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Despite Economic Challenges, Downtown Miami Remains One of the Hottest Office Markets



Downtown Miami, Fl. Credit: Dudarev Mikhail/Adobe Stock

“This return to the workplace is only going to further fuel demand. We are also seeing more financial and law firms come into the market, and their service providers tend to follow. It’s a positive domino effect that is driving incredible growth,” said Christina Crespi, executive director of the Miami Downtown Authority.

Miami’s downtown remains one of the hottest office markets in the country despite rising interest rates, layoffs in big tech and finance, and general economic uncertainty nationwide.

And staying on top has its challenges. For Tere Blanca, CEO of Blanca Commercial Real Estate, the biggest issue is bureaucratic: getting buildouts of interior space approved by local governments.

“Municipalities are certainly quite busy with the activity that we’ve had, both on new construction as well as building out space in existing buildings so we’re all waiting for them to streamline their processes and hopefully be able to expedite the process so tenants can take occupancy on a timely basis,” Blanca said.

Eric Messer, Florida senior research manager at Cushman & Wakefield, said the office market is testing current economic headwinds, and uncertainty can slow demand.

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“Secondary Class A and lower-tier Class B suburban office buildings may see increased vacancy and sublet availability as a combination of companies upgrade to newer or improved high-end office space or downsize as they switch to hybrid or work-from-home models,” Messer said.

But flight to quality is still very much a trend, especially for high-end space in the central business district and downtown.

“Many users are drawn to these premier assets, which has been a driver of the vacancy rates and leasing activity in the South Florida region,” said Messer.

With the tightening of credit by lenders across the country, Blanca said new high-rise towers will likely see construction delays. “I think everyone is trying to determine how long the delays will be,” she said. “I think the Fed can answer to that.”

As Christina Crespi, executive director of the Miami Downtown Authority, sees it, one of the biggest trends seen in South Florida’s office market is an increase in new-to-market demand.

“In 2022, the net absorption, leasing activity, new-to-market activity and rental rates reached record highs in the office market,” Crespi said. “Major markets across the country have yet to return to their pre-pandemic levels, however that isn’t what we’ve experienced here in Downtown Miami, as the office market has soared to new heights.”

According to Crespi, since 2019 office rents increased by more than 25%, bringing the average asking rate to just over \$50. That’s comparable to other major metropolitan areas like Boston, Los Angeles and Austin.

“Between 2011 and 2019, by comparison, the average annual increase for Class A and B office spaces was 2.8%, which was on pace with the national rate of rental growth,” said Crespi. “By 2020, the Miami market experienced a significant increase in rent growth, with a 7.4% increase followed by an additional 5.0% growth in 2021. Last year, the record rent reached record heights as the weighted average asking rate increased by 10.9%.”

Despite potential economic challenges as the year progresses, Crespi said the office market is poised for another, perhaps more moderate, year.

“The delivery of 830 Brickell in the second quarter of 2023 is expected to bring nearly 600,000 square feet of positive absorption to the market, as the building is largely leased to new-to-market companies,” Crespi added. “In addition, there are currently 4.3 million square feet of active requirements for space in Greater Downtown Miami, with 30% coming from new-to-market tenants. Miami’s status as a gateway market is likely to continue in 2023 and beyond as companies join the diverse mix of existing tenants in the region despite challenges.”

The strength of the market in the past two years has allowed some tenants to hedge continued rental increases with extended leases. Tenants are also committing to additional space.

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“For example, the law firm Bilzin Sumberg extended its lease ahead of schedule and White & Case also extended early and leased additional space as new law firms enter the market at a faster rate,” said Crespi. “Employers are hiring more talent and growing their companies as a result of our thriving economy leading to an increase in space needs.”

Inside the office, having flexible space to collaborate and gather inside the office is a priority, Blanca said. “They’re also making sure there’s privacy for certain functions that need quiet space during the day,” said Blanca. “And making sure that hoteling is also a big consideration because even with the hybrid model even if you’re back four days a week, which is a strong trend, you can still share the space efficiently without having designated desks.”

In the next six months, Miami’s office market can expect continued strength.

“Miami is one of the top markets for in-office companies, such as Kaseya, which recently signed a lease for a 101,000-square-foot space in the Wells Fargo building,” said Crespi. “This return to the workplace is only going to further fuel demand. We are also seeing more financial and law firms come into the market, and their service providers tend to follow. It’s a positive domino effect that is driving incredible growth.”