

A photograph of the Miami skyline at dusk, featuring several high-rise buildings with illuminated windows, reflected in the water in the foreground. The sky is a deep blue, and the water shows vibrant reflections of the city lights.

AVISON
YOUNG

Miami Office Insight Report

Q2 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Reopening efforts and higher vaccination rates have allowed South Florida's unemployment rate to rebound from a high of 13.8% to **5.9%**.
- Florida's strong employment base, pro-business environment, deep talent pool, enviable quality of life, and expansive growth in the tech, health, and finance sectors continue to attract the kind of strong in-migration that resulted in the state winning an extra seat in the U.S. House of Representatives.



Recovery rate

- Florida was ranked **#4** in a WalletHub study of the top U.S. states for their rates of recovery, with industries gaining the most jobs over the year including leisure and hospitality, professional and business services, and trade, transportation and utilities.
- While the pandemic has had a considerable effect on Florida's population, its effect on the business economy was lessened (compared to markets like New York and California) as the state has been largely open for the last few quarters, enabling the business base to return to work and begin to move deals forward.



Office demand

- Leasing activity is at **55.4%** of all volume recorded in 2020 and is expected to grow through year-end 2021 at the same pace it has occurred year-to-date.
- Six leases were signed during Q2 north of 10,000 sf, the largest of which was Cano Health's lease for **115,358 sf** at Flagler Station in Medley/Hialeah. The flight to quality trend still persists as each building involved was a class A or trophy property.
- Miami has seen a spike in new-to-market tenants in the fintech, tech, private wealth and financial-related industries that have opted for 10 to 12-year lease terms.

Key takeaways



Office supply

- Direct and sublease vacancy are together at the highest point since 2013, totaling **16.9%**.
- Sublease space is beginning to moderate, totaling **463,918 sf** and comprising only **4.7%** of total vacant space. Some space placed on the market by proactive landlords was opportunistic in nature and has either been leased or taken back by occupiers.



Pricing trends

- Rents have spiked significantly in the last year in Miami largely due to new construction deliveries, and some landlords have raised their rents to better compete with a trophy office tower underway in Brickell with asking rents comparable to New York at **\$75 to \$80 per sf**.
- The amount of activity and tenants touring the market has landlords confident that they can achieve these premium rates.
- There is a growing disconnect between the current rate of growth of the national economy and the future affordability of rental rates for local (i.e. not new-to-market) companies.



Capital markets

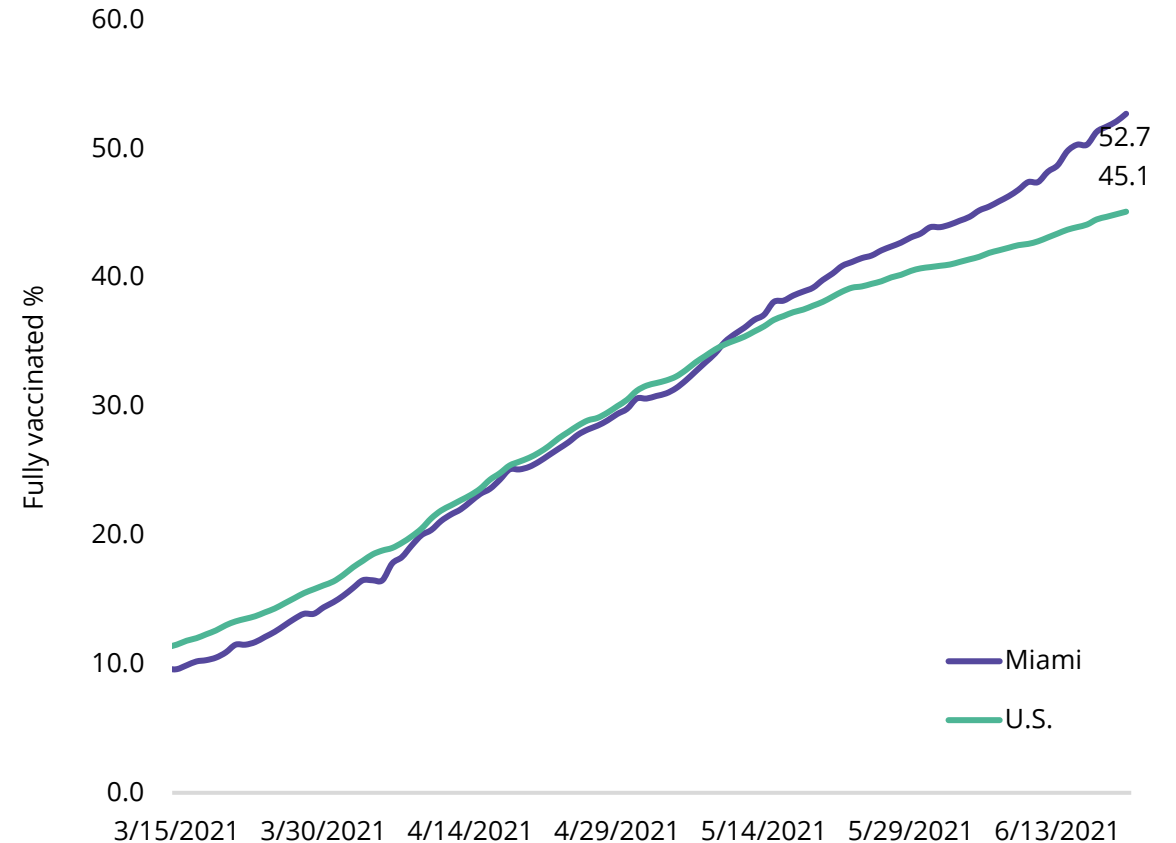
- Office investment activity has been brisk in Miami, with total transaction volume of **\$1 billion** for the period from Jan 2020 through Jun 2021. The largest sale during Q2 was Cardone Capital's \$93 million acquisition of Harbour Centre at Aventura.
- Investment activity will likely continue at the current pace through Q4 2021. Pricing will remain on an upward trajectory until then, after which it should begin to level off.

Vaccination rates

52.7%

Share of total Miami-Dade County population that is fully vaccinated

Miami's rate of vaccination is the highest in South Florida and has far exceeded the U.S. average, providing additional fuel for the recent escalation in large lease activity.



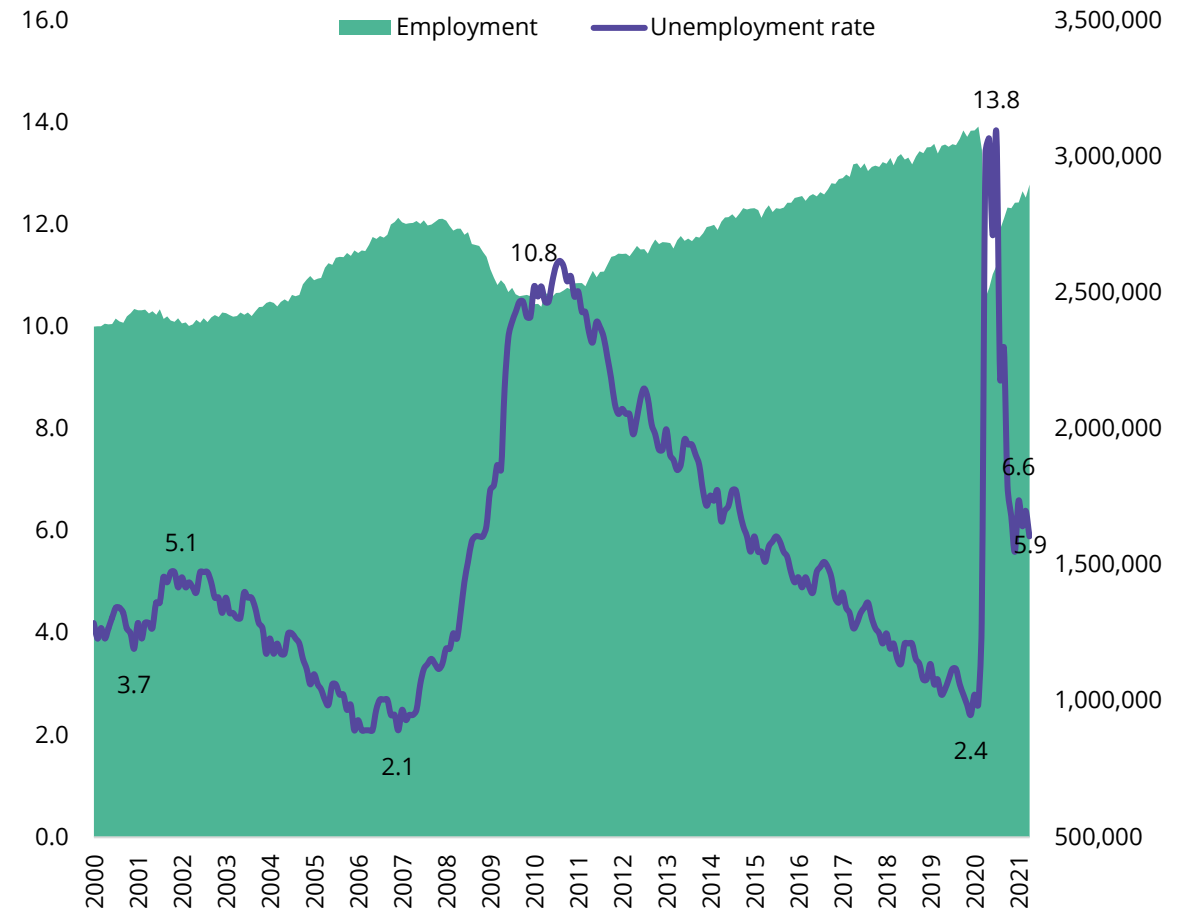
Source: CDC

Employment and unemployment rate

5.9%

South Florida's unemployment rate as of April 2021, 790 bps below the height of the pandemic

Historically tightened labor market conditions were halted by the pandemic with 629,600 job losses between February and April 2020. However, reopening efforts in the months since have enabled the economy to add over 417,000 jobs since May 2020.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

-4.0%

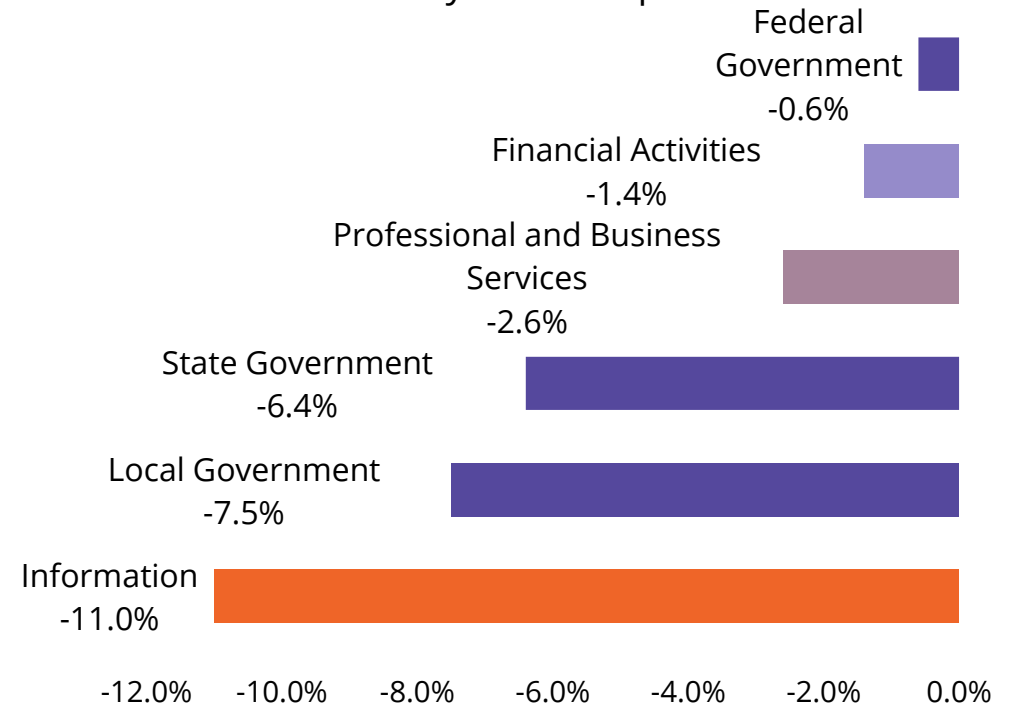
Change in office-using employment during the pandemic

Job losses in South Florida have declined by 7.2% since the start of the pandemic, though office-using jobs contracted by just 4.0%. As was the case with the global financial crisis over a decade ago, the impact of this recession will be felt in South Florida's office markets to some degree for years to come.

[VIEW DASHBOARD](#)

Total change in South Florida* job gains/(losses)

February 2020 to April 2021



Note: Not seasonally adjusted data. *Metropolitan statistical area.
Source: Bureau of Labor Statistics

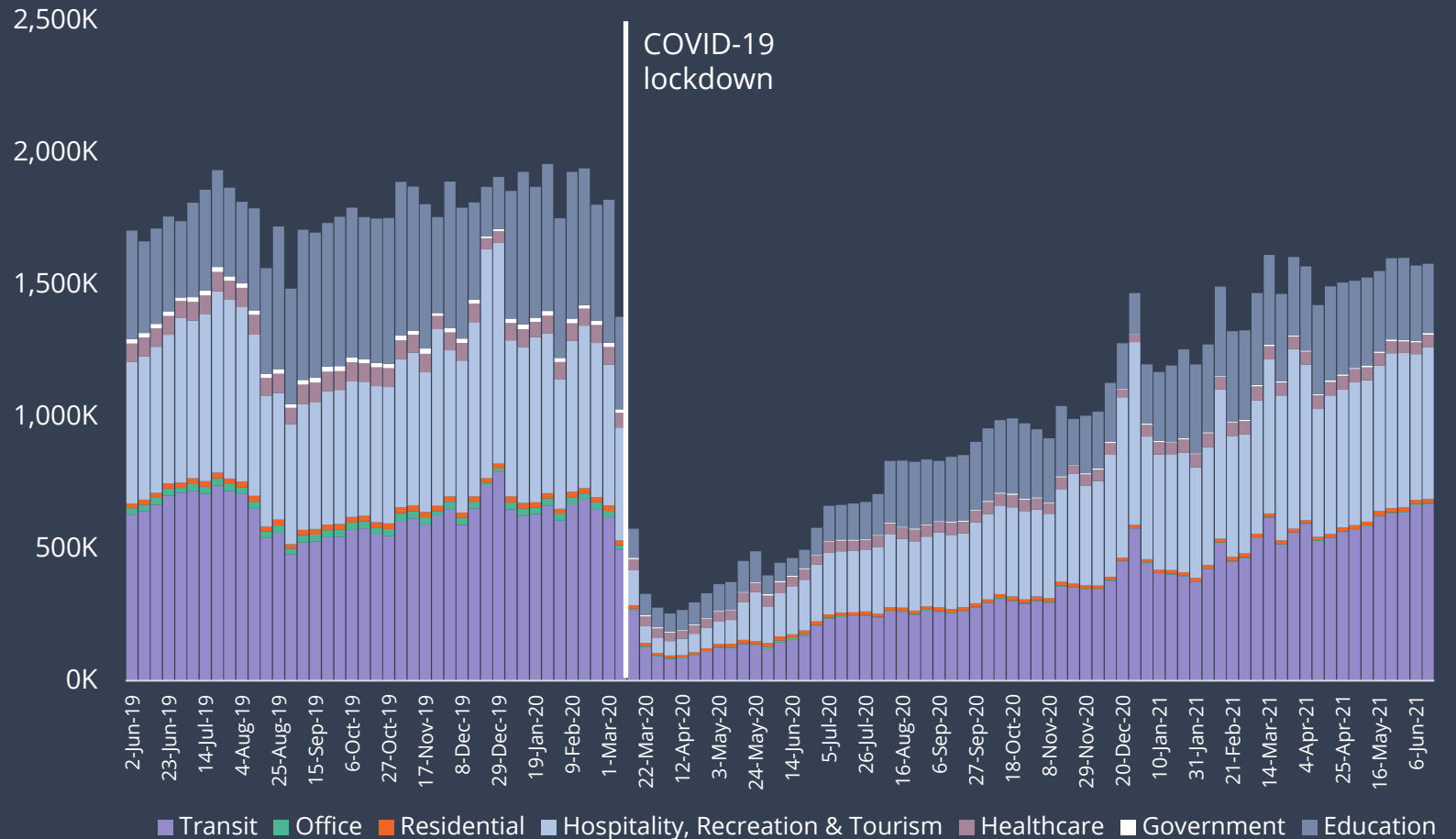
Miami Recovery index

57.6%

Post-COVID rate of recovery based on representative locations through 5/30/2021

The hospitality, recreation, and tourism sector has been on a path of slow but steady recovery in Miami.

