

SPECIAL REPORT: Office Guide

Lots of Office Construction, But South Florida Tenants Tend to Lag on Pre-Leasing



CATHERINE WILSON

MiamiCentral construction

PIPELINE

About 3.5 million square feet of new construction is in the works. See Page **AA2**

WHERE IT'S AT

Developers eyeing markets without existing office base. See Page **AA4**

AVENTURA

Expansion at Aventura Hospital drives new health district. See Page **AA6**

CORPORATE HOMES

New office leases tend to be on the small side. See Page **AA7**

SPECIAL REPORT Office Guide

Full of Surprises: Where New Offices, Leases, Rent Hikes Are in South Florida

by Lidia Dinkova

The South Florida office market is full of surprises.

Big downtown buildings have the square footage, but the suburbs are landing some of the biggest leases.

Miami's Brickell Financial District leads on rents in Miami-Dade County. But offices near Miami International Airport enjoyed the biggest rent hikes.

And across the region, developers are increasingly opting for markets that had no office construction in decades. Miami's Brickell, Coconut Grove and Wynwood are building.

The 1 million-square-foot 830 Brickell tower on tap in Brickell will be the first new office space in four years in the neighborhood and its first speculative project in nearly a decade.

Miami's eclectic Coconut Grove and Wynwood, which for decades was defined by its aging warehouses and Puerto Rican residents, are starting a new phase as office centers.

Construction started on two towers long in the works in downtown West Palm Beach. And high-end Palm Beach Gardens, which hadn't seen a new office in a decade, is getting the two-building Divosta Towers with the first tower complete.

"It's healthy to have new development projects that are quality projects in locations that are solid, both strong neighborhoods that are emerging as office markets as well as established neighborhoods," said Tere Blanca, CEO of Blanca Commercial Real Estate, which is leasing several of the big new projects. "This has a way of attracting companies to Miami. It's healthy to have inventory to be able to recruit companies."

PROJECTS

South Florida saw over 655,000 square feet of office space completed last year, and more is coming, according to JLL data.

Over 3.4 million square feet is under construction with nearly 2 million

in Miami-Dade, 615,252 in Broward County and 793,358 in Palm Beach County.

In Coconut Grove, a five-story, 95,000-square-foot office building was completed after two decades without construction. It was no surprise that 3310 Mary St. was fully leased when it opened last October. Terra, which developed the building, opened its new headquarters inside and accounting firm Kaufman Rossin will move in nearly 300 staff members.

Nearby, a development trio intent on reinvigorating CocoWalk's shopping and dining scaled down the retail in favor of the five-story, 85,762-square-foot One Cocowalk office building. By late last year, it was 65% pre-leased to coworking company Spaces and investment firm Boyne Capital.

The biggest headliner is the 56-story 830 Brickell, which will bring 615,000 square feet of rentable space to Miami's second-tallest office tower in 2021. Completed in 2016, Two and Three Brickell City Centre were the last new office additions, but a spec project like 830 Brickell hasn't been built since 600 Brickell in 2011. Spec developers don't build specifically for committed tenants but are betting on healthy demand.

Wynwood, which gentrified into an internationally known arts district with edgy eateries and bars, now is getting its first office buildings.

The 10-story, 298,597-square-foot 545Wyn will be done later this year on the heels of the completion of 12-story, 86,000-square-foot Cube Wynwd. Next on tap are the 12-story, 220,000-square-foot Gateway at Wynwood and three-story, 35,000-square-foot building planned by redevelopment pioneer Moises Miana for the Puerto Rico Chamber of Commerce and Miami-Dade County offices.

In Broward, most new construction is suburban. Plantation boasts the most office development with 145,322 square feet on tap after 234,729 square feet was completed last year, according to JLL.

The 77.5-acre Plantation Pointe office park, which houses Motorola and the homegrown tech company Magic Leap, is getting two new office buildings. Illinois-based owner Torburn Partners Inc. started building a four-story, 153,715-square-foot building last summer and submitted plans for a second 10-story, 150,436-square-foot building.

