

# BISNOW

(ALMOST NEVER BORING)

## INSTITUTIONALS REMAIN BULLISH ON DOWNTOWN MIAMI OFFICE

*By Jarred Schenke*  
*May 27, 2016*

As Sumitomo shells out \$220M for Miami Tower and JPMorgan stakes a for-sale sign on Southeast Financial Center in a transaction that could exceed \$500M, some Miami office experts say it's still a good time to be an institutional investor here.



Even with sub-5% cap rates on some transactions, “there's a very good demand for Class-A office buildings in Central and Downtown Miami,” says Aztec Group CEO Ezra Katz (on right with Jason Katz), a Miami-area investor who has placed bets with other sponsors all over the Southeast. “I believe that the Miami Downtown and Brickell market will continue to improve and will get higher rents in the next several years,” he tells us.

The area's office fundamentals seem to bear that out. With just over an 11% vacancy rate, Downtown Miami's average rents are clocking more than \$40/SF, fueled by Brickell's office demand—far above the rest of Miami's office submarkets. Still, there's some stress: With 305k SF delivered so far this year and another 1M SF underway—mainly in Brickell City Centre—

absorption last quarter took a beating by 100k SF, according to Colliers International. “A trend of signed leases in the first quarter of 2016 have been notably smaller in size and the pace of total office leasing activity slowed, thus significantly reducing absorption levels,” Colliers analysts state in a report. Deals of note so far include Sitel's 21k SF deal at Brickell World Plaza and Coty's 12k SF renewal at Brickell Office Plaza, and Akerman's big move-in to 111k SF at Three Brickell City Centre in January.

That hasn't deterred investors, though. NY-based Brickman paid \$27.5M for Courthouse Tower in Downtown Miami; and Triarch Capital Group slapped down \$74M for Doral Costa office park from TA Realty, according to Colliers. Ezra says even the addition of 1M SF to Miami's office market will barely move the needle on total supply in the minds of institutional investors. “I think that there is clearly a lack of new office space,” he says.

Blanca Commercial Real Estate head Tere Blanca says Brickell is the real winner here, netting 300k SF of the 470k SF of deals this year so far. And that's indicative of Miami's urbanization, where companies are flocking to the urban core to be closer to a young talent pool. “You cannot define Miami by its history,” Tere says. “What's happened here in the last five years is unprecedented. We have doubled the population in the urban core in less than a decade.”

If there's one chink in the office occupancy armor, it's Downtown Miami (taking out Brickell), which still lags with 19% office vacancy, according to Blanca Commercial Real Estate. But that may be a short-lived problem. As space continues to tighten and rents jump even higher in Brickell—for instance, Tere tells us 1450 Brickell is hitting new lease highs of \$58 to \$63/SF—that should push some of the activity northward to Downtown.

Brickell and Downtown will be featured topics of conversation 7:30am, June 23 at our Evolution of Brickell & Downtown Miami event at 90 SW 8th St with an all-star panel that includes 13th Floor Investments' Arnaud Karsenti (here), Royal Palm Cos CEO Dan Kodsi, Blanca Commercial Real Estate's Danet Linares, One Real Estate Investment's Jeronimo Hirschfeld and Miami DDA's Alyson Robertson. Sign up here.