



Downtown and Brickell office towers have brought heavy interest from buyers at rapidly rising prices.

Downtown's growing population, rising rents spur office tower sales

By KATHERINE LEWIN

The concluding 2018 has been a strong year for the sale of office and commercial real estate, according to the latest Miami Downtown Development Authority (DDA) 2018 report for Office Tenant Trends in Downtown Miami and Miami real estate leaders. There has been \$1.6 billion worth of downtown office sales since 2010.

An increasing downtown population, low tenant vacancy rates, sky-high rents that show no sign of slowing down in 2019 and not much new development for office buildings on the horizon have contributed to a big year for office property sales in particular.

And 2018 saw several major sales. "Attesting to investor confidence in this location," Parkway Properties, with KKR as a partner, purchased Prudential's 1111 Brickell, formerly Sabadell Financial Center, in June for \$249 million. That sale was second only to the 2016 sale of Southeast Financial Center, the largest premier office building in Florida.

In 2018, 1111 Brickell sold for a price 35% higher than 2013's \$184 million price tag. The SunTrust International Center sold for \$82.5 million in 2011 and sold again in 2018 at \$127



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million. 1221 Brickell sold in 2006 for \$111.6 million and again in 2017 with a 39% increase. The Southeast Financial Center had a 2016 sale price, up 183% from 2008's sale price of \$182.5 million.

Vacancy rates play a vital role in how potential office space buyers make their decisions. According to the DDA

report, 89% of Miami's existing downtown office occupants stay and over 700,000 square feet of office space was signed by new-to-market firms in Downtown Miami since 2013.

Greater Miami and Downtown's Class-A offices saw decreases in vacancy from 2013 to 2015 and upticks in vacancy from 2015 to 2017. Metro Miami's Class-A office market overall has seen a steady decrease in Class-A vacancy, though it seems to stick around 13%.

While rental rates in Miami are lower than most major cities, both Downtown Miami and Greater Miami's office markets are seeing a steady increase in rental rates. Both Class A and Class B offices are marked at a decade high in average quoted rates. In Downtown Miami, Brickell's Class A market holds the highest rental rates at \$52.94 per square foot.

The Central Business District's Class A office pricing is around \$46 per square foot while prime office spaces, on high floors with incredible views, can reach up to \$68 per square foot.

Class A rental rates in Downtown Miami are \$33 cheaper per square foot than New York City's Midtown South Market and Downtown Miami's Class A rental rates are lower than in Boston, New York, San Francisco, Seattle and Washington, DC.

According to Danet Linares, the vice chairman of Blanca Commercial Real Estate and a board member of the Miami DDA, an increase in rent means an increase in buying of office towers. There isn't a lot of vacancy in the market, which makes it so that rental projections are going to increase, according to Ms. Linares.

"There is a very big demand for buildings. We saw companies from the Northeast, from the Midwest, from the West Coast. We're seeing more domestic buyers than international buyers," Ms. Linares said. "I'm not sure why, but there is still a lot of money out there to invest in quality assets."

With low vacancy rates and



1111 Brickell, formerly Sabadell Financial Center, sold for \$249 million.

high rents, the market is "attractive" to buys, Ms. Linares said.

Another factor in a strong buying market in 2018 and the coming years is the lack of new office product coming online. According to Ms. Linares, no new office product is on the horizon for the next five to six years and office buildings still under construction are nearly 100% leased. Combined with the lack of empty land for new buildings and rising construction costs, new office development is unlikely.

The DDA report supports

that, with only 1% additional rentable building area (RBA) added to Downtown in the past five years. Greater Miami saw a 4.4% increase in Class A RBA and the Miami metro area saw a 5.1% increase in Class-A.

Downtown Miami's office market of roughly 2 square miles accounts for over 41% of the entire Greater Miami office market. Greater Miami's other markets – Airport, Aventura, Coral Gables, the Grove, Kendall, Miami Lakes and South Miami – combined account for about 59%.



The price of 1221 Brickell increased 39% between its recent sales.