MARKETBEAT

MIAMI OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

1Q09

ECONOMY

Miami's office market is trending alongside the national economy at similar speed as other major cities. Latin America strategically elected Miami as their access point for business growth in the United States; this appointment has systemically altered the landscape and market fundamentals that drive the Miami market. In addition, Latin America acts as a hedge against monetary losses in the region; without their presence the local economy would be more distressed.

Unemployment continued to grow steadily in the region as the Florida Department of Labor indicated that South Florida's unemployment reached 8.2%, up 1.9% from year-end 2008. The region's once unyielding core has been faltering as the procyclical industries that drive Miami's economy- finance, trade and tourism- are wavering under the weight of the national economy. The distressed financial markets combined with the downward pressure of the residential housing market have taken the liquidity out of the marketplace consequently limiting businesses and consumers alike to find adequate financing. As a result, the amount of growth in the overall market place is constrained.

OVERVIEW

Inventory: Vacant inventory increased by 532,324 square feet (sf) during first quarter, only 1.1% of the total office market. The new spaces were highlighted by Flagler Stations' 156,000-sf completion in Airport West. As a result of this new project which was delivered vacant, combined with stagnant growth, the overall vacancy rate in Miami increased 0.8 percentage point to 15.2% for the first quarter. Currently, the region has over 3.0 million square feet (msf) under construction. With the office condo market faltering, these spaces have added unplanned square footage that was positioned to be sold and are now available for lease. As a result, office vacancy could reach new historic highs.

Rental rates fluctuated as pricing gaps continued to rise between landlords and tenants, and new market equilibriums merged. The market is experiencing an overall asking rental rate average of $30.81 per square foot (psf) in the first quarter, slightly below the year-end 2008 rate of $30.87 psf and up 6.0% from 2007 rents. Fundamentals indicate the market has reached the peak of the real estate pricing cycle. As a result, rental rates will continue to fluctuate in 2009.

Absorption measures augmentation and deceleration of space in a given market, a key indicator of volatility in businesses. For example, the quarterly average in 2008 was negative 373,957 sf; absorption in the first quarter of 2009 reported negative 360,111 sf which indicated businesses gave back more space then they acquired at a lesser rate than last year. This assumption indicates a bear market will bottom in 2009. The largest positive absorption gain of the quarter occurred when Cushman & Wakefield represented BMC in their 51,000-sf lease expansion at One Herald Plaza/Miami Herald Building on Biscayne.

Sales volume was off 84.1% from last year's quarterly average. The deceleration in investment sales is systemically caused by the constricting of liquidity in banks. The lack of liquidity in the financial markets has disrupted the commercial markets' ability to buy and sell office properties. Only highly liquid institutions have the elasticity and necessary carry capital to close and acquire properties in the current market.

FORECAST

Although Miami is weathering the country's economic slowdown, the region is still well positioned for long-term growth and strong international business. Tracking models suggest the office market may be gearing up for the bottom of the real estate cycle as leasing is expected to slow down in the first half of 2009. Tenants whose lease expirations coincide within the next 12 to 16 months have leveraging power to negotiate favorable lease terms as landlords look to maintain their occupancies in a tumultuous market.

BEAT ON THE STREET

"New subleases along with business contractions will probably bottom out in fourth quarter 2009 allowing us a clearer picture of the true condition of the office market."

– Maggie Kurtz, Director of Office Brokerage

ECONOMIC INDICATORS

National	2008	2009	2010F
GDP Growth	1.1%	-2.9%	1.8%
CPI Growth	3.8%	-1.0%	1.9%
Regional			
Unemployment	5.8%	9.7%	11.3%
Employment Growth	1.7%	-3.9%	-1.6%

Source: Moody's | Economy.com

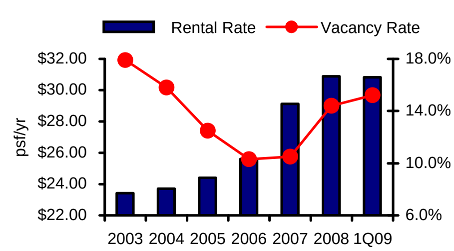
MARKET FORECAST

LEASING ACTIVITY for the year is expected to be lower than in 2008 as a result of stagnant demand.

