

FIGURES | MIAMI OFFICE | Q2 2023

# Tightening supply for premier space continues to drive Miami rent growth

▼ 15.6%  
Vacancy Rate

▼ 22,600  
SF Net Absorption

► 2.2M  
SF Construction

▲ \$51.51  
Full-Service / Lease Rate

Note: Arrows indicate change from previous year.

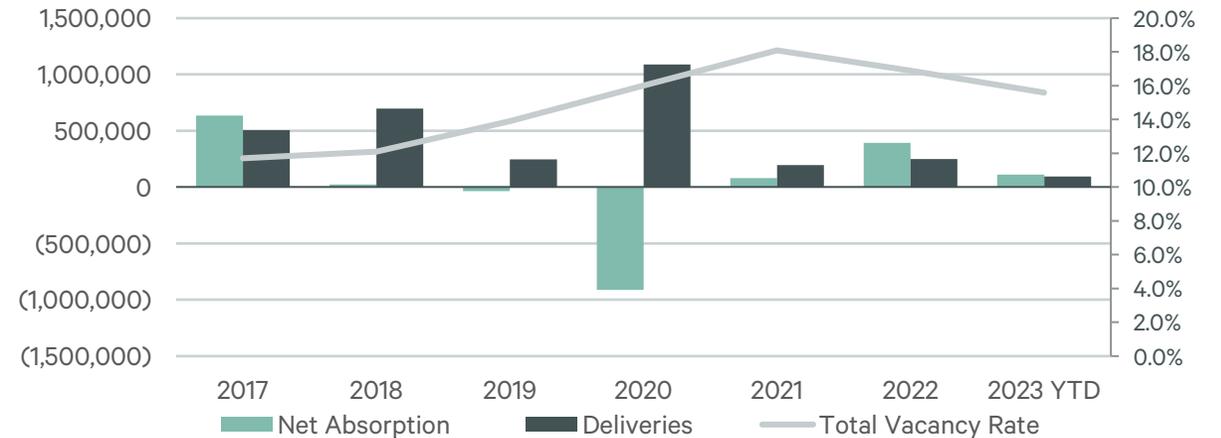
## OVERVIEW

- Net absorption for Q2 2023 totaled over 22,000 sq. ft., with the majority occurring in Coconut Grove, Wynwood, and Brickell particularly in Class A space as tenants continue the flight-to-quality trend. To that point, product in these three submarkets have accounted for 30% of all Class A absorption in YTD 2023.
- Class A availability across Miami fell 80 bps to 20.6% y-o-y with the largest decreases coming from Wynwood decreasing 3,700 bps y-o-y to 25.1% and Downtown Miami falling 2,500 bps y-o-y to 21.9%. For Downtown Miami this is a level not seen since 2016 which is impressive considering there was over 1 million sq. ft. less of Class A inventory at that time.

## PRICING

As a result, landlords continue to raise rents amidst strong tenant demand. Class A Brickell rates increased by 20% year-over-year to \$93.92/sq. ft., which helped launch Class A rates for the overall market to \$65.03/sq. ft., a 12% year-over-year jump.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

## DEMAND

Total availability has officially reached and fell below the pre-pandemic level in 2019 (21.8%) decreasing 50 bps year-over-year to 21.1%. This is on the heels of a wave of new-to-market financial services and tech tenants – which continued with Openstore taking space in Wynwood and Fundkite expanding throughout Downtown Miami. Private Equity and International Banking carried the torch of this trend forward starting in Q1 2023. BAC Bank and Trivest Partners cementing their presence from the large leases in Coral Gables they signed during the pandemic.

While questions arouse as to whether the new-to-market tenant trend would wane alongside COVID restrictions in Miami’s feeder markets, the average NTM lease size were over 17,000 sq. ft. throughout 2022. This trend continued in step to begin 2023 with the average NTM lease size being over 14K sq. ft. Further solidifying Miami’s spot as a top destination for office tenants seeking high quality space. The lease size composition so far this year is as follows 5,000 sq. ft and below; 14% , 5-15,000 sq. ft; 31% , 15-25,000 sq. ft; 20% , 25,000+ sq. ft ; 34%.

## VACANCY

The quarter closed with a vacancy rate of 16.5%, representing a decrease of 110 bps year-over-year. Available sublease space stands at just 1.7% and Vacant sublease space at 0.8% of total inventory for Q2.

To service demand for high quality space, Wynwood is underway to deliver over half a million sq. ft. through 2023 to mid 2024. On top of this 830 Brickell for example will deliver over 630,000 sq. ft. to market later this year; however, the property now has only 18,000 sq. ft. left available to lease. A similar trait to Coral Gables’ recently delivered Plaza South with only 14,000 sq. ft of sublease space available. Given the unprecedented demand levels, it is unlikely any upper echelon space lingers on the market.

