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TODAY'S NEWS

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Suburban office markets balanced between supply, demand

By REBECCA SAN JUAN

The suburban Miami-Dade County office market is running steady and expectations are for continued smooth sailing during 2019.

Elliot LaBreche, vice president with the Easton Group, looks broadly across all of the suburban markets and sounds happy with what he sees. It has been a steady year.

"Suburban office markets are in a state of equilibrium," he said. "It's healthy in terms of it being in an equilibrium with tenant demand and office inventory."

Most of the suburban office markets are operating at 10% vacancy, meaning 90% occupancy. The average tenant usage ranges from 5,000 to 7,000 square feet.

"I think that the client demand is fairly balanced at the moment. I do not foresee that changing very much in 2019," Mr. LaBreche said.

Airport West, the area across from Miami International Airport, continues to be the most popular choice for companies looking outside the Central Business District.

"There is a lot of activity at the airport for a couple of reasons," said Hensley Loeb, director of research and business development for Jones Lang LaSalle South Florida. "One, it's the biggest market [within the metro area]. As a result, that creates a lot of volume. Two, the rates are a little [lower] compared to the CBD. Also, the Waterford Business Park is such a nice dense node in the airport market that it creates a little bit more vibrancy."

Class A high-rises at Waterford fly off the market. The properties are in such high demand that owners are hiking prices so much that



Rents are rising with high demand at Class-A Waterford high-rises beside airport, shown in rendering.



Hensley Loeb



'The decision-makers love to have an office near home and the international firms enjoy the walkability of Coral Gables as well as its convenience to Miami International.'

Carol Ellis-Cutler

some spaces are leasing at \$40 full service, including operating expenses. Compare that trend to the average lease price of \$35 per square foot. Other nearby sites are following suit.



'Downtown Doral and CityPlace create this idea of a CBD in the suburbs. That's attracting a lot of the tenants to those types of products, because when they go to work they want to have restaurant options or take their kids to school, walk to work from their apartment or house.'

Elliot LaBreche

"I'd say the majority of tenants are experiencing sticker shock," Mr. LaBrecht said.

The higher price tags cause plenty of tenants to readjust their budgets.

"Since there is not a ton of new deliveries coming online," he said, "tenants are having to just pay the rent increase or relocate and try to right-size their operations – get more efficient to keep their annual operating costs at [the same level] or a slight increase."

Some choose to relocate to a Class B-building in the same neighborhood or right-size, choose a smaller space in the area, cut desks, and let a few employees work from home. Mr. LaBrecht highlights Burger King's recent downsizing of its headquarters from 225,000 square feet to 150,000 as a prime example.

Demand for Coral Gables office space ranks closely after Airport West. The area offers a walkable environment from office to retail to home. The area also boasts the greatest square footage under new construction with the rise of the Plaza Coral Gables.

Carol Ellis-Cutler, first vice president at CBRE, said, "We continue to see that the Class A market in Coral Gables will continue to do well in 2019 because we track tenants in the market and there is a strong demand for quality property."

Class A-properties, in particular with a street address of Alhambra or Ponce de Leon Boulevard, are performing well in the area, but Class B fails to meet the same demand. Mrs. Ellis-Cutler said, "We see that there has been over 1,100 square feet of positive absorption in Coral Gables in the Class A market in 2018 whereas the Class B market had a negative absorption of 10,000 square feet."

Interest is growing for the newest properties. Mrs. Ellis-Cutler said, "The decision-makers love to have an office near home and the international firms enjoy the walkability of Coral Gables as well as its convenience to Miami International."

Coconut Grove proves to be another beloved area for offices.

"They have the lowest direct vacancy, but then are expecting the highest inventory growth with about 16.2% or 16.5% growth expected over the course of the next few years," Ms. Loeb said. The significant inventory growth and live-work-play development around town draw growth and millennial density.

The expanding Coconut Grove office market – think of the spaces coming to CocoWalk – will provide supply to the demand, Ms. Loeb said. "Now that there is more product on the market, that is creating a little bit more tenant opportunity than there used to be."

The lower prices per square foot attract plenty of businesses south of Airport West to Doral. The slightly lower rent, between \$32 and \$35 per square foot, is the first aspect that typically beckons companies to set up shop.

Mr. LaBrecht said, "Downtown Doral and CityPlace create this idea of a CBD in the suburbs. That's attracting a lot of the tenants to those types of products, because when they go to work they want to have restaurant options or take their kids to school, walk to work from their apartment or house."

All the suburban office markets create stiff competition for the Central Business District with a combined vacancy rate that stands lower than that of downtown and nearby areas.

Ms. Loeb attributes this to two reasons: "That is because of the sheer inventory of suburban markets versus the CBD. The other part is, generally speaking, the downtown market has had such a high vacancy that it pushes up the CBD as a whole."

The Central Business District still sees plenty of business, with the area handling 50% of all leasing activity in the county. Brickell follows right after at 27%, and Airport West takes the cake among the suburban market, which has a total of 24%.

Brickell continues to be the favorite child of downtown, but, Ms. Loeb says, Wynwood might shake things up.

"All of the office space there, from a pricing perspective, ends up mirroring retail prices," she said. "As a result of that, as you look at the overall asking rate of the Wynwood market against Brickell, those end up being competitive. When you end up thinking about the occupiers that would consider moving to Wynwood and they have the option of a more established market, I think a lot of them have been choosing Wynwood over Brickell."

But the overall sticker prices of the Central Business District in the past 24 to 36 months have companies looking elsewhere. Rent is not the only thing that is expensive. More and more tenants are having to ask their employees to pay for parking or cover the costs themselves.

The Central Business District's losses are the suburbs' gains, Ms. Loeb said: "I'd expect that the vacancy rates in the suburban markets will stay below the CBD."

The state of equilibrium is expected to continue, with what Mr. LaBrecht predicts to be a 3% type rental rate growth from 2018.