

# SOUTH FLORIDA OFFICE MARKET

## A SLOW START TO THE SECOND HALF OF 2019

The second half of 2019 was off to a slower start than usual, as Broward and Palm Beach County's positive absorption was negated by Miami-Dade County's negative absorption. The region saw a balance between supply and demand with positive net absorption totaling 2,247 square feet during the third quarter of 2019. Vacancy increased 10 basis points from the previous quarter while dropping 60 basis points from one year ago to settle at 11.1%. The modest positive absorption in third-quarter 2019 brings year-to-date absorption to just over 457,000 square feet. This is a 35.6% decrease from the 710,000 square feet recorded one year ago. Although market fundamentals remained in the black, the region's office sector appeared to be slowing, as vacancies held level over the past three quarters. The need for higher-end and second-tier space fell during the quarter, as the Class C sector accounted for more than 10,000 square feet of positive net absorption, whereas the supply of Class A and Class B properties just outpaced demand in both segments. However, the Class A sector led in year-to-date total demand with more than 267,000 square feet of positive net absorption, compared with Class B properties' combined total of 149,729 square feet. Asking rents also slowed, as the overall average asking rate ticked up \$0.96/SF year over year to \$33.83/SF, another record level but the smallest annual gain in five years. Class A properties inched just shy of the \$40.00/SF mark, increasing \$0.26/SF only to \$39.93/SF from one year ago. Class B properties recorded the strongest year-over-year improvement, as their average asking rate climbed \$1.24/SF from the third quarter of 2018 to \$29.88/SF.

### LEASING AND DEMAND

Leasing activity rose from the 1.1 million square feet of deals completed during the third quarter of last year, as 559 deals totaling almost 1.9 million square feet were recorded in third-quarter 2019. This brings year-to-date transactions to 5.9 million square feet, compared with 4.4 million square feet one year ago. Class A space dominated the market with more than 3.2 million square feet, followed by Class B with more than 2.1 million square feet. Although demand for lower-tier Class C space held level year over year, it continued to lag behind with just 625,000 square feet of leasing activity at the close of the third quarter. When it came to midsize and larger lease transactions, real-estate companies have signed the majority of lease deals so far this year, accounting for 547,000 square feet of transaction activity, while the professional and business services sector held the number-two spot with 302,000 square feet of leasing. The technology sector jumped into the top three with 280,500 square feet of leases transacted.

### INVESTMENT SALES

Twenty-four investment sales totaling more than 2.5 million square feet took place during the third quarter of 2019, bringing the total space sold year to date to 5.7 million square feet with a value in excess of \$1.4 billion. This was a significant decrease from the 8.0 million square feet that sold for \$1.3 billion during the same period one year ago. Trophy property sales have been experiencing a slight uptick in 2019, as 24 Class A buildings totaling more than 3.1 million square feet have sold for an average of \$288/SF. This contributed to the significant increase in the average price for office properties, to \$249/SF from \$193/SF one year ago, when Class B sales dominated investment activity and pushed the average downward.

## CURRENT CONDITIONS

South Florida saw moderate growth during third quarter as more of a balance between supply and demand took place.

Class A space continued to lead the region in demand growth for the year while the Class B office segment cooled from one year ago.

Broward County recorded the lowest vacancy rate throughout South Florida, dipping further below the 10.0% mark for the second consecutive quarter.

Asking rates ticked upward from the previous quarter, as the Class A segment pushed closer to the \$40/SF mark.

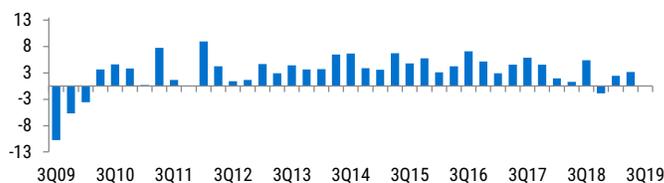
Leasing activity rose from 2018's annual performance at the close of third quarter one year ago, but more deals transacted were in the form of renewals and lateral relocations.

## MARKET ANALYSIS

### Asking Rent and Availability



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



## MARKET SUMMARY

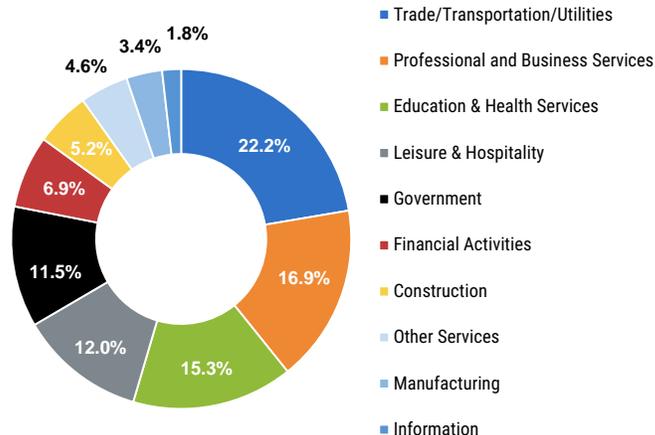
	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	108.0 MSF	107.9 MSF	107.9 MSF	↑
Vacancy Rate	11.1%	11.0%	11.7%	↑
Quarterly Net Absorption	2,247	263,966	487,697	↔
Average Asking Rent	\$33.83	\$33.76	\$32.87	↔
Under Construction	2,983,351	2,056,099	1,530,552	↔
Deliveries	0	196,662	221,530	↑

## ECONOMIC CONDITIONS

South Florida's unemployment rate ticked downward 30 basis points to 3.5%, with 53,100 additional jobs added from August of 2018. Miami-Dade County reported the region's strongest drop in unemployment rate, down 50 basis points to 3.5% from one year ago. Palm Beach's rate saw a smaller decrease of 10 basis points to 3.7%, while Broward also decreased by 10 basis points to 3.3% from last year during the same period. Looking back from the third quarter-2018, the education and health sector held the lead for the second consecutive quarter with the strongest percentage growth of any industry in South Florida while also providing the largest increase with 19,100 jobs created. The professional and business services segment stayed in the number two spot with an increase of 14,500 jobs over the past 12 months. Also holding rank and staying in third position included the leisure and hospitality industry with the creation of 4,500 new positions. Construction jobs continued to slow during the third quarter, seeing a modest increase of 2,800 jobs from one year ago. Most remaining sectors experienced moderate improvements with the information sector continuing to struggle with another 1,800 jobs lost from one year ago. 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 2020. The regions is well positioned to weather an economic downturn.

## EMPLOYMENT BY INDUSTRY

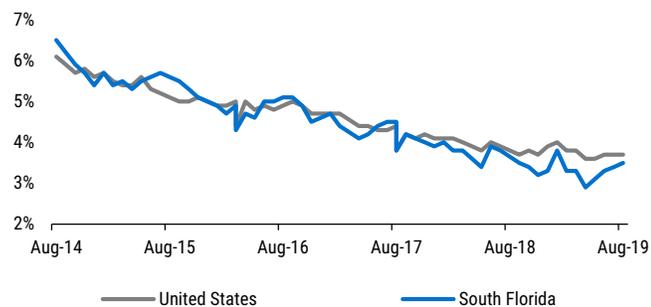
South Florida MSA, August 2019 Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## UNEMPLOYMENT RATE

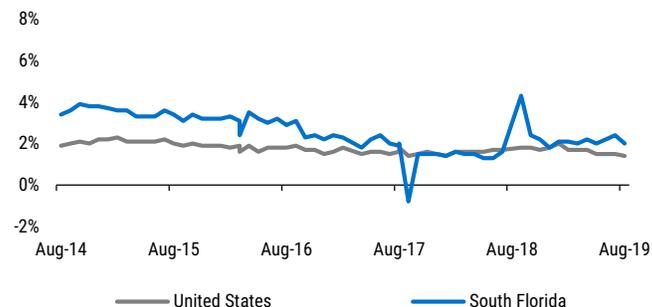
South Florida Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## PAYROLL EMPLOYMENT

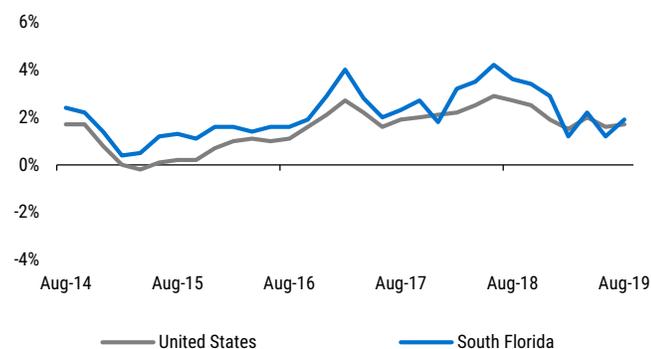
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## CONSUMER PRICE INDEX (CPI)

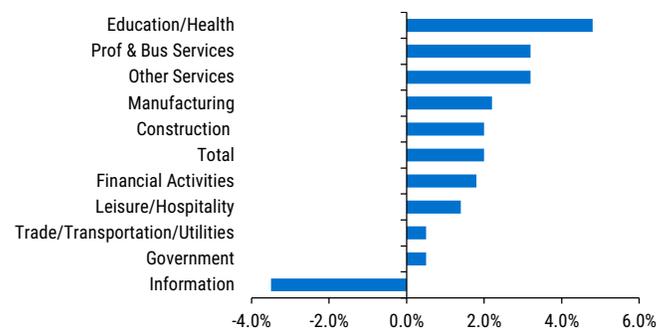
All Items, 12-Month % Change, Not Seasonally Adjusted,



Source: U.S. Bureau of Labor Statistics

## EMPLOYMENT GROWTH BY INDUSTRY

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



Source: U.S. Bureau of Labor Statistics