The sector has recovered at 49.7% as of June 2021.



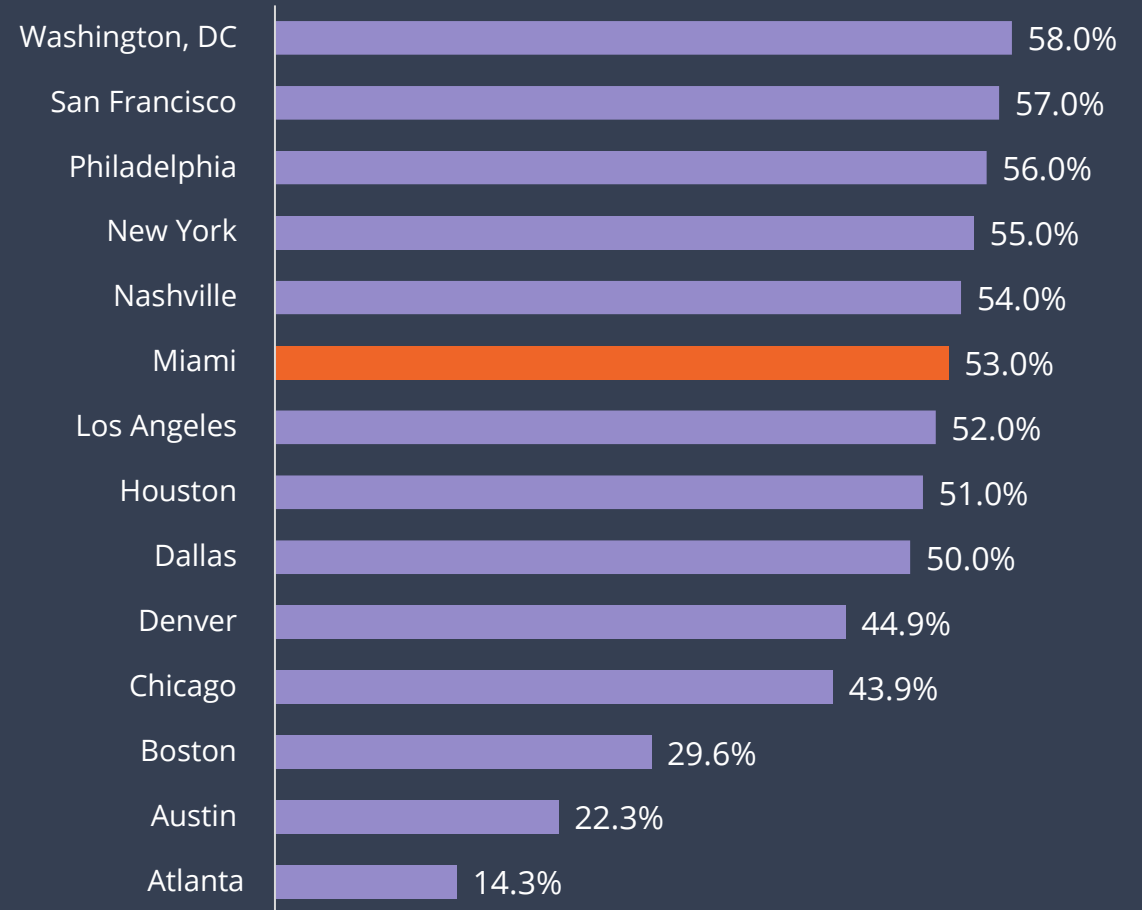
Note: Representative areas of interest. Weekdays only.
Pre-COVID period measured as 12/1/2019 to 3/8/2020.
Source: Orbital Insights, AVANT by Avison Young

Office recoveries in gateway U.S. cities

53.0%

Post-COVID rate of recovery for representative Miami office occupiers through 5/30/2021

Office employers have taken unique approaches in their return-to-work efforts, with media & PR firms returning to the office more quickly while financial services firms have adopted remote working strategies. Demand for flexible office space has also been on the rise as tenants remain hesitant to lock themselves into a long-term lease.



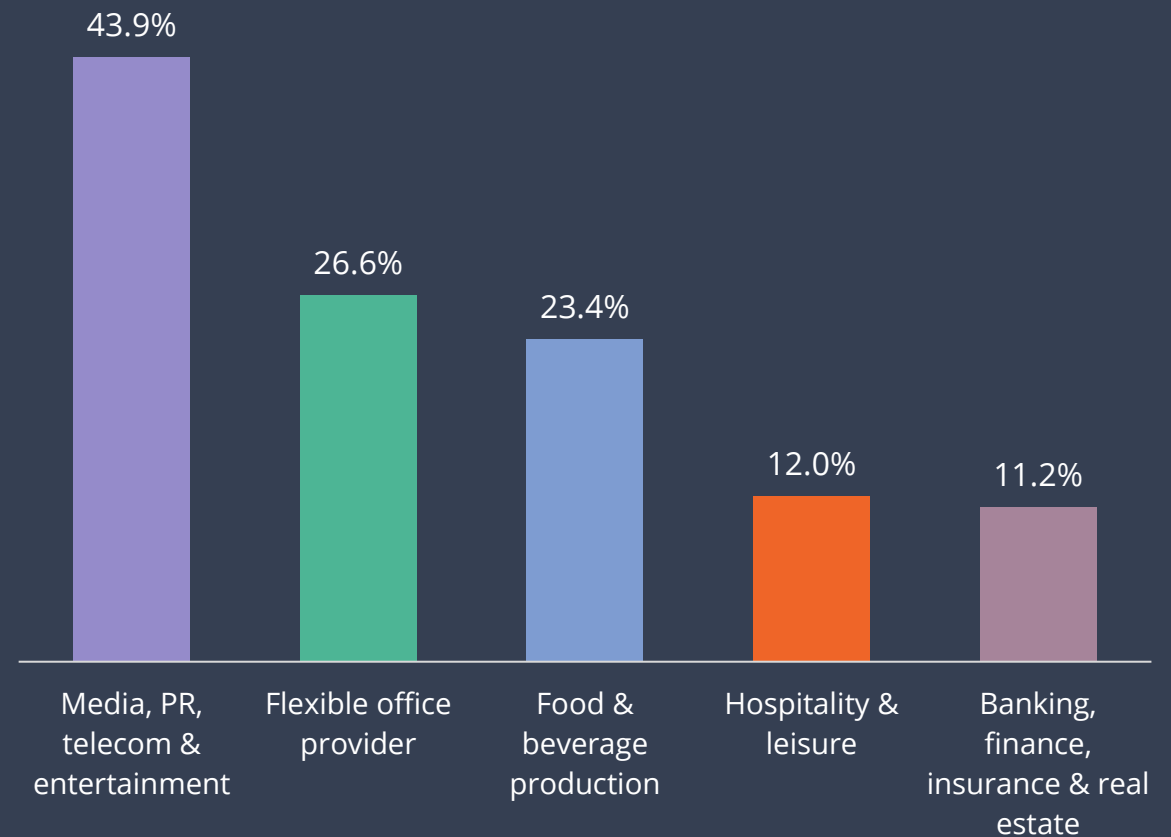
Note: Select, representative occupiers only. Weekdays only.
Pre-COVID period measured as 12/1/2019 to 3/8/2020.
Source: Orbital Insights, AVANT by Avison Young

