

# Suburban office markets strengthen as tenants beat traffic

By CATHERINE LACKNER

High rents in Miami's central business district and ever-worsening commutes to get there have pushed demand toward Miami's suburban office markets, observers say.

"Prices in the urban core are through the roof," said Alex Zylberglait, Marcus and Millichap senior vice president of investments, "and many tenants in the suburbs are there to avoid the traffic. It takes a toll on productivity."

The Kendall area has done very well, he said. In September, he said, he sold the Nob Hill Professional Building at 9955 N Kendall Dr. for \$2.15 million, more than \$200 per square foot. He also points to the sales of the Datan office tower near Dadeland for \$150 million and the Palms at Town & Country (at North Kendall Drive and Southwest 117th Avenue) for \$285 million as indicators of the market's strength. He was not involved in either deal.

"The users are not just mom-and-pop businesses," he said. "There is strong interest from institutional investors." A group led by ABS Partners Real Estate and Acre Valley Real Estate Capital purchased the Datan tower, he said. The sellers were USAA Real Estate Co. and a Canadian real estate trust.

North Miami Beach is an area that holds promise, he said. The city has just undergone a major refurbishment and zoning codes have been made more business-friendly to encourage renovation of its aging core, observers say.

The city is near the Dade-Broward line, the booming Sunny Isles real estate market and the Golden Glades expressway interchange. There are also rumors that Tri-Rail service will eventually run on the Florida East Coast Railway tracks on its eastern border, bringing added connectivity. "This all bodes well for North Miami Beach," Mr. Zylberglait said.

Small office buildings are being built and renovated along the Biscayne Boulevard corridor between Northeast 36th and 163rd streets, he added. "Investors are acquiring class B and C properties and looking to reposition them. Biscayne Boulevard has good access and good demographics. There is a lot of value there."

"Miami's suburban office market continues to maintain healthy occupancy as rental rates have steadily increased," said Keith Edelman, a principal of Avison Young. "The suburban markets have an overall lower vacancy rate than Miami's CBD [central business district]. In fact, those smaller submarkets, such as Aventura, Miami Beach, and Coconut Grove, have some of the lowest vacancies in all of South Florida. As a result, we are seeing proposed and planned projects to accommodate additional office space within mostly multi-use projects. "Conversely, the Biscayne Corridor, which includes Wynwood and the Design District, represents some of the highest vacancy rates as this submarket continues to be redeveloped and gentrified."

"We are at the beginning of what we believe will be a significant impact on Miami's suburban office market," said Scott Goldstein, also a principal of Avison Young. "This includes game-changing develop-



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ments including those in Wynwood, the Design District, Miami Worldcenter, Swire's Brickell City Centre, Miami Central, All aboard Florida's Brightline and Grass

River's transit-oriented Metrorail project, just to name a few. These developments aren't only offering opportunities to create new office submarkets but to also expand the

boundaries of the CBD," which might affect suburban markets.

"What we are seeing is a flight to quality," said Marc Miller, research manager for JLL. That might ulti-

mately benefit suburban markets, because they frequently do not have the large blocks of space that exist in the urban core.

Tenants used to allocate about 225 square feet per employee, but because of more efficient design and open workspaces, that allowance is now about 175 square feet per employee, he said.

"There are a lot of reasons," he said. "Law firms, because the courts went to e-file systems, don't need vast law libraries" or room to store lots of paper.

"The delta in rents between class A and B isn't as wide as it used to be, so for just a little more, they can move into a nicer space, even if it is a little smaller," Mr. Miller said.

Many tenants in the CBD signed leases four to five years ago, when rents were lower, he said. "Now they're experiencing sticker shock, because rents are \$10 per square foot more than what they signed up for. Smaller companies are being priced out, and may consider a move to the suburbs, especially if the decision-makers live there."

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