

# SOUTH FLORIDA OFFICE MARKET

## START OF SECOND HALF SEES SLIGHT INCREASE IN DEMAND

The third quarter of 2018 saw vacancy remain unchanged from the previous quarter while recording the strongest absorption since the year began. This performance can be attributed to the two construction completions totaling 221,000 square feet with over 76.0% unoccupied at the time of delivery. The new construction space combined with the almost 284,000 square feet of net absorbed space held vacancy level from second-quarter 2018. Nine buildings totaling over 926,000 square feet were delivered over the past 12 months. Although leasing activity was strong with only 35.0% still available, slowing demand growth was still unable to counteract the new speculative construction, as vacancy rose 20 basis points from one year ago to 12.1%. The need for higher-end space diminished during third-quarter 2018, as the Class B sector led with 209,201 square feet of positive net absorption compared with Class A properties' quarterly performance of 119,537 square feet. Whereas the Class A sector dominated demand continuously from 2012 to 2015, the lead has fluctuated between the two classes over the past 36 months, as significant increases in Class A asking rents have apparently hastened a shift from quality to cost. The overall average asking rent continued to climb upward, with the largest year-over-year increase of \$1.80/SF to \$32.87/SF. This is the highest average recorded, surpassing by 8.0% the previous peak of \$30.38/SF reached in 2008.

### LEASING AND DEMAND

Leasing activity fell from the 1.7 million square feet of deals seen last quarter, as 479 deals totaling almost 1.1 million square feet were recorded in third-quarter 2018. This brings year-to-date transactions to 4.4 million square feet; this is also down from the 5.0 million square feet of deals seen one year ago. Class A space barely led the market with over 1.93 million square feet, followed closely by Class B with more than 1.91 million square feet. Although lower-tier Class C space demand gained momentum from last year, it continued to lag behind with just 632,000 square feet of leasing activity at the close of the third quarter. When it came to midsize and larger lease transactions, medical companies have signed the majority of lease deals so far this year, accounting for 174,500 square feet of transaction activity. The insurance sector took over the number-two spot with 150,000 square feet of leasing, while the telecommunications sector rounded out the top three with 147,000 square feet of leases transacted. The financial, technology and legal service sectors followed closely with 100,000 square feet of deal activity in each.

### INVESTMENT SALES

Twelve investment sales totaling over 2.0 million square feet took place during the third quarter of 2018, bringing the total space sold year-to-date to 8.2 million square feet with a value of over \$1.3 billion. This was a significant increase from the 4.0 million square feet that sold for \$992.2 million during the same period one year ago. Trophy property sales have diminished significantly since the beginning of the year, weighing the average price for office properties to \$193/SF, which was down from the \$248/SF a year ago at the close of third-quarter 2018.

## CURRENT CONDITIONS

After a slow first half of the year, all three markets saw modest positive absorption in third quarter of 2018.

Vacancy in South Florida remained level despite almost 1.0 million square feet of construction completions this year.

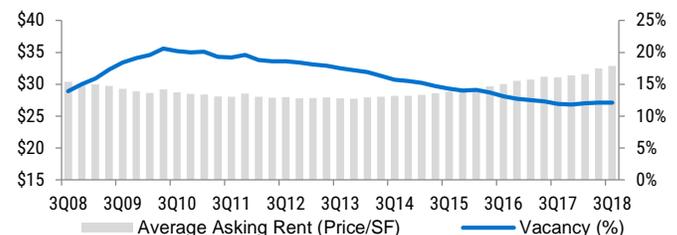
Occupations in Class A space held strong, notwithstanding the Class B office sector recording the strongest net absorption in third quarter.

Rents in all class segments continued to rise throughout the region, as landlords push rents upward.

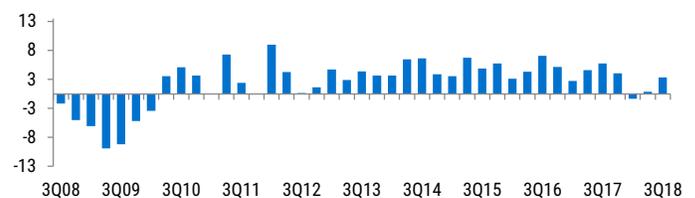
The number of investment sales slowed significantly, but two keynote portfolio sales over one million square feet, doubled sales volume from one year ago.

