

SOUTH FLORIDA OFFICE MARKET

OFFICE MARKET COOLED IN 2018

South Florida's office market slowed significantly in 2018, as decelerating demand growth in the fourth quarter helped supply outpace demand in the region for the first time in seven years. Consequently, annual net positive absorption totaled a little more than 337,000 square feet, a marked decrease from the 1.5 million square feet tallied one year ago. The vacancy rate rose 20 basis points year-over-year to 12.0%, as remaining vacant speculative space from the few construction completions negated any positive net absorption for the year. The office market appeared to show signs of balance after almost nine years of recovery and growth. The market's lower vacancy rate along with limited speculative construction during this economic upswing strengthened the influence of landlords during lease negotiations. The overall average asking rent increased \$1.54/SF year-over-year to a high of \$32.90/SF, which held for two consecutive quarters. Development remained disciplined with 12 buildings totaling more than 1.0 million square feet delivered throughout 2018, while another 12 totaling more than 1.2 million square feet remained under construction in South Florida. Most development remained within Miami-Dade County, while Broward and Palm Beach County continued to take a controlled approach to the construction of new office buildings.

LEASING AND DEMAND

Leasing activity remained consistent with previous quarterly performances, as more than 1.4 million square feet of deals were recorded in fourth-quarter 2018, bringing year-to-date transactions to 6.2 million square feet. Class A space held on to the lead with 2.7 million square feet leased, while Class B was not far behind with more than 2.6 million square feet, the highest leasing volume for that property class since the last economic peak. Even the lower-end Class C sector gained traction with more than 789,000 square feet of deals in the market. The medical industry took over the number one spot with 328,000 square feet of transaction activity, followed closely by the financial sector with just under 265,000 square feet leased. Legal service companies rounded out the top three with 247,000 square feet of deals done. The other strong sectors included insurance, business services, technology and telecommunications with over 200,000 square feet each. The government, engineering and education segments struggled with less than 40,000 square feet each.

INVESTMENT SALES

Seventy-three investment sales totaling more than 9.1 million square feet and worth a combined \$1.6 billion occurred in 2018. Seventy-three investment sales totaling more than 9.1 million square feet and worth a combined \$1.6 billion occurred in 2018. This was up significantly from the 45 sales totaling 5.3 million square feet and worth \$1.1 billion in 2017. Class B space took the lead in sale activity, as 5.4 million square feet of second-tier space traded hands. More than 3.3 million square feet of higher-end Class A office product changed hands year-to-date, a slight increase from the 3.2 million square feet that sold at the close of 2017. Most trophy buildings had sold in 2015 and 2016, so fewer high-end sales are likely over the next 12 months. South Florida saw a decline in investment sales during the fourth quarter that will likely continue through 2019, as rising interest rates and a possible economic slowdown could hinder activity.

CURRENT CONDITIONS

The regions experienced its first correction during a quarter since the beginning of 2010.

Vacancy saw a slight uptick from one year ago as demand slowed coupled with over one million square feet of new office inventory added in 2018.

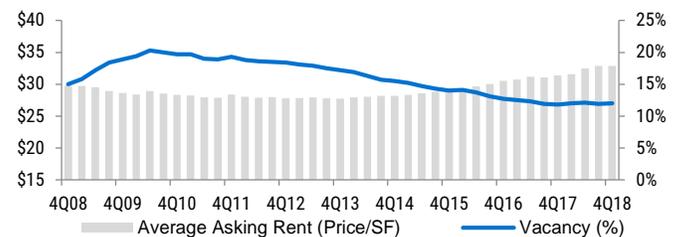
Occupations in Class A space held strong for the year, notwithstanding the Class B office sector recording the strongest net absorption in the second half of the year.

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

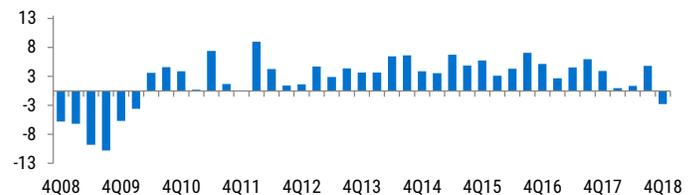
Investment sales increased significantly from one year ago with the Class B segment taking the lead in transaction activity for the year.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, 100,000)



MARKET SUMMARY

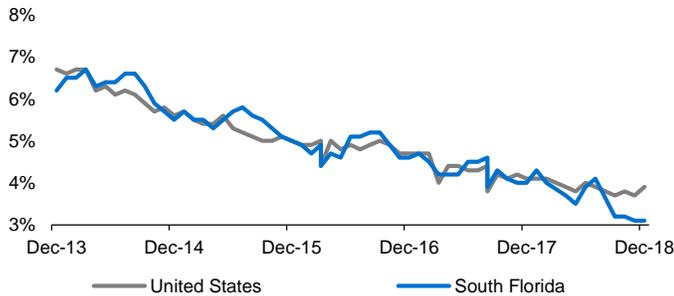
	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	107.9 MSF	107.8 MSF	107.6 MSF	↑
Vacancy Rate	12.0%	11.9%	11.8%	↑
Quarterly Net Absorption	(226,426)	431,261	342,866	↔
Average Asking Rent	\$32.90	\$32.90	\$31.36	↔
Under Construction	1,276,182	1,173,780	1,155,589	↑
Deliveries	325,910	221,530	246,085	↑

