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Roaring office market looks bright for landlords, experts say

BY CATHERINE LACKNER

Though office vacancies in Miami-Dade were reported to be increasing earlier in the year, the market has come roaring back and the future looks bright for landlords, observers say.

"Miami-Dade's Brickell submarket remains strong with single-digit vacancy, while the downtown central business district has become a very op-

portunistic submarket for office tenants," said Scott Goldstein, a principal of Avison Young, via email.

"As of first quarter 2019, class A vacancy in Brickell was at 6.94%, the lowest class A vacancy rate among Miami-Dade County's larger submarkets (with inventories of more than 1 million square feet), down from the previous quarter's 8.13%. Positive class A absorption over the past three consecutive quarters shows increased demand from opportunistic tenants in downtown Miami's class A market.

"There is steady and significant office leasing activity for co-working users centered around the larger blocks of class A space. The largest lease signed during the first quarter of 2019 was WeWork's 146,539-square foot lease in an office tower planned for Brickell. WeWork also just signed an 89,307-square-foot lease at a landmark tower downtown Miami," he said.

"There has been a trend of older/aged class A and B office buildings undergoing significant renovations to upgrade common areas and offer additional amenities to tenants during this cycle to compete and capture more of the live/work/play environment that has become extremely desirable to the millennial workforce. Due to rising rental rates, tenants are



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Joe Hernandez

allocating less space per employee while still accomplishing growth and expansion."

"Miami-Dade County's office market continues to perform surprisingly well in 2019, in particular in the downtown and Brickell submarkets, which have experienced lower vacancy rates and rental rate growth in the first part of the year," said Eric Rapkin, chair of the Akerman law firm's Real Estate Practice Group, via email.

"There are several factors that are driving the positive trends in office leasing and space absorption, including record employment numbers

and the effects of the 2017 tax reform act in connection with the limiting of state and local tax deductions, which we believe will continue to drive demand in South Florida as businesses and individuals from high-tax states such as New York, New Jersey, and Illinois examine their options of moving to low- or no-income tax states like Florida," he continued.

"The new construction at downtown's MiamiCentral was almost fully absorbed very quickly, and the exciting new office projects, not just in downtown and Brickell but also just outside of the downtown core, in Wynwood, and in Coral Gables, will benefit should these trends continue.

"Most economy watchers are predicting some type of slowdown in the coming year, and with hundreds of thousands of new square feet of new office construction coming online in Miami-Dade County, it will be interesting to see how the market looks a year from now. But even so, I am still bullish on the prospects for the Miami-Dade office market."

"The office market in Miami-Dade County has never been overbuilt and never been speculative," even during the hectic building boom that preceded the 2008 crash, said Joe Hernandez, chair of the real estate group at Weiss Serota Helfman Cole & Bierman.

"There has not been much new product since 700 Brickell came into the market, and it was leased up before it was built." A notable exception would be the two office buildings in Brickell City Centre, but the Akerman firm look nearly one entire building, he added.

Because of the tight market downtown and in Brickell, some firms are outsourcing their back-office functions to Doral or other submarkets, he said.

"I see the market as a landlord's," Mr. Hernandez said. "It's going to tough for tenants as landlords increase rents and get better rates than they did in the past."

"The vacancy rate in Miami-Dade County's office market continues to trend upward and recently reached a four-year high," said Christopher Dubberly, senior vice president of Transwestern Commercial Services, via email.

"However, the amount of vacant available direct space in the county remains less than 12%, and asking rents have continued to increase, albeit at a muted pace than years past. Users making real estate decisions in today's peaking market face record high pricing, resulting in the increased consideration of older generation office product. I expect pricing will continue to increase in core submarkets as supply remains largely constrained."



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