

# MIAMI OFFICE MARKET THRIVES DUE TO YOUNG WORKERS SEEKING SOUTH FLORIDA LIFESTYLE

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**Tere Blanca**  
CEO,  
Blanca Commercial Real  
Estate

Looking ahead to the rest of 2017, we can expect to see continued improvement of Miami's office market based on strong market fundamentals and employment growth. Key trends to watch in 2017 that will help drive and shape the market, include:

- Steady, modest growth in office rents
- Declining available office supply
- New transit-oriented mixed-use developments that include office space in both Miami's downtown urban core and other connected walkable neighborhoods such as Coconut Grove, Coral Gables and Wynwood
- Tenants adopting new office design standards
- Increased moves between submarkets and new-to-market companies positively impacting net absorption

Office demand will continue to be fueled by vibrant population growth of young professionals and Miami's appeal as a growing, global and entrepreneurial city. Miami-Dade County's population has grown 8 percent in the past five years, making it the seventh largest county in the United States. In 2016, more than 20,000 jobs were added in the county, predominately in the construction, real estate, professional services and financial services

industries. This economic growth has fueled expansion activity in the office market and should hold steady in 2017.

Miami's focus on cultivating innovation and entrepreneurship has also positively impacted the office market. In the past two years, new co-working spaces have represented over 350,000 square feet of completed lease transactions. Miami has also welcomed a new wave of technology companies to Miami, including Uber, Flatbook and the expansions of Facebook, Google and Skyscanner, to name a few.

Last year, millennials became the nation's largest workforce demographic and sparked the conversation about new office space trends. As millennials take leadership roles in companies that have established themselves in traditional office environments, those companies are now seeking the next modern and urban office space. Tenants now choose buildings for their connectivity to mass transit and walkability to varied residential, retail, restaurants and entertainment offerings. Unique amenities such as Wi-Fi connected common areas, tenant lounges, fitness centers, bike racks and concierge services are also key drivers.

### **Fundamentals are Strong**

Vacancy drops and building trades will continue to drive up rents. Last year's strong building trading activity helped contribute to the ongoing rise in rents. More than 3.9 million square feet of office traded within Miami's four major office submarkets of Downtown, Brickell, Coral Gables and Airport West Dade. As an example, after the new ownership announced common area renovations and new amenities being offered to tenants, Miami's Courthouse Tower located across the street from Miami-Dade's Courthouse and a short walk to the new MiamiCentral station now under construction, achieved an increase of more than 40 percent in rents. We expect to see this type of activity continue through 2017.

Building sales generated significant buzz in 2016, with Downtown Miami and its surrounding neighborhoods attracting the most activity. Notable sales include Brickman's purchase of Courthouse Tower and the 200 Southeast First building for \$27 million and \$33 million, respectively. Also making headlines, Sumitomo snagged Miami Tower for \$348 per square foot, East End Capital bought New World Tower for \$270 per square foot and Southeast

Financial Center sold to Pontegadea for \$516 million (\$432.36 per square foot). The significant trading activity in the urban core is a direct result of Miami's strong appeal as an international city, its strong real estate fundamentals, including significant barriers to entry, steady increase of rents and limited new inventory scheduled for delivery in the next 36 months.

### **Transit-Oriented Projects**

Miami's fast-growing population and traffic concerns are shifting renewed emphasis to mass-transit solutions. Transit-oriented development has become a new standard for office development. An example is Miami Central, which is slated for delivery in the fall of 2017, redefining regional business connectivity and setting a new bar for what tenants seek in office space. The mixed-use project will deliver 280,000 square feet of office that is already 60 percent preleased, several new food and beverage concepts including Central Fare located within the 160,000 square feet of commercial space and 800 multifamily units designed to meet the needs of young professionals. As tenant demand for access, walkability, and sustainability increases, expect to see an increase in this type of office development in neighborhoods outside of the traditional urban core.

Without doubt, the future for Miami's office market looks bright. Miami's international appeal and ongoing foreign and domestic investment into the local economy will continue to drive its continued success within the office market this year.