ECONOMIC CONDITIONS

South Florida's unemployment rate ticked downward 90 basis points to 3.1%, with 61,100 additional jobs added from December 2017. Broward County reported the region's lowest unemployment rate, down 60 basis points to 2.8% from one year ago. Palm Beach's rate saw a smaller decrease of 50 basis points to 3.0% from last year during the same period, while Miami experienced the largest year-over-year decrease of 150 basis points to 3.1%. Looking back from the fourth quarter-2017, the construction sector held onto the lead in the strongest growth of any industry in South Florida with 14,200 jobs created, while the leisure and hospitality industry moved back into the second spot with an increase of 12,600 jobs over the past 12 months. Rounding out the top three included the education and health segment with the creation of 10,100 new positions. Professional and business service jobs slowed during the final quarter of 2018, seeing a modest increase of 6,600 jobs from one year ago. Manufacturing jobs saw a similar performance with the addition of 6,100 new jobs while most remaining sectors experienced moderate improvements with the information sector continuing to struggle with 1,400 jobs lost since December of 2017. South Florida's job growth held steady as the regions economy appeared to be reaching a balancing point after four years of strong momentum. The market is still in strong position as population growth continued to drive multi-family development throughout the region.

UNEMPLOYMENT RATE

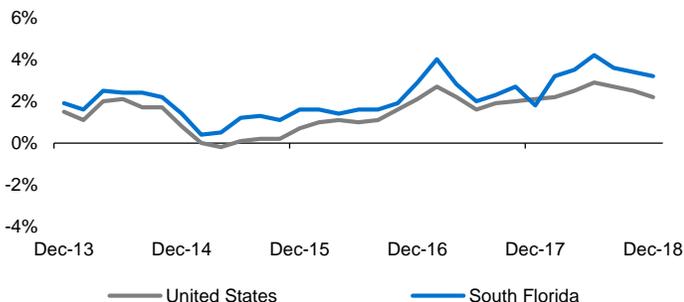
South Florida Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

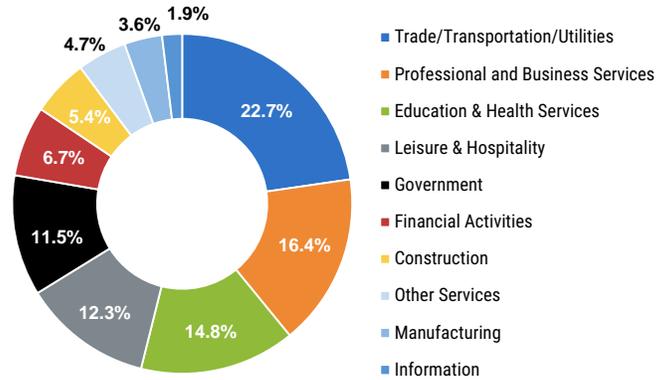
All Items, 12-Month % Change, Not Seasonally Adjusted,



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT BY INDUSTRY

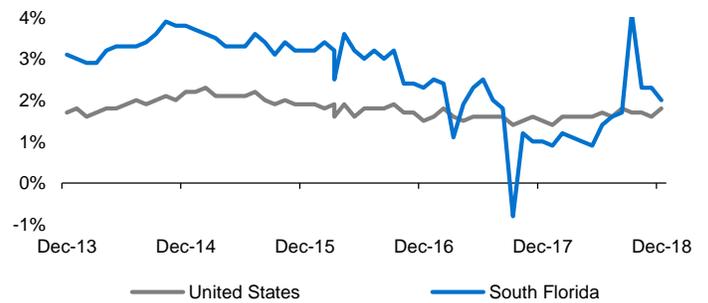
South Florida MSA, May 2018 Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

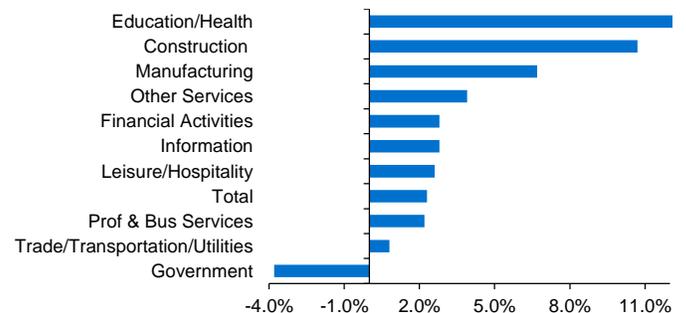
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

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



Source: U.S. Bureau of Labor Statistics