Recovery index for select office occupiers

14.2%

Post-COVID rate of recovery for representative Miami office occupiers through 5/30/2021

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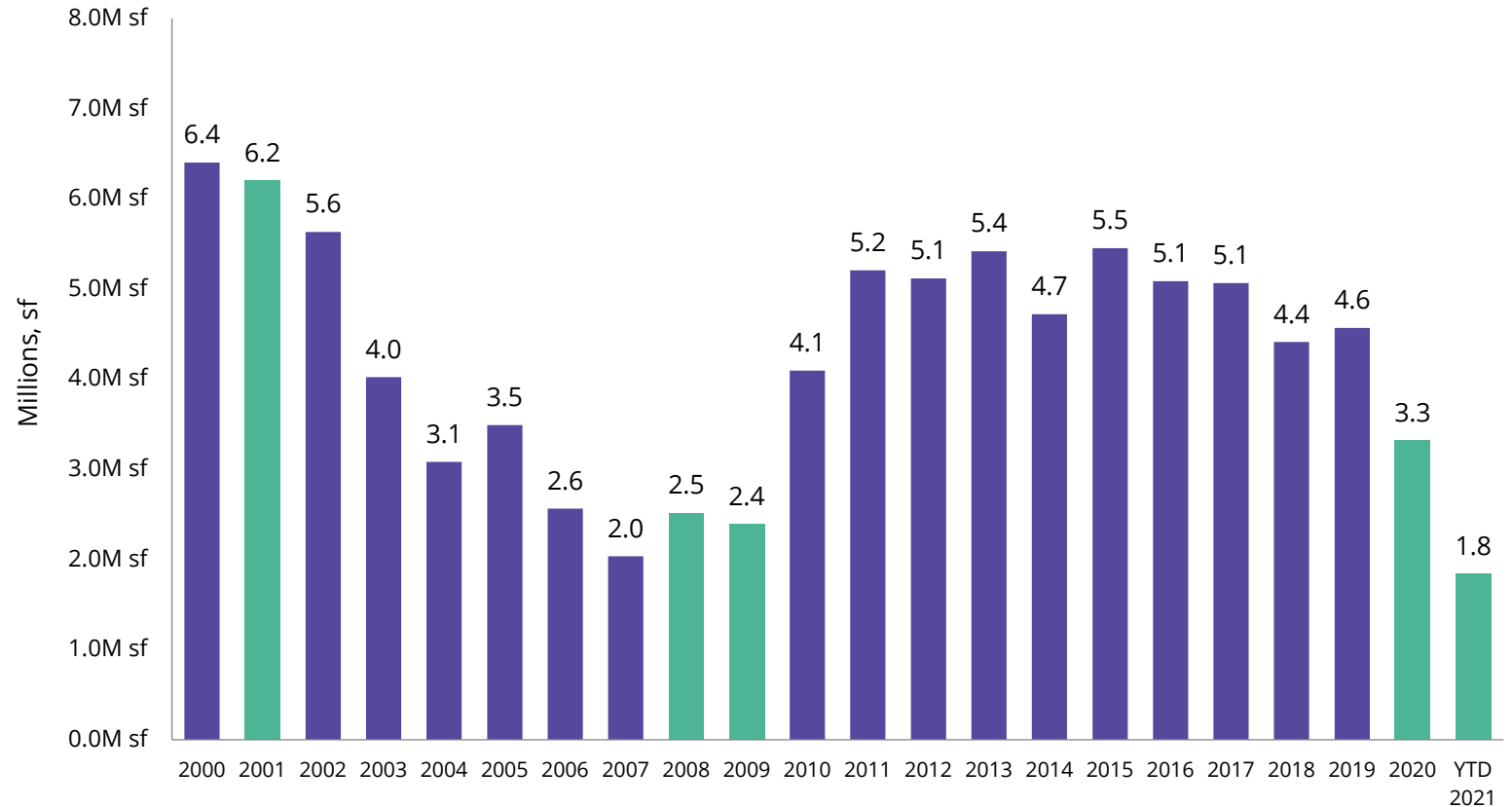
Note: Select, major occupiers only. Weekdays only.
Pre-COVID period measured as 12/1/2019 to 3/8/2020.
Source: Orbital Insights, AVANT by Avison Young

Office leasing activity

55.4%

**Year-to-date 2021
leasing activity
compared to YE-2020**

There is no modern equivalent for the post-COVID slowdown in leasing activity - although the last recession came close - however leasing activity is expected to grow through the end of the year at its current pace.



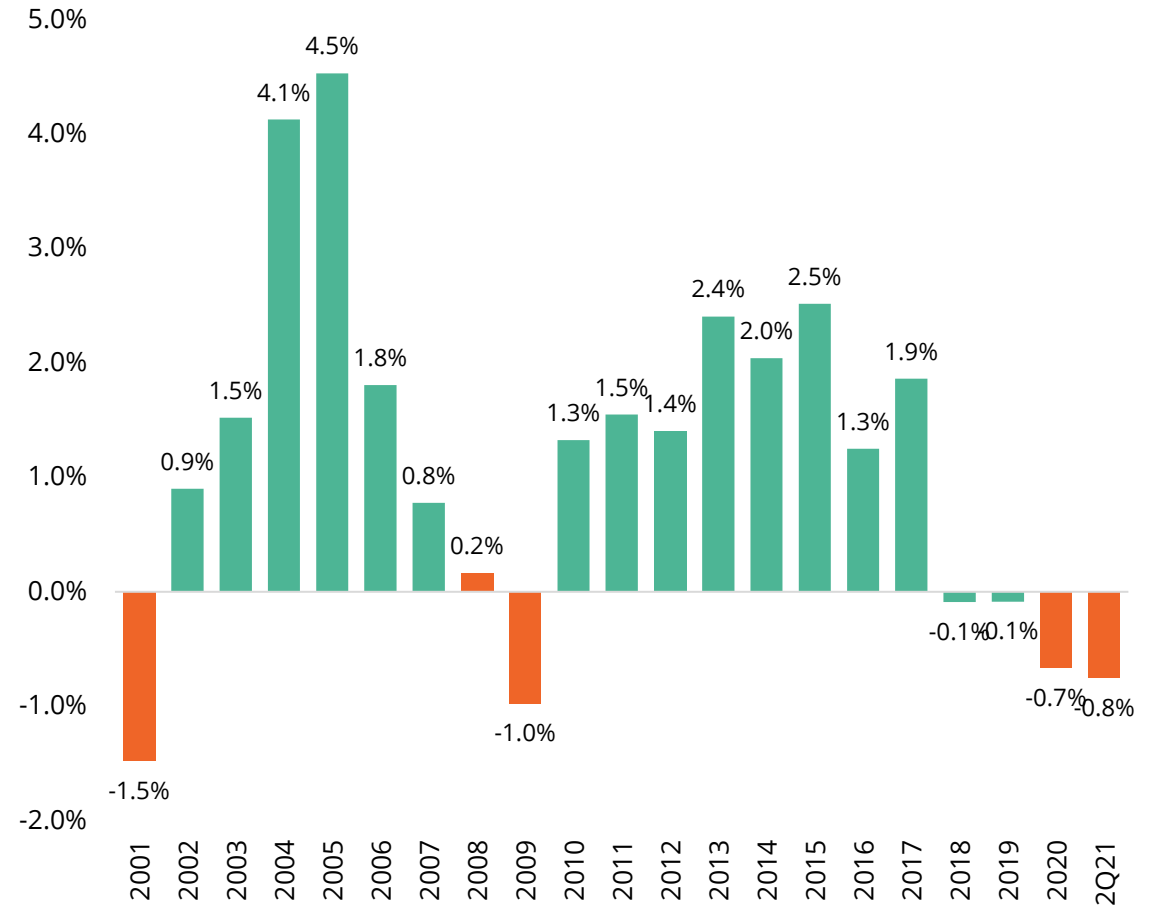
Source: AVANT by Avison Young

Absorption

-1.5%

Net absorption as a percentage of inventory, 2020 through Q1 2021

Negative absorption from 2020 to 2Q21 has totaled 827,662 sf, totaling -1.5% of the existing stock, which represents the weakest showing in the previous 20-year period.



