

# MIAMI TODAY



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COMMERCIAL & OFFICE SPACE

MIAMI TODAY 17

## More jobs and few new buildings push office rents higher

By CATHERINE LACKNER

Employment gains and scant new product on the horizon have strengthened the office space market across Miami-Dade, tightening space, observers say.

"Rising rental rates, falling vacancy rates, high development costs and the lack of new supply expected to deliver over the near- to mid-term are all fueling strong investor demand for existing office buildings," said a third-quarter report on four office markets (downtown, Brickell, Coral Gables and Airport West, which includes Doral) by Blanca Commercial Real Estate Inc.

"Landlords across the market are increasingly optimistic, given recent trends," agreed a third-quarter report by JLL. "Miami-Dade County local non-agricultural employment increased to 1.1 million jobs in August, the fastest month-on-month pace of job creation since October 2012 and the 62nd consecutive month of job growth in the county," the report continued. "Of the 5,500 jobs created quarter-to-date, 29.1% stemmed from expansion of the office-using professional and business services sector, which is up 3.2% year-over-year. Growth in finance and insurance sectors, while contracting slightly on a quarter-on-quarter basis, remains robust at 2.3% growth year-over-year. The county's strong employment gains have resulted in a vacancy decline of 0.6 percentage points."

Demand for premium space is strong, said Donald Cartwright, managing director of the South Florida region at JLL, which manages the 55-story Southeast Financial Center. Above the 32nd floor, only two spaces are available, while on the lower floors, "there is a fair amount of space and it still has good views," he said.

"There is an ample supply of space in the market, and that does not justify new construction," he said, citing an overall vacancy of 15% downtown and in Brickell, not including the new office space at Brickell City Centre and in the All Aboard Florida project. "The character of the market is more balanced now, allowing rental rates to



*'The character of the market is more balanced now, allowing rental rates to get back to where they were before the recession.'*

**Donald Cartwright**

### MIAMI OFFICE MARKET

	Inventory (s.f.)	YTD total net absorption (s.f.)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	Under construction (s.f.)
Brickell	6,384,303	30,870	13.6%	\$41.28	264,199
Downtown	7,217,667	64,279	17.9%	\$35.25	315,000
<b>Central Business District</b>	<b>13,601,970</b>	<b>95,149</b>	<b>15.9%</b>	<b>\$37.44</b>	<b>579,199</b>
Aventura/North Miami	1,058,942	49,573	5.5%	\$36.81	0
Coconut Grove	893,974	-2,743	6.8%	\$32.26	0
Coral Gables	5,455,861	124,051	11.2%	\$36.38	60,799
Kendall/Dadeland	2,881,657	71,266	11.5%	\$28.09	0
Miami Airport	8,919,163	88,384	12.3%	\$23.52	85,000
Miami Beach	1,861,851	99	10.8%	\$32.48	0
Miami Lakes	903,271	-32,470	24.7%	\$16.73	0
<b>Suburbs</b>	<b>21,974,719</b>	<b>298,160</b>	<b>11.7%</b>	<b>\$28.12</b>	<b>145,799</b>
<b>Miami</b>	<b>35,576,689</b>	<b>393,309</b>	<b>13.3%</b>	<b>\$32.34</b>	<b>724,998</b>

Source: JLL

get back to where they were before the recession." It also has allowed for the absorption of space that came onto the market in 2009-2011, he added.

He has seen lateral moves in the office market, and in some cases, tenants have redesigned their office configurations to save space. The Akerman law firm will soon move from the SunTrust International Building to Brickell City Centre but will be downsizing from 115,000 to 108,000 square feet. "They're getting brand-new space, and current technology and design is allowing them to take less space," Mr. Cartwright said.

Meanwhile, the Shutts & Bowen law firm is moving from floors 14 through 16 of the Southeast Financial Center to floors 40 through 42, "some of best views in the marketplace," he said.

The Blanca Commercial report said that year-over-year vacancy rates have declined from 15.4% to 13.2% in Brickell; from 15.9% to 12.6% in Coral Gables; and from 14.9% to 11.9% in Airport West.

"Downtown Miami was the only submarket to experience a drop in occupancy, due primarily to Akerman's space now being marketed at SunTrust International," it noted. Vacancy there rose to 19.3% from 18.7% in the third quarter of 2013, the report said.

While tenants will always bemoan rising rates, the price of office space has not risen as dramatically as that of other real estate assets, Mr. Cartwright said.

"Residential real estate has pretty much recovered from the recession, and I guarantee residential has risen significantly more than commercial rates and sales."

Mr. Cartwright said he researched office rates in four downtown buildings in 1987 and contrasted their rise in rates with the growth in the consumer price index from 1987 to 2015. The average rental rate in those buildings was \$32.84 per square foot, which, if it had risen along with the consumer price index, would have been \$65.75 today, he said. "It is very likely that rent as a percentage of business expenses is less than it was in 1988."

Because absorption historically quickens during the fourth quarter, "landlords have few reasons to despair on the pricing front," the JLL report said.

"The fourth quarter has accounted for 44% of all absorptions since 2010. We expect this trend to continue, given recent

lending activity, and clients would be prudent to act sooner than later before market fundamentals shift significantly in favor of landlords."

The Blanca Commercial report does not promise a strong finish for 2015 but also is optimistic. In the four areas it surveyed, "absorption levels seem to have stabilized as compared to Q3 2013, when nearly 500,000 square feet of net new space was leased," the report noted. "While the factors driving these dynamics – lack of new office inventory, greater efficiency in space planning, the pervasiveness of technology in business, and the continued growth of shared co-working spaces – persist, we expect the positive absorption trend to hold steady."

"Looking ahead, Miami's office market should continue to reap the benefits of a relatively stable US economy, the city's appeal as a global and regional business hub, and high barriers to entry for new development."