

Miami Office, Q2 2020

Office remains resilient relative to other sectors



Total Vacancy
13.0%



Lease Rate – Class A
\$45.50 PSF



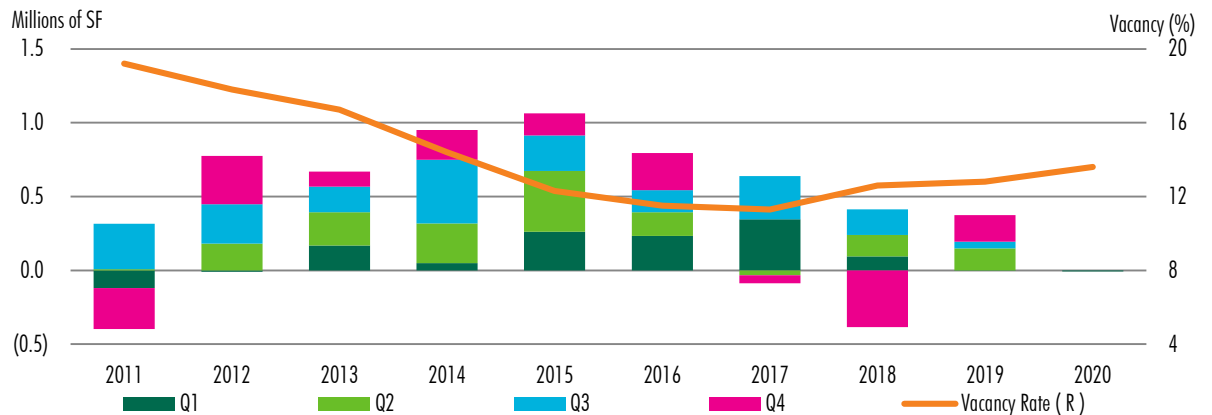
Net Absorption
-39,000 SF



Completions
112,000 SF

*Arrows indicate change from previous year.

Figure 1: Total Vacancy –vs– Net Absorption (Class A & B)



Source: CBRE Research, Q2 2020.

- Miami's annual office-using jobs declined by 16,000 in the subsectors of professional, information and financial activities jobs as of May 2020. However, there was an increase of 26,500 jobs between April and May signifying a move towards economic recovery.
- Current tenant requirements total 1.5 million sq. ft. with financial services, business services, legal and health insurance being the top industries in the market. Approximately 543,000 sq. ft. are currently on hold due to COVID.
- Rents held steady with asking rates in the CBD increasing to \$45.45 per sq. ft., or 3.9% year-over-year, while the suburban submarkets showed a slight decrease of 0.2% year-over-year.

LEASING ACTIVITY

The office sector demonstrated its resiliency and was less severely impacted than other property types due to its ability to adapt quickly and efficiently to work-from-home policies. As a result, vacancy rose to 13.0%, a slight increase of 20 basis points (bps) quarter-over-quarter and 60 bps year-over-year.

However, office leasing velocity was impacted dramatically decreasing by 58% year-over-year nationwide during Q2 2020. In Miami, demand fell to 458,000 sq. ft. compared to almost 1.4 million sq. ft. in Q1 2020 and 1.5 million sq. ft. in Q2 2019 as some prospective tenants have put their searches on hold.

Several forces are in play and will determine the future of office space in the coming year. Flexibility will be key for landlords and tenants alike as a remote workforce and social distancing in the workplace will be necessary to keep workers safe.

