

# 35 Years MIAMI TODAY

WEEK OF THURSDAY, APRIL 25, 2019

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## COMMERCIAL, OFFICE SPACE & RESIDENTIAL

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### New office buildings might loosen landlords' tight grip

By CATHERINE LACKNER

When it comes to Miami office space, landlords have the upper hand now, but that may change as new buildings come into the marketplace, observers say.

"We've had a five-year market that strongly favors landlords," said Keith Edelman, a principal of Avison Young who specializes in tenant representation. The office market is tight and concessions are few, he added.

There are few class A buildings in the central business district, he said, and no new class A buildings in Brickell (save the two new buildings in Brickell City Centre, one of which was almost fully leased to the Akerman law firm) since 600 Brickell and 1450 Brickell entered the market about 10 years ago. Ground was recently broken for 830 Brickell Plaza, which might cause some loosening of the market, he said.

"There's still opportunity if tenants are flexible," he said, and willing to move from a class A building to a good class B building. "Rates are competitive and you can get a nice concession package."

The recent renovation of 1221 Brickell is an example, he said. The older building was treated to a major renovation and is now a class B+ building, where rates per square foot hover in the high \$40s to low \$50s, compared to the mid \$60s for class A buildings in Brickell.

Tenants might also see savings by moving away from downtown/Brickell area, he said. Coral Gables is a popular choice, but class A space there is tight, as well, with no new product having come onto the market for about 15 years. The Plaza Coral Gables, under construction now, will have 445,000 square feet of office space, which might bring some relief that market. "There may be some opportunities for



No Class A has opened in Brickell since 1450 Brickell a decade ago.

tenants there," Mr. Edelman said. The Codina Group has also erected a boutique office building, but its headquarters takes up a percentage.

The Airport West and Doral submarkets offer bargains, too, he said. Some class A buildings lease from the high \$30s to low \$40s per square foot, usually with free parking. But being away from the downtown core, and being in a convenient location for employees, are factors to be considered, observers say.

Tenants who signed leases 10 years ago, when the country was still in the midst of the Great Recession, are in for sticker shock when renewal time comes, he said. "They're going to be in dire straits, because the market has shifted."

Rates may have skyrocketed as much as \$20 per square foot, he said. "Some tenants will be forced to relocate, or they may have to downsize." Avison Young works with designers who can help clients re-imagine or consolidate space in such a way that they can avoid relocation, he said. "But if a tenant is already bursting at the seams and can't cut corners, it's a monstrous hit."

"The Miami office market closed the first quarter of year with a strong performance," said a first-quarter office report by JLL. "In Q1 2019, Miami recorded positive net absorption of nearly 230,000 square feet, which is four times as much as the first quarter of 2018. Noticeable move-ins this quarter include Viacom occupying

almost 24,000 square feet at Three Miami Central – a 4,000 square feet increase from their former location in Miami Beach – and UnitedLex relocating from 1000 Waterford to 14261 Commerce Way [in Airport West], where it now occupies a little over 13,000 square feet. As we expect other large known leases to commence later this year, this trend should continue.

"As leasing activity surpassed 600,000 square feet, up 2.5% from last quarter, asking rents increased as well," the report noted. "Miami's total average asking rent clocked in at \$40.50 per square foot, up 7.3% from Q1 2018. This was partly influenced by high premiums for new construction as well as trophy space, such as 1450 Brickell, where asking rates are between \$63 and \$67 per square foot.

"As developers continue to feel confident about demand for new class A office space, Miami's construction pipeline continued to grow. Coconut Grove is witnessing a major office market makeover with the development of One Cocowalk and Mary Street. After the recent signing of Spaces as an anchor tenant, One Cocowalk is now 50% pre-leased," the report noted.

"Miami continues to witness strong demand for new and high-quality office space. Developers maintain confidence in Miami's future as more development projects enter the picture. While rising rents may be a concern for tenants in the short-term, a growing construction pipeline and lingering large blocks of space, particularly in downtown Miami, should cool rent growth in the next few quarters, likely tipping the market into neutral favorability territory in the next year," the report concluded.

"Miami-Dade's office market boasted healthy fundamentals in the first quarter of 2019 with decreasing vacancy rates, accel-



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Keith Edelman

erating rental rates, and a record-setting amount of space under construction," said a first-quarter 2019 research and forecast report from Colliers International. "The vacancy rate decreased by 10 basis points and currently stands at 9.5%. The demand for new office supply has been displayed as 2.7 million square feet remains under construction. Major office developments currently under construction include 830 Brickell Plaza, 545wyn, and The Plaza Coral Gables.

"A Northeast migration has taken place as people relocate to South Florida for work-related reasons as well as to avoid residing in high-tax states," the report noted. "The influx of new residents is helping to drive absorption of office space in South Florida, particularly in the downtown areas ... where highly amenitized office buildings and transportation systems exist, which is the closest resemblance to the kind of market the new residents are used to in the Northeast."