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Despite expectations, office rents don't dive, vacancies light

By KYLEA HENSELER

Despite the pandemic, many businesses are jumping at the chance to move their headquarters to downtown Miami and Brickell and, despite some expectations, rental rates haven't plunged and vacancies haven't ballooned. However, many landlords are increasingly willing to work with tenants to allow for more flexible leases as workplace trends shift and Covid-19 continues, local experts say.

According to Danet Linares, vice chairman of Blanca Commercial Real Estate and a member of the Downtown Development Authority's Board of Directors, the Central Business District has seen an uptick in inquiries from out-of-market businesses looking to move south.

The direct vacancy rate for Class A office space in downtown Miami, she said, is 21.5%, and the weighted average asking rate for Class A office space is \$50.37 per square foot. In Brickell, the direct vacancy rate for Class A is lower at 9.6%, and the weighted average asking price is higher at \$56.92 per square foot. The most expensive assets in Brickell, she continued, could go for around \$67 per square foot, with the priciest offices downtown charging in the high \$50s to low \$60s per square foot range.

"We haven't seen a decrease in rental rates, where everybody thought that (they) would plum-



Danet Linares: no rent decrease.

met," she said. Rather, landlords "might offer more concessions, like more free rent or more tenant improvement dollars."

Out-of-state and new-to-market potential tenants, Ms. Linares said, had inquired about roughly 230,000 total square feet of office space in Blanca's portfolio. Out-of-staters, she said, are mainly coming from areas such as the Northeast, Chicago and California, and many are looking to move their "C Suites" to Miami. Warm weather, great public transportation downtown and a good cost of living are just some reasons, she said.

"What's different about the pandemic," said Stephen Rutchik, an executive managing director for Colliers International, "is that it's no longer a satellite office – it's now a location where senior leadership or a principal is relocating."

According to Mr. Rutchik, tenants are now seeking out

flexibility and less-traditional options such as subleases and "spec spaces."

"Flexibility is something that is always important to a tenant," he said. "The flexibility we're seeing is a lease term between two and five years, and the search for value. That's a consistent theme with or without a pandemic."

Subleases and spec spaces, he continued, may also grow in popularity due to their value and the fact that they are typically "ready to go."

"Many clients throughout our portfolio are conducting expensive spec suite programs for (vacant) spaces," he said, "and we lease them before they're completed."

Many tenants, especially those new-to-market, Mr. Rutchik said, may also be interested in subleases for a few key reasons:

1. They offer value opportunities because of their below-market cost.
2. They are "ready to go" – requiring no up-front costs from a subtenant.
3. They generally offer short terms, which is ideal for many given the Covid-included uncertainty.

Ready-to-go spec and turn-key spaces, he said, may prove popular as the pandemic extends construction timelines and many clients favor a move-in-ready office over a long-term commitment.

Still, according to Ms. Linares,



Stephen Rutchik: flexibility aim.

the number of tenants subletting in Miami is lower than in other major cities.

"We don't have that much product available in the sublease market," she said, "we're hovering around 1.8%, as of the second quarter."

One big question for all office space markets, said Brent Palmer, a broker with Palmer Property Group, is how the combination of social distancing and increased teleworking will affect how much office space companies need.

"Tenants are having a work-from-home philosophy and not taking up as much space," he said. "However, they're also having to redesign office space to space out their employees – these conflicting trends haven't played out yet."

Another new trend whose popularity is yet to be determined, Mr. Palmer said, is demand for coworking spaces. On one hand, he said, many companies and people value having their own

space more than ever out of safety concerns. On the other, the high flexibility of coworking spaces can be very attractive.

"I don't think we've seen enough to determine it," he said.

Shorter lease terms, Mr. Palmer said, are only increasing in popularity during Covid-19 as tenants shy away from longer-term commitments and landlords adjust.

"Tenants not wanting to make long-term commitments," he said, "buildings are having to be open to shorter-term leases for tenants to commit."

Philippe Houdard, co-founder and CEO of boutique Brickell-based coworking firm Pipeline, previously told Miami Today that this demand for flexibility led many in the coworking industry to be "bullish" about the future.

"There will be immense demand for flexible office space like ours," he said. "There's a key change in the way companies look at offices; more and more (of them) are resisting the push to get locked in by landlords."

Pipeline's spaces – which have now expanded past Brickell to include five other locations in Florida and one in Philadelphia – offer companies and workers "traditional" coworking spaces, as well as ready-to-go private offices available for flexible lease terms such as three- or six-month deals.

According to a July report from JLL, he pointed out, "30% of all office space will be consumed flexibly by 2030."