

# SOUTH FLORIDA OFFICE MARKET

## A Modest Start In First Quarter

South Florida's office market performed modestly during the first quarter of 2019, bouncing back from its first quarterly correction in seven years. Demand outpaced supply with more than 118,000 square feet of positive net absorption as the vacancy rate dipped 50 basis points on both a quarterly and an annual basis. Overall vacant space has dropped to its lowest amount since the Great Recession began in 2007. This can be attributed to two factors. First, two major office complexes, the former American Express headquarters in Plantation and the old Office Depot office buildings in Delray Beach, were removed from the market for redevelopment into mixed-use residential space. These buildings had together accounted for more than 910,000 square feet of the market's inventory and vacancy. Second, no speculative office construction completed in first-quarter 2019. Together, these factors helped push vacancy downward in South Florida, despite the slowdown in demand. Broward County continued to lead the region in demand, while Miami-Dade saw more of a balance between with moderate positive absorption. The Palm Beach sector continued to struggle, as its supply surpassed demand for a second consecutive quarter. The Class A sector outperformed the rest of the market, with more than 139,000 square feet of positive net absorption. Class C office space trailed behind with 6,700 square feet, while the Class B segment saw a return of supply with 27,878 square feet of negative net absorption. The overall average asking rent increased by \$0.44/SF to \$33.28/SF during the first quarter, as the removal of lower-tier Class B inventory and vacancy allowed higher-end rents to have more of an impact on the average.

## LEASING AND DEMAND

Leasing activity began the year with an increase of 20.0% from this time last year, as more than 1.7 million square feet of deals were recorded in the first quarter of 2019. The majority of activity came in the form of renewals and lateral relocations, as Class A space held on to the lead with 824,000 square feet, while Class B was right on its heels, pulling in 681,000 square feet. Lower-tier Class C space continued to lag behind with 208,000 square feet of leasing activity during the first quarter. The real estate industry was the most active in midsize to larger transactions, topped by executive suite operators totaling 95,000 square feet in South Florida. Insurance companies followed with 63,000 square feet in lease deals, while the professional and business services sector rounded out the top three, accounting for 45,266 square feet of transaction activity. The telecommunications, medical and financial sectors each experienced more than 30,000 square feet of leasing activity. The education, government and legal services industries fell to the bottom, as each of these sectors accounted for less than 15,000 square feet in midsize deals.

## INVESTMENT SALES

Thirty investment sales totaling over 2.1 million square feet took place during the first quarter, for a combined \$361.6 million. This was less than the 2.9 million square feet that sold for \$358.1 million during the same period one year ago. Trophy property sales decreased in the first quarter of 2019, with sale prices dipping from \$249/SF one year ago to \$173/SF. Eight suburban Class A sales totaling over 1.0 million square feet took place with no CBD buildings exchanging hand during first quarter, allowing for the price per square foot to drop from one year ago.

## CURRENT CONDITIONS

The regions rebounded from the slight correction experienced in fourth-quarter of 2019.

Vacancy dropped as two major office complexes totaling almost 1.0 million square feet of vacancy were removed for redevelopment.

Occupations in Class A space improved from the previous quarter while lower-tier space struggled in the start of 2019.

Rents in all class segments rose slightly throughout the region while the removal on lower-tier space had more of an impact on averages versus landlords significantly increasing asking rents.

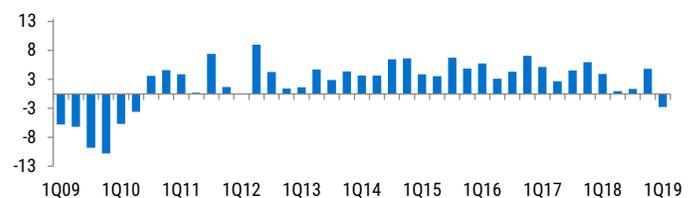
Investment sales remained strong in Broward County, while Miami and Palm Beach office transactions were limited in the beginning of the year.

## MARKET ANALYSIS

### Asking Rent and Availability



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



## MARKET SUMMARY

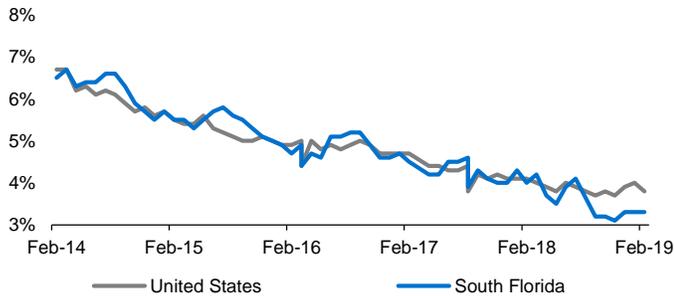
	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	107.7 MSF	108.0 MSF	107.8 MSF	↑
Vacancy Rate	11.4%	11.9%	11.9%	↑
Quarterly Net Absorption	118,345	(220,546)	105,515	↔
Average Asking Rent	\$33.28	\$32.84	\$31.65	↔
Under Construction	1,704,310	1,399,064	1,197,489	↔
Deliveries	0	325,910	394,179	↔

