

# MarketWatch: Miami-Dade

## OFFICE MARKET TRENDS SECOND QUARTER 2013



### Miami Office Market Continues Positive Drive

#### Market Vacancies Tighten

The Miami office market continued its positive drive, adding 261,000 square feet of occupancy during the second quarter of 2013. Year-to-date, the metropolitan area absorbed more than 520,000 square feet, scoring eight straight quarters of positive occupancy gains of more than 100,000 square feet. Rising office demand has been encouraged by modest growth across all job sectors, particularly among those with Latin American roots. Within the last year, Miami-Dade's overall payroll employment was bolstered by the private sector, which added 12,200 jobs. Leisure and hospitality led the way with 6,600 new jobs, while the professional and business services sector offered an additional 1,100 new jobs.

Although occupancy gains of half a million square feet were recorded at the midpoint of the year, leasing activity followed its typical summer slowdown, dropping 25% compared to the first half of 2012. The largest transaction in the second quarter was a 65,000-square-foot renewal by Royal Bank of Canada at 801 Brickell, which included a 10,000-square-foot expansion. The building pushed to 95% occupancy over the last year, closing nearly a dozen leases and expansions that totaled 125,000 square feet. Brickell and Airport West have been the most active submarkets year-to-date, posting 102,000 square feet and 207,000 square feet of occupancy gains, respectively. Meanwhile, area landlords are beginning to pull back on concessions, particularly in submarkets such as Brickell and Downtown, which have seen steady growth and sustained leasing activity over the last two years.

Benefitting from foreign investment and Latin American influence, the Miami market continues to make incremental strides towards recovery. Overall office vacancies of 20.3% have dropped 230 basis points in the last 18 months. The return of organic, sustainable tenant growth bodes well for overall office market fundamentals. Market-wide average asking rates have inched up over the prior year to \$30.65 per square foot, with even larger gains for buildings achieving an occupancy rate of above 90%.

### TRANSACTION HIGHLIGHTS

#### Notable Lease Deals

Completed between 4/1/13 and 6/30/13

| Tenant               | Building                        | Lease SF | Comments              |
|----------------------|---------------------------------|----------|-----------------------|
| Royal Bank of Canada | 801 Brickell                    | 65,009   | Renewal and expansion |
| Brinks               | Flagler Station – Building 1300 | 24,000   | New to market         |
| Gunster              | Brickell World Plaza            | 21,363   | 12-year lease         |

#### Notable Office Building Sales


Completed between 4/1/13 and 6/30/13

| Building                     | Total SF | Price         | Price PSF | Comments                     |
|------------------------------|----------|---------------|-----------|------------------------------|
| Sabadell Financial Center    | 522,892  | \$184,000,000 | \$352     | 85% occupied at time of sale |
| 2333 Ponce de Leon Boulevard | 205,295  | \$81,000,000  | \$395     | Acquired by TA Associates    |
| 5040 NW 7th Street           | 83,370   | \$5,700,000   | \$68      | REO transaction              |

### Market Trends

**Vacancy Rate** **20.3%**   
Miami vacancies have dropped 230 basis points in the last 18 months to a current rate of 20.3%.



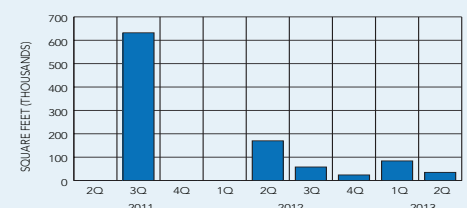
**Absorption** **261,601 SF**   
More than 260,000 square feet of occupancy gains were recorded in the each of the first two quarters of 2013, bringing the year-to-date absorption total to more than 520,000 square feet.



**Rental Rates** **\$30.65 PSF**   
Miami asking rents of \$30.65 per square foot are plateauing and have displayed minimal volatility in the past two years.



**New Deliveries** **35,298 SF**   
Miami has 173,000 square feet currently under construction, all of which is in the suburban markets; however, development activity within the CBD is picking up with projects such as AIR 1400 Biscayne.



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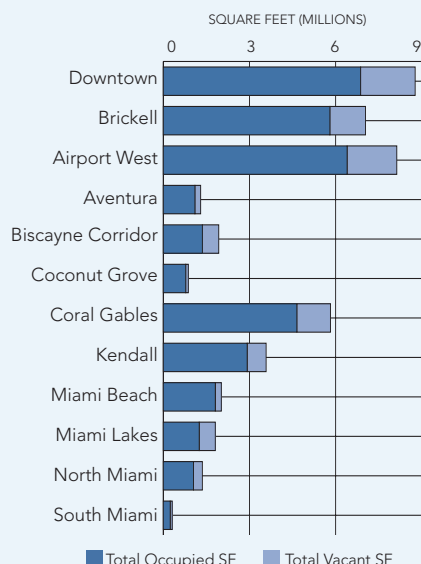
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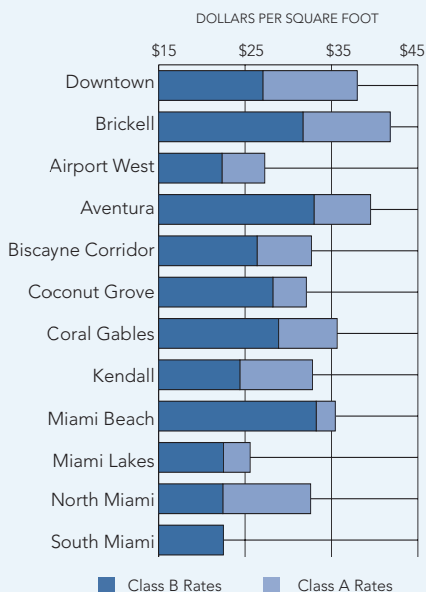
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## Submarkets at a Glance

### Size Comparison



### Average Rental Rates



### Methodology

The information in this report is the result of Transwestern's ongoing analysis of Miami-Dade's key for-lease office properties. We compile our quarterly statistics based on a defined inventory of Class A and B multi-tenant office buildings of approximately 20,000 square feet or more in size.

## Economic Conditions

- Miami, a true international city, continues to benefit major investments by multinational corporations. More than 140 international headquarters serving 100 plus countries are located within the Coral Gables submarket alone.
- Emacio USA revealed plans for a 1.4 million-square-foot mixed-use development dubbed AIR 1400 Biscayne, which will sit in the heart of the bustling Biscayne Corridor in Downtown Miami. Phase one of the project, which calls for a 102,000-square-foot office building, is slated for completion in 2015.
- More than 170,000 square feet are currently under construction in the Miami office market, the largest of which is the 80,000-square-foot Doral Park Centre located in the Airport West submarket. The project is expected to deliver by the end of the year.

## Rental Rates and Concessions

- Class A average rental rates fell slightly from the previous quarter to \$35.37 per square foot, continuing a downward trend since 2008. On the other hand, Class B rents of \$25.72 increased by 3% in the second quarter, representing the largest recorded increase in more than five years.
- According to the latest PWC Real Estate Investor Survey, Miami has officially entered the recovery phase of the real estate cycle; however, active tenants are still able to find favorable concession packages. Landlords continue to incorporate free rent, typically in the range from one to 12 months on a ten-year lease term or an average of 7 months.

## Vacancy and Absorption

- Since peaking above 25% in 2011, Brickell vacancies continue to trend downward, shedding 830 basis points along the way to its current vacancy of 17.6%. Demand for Brickell office space has strengthened thanks to its walkability and urban vitality.
- Overall Miami is a balanced market in terms of Class A and B vacancies with rates averaging at 22.2% and 22.3%, respectively.

## Leasing Activity

- Littler Mendelson, the world's largest employment and labor law firm, negotiated a long term lease for 17,317 square feet in Downtown's Wells Fargo Center.
- Airport West is a leader in the market recovery, ending the first half of the year with the second highest level of leasing activity thanks to several small to mid-sized deals. The submarket also led Miami with the largest total net absorption of more than 160,000 square feet.

## Investments

- Among the largest sales transaction of the year, Prudential acquired Brickell's Sabadell Financial Center for \$352 per square foot. The 522,000-square-foot tower was 85% occupied at the time of sale.
- Recent reports suggest that Rivergate Plaza has hit the market for sale. The 200,000-square-foot building that sits along Brickell Avenue is 75% occupied and was renovated just last year.

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## CURRENT STATISTICS

| Submarket                 |             | Total Inventory SF | Direct SF Vacant | Direct Vacancy Rate | Sublease SF | Total SF Vacant | Overall Vacancy Rate | 2Q2013 Net Absorption | YTD Net Absorption | SF Under Construction | Average Quoted Rental Rate PSF (full service) |
|---------------------------|-------------|--------------------|------------------|---------------------|-------------|-----------------|----------------------|-----------------------|--------------------|-----------------------|---|
| URBAN SUBMARKETS          |             |                    |                  |                     |             |                 |                      |                       |                    |                       |   |
| <b>Downtown</b>           | Class A     | 4,861,770          | 1,008,344        | 20.7%               | 26,128      | 1,034,472       | 21.3%                | -4,625                | -6,552             | 0                     | \$37.98                                       |
|                           | Class B     | 3,905,998          | 861,133          | 22.0%               | 0           | 861,133         | 22.0%                | 28,190                | 46,626             | 0                     | \$27.06                                       |
|                           | Overall     | 8,767,768          | 1,869,477        | 21.3%               | 26,128      | 1,895,605       | 21.6%                | 23,565                | 40,074             | 0                     | \$32.92                                       |
| <b>Brickell</b>           | Class A     | 4,383,317          | 866,416          | 19.8%               | 37,490      | 903,906         | 20.6%                | 43,263                | 110,533            | 0                     | \$41.80                                       |
|                           | Class B     | 2,651,365          | 317,401          | 12.0%               | 14,153      | 331,554         | 12.5%                | -29,241               | -8,272             | 0                     | \$31.70                                       |
|                           | Overall     | 7,034,682          | 1,183,817        | 16.8%               | 51,643      | 1,235,460       | 17.6%                | 14,022                | 102,261            | 0                     | \$38.49                                       |
| URBAN SUBMARKETS TOTAL    |             |                    |                  |                     |             |                 |                      |                       |                    |                       |   |
| <b>CBD</b>                | Class A     | 9,245,087          | 1,874,760        | 20.3%               | 63,618      | 1,938,378       | 21.0%                | 38,638                | 103,981            | 0                     | \$39.50                                       |
|                           | Class B     | 6,557,363          | 1,178,534        | 18.0%               | 14,153      | 1,192,687       | 18.2%                | -1,051                | 38,354             | 0                     | \$28.32                                       |
|                           | Overall     | 15,802,450         | 3,053,294        | 19.3%               | 77,771      | 3,131,065       | 19.8%                | 37,587                | 142,335            | 0                     | \$34.84                                       |
| SUBURBAN SUBMARKETS       |             |                    |                  |                     |             |                 |                      |                       |                    |                       |   |
| <b>Airport West</b>       | Class A     | 3,797,242          | 543,073          | 14.3%               | 25,655      | 568,728         | 15.0%                | 20,988                | 46,429             | 0                     | \$27.28                                       |
|                           | Class B     | 4,334,603          | 1,092,463        | 25.2%               | 67,814      | 1,160,277       | 26.8%                | 139,416               | 160,752            | 100,000               | \$22.33                                       |
|                           | Overall     | 8,131,845          | 1,635,536        | 20.1%               | 93,469      | 1,729,005       | 21.3%                | 160,404               | 207,181            | 100,000               | \$24.36                                       |
| <b>Aventura</b>           | Class A     | 840,119            | 145,756          | 17.3%               | 0           | 145,756         | 17.3%                | 21,661                | 23,803             | 0                     | \$39.53                                       |
|                           | Class B     | 460,482            | 54,281           | 11.8%               | 0           | 54,281          | 11.8%                | -9,307                | -15,097            | 0                     | \$32.98                                       |
|                           | Overall     | 1,300,601          | 200,037          | 15.4%               | 0           | 200,037         | 15.4%                | 12,354                | 8,706              | 0                     | \$37.53                                       |
| <b>Biscayne Corridor</b>  | Class A     | 699,000            | 246,925          | 35.3%               | 0           | 246,925         | 35.3%                | 0                     | 0                  | 0                     | \$32.68                                       |
|                           | Class B     | 1,232,082          | 309,950          | 25.2%               | 15,235      | 325,185         | 26.4%                | -4,908                | -18,013            | 0                     | \$26.39                                       |
|                           | Overall     | 1,931,082          | 556,875          | 28.8%               | 15,235      | 572,110         | 29.6%                | -4,908                | -18,013            | 0                     | \$30.28                                       |
| <b>Coconut Grove</b>      | Class A     | 515,216            | 37,027           | 7.2%                | 5,544       | 42,571          | 8.3%                 | 1,143                 | 12,810             | 0                     | \$32.09                                       |
|                           | Class B     | 348,084            | 45,099           | 13.0%               | 0           | 45,099          | 13.0%                | -3,487                | -9,201             | 0                     | \$28.22                                       |
|                           | Overall     | 863,300            | 82,126           | 9.5%                | 5,544       | 87,670          | 10.2%                | -2,344                | 3,609              | 0                     | \$30.59                                       |
| <b>Coral Gables</b>       | Class A     | 4,068,801          | 902,549          | 22.2%               | 19,512      | 922,061         | 22.7%                | 12,317                | 32,948             | 0                     | \$35.66                                       |
|                           | Class B     | 1,753,424          | 245,075          | 14.0%               | 1,744       | 246,819         | 14.1%                | -1,148                | 15,698             | 0                     | \$28.88                                       |
|                           | Overall     | 5,822,225          | 1,147,624        | 19.7%               | 21,256      | 1,168,880       | 20.1%                | 11,169                | 48,646             | 0                     | \$33.89                                       |
| <b>Kendall</b>            | Class A     | 1,412,264          | 294,373          | 20.8%               | 500         | 294,873         | 20.9%                | 5,199                 | 625                | 51,000                | \$32.80                                       |
|                           | Class B     | 2,169,773          | 355,977          | 16.4%               | 6,719       | 362,696         | 16.7%                | 65,590                | 71,754             | 0                     | \$24.40                                       |
|                           | Overall     | 3,582,037          | 650,350          | 18.2%               | 7,219       | 657,569         | 18.4%                | 70,789                | 72,379             | 51,000                | \$27.91                                       |
| <b>Miami Beach</b>        | Class A     | 865,175            | 62,642           | 7.2%                | 0           | 62,642          | 7.2%                 | -2,141                | -1,629             | 0                     | \$35.44                                       |
|                           | Class B     | 1,161,381          | 150,176          | 12.9%               | 0           | 150,176         | 12.9%                | 7,755                 | 12,847             | 0                     | \$33.23                                       |
|                           | Overall     | 2,026,556          | 212,818          | 10.5%               | 0           | 212,818         | 10.5%                | 5,614                 | 11,218             | 0                     | \$33.91                                       |
| <b>Miami Lakes</b>        | Class A     | 416,748            | 135,254          | 32.5%               | 0           | 135,254         | 32.5%                | 5,446                 | 3,416              | 0                     | \$25.59                                       |
|                           | Class B     | 1,388,434          | 424,682          | 30.6%               | 0           | 424,682         | 30.6%                | -20,295               | -6,092             | 0                     | \$22.50                                       |
|                           | Overall     | 1,805,182          | 559,936          | 31.0%               | 0           | 559,936         | 31.0%                | -14,849               | -2,676             | 0                     | \$23.30                                       |
| <b>North Miami</b>        | Class A     | 165,000            | 88,197           | 53.5%               | 0           | 88,197          | 53.5%                | 0                     | 8,000              | 0                     | \$32.59                                       |
|                           | Class B     | 1,191,845          | 219,732          | 18.4%               | 0           | 219,732         | 18.4%                | -9,272                | 27,569             | 22,680                | \$22.43                                       |
|                           | Overall     | 1,356,845          | 307,929          | 22.7%               | 0           | 307,929         | 22.7%                | -9,272                | 35,569             | 22,680                | \$24.08                                       |
| <b>South Miami</b>        | Class A     | 0                  | 0                | 0.0%                | 0           | 0               | 0.0%                 | 0                     | 0                  | 0                     | -   |
|                           | Class B     | 308,355            | 71,294           | 23.1%               | 0           | 71,294          | 23.1%                | -4,943                | 13,018             | 0                     | \$22.49                                       |
|                           | Overall     | 308,355            | 71,294           | 23.1%               | 0           | 71,294          | 23.1%                | -4,943                | 13,018             | 0                     | \$22.18                                       |
| SUBURBAN SUBMARKETS TOTAL |             |                    |                  |                     |             |                 |                      |                       |                    |                       |   |
| <b>Suburban</b>           | Class A     | 12,779,565         | 2,455,796        | 19.2%               | 51,211      | 2,507,007       | 19.6%                | 64,613                | 126,402            | 51,000                | \$32.08                                       |
|                           | Class B     | 14,348,463         | 2,968,729        | 20.7%               | 91,512      | 3,060,241       | 21.3%                | 159,401               | 253,235            | 122,680               | \$24.42                                       |
|                           | Overall     | 27,128,028         | 5,424,525        | 20.0%               | 142,723     | 5,567,248       | 20.5%                | 224,014               | 379,637            | 173,680               | \$27.98                                       |
| MIAMI-DADE TOTAL          |             |                    |                  |                     |             |                 |                      |                       |                    |                       |   |
| <b>TOTAL</b>              | Class A     | 22,024,652         | 4,330,556        | 19.7%               | 114,829     | 4,445,385       | 20.2%                | 103,251               | 230,383            | 51,000                | \$35.37                                       |
|                           | Class B     | 20,905,826         | 4,147,263        | 19.8%               | 105,665     | 4,252,928       | 20.3%                | 158,350               | 291,589            | 122,680               | \$24.61                                       |
|                           | Class A & B | 42,930,478         | 8,477,819        | 19.7%               | 220,494     | 8,698,313       | 20.3%                | 261,601               | 521,972            | 173,680               | \$30.65                                       |



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## Miami-Dade Office Submarkets



*For more information, please contact:*

Jonathan Majors, Regional Market Research Analyst  
404.842.6534 • [jonathan.majors@transwestern.net](mailto:jonathan.majors@transwestern.net)

## Market Highlights

The Miami-Dade MSA is considered to be a true international city. It is a key global business center for the US, with only New York and Washington, DC having more international banking operations. And as the "Gateway to Latin America and the Caribbean" the city is the uncontested leader for doing business in these growing markets. As such, more than 1,000 multi-national companies have offices in Miami-Dade.

A worldwide tourist destination, more than 11 million visitors come to Miami-Dade each year. Despite a sluggish economy, the area actually saw a 3.5% increase in tourism over the past year, proof of Miami-Dade's attractiveness even during an economic downturn.

Thanks to an increasingly diversified economy, Miami-Dade's labor market has traditionally enjoyed low unemployment rates and has led Florida in terms of job growth. Key economic sectors continue to be finance, wholesale trade, construction, and tourism, but over the last decade there has been considerable growth in the information technology and health care industries.

While the area has been impacted by the national recession and housing market collapse, the long-term outlook for Miami-Dade remains very positive.

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LICENSED REAL ESTATE BROKER  
100 SE 2nd Street, Suite 3100 • Miami, FL 33131  
PHONE: 305.808.7310 • FAX: 305.808.7309  
[www.transwestern.net/miami](http://www.transwestern.net/miami)