	80.13%	19.87%	0.00%	19.87%	82,903	(15,605)
Class B	1,881,578	292,250	0	\$28.30	84.47%	15.53%	0.00%	15.53%	0	10,855
Total	2,295,533	374,488	0	\$28.66	83.69%	16.31%	0.00%	16.31%	82,903	(4,750)

Northeast Dade										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	199,684	12,297	0	\$39.70	93.84%	6.16%	0.00%	6.16%	0	(4,243)
Class B	1,401,025	140,184	1,202	\$29.57	89.99%	10.01%	0.09%	10.09%	0	(21,287)
Total	1,600,709	152,481	1,202	\$30.39	90.47%	9.53%	0.08%	9.60%	0	(25,530)

South Dade										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	341,248	48,683	0	\$25.33	85.73%	14.27%	0.00%	14.27%	0	1,120
Total	341,248	48,683	0	\$25.33	85.73%	14.27%	0.00%	14.27%	0	1,120

Reporting Methodology: This report includes all class 'A' and 'B' office buildings and parks 20,000 SF and greater in Miami-Dade County that are not owner occupied, office medical, or government owned. All rents are reported on a full-service gross basis and are direct weighted averages calculated on total available space. The information in this report has been collected by the Avison Young research team via sources that are deemed reliable but is not guaranteed.

Leading Indicators (Y-O-Y Q3-2019 to Q3-2020)

Market Inventory  55,125,669 SF	Vacancy Rate  13.84%	Net Absorption  -550,141 SF	Construction Pipeline  1,853,221 SF	Average Asking Rate  \$41.55 SF
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Miami-Dade County										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	27,047,227	4,049,708	275,972	\$47.87	85.03%	14.97%	1.02%	15.99%	1,820,044	(330,973)
Class B	28,078,442	3,199,420	103,916	\$33.55	88.61%	11.39%	0.37%	11.76%	33,177	(219,168)
Total	55,125,669	7,249,128	379,888	\$41.55	86.85%	13.15%	0.69%	13.84%	1,853,221	(550,141)

CBD										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	9,744,586	1,439,448	85,688	\$53.17	85.23%	14.77%	0.88%	15.65%	613,000	(40,190)
Class B	6,151,620	992,130	32,908	\$33.47	83.87%	16.13%	0.53%	16.66%	0	(43,531)
Total	15,896,206	2,431,578	118,596	\$45.13	84.70%	15.30%	0.75%	16.04%	613,000	(83,721)

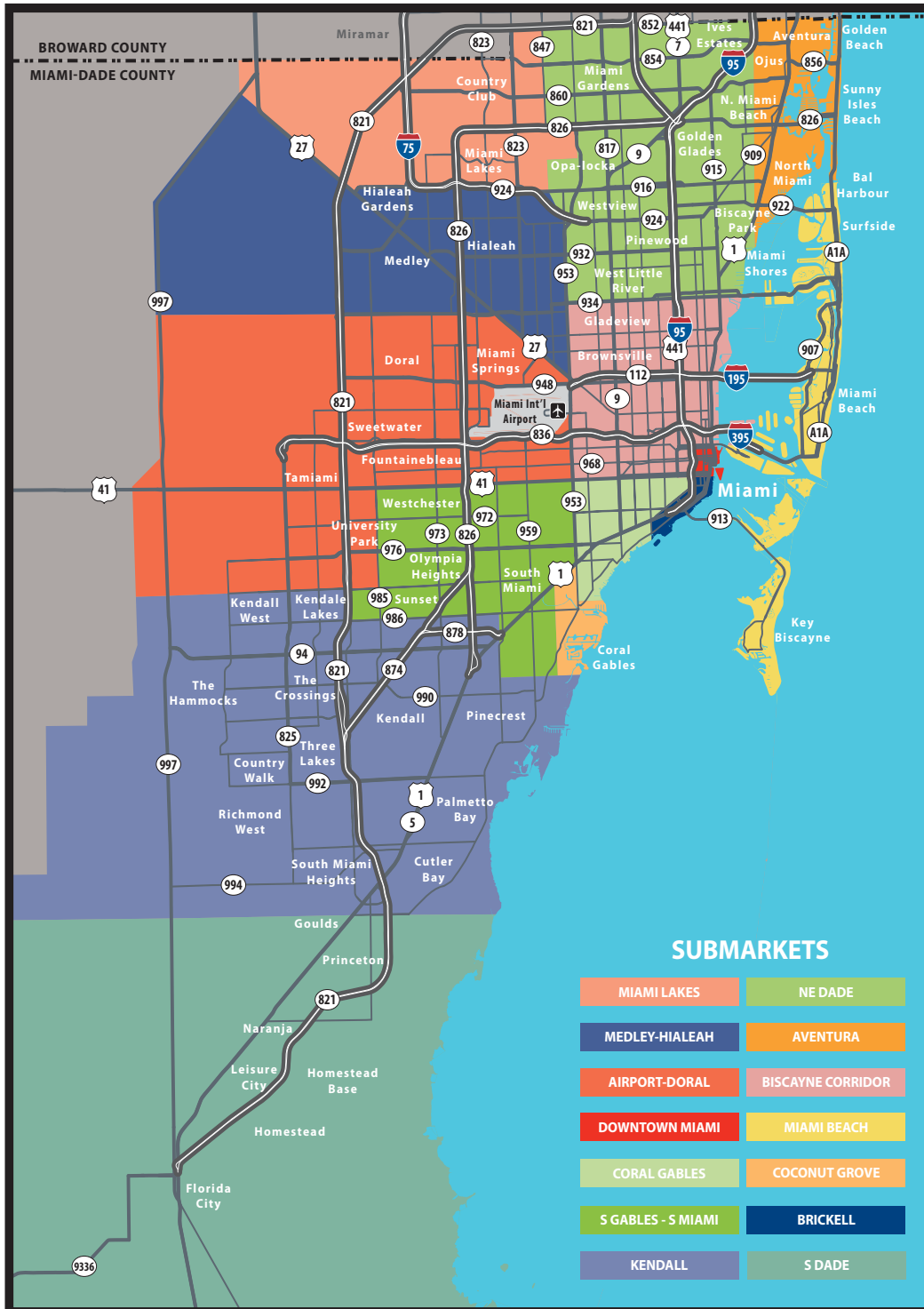
Non-CBD										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	17,302,641	2,610,260	190,284	\$44.95	84.91%	15.09%	1.10%	16.19%	1,207,044	(290,783)
Class B	21,926,822	2,207,290	71,008	\$33.59	89.93%	10.07%	0.32%	10.39%	33,177	(175,637)
Total	39,229,463	4,817,550	261,292	\$39.74	87.72%	12.28%	0.67%	12.95%	1,240,221	(466,420)

Significant Third Quarter 2020 Lease Transactions - Sorted by SF

Tenant	Property	Type	SF	Submarket
Crown Castle	Flagler Corporate Center	Renewal	30,000	Airport/Doral
Lydecker Diaz	1221 Brickell Ave	Renewal/Expansion	26,000	Brickell
Kozyak Tropin & Throckmorton	2525 Ponce	Renewal	22,656	Coral Gables
John S. and James L. Knight Foundation	2850 Tigertail Ave	New	22,075	Coconut Grove
Regus	6303 Blue Lagoon Dr	Renewal	20,700	Airport/Doral
FTI Consulting	One Biscayne Tower	Renewal	17,082	Downtown Miami
Weinberg Wheeler Hudgins Gunn & Dial	One Cocowalk	New	13,539	Coconut Grove
VectorGlobal WMG	Brickell Bay Office Tower	Renewal	10,800	Brickell

Significant Third Quarter 2020 Sales Transactions - Sorted by SF

Property	SF	Sale Price	Price/SF	Buyer	Submarket
Brickell City Centre	263,384	\$163,000,000	\$618	Northwood Investors	Brickell
Centrum Doral	279,161	\$43,000,000	\$154	Banyan Street Capital	Airport/Doral
Coral West Plaza	34,280	\$10,000,000	\$291	Santos Medical Center	Kendall



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