## ECONOMIC CONDITIONS

South Florida's unemployment rate ticked downward 30 basis points to 3.3%, with 55,500 additional jobs added from February 2018. Miami-Dade County reported the region's strongest drop in unemployment rate, down 80 basis points to 3.2% from one year ago and taking the lead for the regions top employment numbers. Palm Beach's rate saw a smaller decrease of 30 basis points to 3.4% from last year during the same period, while Broward experienced a decrease of 20 basis points to 3.3%. Looking back from the first quarter-2018, the construction sector held onto the lead in the strongest percentage growth of any industry in South Florida while the professional and business services sector held the largest increase with 18,500 jobs created. The education and health segment moved into the second spot with an increase of 10,200 jobs over the past 12 months. Rounding out the top three included the trade, transportation and utilities industry with the creation of 7,500 new positions. Leisure and hospitality jobs slowed during the start of the year, seeing a modest increase of 4,800 jobs from one year ago. Most remaining sectors experienced moderate improvements with the information sector continuing to struggle with 400 jobs lost since February of 2018. South Florida's job growth held steady, outperforming overall levels of the Country as population growth and healthy development remained throughout the region. Healthy economic conditions should remain throughout 2019.

### UNEMPLOYMENT RATE

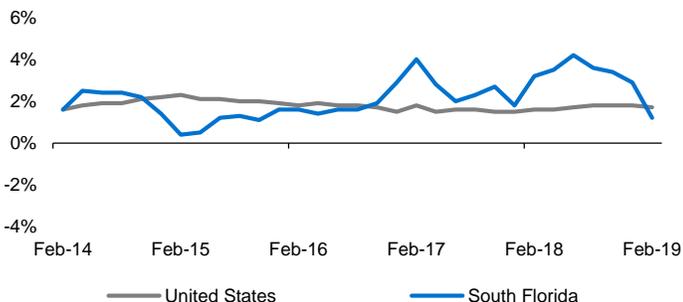
South Florida Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

### CONSUMER PRICE INDEX (CPI)

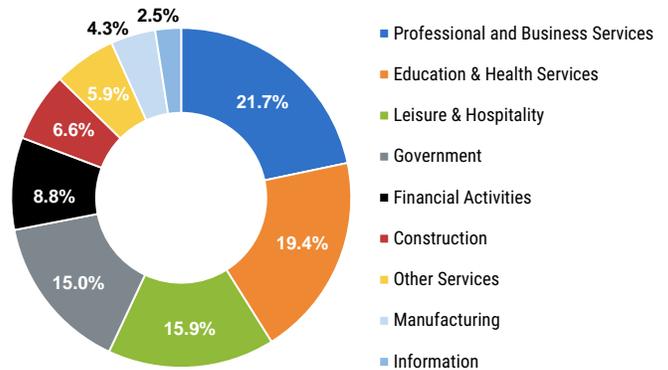
All Items, 12-Month % Change, Not Seasonally Adjusted,



Source: U.S. Bureau of Labor Statistics

### EMPLOYMENT BY INDUSTRY

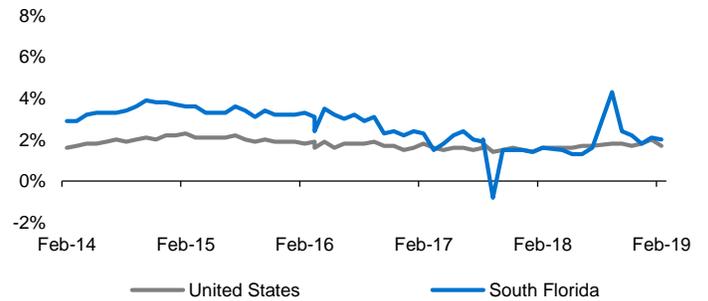
South Florida MSA, May 2018 Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

### PAYROLL EMPLOYMENT

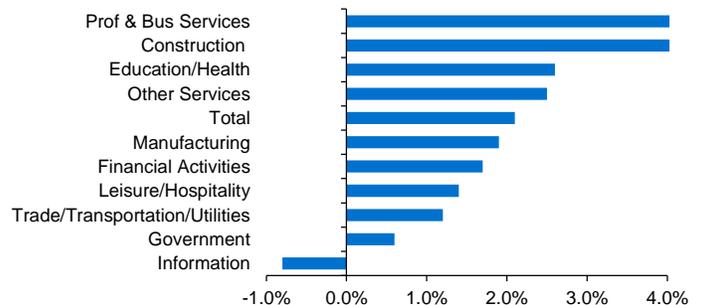
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

### EMPLOYMENT GROWTH BY INDUSTRY

South Florida, Feb 2019, MSA, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics