Market posted third consecutive quarter of positive absorption, but leasing activity slows

▼ 15.0%
Vacancy Rate

▲ 79,100
SF Net Absorption

▲ 1.9M
SF Construction

▲ $54.12
Full-Service / Lease Rate

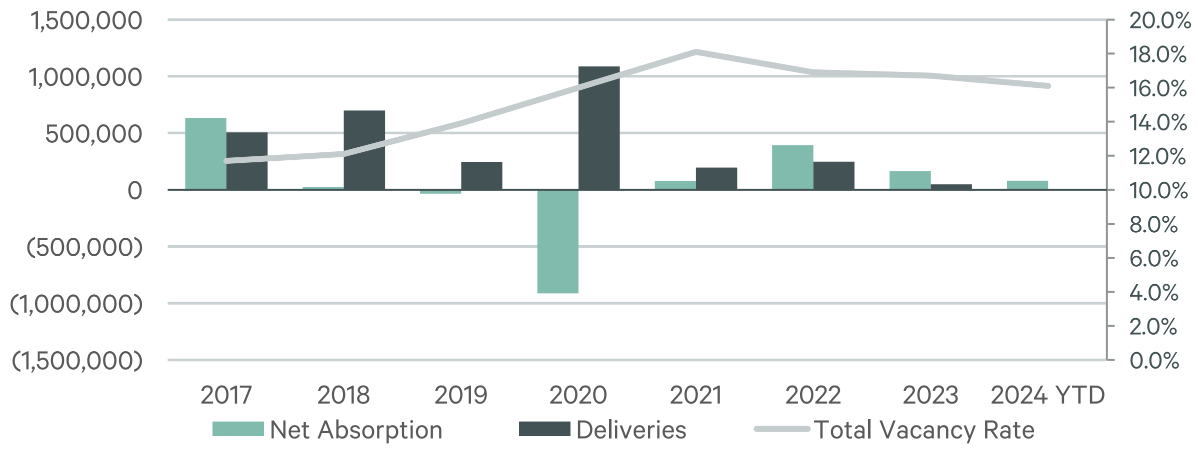
Note: Arrows indicate change from previous year.

OVERVIEW

- Tenants continue to take occupancy of space leased during the height of the market, further limiting Class A space. Absorption is expected to continue to rise when 830 Brickell delivers later this year.
- Class A availability across Miami decreased 160 bps y-o-y to 19.7%. Wynwood's total vacancy fell 1,400 bps y-o-y to 25.0%; a record low for the submarket; but demand has significantly slowed.
- Rent growth in Miami-Dade to begin 2024 saw an uptick of 250 bps quarter-over-quarter and on a year-over-year basis a 570 bps rise to $54.12/sq. ft..

The County started off 2024 with 79,100 sq. ft. of positive absorption, the third consecutive year for positive absorption. For Class A, this marks another consecutive quarter of positive absorption since Q2 2021. Alongside this tightening, this quarter saw over 5.0% rent growth for almost in nearly every submarket in the County.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

PRICING

Rent growth found renewed momentum this quarter compared to being relatively flat at the end of 2023. Every major submarket experienced positive rent growth. Class A Brickell rates continue to tick up and increased 11.6% year-over-year to $100.56/sq. ft. Second in commanding the highest rents was Wynwood, up 6.0% year-over-year to $82.79/sq. ft..

DEMAND

Leasing activity fell y-o-y as new-to-market demand declined with local tenants driving activity. New-to-market leasing should experience a revitalization with over 1.8M/sq. ft. set to deliver thru Q1 2025. Specifically, Miami Beach should bracingly lease up with buildings such as The Fifth (120K/sq. ft.) and Offices at the Well (100K/sq. ft.). As is the case for 830 Brickell with only 3% of direct space left available and was seen for The Plaza South – Coral Gables which came online fully leased.

Total availability has fallen below pre pandemic levels of 2018 (20.6%), decreasing 130 bps y-o-y to 20.1%, which has contributed to the slowdown in leasing activity as tenants seek higher quality office space when signing new leases – this is particularly true for the new-to-market tenants that drove the market in 2022/2023, but have run into a lack of large blocks of newer, high quality space.

VACANCY

The quarter closed with a vacancy rate of 16.1%, representing a decrease of 140 bps year-over-year. Of which, sublease vacancy stands at just 1.1% of total inventory for Q1; the lowest of the tri-county area. Wynwood experienced the steepest y-o-y vacancy change, falling 1,400 bps to 25.0%.