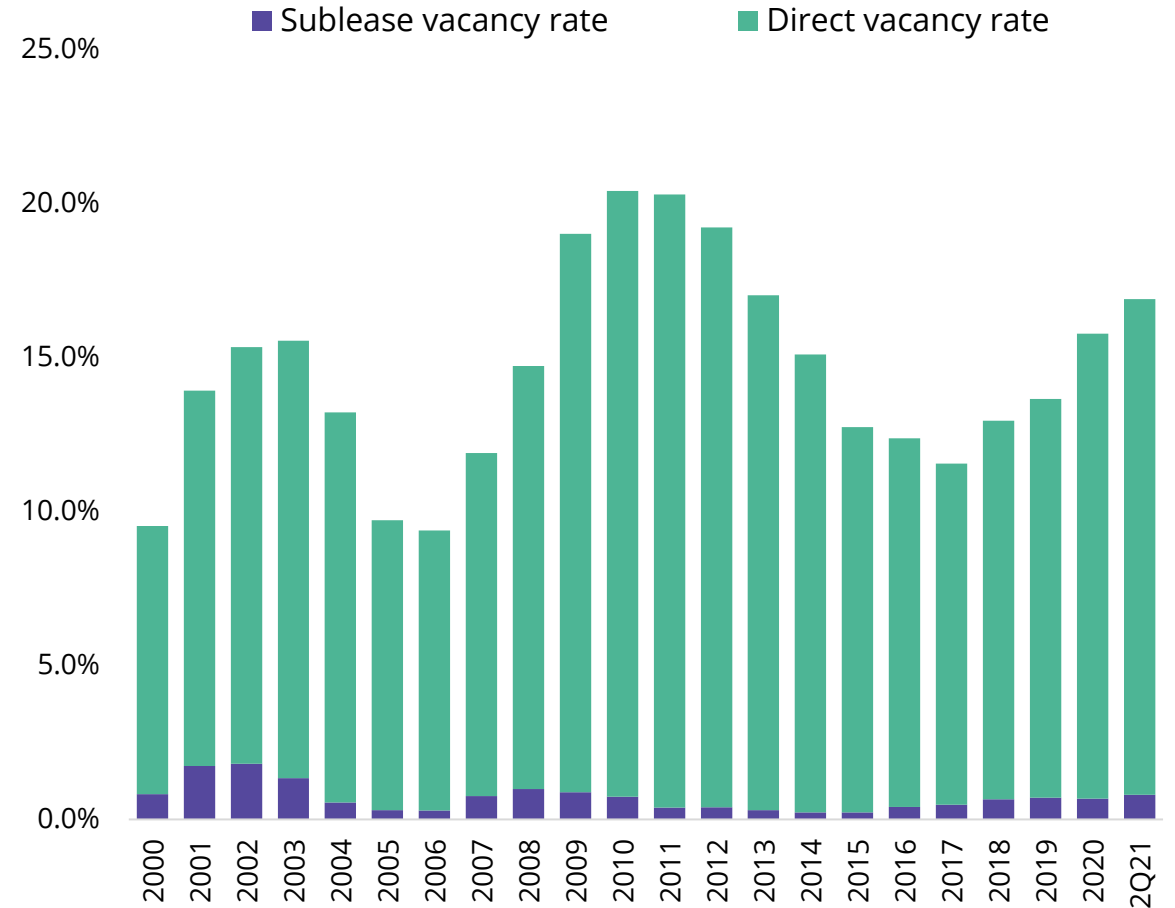
Source: AVANT by Avison Young

Vacancy rate

16.9%

Total vacancy in Miami is at its highest point since 2013

The Q2 2021 vacancy rate is at its highest point in 8 years but remains well below the 20.4% recorded in 2010, which was the highest rate in the previous 20-yr period. Overall rents for the current quarter have increased by 8.6 percent Y-o-Y.



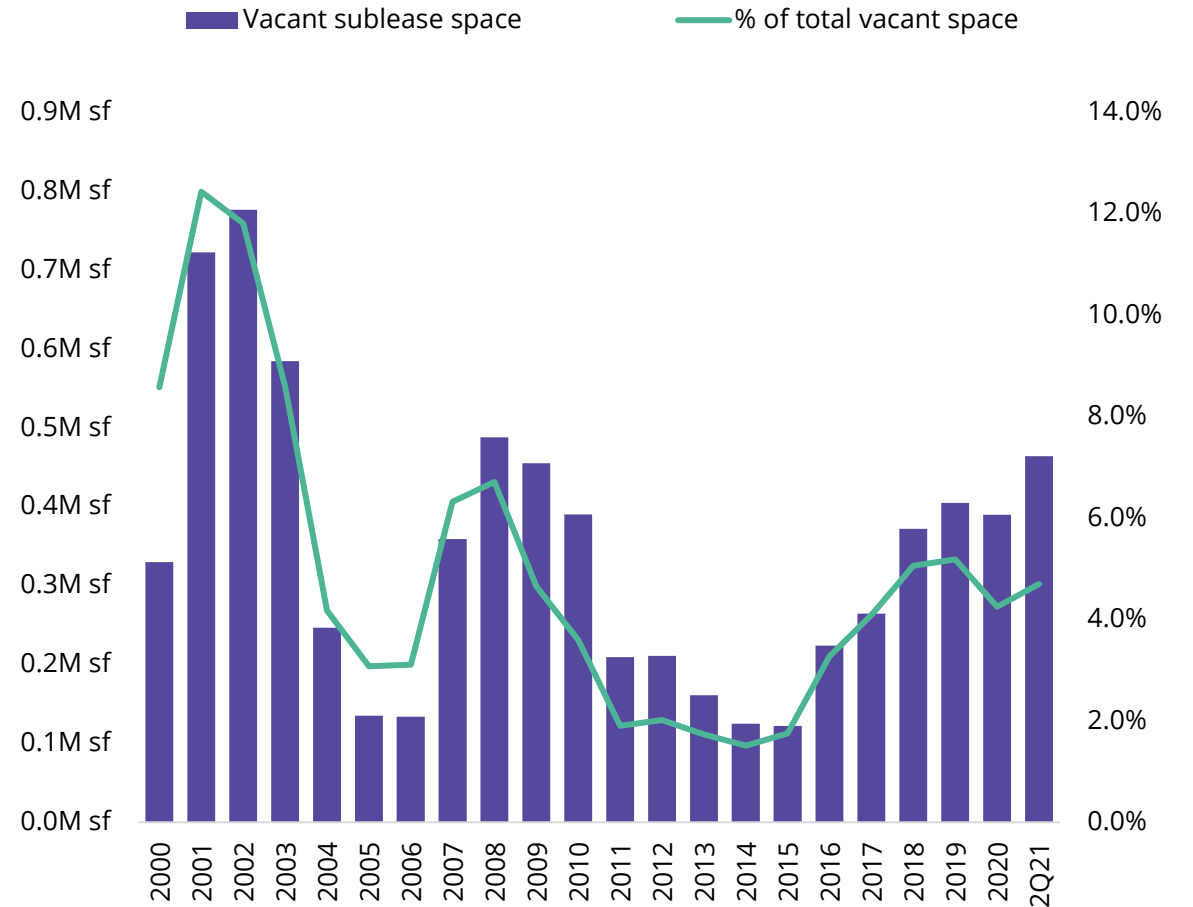
Source: AVANT by Avison Young

Vacant sublease space

0.4 msf

Sublease space beginning to moderate

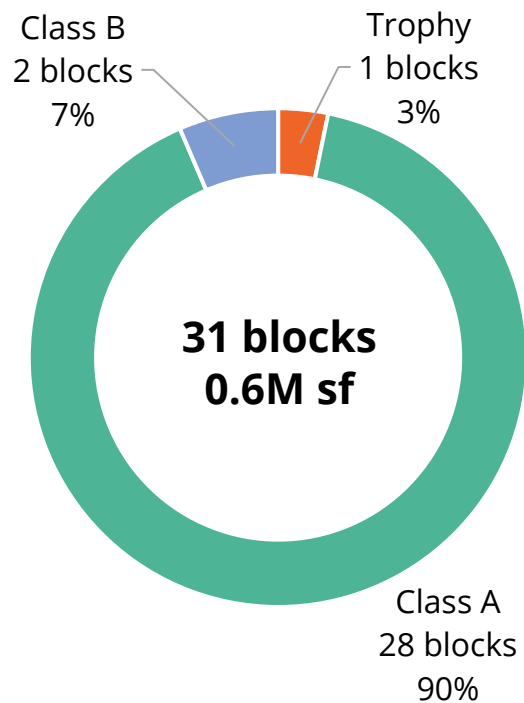
The share of sublease-to-total vacant space of 4.7% has not yet reached the peak levels of 6.7% from the global financial crisis and 12.4% from the Dot-com Recession.



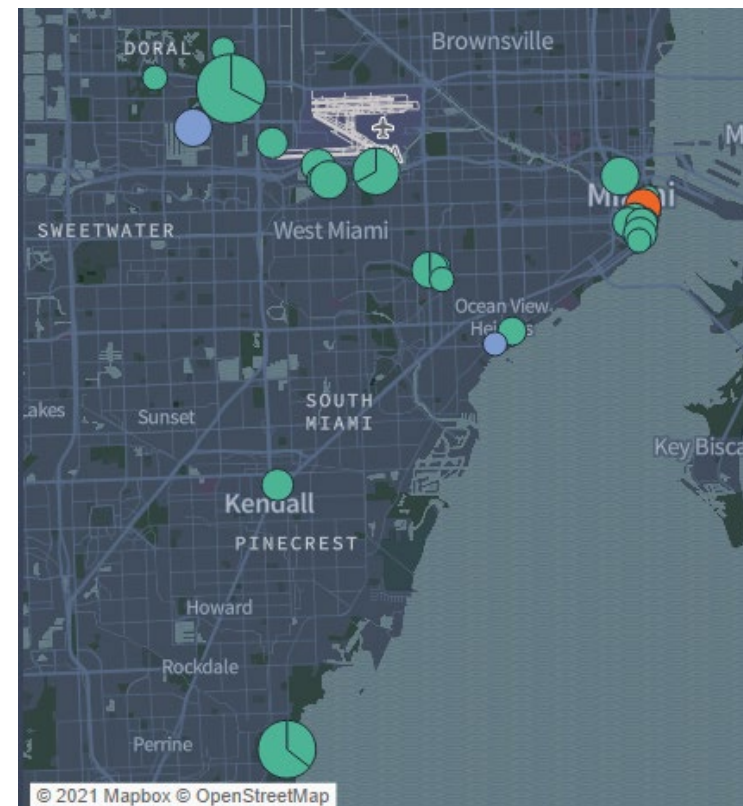
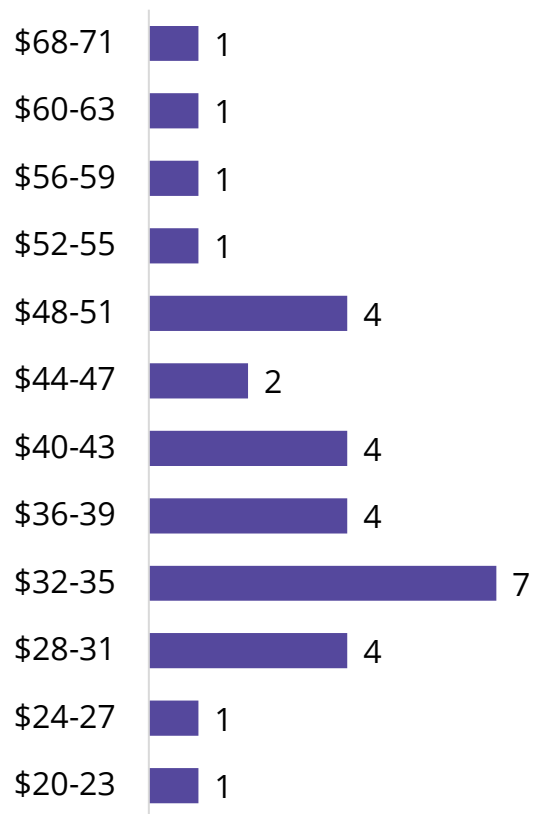
Source: AVANT by Avison Young

Sublease supply pipeline

Building classification



Asking rent per square foot



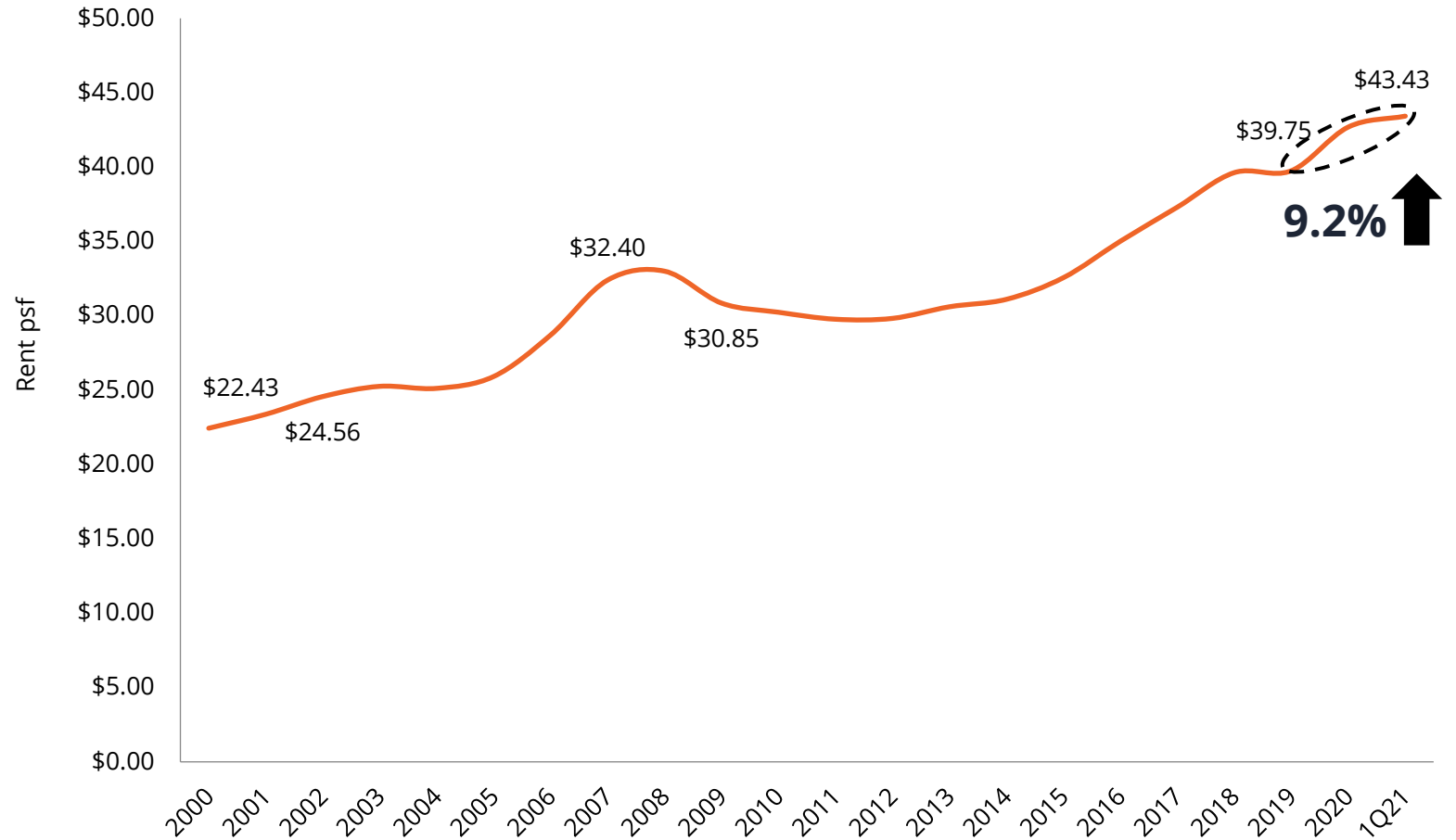
Source: AVANT by Avison Young

Base rents

9.2%

Peak-to-trough change in rents since the onset of the pandemic

Base rents have increased significantly due in large part to recent construction deliveries, and landlords are increasingly confident about achieving premium rents given the activity in the market.



