

SOUTH FLORIDA 4Q17 OFFICE MARKET

MARKET STRENGTH HELD WITH NO CHANGE IN SIGHT

South Florida's office market witnessed another strong year, as demand held steady during the fourth quarter and boosted the annual total to over 1.5 million square feet, falling just short of the 1.7 million square feet absorbed one year ago. The vacancy rate dropped 100 basis points year-over-year to 11.8%, its lowest level since 2007. The market recovered from the Great Recession and has been in growth mode for the past three years. Shrinking vacancy rates strengthened the influence of landlords during lease negotiations, as average asking rates surpassed pre-recession record levels. The overall average asking rent increased \$0.95/SF year-over-year to \$31.52/SF. Miami-Dade reported the lowest vacancy in the region, barely maintaining its lead over Broward County. Palm Beach continued to chip away at excess space lingering from the recession, with vacancy dipping to its lowest point in over a decade. Development remained scarce with only four buildings completed in 2017, and most of the space was delivered pre-leased. No major speculative buildings broke ground during the year, and only a handful of smaller office buildings were built throughout the region. Developers remained hesitant to break ground on office inventory, as multihousing projects continued to dominate interest.

Leasing and Demand

Leasing activity remained consistent with 2016 levels, as 647 deals totaling 2.1 million square feet were executed during the fourth quarter, bringing the leasing volume for 2017 to 7.5 million square feet. Class A space held on to the lead with 3.8 million square feet leased. Class B space gained traction with 2.6 million square feet, its highest leasing volume since the last economic peak. Even the lower-end Class C sector achieved over 1.0 million square feet of deals in the market. Medical-related companies held the lead for midsize to larger deals for the second year in a row with 411,000 square feet of lease transactions in 2017. The retail segment took over the number-two spot with more than 310,000 square feet, while the financial sector rounded out the top three with 151,000 square feet of leasing. Education, business services and technology companies all experienced more than 100,000 square feet of deals, while insurance and hospitality fell behind with small deals totaling less than 25,000 square feet each.

Investment Sales

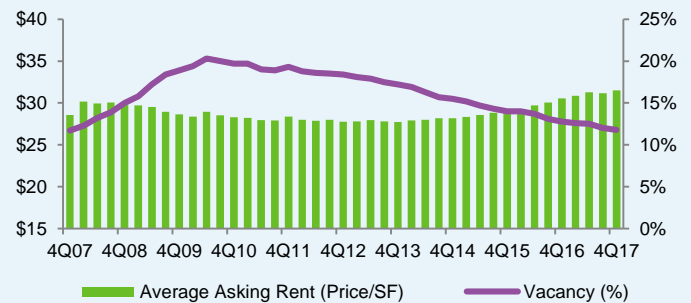
Forty-five investment sales totaling more than 5.3 million square feet and worth a combined \$1.1 billion occurred in 2017. This was down significantly from the 72 sales totaling 7.9 million square feet that sold for \$2.1 billion in 2016. Class A properties remained in high demand, as 3.2 million square feet of high-end office product exchanged hands year-to-date, although this was considerably less than the 5.4 million square feet that sold at the close of 2016. The majority of trophy buildings have sold over the last three years; expect to see less high-end sales over the next 12 months. South Florida saw another healthy quarter, but a slowdown appears to be trending. Miami led investment sales with almost 2.2 million square feet as Broward County followed closely with 1.7 million square feet. Palm Beach County also saw 1.4 million square feet of investment sales. The average price per square foot came in at \$225/SF for investment sales in South Florida.

Current Conditions

- Class A asking rents continued to soar, as higher-end space held the lead for demand outpacing supply.
- No major office projects are projected to break ground in South Florida for the remainder of the year, although two Downtown Miami completions with strong pre-leasing should deliver in the beginning of 2018.
- Suburban submarkets continued to lead, as Central Business District rents and a lack of available space are slowing Downtown growth.
- Only one major office project is slated to break ground in Fort Lauderdale's CBD during 2018, as disciplined development will aid tightening market conditions.

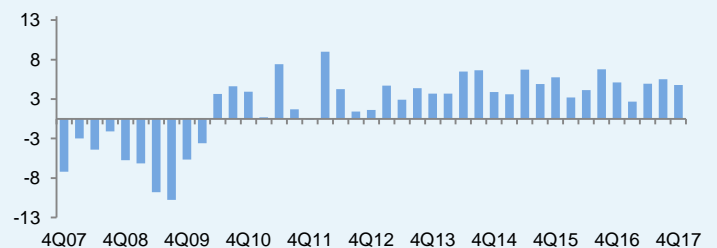
Market Analysis

Asking Rent and Vacancy



Net Absorption

Square Feet, 100,000



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	107.3 MSF	107.0 MSF	106.4 MSF	↑
Vacancy Rate	11.8%	12.0%	12.8%	↓
Quarterly Net Absorption	428,542	499,932	460,836	↔
Average Asking Rent	\$31.52	\$31.15	\$30.57	↔
Under Construction	901,087	1,090,462	1,386,025	↑
Deliveries	246,085	67,710	132,280	↑