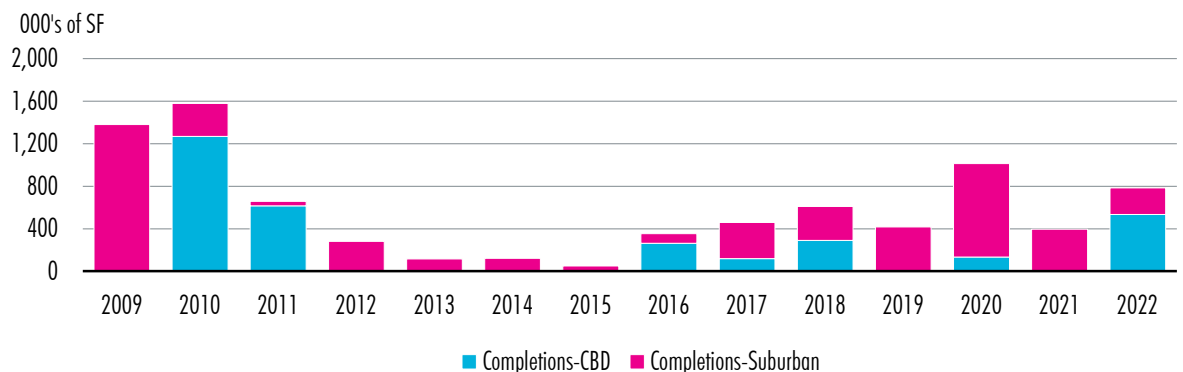
INVESTMENT ACTIVITY

According to a report from Deloitte “COVID-19 Implications for Commercial Real Estate”, several market fundamentals have been impacted. Property owners have faced short-term liquidity issues due to rent collection delays and increasing costs. Leasing volume has declined as tours have come to a halt. As a result, new investments have slowed down as many investors have shelved their investment plans adopting a “wait and see” approach.

DEVELOPMENT

Total office construction activity in the market totaled 2.5 million sq. ft. The Plaza Coral Gables – South Tower, the third and final phase of the \$500 million project, began construction and will include a 242-room Loews Hotel scheduled to deliver 245,300 sq. ft. of office space at the end of 2021. The Central parcel (phase two) connects the North and South Towers, has five levels of parking and a rooftop amenities deck. Phase One, The Plaza Coral Gables - North Tower, is expected to receive its temporary certificate of occupancy in Q3 2020 and will begin interior tenant improvements at that time. Milton Tower delivered 79,000 sq. ft. in Aventura during Q2 2020, which will be the future office of Icahn Enterprises.

Figure 8: Completions



Source: CBRE Research, Q2 2020.

OUTLOOK

Virology, not the business cycle, has dictated the course of the world's economy this year. COVID-19 forced a nationwide shutdown of most economic activity in March, with the largest economic centers, especially the Northeast and Pacific coast, facing the strictest lockdowns. The economic fallout proved severe, pushing unemployment to over 15% and likely causing the economy to contract by more than 30% per annum in the second quarter.

These morbid economic conditions inspired many governors to ease lockdowns, especially in Sunbelt states where the case count was less severe than in more densely populated regions. These re-openings have energized activity. Several high-frequency indicators, such as hotel occupancies, restaurant traffic and hours worked, suggest the US economy bottomed in April and has been trending slightly upward since. This has renewed demand for labor as many hard-hit sectors, such as hospitality and healthcare, began to bring back furloughed workers in May.

On the downside, COVID-19 is ramping-up in states that were quick to reopen. In Texas and Florida, the 7-day moving average of daily new cases has hit fresh highs exceeding 10,000. Local political commentary suggests authorities in these states have little appetite to re-impose stricter lockdowns. Although a significant uptick in cases that pummels consumer confidence is a risk, it is quite plausible that a mild escalation of COVID-19 can coincide with pent-up consumer demand that restrains economic losses this year to a fall in GDP of just over 6%.

Figure 2: Market Statistics – Class A & B

Submarket	Class	Total Inventory (SF)	Direct Vacancy (%)	Q2 2020 Net Absorption (SF)	2020 YTD Net Absorption (SF)	Under Construction (SF)	Avg. Dir. Asking Lease Rate (\$/SF/FSG/G/MG)
CBD							
Brickell	A	4,320,374	9.6	(9,787)	21,731	533,268	58.66
	B	2,285,545	18.3	10,687	(12,283)	0	41.65
Downtown	A	4,229,699	23.3	(24,395)	(75,015)	135,000	50.79
	B	1,743,801	29.3	14,019	14,794	0	34.70
CBD Total		12,579,419	18.5	(9,476)	(50,773)	668,268	47.11
Airport/Doral	A	4,818,082	16.7	9,904	(1,561)	200,000	36.35
	B	5,938,309	11.8	(50,360)	(89,077)	0	29.67
Aventura	A	1,497,951	13.5	2,000	(4,775)	0	49.97
	B	78,233	16.9	(100)	(100)	0	30.00
Biscayne Blvd Corridor	A	1,051,837	21.0	4,020	73,961	638,824	44.35
	B	441,069	5.9	-	30,943	0	33.25
Coconut Grove	A	646,660	3.9	82,681	67,877	190,762	43.59
	B	667,142	4.2	(588)	10,520	0	38.16
Coral Gables	A	4,388,642	10.6	(18,994)	(20,439)	536,567	43.23
	B	2,999,037	6.4	(12,663)	(553)	0	38.74
Kendall	A	1,445,605	6.0	(2,174)	(4,207)	0	39.91
	B	2,109,424	7.0	500	8,248	0	29.31
Miami Beach	A	937,526	9.0	-	(4,844)	136,430	48.79
	B	892,885	10.9	(3,879)	(3,879)	0	44.27
Miami Lakes	A	517,331	19.8	4,087	(11,377)	82,903	28.09
	B	1,035,620	21.2	(15,022)	(18,376)	0	24.88
North Miami	A	610,652	7.2	(681)	(690)	0	32.82
	B	314,047	2.4	-	(2,278)	0	25.00
South Dade	B	467,756	24.7	0	2,436	0	28.07
Suburban Total		30,857,808	11.6	(1,269)	31,829	1,785,486	36.59
Total		43,437,227	13.6	(10,745)	(18,944)	2,453,754	40.61

Source: CBRE Research, Q2 2020.

Figure 3: Market Statistics – All Classes

Submarket	Total Inventory (SF)	Direct Vacancy (%)	Q2 2020 Net Absorption (SF)	2020 YTD Net Absorption (SF)	Under Construction (SF)	Avg. Dir. Asking Lease Rate (\$/SF/FSG/G/MG)
Brickell	7,384,471	11.6	-	2,277	533,268	49.83
Downtown	7,822,923	21.7	(18,014)	(62,956)	135,000	43.04
CBD Total	15,207,394	16.8	(18,014)	-60,679	668,268	45.45
Airport/Doral	11,871,594	13.5	(42,928)	(92,447)	200,000	32.74
Aventura	1,767,992	13.6	450	(6,325)	-	48.15
Biscayne Blvd Corridor	2,065,012	13.8	4,979	110,176	638,824	41.61
Coconut Grove	1,378,802	3.9	82,093	78,397	190,762	40.04
Coral Gables	7,509,707	8.9	(37,002)	(26,337)	536,567	41.67
Kendall	3,730,829	6.5	(5,638)	77	-	33.98
Miami Beach	2,079,813	9.3	(3,879)	(8,723)	136,430	44.62
Miami Lakes	1,915,051	19.3	(17,995)	(39,613)	82,903	24.93
North Miami	1,384,767	5.8	(681)	(2,968)	-	29.04
South Dade	467,756	24.7	-	2,436	-	28.07
Wynwood/Midtown/DD	173,292	62.8	-	-	638,824	49.57
Suburban Total	34,171,323	11.3	-20,601	14,673	1,785,486	35.80
Total	49,378,717	13.0	(38,615)	(46,006)	2,453,754	39.51

Source: CBRE Research, Q2 2020.

Figure 4: Significant Q2 2020 Occupancies (excluding renewals)

Submarket	Property	Tenant	Transaction (SF)	Activity Type
Coconut Grove	Mary St	Kaufman Rossin	64,666	New Lease
Downtown	Southeast Financial Center	WeWork Companies, Inc.	22,000	New Lease
Coconut Grove	Mary St	Terra Group	12,680	New Lease
Coral Gables	355 Alhambra Circle	Appelrouth, Farah, and Company	10,306	New Lease
Brickell	Sabadell Financial Center	Berkadia Commercial	6,973	New Lease

Source: CBRE Research, Q2 2020.

Figure 5: Significant Q2 2020 Leases Executed

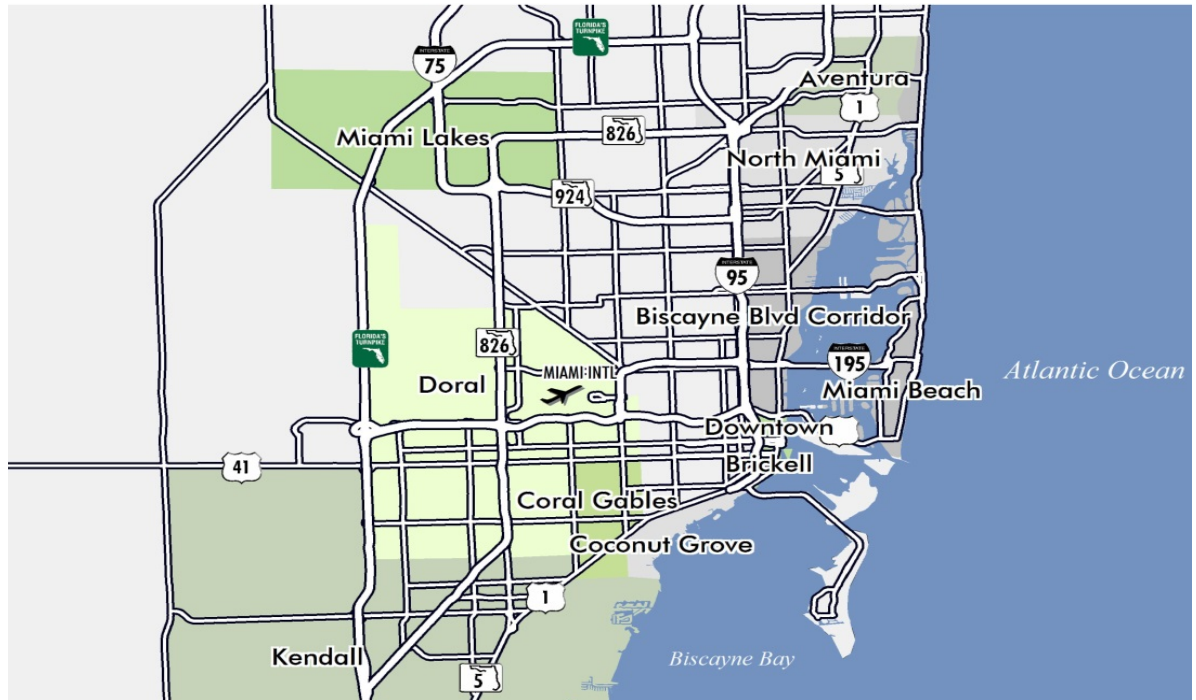
Submarket	Property	Tenant	Lease Type	Transaction (SF)
Brickell	Sabadell Financial Center	Banco Sabadell	Renewal	33,500
Brickell	Brickell World Plaza	Morgan Lewis	New Lease	18,000
Brickell	1450 Brickell	Saputo Cheese USA Inc	New Lease	17,800
Airport/Doral	5301 Waterford	Best Doctors	Renewal	16,600
Coral Gables	396 Alhambra Tower South	Hear.com	Expansion/Renewal	15,000

Source: CBRE Research, Q2 2020.

Figure 6: Under Construction (SF)

Submarket/Neighborhood	Property	Owner/Developer	Building (SF)	Delivery Date
Brickell	830 Brickell Plaza	OKO Group	533,268	2022
Wynwood/DD/Midtown	545Wyn	Sterling Bay	298,597	2020
Coral Gables	The Plaza Coral Gables - North	Agave Holdings	291,267	2020
Wynwood/DD/Midtown	The Gateway at Wynwood	Rose & Berg Realty	250,000	2021
Coral Gables	The Plaza Coral Gables - South	Agave Holdings	245,300	2021
Miami Beach	Starwood Capital HQ	Starwood Capital Group	136,430	2021
Downtown	River Landing-Office	Hellinger Penabad Companies	135,000	2020
Coconut Grove	2850 Tigertail	The Related Group/Terra Group	105,000	2021
Airport/Doral	850 Le Jeune - Phase I	Century Homebuilders Group, LLC	100,000	2020
Airport/Doral	860 Le Jeune - Phase II	Century Homebuilders Group, LLC	100,000	2020
Coconut Grove	One Cocowalk	The Comras Company of Florida, Inc.	85,762	2020
Miami Lakes	Bob Graham Office Building	The Graham Companies	82,903	2021
Wynwood/DD/Midtown	Wynwood Square	CIM Group LP	55,227	2021
Wynwood/DD/Midtown	The Oasis at Wynwood	Carpe Real Estate Partners	35,000	2020

Source: CBRE Research, Q2 2020.



Market Coverage: Includes all competitive office buildings 30,000 sq. ft. and greater in size in Miami-Dade county. Excludes: single occupancy, government and medical buildings.

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