DIRECT ABSORPTION was negative for the sixth consecutive quarter. This trend will continue as firms put excess space on the market.

CONSTRUCTION: The large amount of construction currently underway will likely limit the amount of space that breaks ground for the remainder of 2009.

OVERALL RENTAL VS. VACANCY RATES



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MARKET/SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Brickell Avenue	5,863,643	31	14.2%	12.7%	103,653	1,235,629	0	(90,127)	$43.90
Downtown	6,499,822	27	17.1%	14.3%	35,874	750,000	0	(79,416)	$43.63
CBD	12,363,465	58	15.7%	13.6%	139,527	1,985,629	0	(169,543)	$43.77
Coral Gables	5,633,901	59	15.9%	14.0%	115,942	250,000	116,000	(11,118)	$42.12
Airport West	11,586,614	124	16.4%	15.3%	199,701	497,758	156,000	(75,716)	$29.56
Coral Way	648,678	16	9.2%	9.2%	10,975	0	0	(37,007)	N/A
South Dade	4,410,579	60	12.1%	12.0%	66,556	190,388	0	(66,760)	$38.19
Northeast Dade	2,281,472	38	11.5%	11.2%	53,289	87,358	0	26,581	$42.51
Biscayne	2,763,545	35	18.8%	18.7%	138,736	0	0	(82,505)	$37.36
Miami Lakes	1,808,655	42	19.7%	18.4%	114,259	0	0	76,972	$30.40
Coconut Grove	1,035,996	11	19.3%	17.2%	13,187	0	0	(17,588)	$44.64
S. Gables/ S. Miami	1,258,227	21	7.1%	7.1%	10,016	38,600	0	(25,227)	$28.50
East Airport/Central Dade	817,109	11	10.9%	10.9%	21,500	0	0	20,497	N/A
Miami Beach	1,841,633	28	11.9%	11.1%	29,603	0	0	1,303	$39.12
NON-CBD	34,086,409	445	15.0%	14.1%	773,764	1,064,104	272,000	(190,568)	$35.46
TOTAL	46,449,874	503	15.2%	14.0%	913,291	3,049,733	272,000	(360,111)	$36.87

* Rental rates reflect $psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 1Q09 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
Miami Herald Building	Biscayne	Brown Mackie College	51,000	C
Spokeane building	Airport West	Florida Department of Health	43,000	C
Amercian Express Building	Miami Lakes	Walgreens	30,400	B
SIGNIFICANT 1Q09 SALE TRANSACTIONS				
BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
Westland Executive Office Park	East Airport/ Central Dade	Miami Dade College	99,000	N/A
4155 SW 130th Avenue	Airport West	Miguel Aquino	21,239	$4,000,000
SIGNIFICANT 1Q09 CONSTRUCTION COMPLETIONS				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Flagler Station Bldg. 1300	Airport West	Speculative	156,000	3/09
2020 Ponce	Coral Gables	Speculative	116,000	3/09
SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION				
BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Met 2	Downtown	Greenberg Traurig, LLP	750,000	5/10
Brickell Financial Centre	Brickell Avenue	Speculative	610,629	6/10
1450 Brickell	Brickell Avenue	Speculative	585,000	12/09
The Omni (redevelopment)	Biscayne	Speculative	408,000	4/09
Citibank Building	Coral Gables	Speculative	305,105	7/10
2701 South Lejeune Road	Coral Gables	Bacardi U.S.A	250,000	8/09
1000 Waterford	Airport West	Sandler, Travis & Rosenberg, P.A.	246,258	8/09
One Park Square at Doral	Airport West	Speculative	231,500	5/09

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*Market terms & definitions based on BOMA and NAIOP standards.

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