In Pembroke Pines, the 330,000-square-foot Edison complex has opened the first of two buildings.

In the urban core, The Main Las Olas mixed-use project will bring a 25-story, 369,809-square-foot office tower. The long-expected seven-story, 100,000-square-foot 550 Building at 550 S. Andrews Ave. is finished.

Most recently, Doug McCraw and Lutz Hofbauer, the force behind the booming FATVillage northwest of downtown, partnered with others on a 5-acre mixed-use project.

Another new office complex of note is developer Inmobiliaria Brom's



A rendering of the 830 Brickell office tower in Miami's Brickell Financial District.

three-building Optima project spanning the county line in Aventura and Hallandale Beach. The 28-story, 300,000-square-foot Optima Onyx in Hallandale Beach is to be finished this year. It will add to the nine-story, 84,401-square-foot Optima White and four-story, 29,621-square-foot Optima Red, both in Aventura.

In West Palm Beach, a handful of major projects are on tap. They include Related Cos.' 20-story, nearly 300,000-square-foot 360 Rosemary to be finished next year and its 25-story, 270,000-square-foot One Flagler near the foot of the Royal Park Bridge connecting West Palm Beach and Palm Beach.

Developer Jeff Greene moved forward last year with the 30-story two-tower One West Palm with over 200,000 square feet of office space. New York-based Cohen Brothers Realty

Corp. wants to develop a mixed-use tower that could be up to 28 stories with 490,000 square feet of office space northwest of Okeechobee Boulevard and Dixie Highway.

In Palm Beach Gardens, the South Tower at Divosta Towers was finished, and the North Tower is expected this year. Together they will bring 220,000 square feet of offices.

BIG LEASES

CBRE Inc. data show the Miami-Dade suburbs accounted for nearly 60% of leases in the fourth quarter of last year. In Broward, the popularity of suburban leases is even more striking with JLL reporting areas outside the urban core accounted for 90% of absorption for the year.

Publicly traded engineering firm AECOM signed a new 22,645-square-foot



Tere Blanca

SPECIAL REPORT Office Guide

lease at Coral Gables' 2 Alhambra Plaza shortly after Aronfeld Trial Lawyers personal injury firm moved to the 14th-floor penthouse at nearby 1 Alhambra.

Vacation and leisure services provider Interval International renewed its 53,157-square-foot lease at its South Miami headquarters, according to CBRE.

Medical offices also are making a splash. The 116,000-square-foot MedSquare Health underway across from Baptist Hospital will be the first new medical office in the area in two decades. It has leased 63,000 square feet, and tenants include gastroenterology practice Gastro Health and hospice provider Vitas Healthcare.

One of the biggest leases in Broward was managed care company Centene Corp. committing to Torburn's four-story building under construction at Plantation Pointe.

Aquila Software consolidated its northwest Miami-Dade and Fort Lauderdale offices in a 28,890-square-foot home at Pembroke Pines' Edison complex.

Sunrise's Sawgrass International Corporate Park, a sprawling 612-acre development east of the Sawgrass Expressway, has been popular. Ultimate Software Group Inc., a human resources software maker based in Weston, is expanding into a 100,000-square-foot Sunrise building, and New York Life Insurance Co. expanded its space by signing a 32,941-square-foot lease at Lakeshore Plaza II.

In law firm relocations, Comiter, Singer, Baseman & Braun leased at Palm Beach Gardens' Divosta South Tower, and Fisher Potter Hodas leased at downtown West Palm Beach's Northbridge Centre. JPMorgan Chase & Co. also leased at the South Tower.

