

SOUTH FLORIDA OFFICE MARKET

Demand Outpaced Supply For Another Quarter

The second quarter of 2019 saw vacancy remain level from the previous quarter while dropping 70 basis points from one year ago to settle at 11.2%. Over the past seven years, the South Florida office market has seen demand outpace supply while only having one quarter where negative net absorption was recorded back in the fourth quarter of 2018. The 185,000 square feet absorbed in second-quarter 2019 brings year-to-date absorption to just under 327,000 square feet. This is a 63.3% uptick from the 200,000 square feet recorded one year ago. The need for higher-end space fell during the quarter, as the Class B sector led with almost 122,000 square feet of positive net absorption, compared with Class A properties' quarterly performance of 51,500 square feet. However, the Class A sector led in demand for the first half of 2019 with more than 221,500 square feet of positive net absorption, compared with lower-tier Class B and Class C properties combined total of 115,500 square feet of absorbed space. However, as asking rents in Class A buildings have increased significantly over the past 36 months, the lead has fluctuated between the upper- and lower-tier property classes, indicating that a shift from quality to cost could be on the horizon. The overall average asking rent continued to climb upward at a steady pace, with a year-over-year increase of \$1.29/SF to \$33.73/SF, another record level. Class A properties also climbed upward and ended the quarter just shy of the \$40.00/SF mark, increasing \$0.59/SF to \$39.90/SF from one year ago. This is the highest average recorded, pushing past the previous 2008 peak level of \$35.62/SF by just over 12.0%.

LEASING AND DEMAND

Leasing activity rose slightly from previous quarterly levels, as more than 1.8 million square feet of deals were recorded in second-quarter 2019, bringing year-to-date transactions to more than 3.5 million square feet at the midyear point. This was a 9.3% increase from the 3.2 million square feet leased at this time one year ago. Class A space held on to the lead with 1.8 million square feet, while Class B trailed closely behind, accounting for almost 1.4 million square feet. Lower-tier Class C space continued to lag behind with just under 500,000 square feet of leasing activity reported during the first half of the year. The real estate industry held the number-one spot with 370,500 square feet of transaction activity, which can be attributed to the increased leasing of coworking space operators throughout the region. The professional and business services segment moved into the number-two spot with more than 187,000 square feet, while the medical sector rounded out the top three with 146,500 square feet of deals completed at midyear.

INVESTMENT SALES

Seventeen investment sales totaling 1.4 million square feet took place during second-quarter 2019, bringing year-to-date sales to 29 totaling more than 2.6 million square feet with a value in excess of \$693.9 million. This was in stark contrast to the 5.9 million square feet that sold for \$1.1 billion during the same period one year ago. Trophy property sales decreased from the 2.3 million square feet tallied one year ago to 1.5 million square feet in the first half of 2019. Sales of lower-tier properties picked up from one year ago with 18 sales totaling 1.1 million square feet, as sale prices rose in both tiers, pushing up the average sale price from \$202/SF one year ago to \$263/SF at the midyear point.

CURRENT CONDITIONS

South Florida rebounded in the first half of 2019, pulling in a stronger performance from the midyear point seen one year ago.

Broward County continued to lead the region in demand growth while Miami's office sector remained cool and Palm Beach saw another quarterly correction.

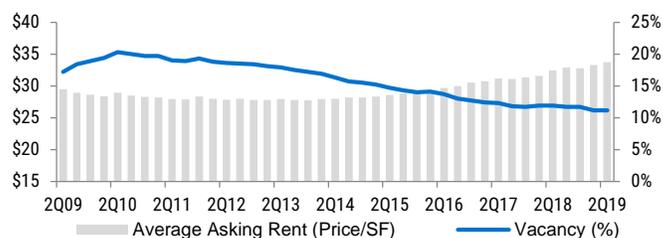
Class A space lead in both leasing activity and absorption in the first half of the year.

It remained a landlord's market, as rents in all three class segments climbed upward, and the Class A segment is pushing close to the \$40/SF market.

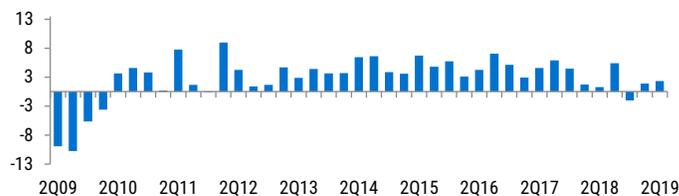
Investment sales remained healthier in Broward County, while Miami and Palm Beach office transactions were limited in the first half of 2019.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, 100,000)



MARKET SUMMARY

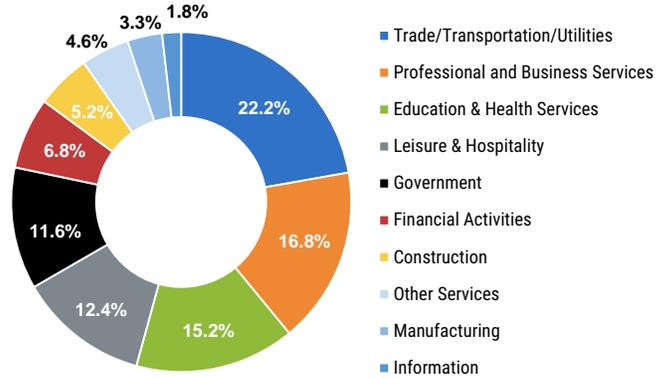
	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	107.9 MSF	107.7 MSF	107.1 MSF	↑
Vacancy Rate	11.2%	11.2%	11.9%	↑
Quarterly Net Absorption	185,799	141,190	77,324	↔
Average Asking Rent	\$33.73	\$33.27	\$32.44	↔
Under Construction	1,479,524	1,938,200	1,432,084	↔
Deliveries	196,662	0	71,582	↑

ECONOMIC CONDITIONS

South Florida's unemployment rate ticked downward 30 basis points to 3.1%, with 54,300 additional jobs added from May of 2018. Miami-Dade County reported the region's strongest drop in unemployment rate, down 50 basis points to 3.2% from one year ago. Palm Beach's rate saw a smaller decrease of 20 basis points to 3.1%, while Broward also decreased by 20 basis points to 3.0% from last year during the same period. Looking back from the second quarter-2018, the education and health sector took the lead in the strongest percentage growth of any industry in South Florida while also providing the largest increase with 17,100 jobs created. The professional and business services segment moved into the second spot with an increase of 14,800 jobs over the past 12 months. Rounding out the top three included leisure and hospitality industry with the creation of 7,300 new positions. Construction jobs slowed during the first half of the year, seeing a modest increase of 5,100 jobs from one year ago. Most remaining sectors experienced moderate improvements with the information sector continuing to struggle with another 300 jobs lost since May 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 and into the first half of 2020. The regions is well positioned to weather an economic downturn depending on the severity.

EMPLOYMENT BY INDUSTRY

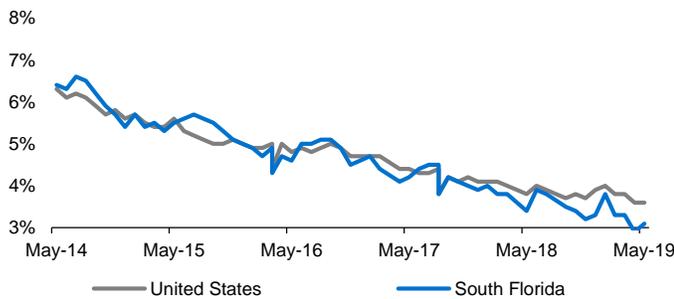
South Florida MSA, May 2018 Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

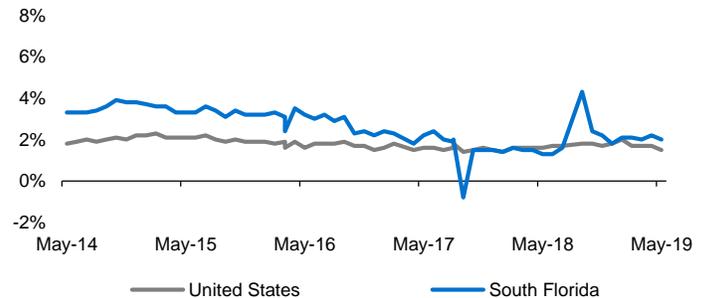
South Florida Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

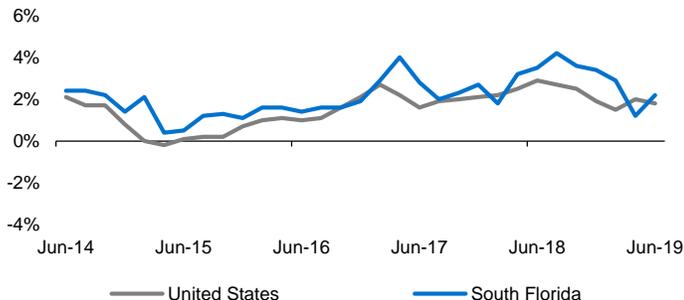
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

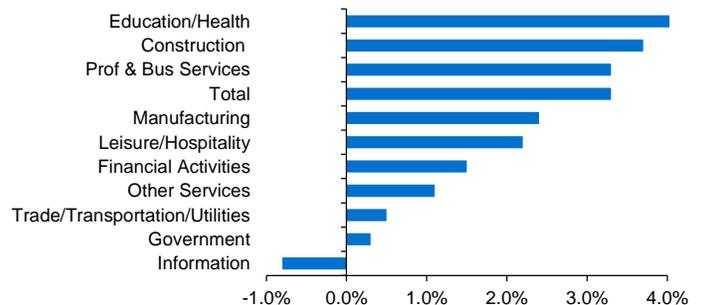
All Items, 12-Month % Change, Not Seasonally Adjusted,



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

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



Source: U.S. Bureau of Labor Statistics