FIGURE 2: Statistical Snapshot Q2 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q2 2023 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/SF/FSG/G/MG)
Brickell	7,144,300	10.3	10.8	21,400	(52,400)	869,300	83.74
Downtown	7,990,200	16.8	18.2	15,300	80,200	65,000	51.98
<b>CBD Total</b>	<b>15,134,500</b>	<b>13.7</b>	<b>14.7</b>	<b>36,700</b>	<b>27,800</b>	<b>934,300</b>	<b>64.06</b>
Airport/Doral	9,043,200	23.4	24.1	2,500	(2,000)	0	37.11
Aventura	1,575,800	3.8	4.1	(700)	5,800	113,700	59.09
Biscayne Blvd Corridor	1,150,000	16.7	17.3	(82,000)	(69,300)	268,700	40.31
Coconut Grove	1,352,800	3.5	3.6	41,000	40,200	0	61.14
Coral Gables	6,420,600	15.0	15.8	(32,700)	1,700	0	50.29
Kendall	3,129,400	9.5	10.7	15,900	27,300	0	34.05
Miami Beach	1,810,900	11.5	14.3	2,600	17,200	208,700	57.45
Miami Lakes	1,758,200	18.6	19.9	18,300	28,500	82,903	33.08
Wynwood	896,900	33.3	35.6	20,900	31,900	578,700	78.80
<b>Suburban Total</b>	<b>27,137,800</b>	<b>16.6</b>	<b>17.6</b>	<b>(14,200)</b>	<b>81,500</b>	<b>1,252,700</b>	<b>42.94</b>
<b>Miami</b>	<b>42,272,200</b>	<b>15.6</b>	<b>16.5</b>	<b>22,600</b>	<b>109,300</b>	<b>2,187,000</b>	<b>51.51</b>