Boca Raton scored big leases late last year, according to Avison Young. NSD Group LLC, an auto insurance products and services provider, subleased 30,000 square feet at the Boca Raton Innovation Campus, Mill Creek Residential Trust LLC signed a new 27,079-square-foot lease at the Boca Village Corporate Center building and Florida Atlantic University research arm FAU Research & Development Authority signed a new 13,852-square-foot lease at 3651 FAU Blvd.

A lot of the leasing is organic growth by existing companies, and some comes from company relocations.

Florida is a tax haven for companies in the Northeast, especially after deductions for state incomes taxes were capped in the 2017 federal tax overhaul.

"South Florida is the recipient of businesses in the Northeast, especially ones in the tri-state area that are fleeing its high taxes, which directly correlates to the increase in demand for office space in South Florida," said Barry Lapidus, a partner at Berger Singerman in Miami and chairman of the firm's real estate group.

RENTS

Miami-Dade rents are increasing but at a slower pace, reaching an average asking rate of \$39.33 a square foot by the end of last year, up 0.4% from the prior year, according to Avison Young. This is a significant decline from past annual rent growth of 5.6% in 2018 and 8.9% in 2017.

On a micro level, rents differ among submarkets with Brickell boasting the highest average direct asking rent of



A rendering of The Main Las Olas mixed-use development that will include a 25-story office building in downtown Fort Lauderdale.



Related Cos' 360 Rosemary office tower under construction in downtown West Palm Beach.

\$56.40 a square foot and Miami Lakes the lowest at \$25.58, according to JLL.

It was the unlikely Airport submarket that recorded top rent hikes with rates reaching \$32 a foot. At 5505 Waterford across the Dolphin Expressway from Miami International Airport and at Flagler Corporate Center southwest of the airport, rents went up 14%.

Broward is the only county that saw flat average asking rents — \$34.76 a square foot in the fourth quarter last year, according to JLL. Rents reached as high as \$46.42 in downtown Fort Lauderdale and as low as \$26 in Cypress Creek and the northwestern section of the county.

In Palm Beach County, the average asking rent reached \$36.84 a square foot, up 3% i 2019 from 2018, JLL data shows. By far the highest rents are on Palm Beach island where the average asking direct rent was \$60.47 a square foot, and the lowest was in suburban areas where the rate was \$25.66.

ABSORPTION, VACANCY

Overall, South Florida saw positive net absorption of 1.36 million square feet.

In Miami-Dade, 760,615 square feet was absorbed, and the vacancy rate went down by about a quarter of a percentage point to 11.63%, according to Avison Young. Downtown Miami still had the highest vacancy rate in the county at nearly 20%. The area is experiencing a dichotomy with high-end, mixed-use projects like Virgin MiamiCentral and Miami Worldcenter towering above older buildings and a virtual standstill on Flagler Street with little movement from top landlord Moishe Mana. MiamiCentral brought two office buildings and Worldcenter is in line to add a 500,000-square-foot office tower.

Broward boasted over 400,000 square feet of absorption last year, but the vacancy rate slightly increased to 11.04%, which was attributed to the year-end completion of projects.

In Palm Beach, absorption was moderate at 186,787 square feet and the vacancy rate remained flat at 12.07%.

TRANSACTIONS

Office sales last year totaled \$2.46 billion, slightly more than the \$2.41 billion in sales the previous year,

according to Avison Young. Broward boasted the biggest jump with a 40% increase to \$984 million. Palm Beach saw a near 30% drop to \$466 million in sales after some trophy sales in 2018. Dolphin-Dade office transactions totaled \$1.01 billion, down from \$1.04 billion in 2018.

Still, there were whoppers. In Miami, the biggest deal was San Francisco-based Shorenstein Properties LLC's purchase of Virgin MiamiCentral's two

office buildings for \$159 million. In Fort Lauderdale, the \$117 million sale of One Financial Plaza took the lead. In West Palm Beach, Crocker Partners LLC sold its trophy Northbridge Centre in downtown West Palm Beach for \$98 million to Vanderbilt Office Properties LLC and C-III Capital Partners LLC.

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