Both Downtown and Miami Beach are delivering fresh space in Q2, which can present opportunity for tenants looking to improve their space, but may result in a slight increase in vacancy in the short term.

FIGURE 2: Statistical Snapshot Q1 2024

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q1 2024 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/SF/FSG/G/MG)
Brickell	7,015,800	11.8	12.5	(50,900)	(50,900)	664,300	87.46
Downtown	7,834,200	18.0	18.5	54,000	54,000	127,800	54.20
CBD Total	14,850,000	15.0	15.7	3,100	3,100	792,100	66.63
Airport/Doral	8,987,700	21.3	22.4	(39,400)	(39,400)	0	38.93
Aventura	1,575,800	5.3	6.3	(4,200)	(4,200)	113,700	59.28
Biscayne Blvd Corridor	1,150,000	14.0	15.7	10,000	10,000	0	40.69
Coconut Grove	1,228,500	2.6	5.0	(10,100)	(10,100)	0	71.43
Coral Gables	6,320,600	14.0	15.3	6,000	6,000	73,500	53.37
Kendall	2,808,000	7.9	9.6	(13,200)	(13,200)	0	39.71
Miami Beach	1,810,900	10.9	11.1	(1,700)	(1,700)	334,000	61.38
Miami Lakes	1,758,200	15.9	17.4	13,900	13,900	0	34.91
Wynwood	896,900	21.6	25.0	114,800	114,800	579,300	82.79
Suburban Total	26,536,600	15.0	16.3	76,100	76,100	1,100,500	46.15
Miami	41,386,600	15.0	16.1	79,100	79,100	1,892,600	54.12

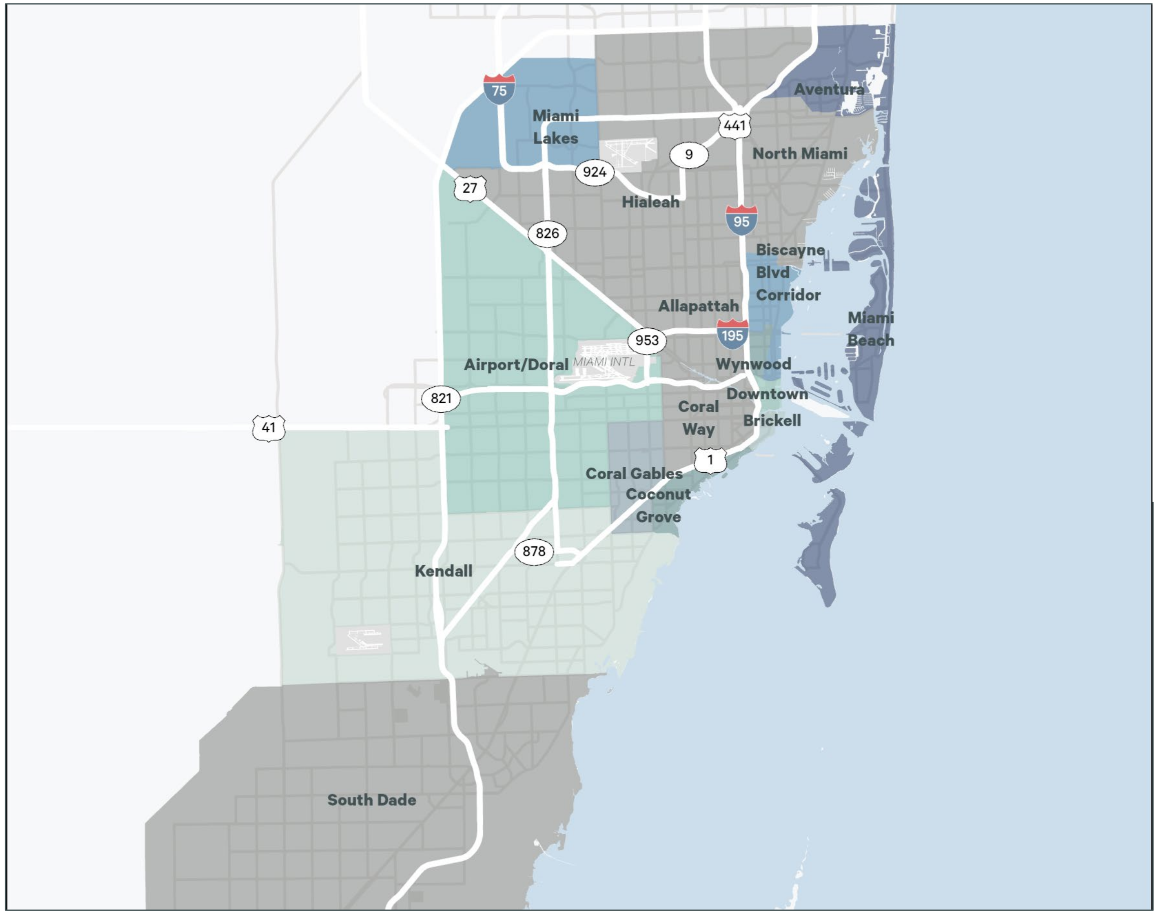
FIGURE 2: Class A

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q1 2024 Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/SF/FSG/G/MG)
Brickell	4,605,200	11.8%	12.3%	(45,800)	664,300	100.56
Downtown	4,446,000	16.9%	17.5%	34,100	127,800	67.03
Downtown	9,051,200	14.3%	14.8%	(11,700)	792,100	81.22
Airport/Doral	3,512,400	17.7%	18.4%	(11,400)	0	43.61
Aventura	1,272,000	4.5%	5.2%	(1,800)	113,700	60.13
Biscayne Blvd	321,400	0.5%	5.2%	3,900	-	-
Coconut Grove	696,600	0.3%	4.5%	(2,400)	-	-
Coral Gables	3,913,300	15.9%	17.6%	(8,500)	73,500	55.64
Kendall	1,078,900	9.4%	12.8%	(500)	-	46.51
Miami Beach	1,035,100	12.2%	12.6%	(3,100)	334,000	74.49
Miami Lakes	486,900	31.1%	32.3%	8,400	-	36.32
Wynwood	896,900	21.6%	25.0%	114,800	579,300	82.79
Suburban	13,213,500	14.2%	15.9%	99,400	1,100,500	53.82
Mami Class A	22,264,700	14.3%	15.5%	87,700	1,892,600	66.46

FIGURE 3: Class B

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q1 2024 Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/SF/FSG/G/MG)
Brickell	1,975,400	13.1%	14.7%	(5,100)	-	64.13
Downtown	1,709,600	22.2%	22.9%	19,900	-	48.98
Downtown	3,685,000	17.3%	18.5%	14,700	-	54.99
Airport/Doral	5,475,200	23.7%	24.9%	(28,000)	-	36.92
Aventura	303,800	9.0%	10.6%	(2,500)	-	57.59
Biscayne Blvd	828,600	19.3%	19.8%	6,100	-	40.69
Coconut Grove	531,900	5.5%	5.5%	(7,800)	-	71.43
Coral Gables	2,407,300	10.9%	11.5%	14,600	-	48.25
Kendall	1,729,100	7.0%	7.6%	(12,600)	-	35.59
Miami Beach	775,800	9.1%	9.1%	1,400	-	54.26
Miami Lakes	1,271,300	10.1%	11.8%	5,400	-	33.66
Wynwood	-	-	-	-	-	-
Suburban	13,323,000	15.7%	16.6%	(23,400)	-	40.14
Miami Class B	17,008,000	16.1%	17.0%	(8,600)	-	43.72

Market Area Overview



ECONOMIC OUTLOOK

Continued economic growth paired with the Fed signaling more accommodative policy all suggests the U.S. economy is heading toward a 'soft landing'. GDP growth should be less than half 2023's pace when growth topped 3%. Reasons for the slowdown include a more prudent consumer and much weaker hiring. This latter issue is most acute within interest rate sensitive sectors, such as tech start-ups and goods manufacturing. Notable exceptions include investment in EV and microchip production capacity.

More caution from businesses means a good chunk of recent hiring came from publicly funded sectors (e.g., education, healthcare, state & local governments). A key exception is leisure & hospitality, driven by continued demand for discretionary services. With many private firms on the sidelines the job openings rate declining to 5.5% from its peak of 7.8% in 2022. This has also meant the pace of wage growth has cooled, but not enough to see inflation fall quickly to 2%. With unemployment remaining below 4% and high-capacity utilization, CPI is unlikely to return to target until 2025.

The Fed will likely make three, 25 basis point cuts this year. This outlook is putting downward pressure on longer-term rate expectations, providing some optimism for real estate capital markets, but the recovery will only begin after the first cut is delivered. Better than expected growth over the last 18 months has been helpful in holding real estate vacancy down, notably in the industrial, retail and multifamily sectors.

Survey Criteria: Includes all competitive Class A and Class B office buildings 30,000 sq. ft. and greater in size in Palm Beach County. Beginning Q1 2022, single tenant non-owner-occupied buildings have been added to the set and their inclusion is reflected historically in the data. Excludes: government and medical buildings..

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