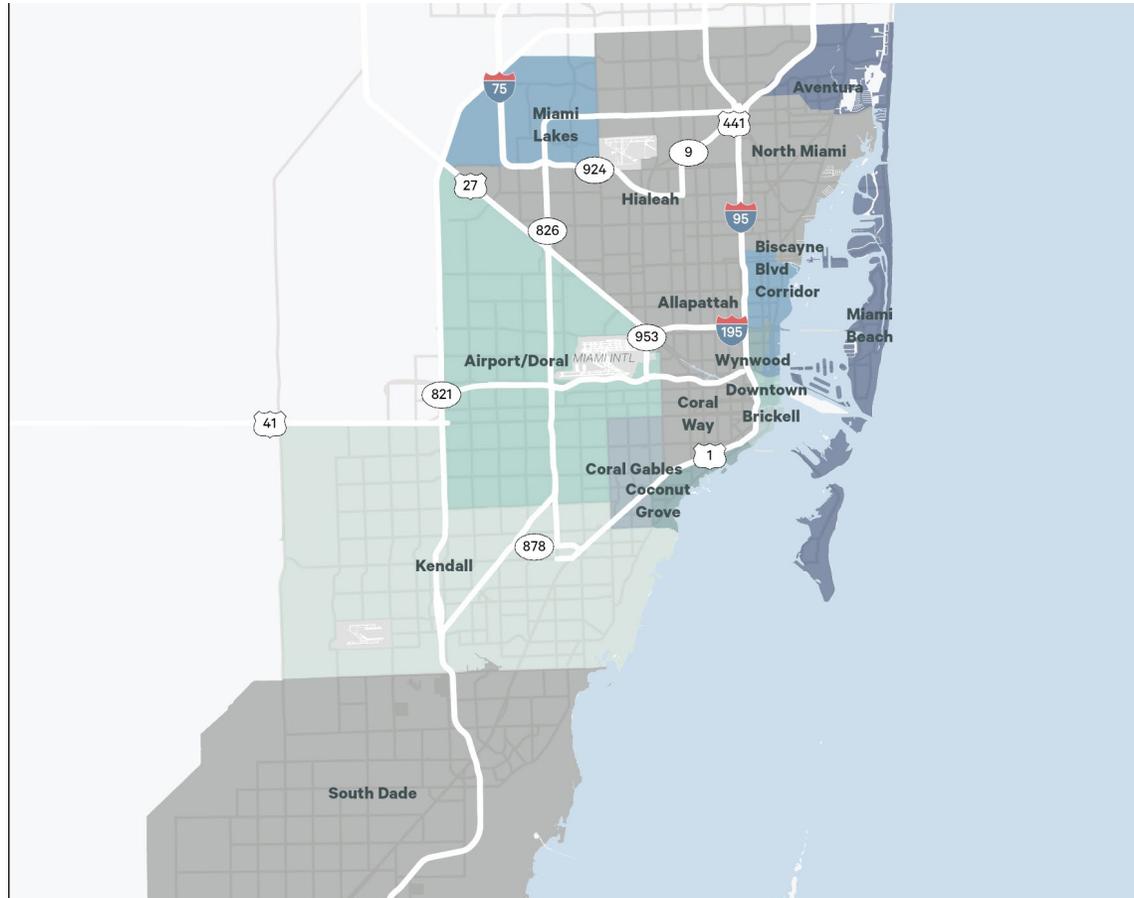
FIGURE 2: Class A

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q1 2023 Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/SF/FSG/G/MG)
Brickell	4,605,200	10.0%	10.5%	2,300	869,300	93.92
Downtown	4,446,000	16.6%	17.6%	23,400	65,000	64.37
Downtown	9,051,200	13.2%	14.0%	25,600	934,300	77.42
Airport/Doral	3,512,400	17.5%	18.7%	(3,700)	0	42.32
Aventura	1,272,000	2.4%	2.8%	(500)	113,700	60.22
Biscayne Blvd	321,400	-	-	(8,900)	268,700	-
Coconut Grove	744,900	5.3%	5.3%	32,900	-	62.62
Coral Gables	3,913,300	16.5%	17.2%	(40,100)	-	53.73
Kendall	1,168,900	9.9%	13.0%	15,900	-	45.00
Miami Beach	1,035,100	12.8%	17.6%	1,800	208,700	77.37
Miami Lakes	486,900	35.4%	36.5%	11,600	82,900	35.46
Wynwood	896,900	33.3%	35.6%	21,000	578,700	78.80
Suburban	13,351,800	15.4%	16.8%	29,200	1,252,700	52.50
Mami Class A	22,403,000	14.5%	15.7%	54,800	1,872,800	65.03

FIGURE 3: Class B

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q1 2023 Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/SF/FSG/G/MG)
Brickell	1,972,700	13.1%	13.5%	19,100	-	62.68
Downtown	1,709,600	19.0%	22.8%	(8,000)	-	46.55
Downtown	3,682,300	15.9%	17.8%	11,100	-	52.71
Airport/Doral	5,530,800	27.2%	27.6%	6,200	-	35.43
Aventura	303,800	9.5%	9.5%	(200)	-	57.30
Biscayne Blvd	828,600	22.8%	23.0%	(73,200)	-	40.19
Coconut Grove	608,000	1.2%	1.4%	8,100	-	57.29
Coral Gables	2,507,300	12.8%	13.5%	8,200	-	43.31
Kendall	1,960,500	9.3%	9.3%	-	-	33.35
Miami Beach	775,800	9.7%	9.9%	800	-	50.96
Miami Lakes	1,271,300	12.2%	13.5%	6,700	-	30.53
Wynwood	-	-	-	-	-	-
Suburban	13,786,100	17.8%	18.3%	(43,300)	-	37.38
Miami Class B	17,468,400	17.4%	18.2%	(32,200)	-	40.70

**Market Area Overview**



**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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**ECONOMIC OUTLOOK**

For the last six months the consensus amongst economists has been that H2 would bring the United States to the brink of recession and possibly push it over the edge. Recently, this narrative has been challenged by a surprisingly resilient consumer and labor market. Indeed, GDP growth in Q2 2023 is poised to hit the mid-2% range (p.a.). Beneath this veneer of health lies a fragile economy, which will probably lapse into recession, albeit a little later than previously expected.

The chief concern is credit conditions tightening at a magnitude that typically precedes a recession. The consequences are already manifest in the housing market, and particularly across the Western U.S. where valuations are most disconnected from local incomes. Other rate sensitive sectors, such as manufacturing, are also under pressure—both domestic and abroad—exemplified by cooling capital goods orders and PMI data. And while the labor market is objectively tight, it is softer than one year ago when we saw higher quit rates and stronger wage growth. Tighter credit conditions are also likely to catch up with Americas small and medium sized industries (restaurants, cafes) in the service sector in the next two quarters.

Perhaps the key question is: Will the inflation slow fast enough to avert further rate hikes? CBRE's baseline view is that there is no need for further rate hikes because inflation is coming under control, but because of strong recent data the Fed will make one more rate hike, just to make sure the job is done. This will slightly exacerbate the coming slowdown and lead the Fed to begin cutting rates at the end of the year. The long-expected slowdown in the U.S. economy is still on track but will start in earnest at the end of Q3 a last through to the end of Q1 2024 by which time, inflation will have slowed up, and rates will be falling.

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