Miami DDA Report: Rising Rents, Improving Occupancy and High Barriers to New Development Lure Investors to Downtown Miami Office Market

MIAMI – February 24, 2016 – The international spotlight may be focused on Miami's luxury condo market, but the city's downtown office landscape could be its hottest asset class. Growing demand for office space among multinational companies and high barriers to entry for new office development in Miami's urban core are fueling falling vacancy rates, rising office rents and a surge of new investment. These trends and more are outlined in new independent study commissioned by the Miami Downtown Development Authority (DDA) which evaluated the nearly 18 million square feet of leasable office space in Miami's urban core, the first independent market analysis conducted in two years.

The report, authored by Lambert Advisory, concluded downtown Miami experienced nearly 450,000 square feet of positive absorption in the past two years as companies from around the world enter the U.S. market via Miami and existing businesses expand. Downtown's workforce, the most accurate bellwether of office space demand, is expected to add 19,800 office jobs over the next five years, prompting the need for additional inventory. This demand will be partially met as approximately 385,000 square feet of office space now under development comes online. The report goes on to conclude that the downtown Miami market can comfortably absorb 200,000 square feet of new office development every 2-3 years so long as current trend lines hold.

"Nobody could have predicted that Downtown Miami's office market would reach stability just five years after the delivery of 1.2 million square feet of new space," says Paul Lambert, Managing Principal of Lambert Advisory, which conducted the report on behalf of the Miami DDA. "Fast-forward to today and rents are approaching pre-recession levels as the inventory of available space continues to shrink, and the world's most sophisticated investors vie for entry into this market."

Highlights of the report include:

- **Net-positive absorption:** Downtown Miami experienced net-positive absorption of 448,000 square feet from Q1 2014 until Q4 2015.

- **Record levels of employment:** Unemployment in Miami-Dade County currently sits at 5.8%, the lowest since 2007. Based on employment growth and net absorption trends, the Miami DDA Office Area should be in a position to support new office space being delivered to the market within the next five to six years.

- **A pipeline of inventory to meet pent up demand:** Office development has slowed during the past five years with 2.6 million square feet built between 2010 and 2015. Only 920,000 square feet is currently under construction countywide.

- **Shared workspace trend continues:** Coworking and shared workspaces are in demand and a growing trend in the urban core. There is still more demand for shared workspaces and a bigger appetite for this type of development in Miami. There's room for growth with shared workspaces in Miami's CBD.

- **Small businesses dominate the market:** Small businesses taking less than 5,000 square feet dominate users in this market. The average tenant in the market takes about 2,500 square feet, accounting for 61% of the deal size.

News of Downtown Miami's stable office market comes as the neighborhood's population soars, with the number of residents in the area having doubled from 40,000 to 80,000 in the past 15 years. With residential developers racing to meet growing demand for urban living, land prices are at a premium.

This has slowed the pace of new office development, leading companies from across the globe to invest in commercial assets in Miami's urban core. For example, 2015 saw the acquisition of several high profile office buildings in Downtown Miami, including the $140 million sale of 777 Brickell, the $112 million sale of 800 Brickell, and the $142 million sale of the Espirito Santo Plaza.

"From small businesses to multinational corporations, Downtown Miami is emerging as a sophisticated hub where real money is being put to work," said Miami DDA Executive Director Alyce Robertson. "Downtown Miami is home to one of the largest concentrations of international banks and financial institutions. With over 60 international banks and 100 alternative investment companies that call the area home, it's no wonder why it has been dubbed by many as 'Wall Street South.'"

"Record levels of unemployment, a stream of new-to-market tenants and a traditional lack of new office product in the urban core has created a perfect storm for commercial sector growth," says Danet Linares, Vice Chairman of Blanca Commercial Real Estate. "Investors continue to see the value in downtown Miami's commercial real estate market because of its affordability, status as the Gateway to Latin America, influx of both global and domestic investors, and growing business diversity."

About the Miami Downtown Development Authority
The Miami DDA is an independent agency of the City of Miami funded by a special tax levy on properties in its district boundaries. It is governed by a 15-member Board comprised of three public appointees and 12 downtown property owners, residents and/or workers who are tasked with overseeing the direction of the agency and setting policy. The agency is committed

to grow, strengthen and promote the economic health and vitality of downtown Miami. As an autonomous agency of the City of Miami, the Miami DDA advocates, facilitates, plans, and executes business development, planning and capital improvements, and marketing and communication strategies. Visit www.MiamiDDA.com for more information.

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