Source: AVANT by Avison Young

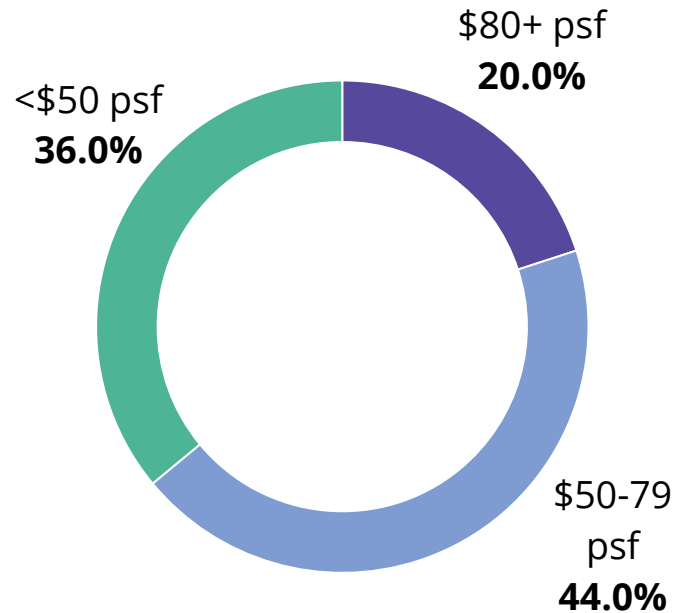
Concession trends pre-COVID vs. post-COVID

25.9%

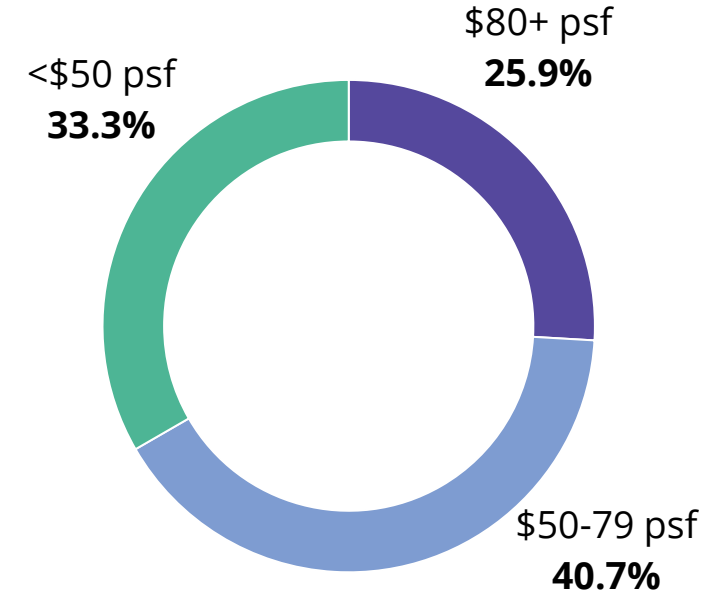
Number of all class A deals since March 2020 with TI allowances above \$80 per sf

Renewals remain prevalent, providing tenants more time to navigate uncertainty regarding future floor plate needs, and concessions increase alongside lease size and term.

2018-3/2020



Post-COVID



Source: AVANT by Avison Young

Miami's construction pipeline

54 properties

proposed or under construction

9.9 msf

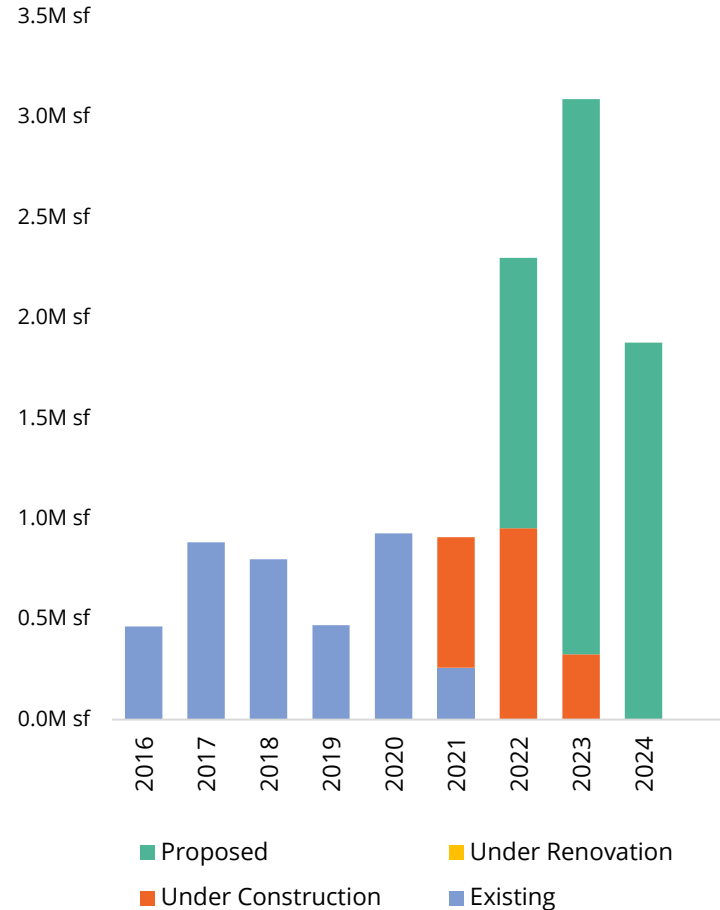
proposed or under construction

14.4%

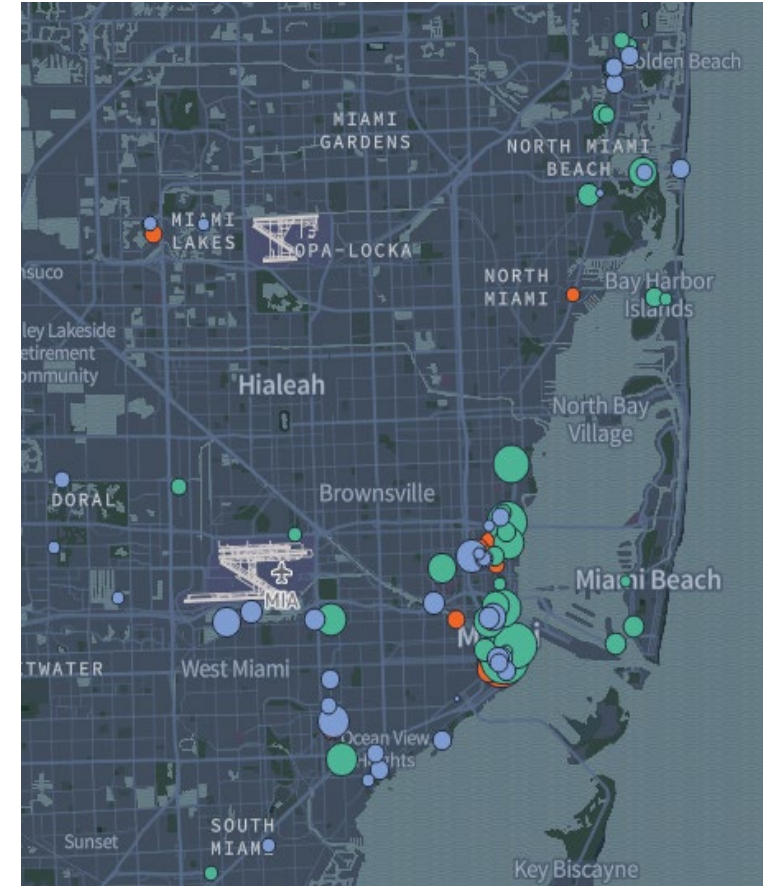
share of office inventory

3.8 msf

New construction deliveries in Miami since 2016



Source: AVANT by Avison Young

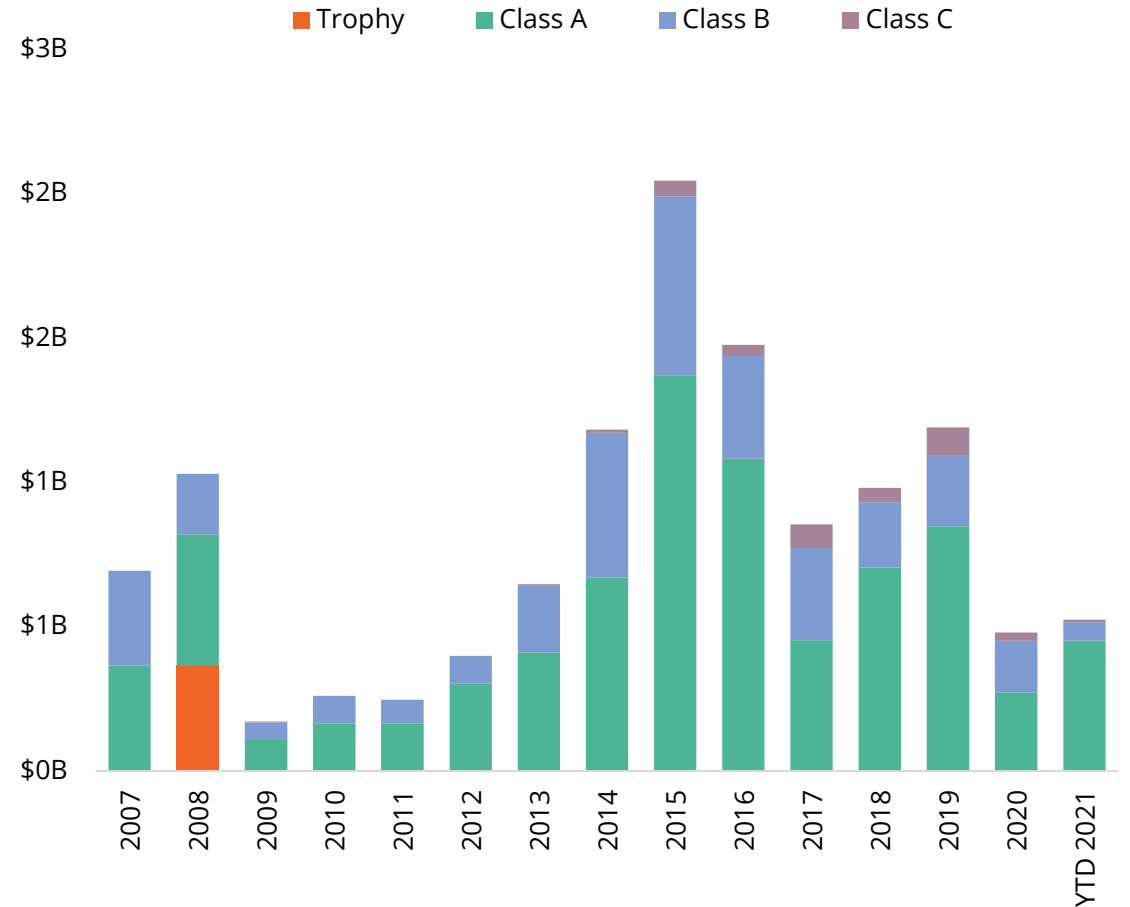


Office investment dollar volume

\$1.0B

Miami office dollar volume 2020 to present

Office sales activity temporarily paused during the pandemic and, as a result, total sales volume from 2020 through year-to-date 2021 remains down 23.3% compared to the prior five-year average dollar volume.



Source: AVANT by Avison Young

Office asset pricing

-6.6%

Miami office pricing decrease from November 2019 to present

Pricing has softened during the pandemic as investors have adopted more conservative underwriting approaches, decreasing from \$344 psf in November 2019 to \$322 psf in June 2021. However, asset pricing has begun to recover in recent months, indicating a potential stabilization.



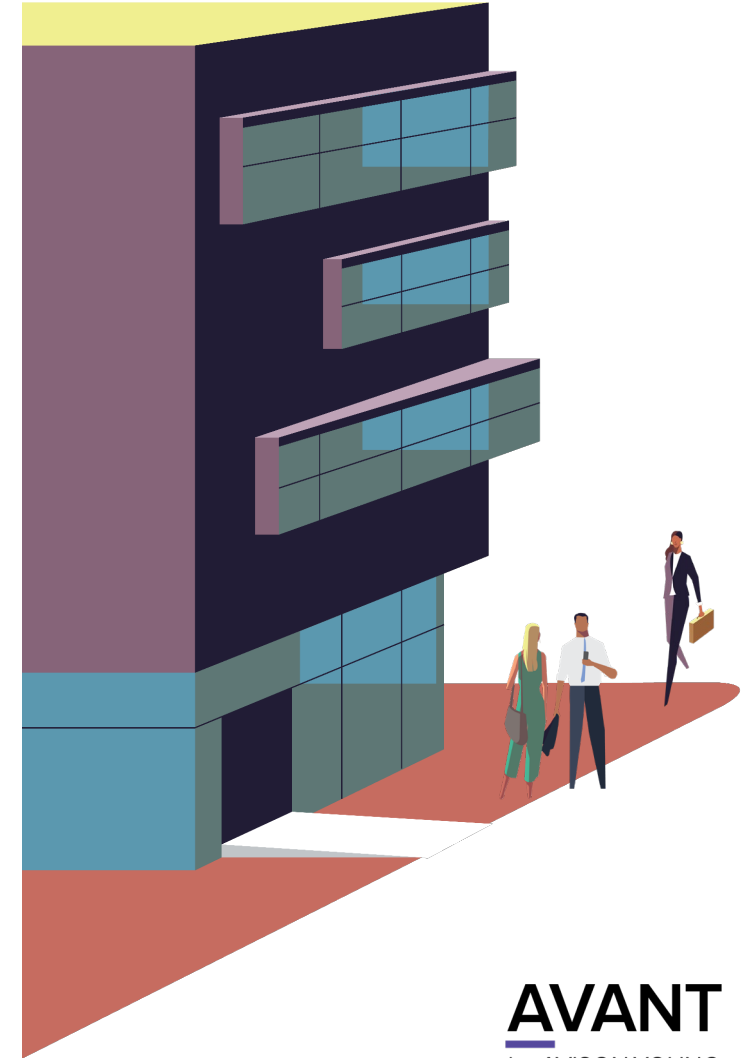
Source: AVANT by Avison Young
New York City Department of Finance, RCA

Looking forward



Here's what we can expect

- There is a **growing delta** between the rental rates being paid by new-to-market tenants in the tech and financial sectors and the rates that will be affordable for locally based tenants on new deals and renewals. This could prove problematic for smaller occupiers moving forward should rates continue to grow at their current pace.
- Some trends have yet to play out, including if and how policies out of the nation's capital and predictions of a future increase in the interest rate could cause a deceleration in **economic growth**.
- The **rate of increase** in rental rates should begin to level off by the fourth quarter of this year.
- **Office leasing demand from larger users persists**, particularly from out-of-market tenants, and is expected to remain at its current pace through year-end 2021.
- The passage of Florida Senate Bill 50 will have **positive implications for commercial real estate** as it will dramatically cut the state tax portion of the business rent tax from 5.5% to 2.0% once Florida's Unemployment Compensation Trust Fund is replenished to pre-pandemic levels. While every tenant will save on their overall business costs, considerable cost savings will be realized by larger occupiers in Florida, particularly in higher-rent markets like South Florida.



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Let's talk

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