## MARKET ANALYSIS

### Asking Rent and Availability



### Net Absorption (SF, 100,000)



## MARKET SUMMARY

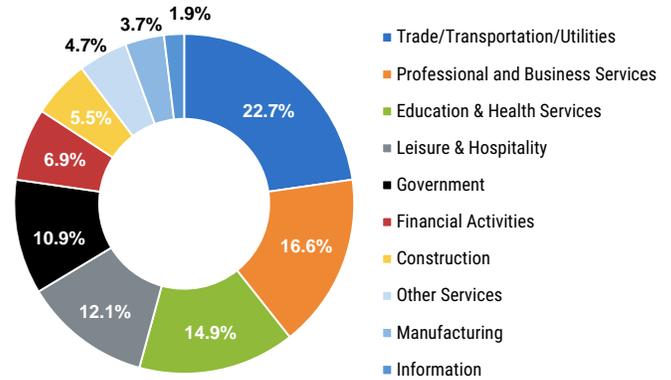
	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	107.8 MSF	107.5 MSF	107.1 MSF	↑
Vacancy Rate	12.1%	12.1%	11.9%	↔
Quarterly Net Absorption	283,738	34,754	524,610	↔
Average Asking Rent	\$32.87	\$32.48	\$31.07	↔
Under Construction	868,495	1,090,025	1,154,992	↔
Deliveries	221,530	71,582	67,610	↑

## ECONOMIC CONDITIONS

South Florida's unemployment rate ticked downward 50 basis points to 4.0%, with 45,700 additional jobs added from July 2017. Broward County reported the region's lowest unemployment rate, down 40 basis points to 3.7% from one year ago. Palm Beach's rate saw a smaller decrease of 20 basis points to 4.0% from last year during the same period, while Miami experienced the largest decrease of 50 basis points to 4.0%. Looking back from the second quarter-2017, the construction sector held onto the lead in the strongest growth of any industry in South Florida with 15,200 jobs created, while the manufacturing industry stayed into the second spot with an increase of 9,400 jobs over the past 12 months. Rounding out the top three included the education and health segment with the creation of 6,700 new positions. However, professional and business services took over the lead, seeing the largest annual percentage increase in employment by rising 16.6% from jobs held one year ago. Most remaining sectors experienced modest improvements with the information sector continuing to struggle with 400 jobs lost since July of 2017. South Florida's job growth held steady as the region's economy appeared to be reaching a balancing point after three years of strong momentum. The market is still in strong position as population growth continued to drive multi-family development throughout the region.

## EMPLOYMENT BY INDUSTRY

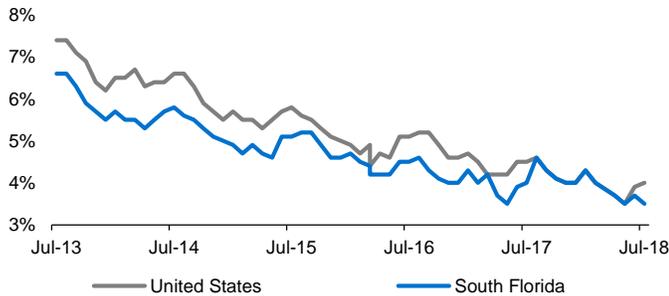
South Florida MSA, May 2018 Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## UNEMPLOYMENT RATE

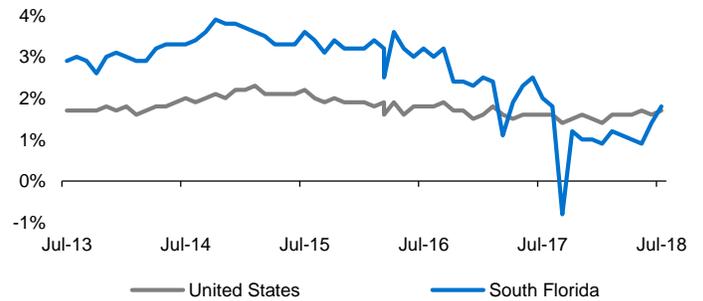
South Florida Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## PAYROLL EMPLOYMENT

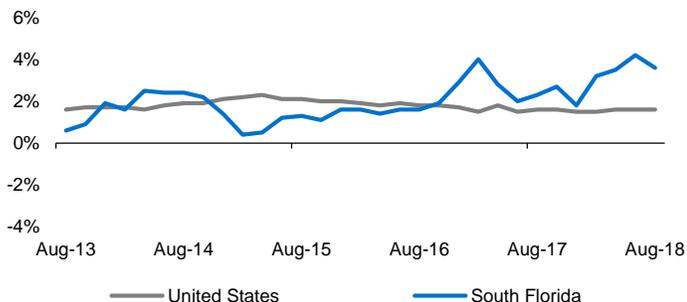
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## CONSUMER PRICE INDEX (CPI)

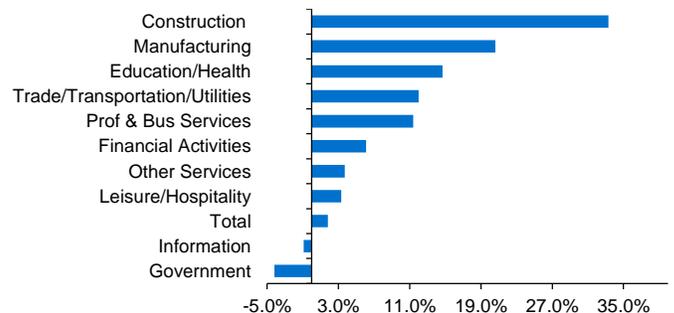
All Items, 12-Month % Change, Not Seasonally Adjusted,



Source: U.S. Bureau of Labor Statistics

## EMPLOYMENT GROWTH BY INDUSTRY

South Florida, May 2018, MSA, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics