

SOUTH FLORIDA OFFICE MARKET

SUPPLY OUTPACED DEMAND AS GROWTH COOLED

South Florida's office market slowed in first-quarter 2020, as decelerating conditions helped supply outpace demand in the region for the first time since fourth-quarter 2018. Negative net absorption totaled more than 81,000 square feet, a decrease from demand growth seen one year ago as the market is likely in the beginning stages of correction. Notably, Palm Beach County was the only market to record positive net absorption, while Broward and Miami-Dade Counties reported negative absorption, a bit of marked reversal seen in 2019. Vacancy rate rose 20 basis points from the previous quarter to 11.2%, in part from one construction completion totaling 97,700 square feet of vacant space. The office market appeared to show signs of balance after a decade of recovery and growth.

Despite the region's slight correction and uptick in vacancy, landlords held asking rents with the overall average rate increasing slightly from the previous quarter and up \$1.05/SF year-over-year to an all-time-high of \$34.32/SF. Sixteen buildings totaling over 3.5 million square feet were under construction in South Florida. Most development remained within Miami-Dade County. The fast deterioration of economic conditions as a result from the COVID-19 pandemic have yet to translate into negative impacts to the office market. One indicator to watch will be the availability of sublet space. At the close of first-quarter 2020, the 2.2 million square feet of sublet space on the market was slightly up from the previous quarter, but down from the 2.3 million square feet on the market one year ago.

LEASING AND DEMAND

Leasing activity began the year consistently, matching deals inked from this time last year, as more than 1.7 million square feet of deals were recorded in the first quarter of 2020. The majority of activity came in the form of renewals and lateral relocations. Class A space held on to the lead with 1.0 million square feet, while Class B pulled in 542,000 square feet, a 20.4% decrease from deals seen one year ago. Lower-tier Class C space continued to lag behind with 185,000 square feet of leasing activity during the first quarter. The financial sector was the most active in midsize to larger transactions, totaling 150,000 square feet in South Florida. Medical companies followed with 135,000 square feet in lease deals, while the professional and business services sector rounded out the top three, accounting for 60,000 square feet of transaction activity.

INVESTMENT SALES

Thirteen investment sales totaling 637,000 square feet with a combined value of \$157.7 million occurred during the first quarter. This was less than the 2.1 million square feet that sold for \$361.6 million during the same period one year ago. Only one trophy property sale took place in the first quarter of 2020, but didn't have an impact on the average sale price, which rose from \$173/SF one year ago to \$248/SF.

CURRENT CONDITIONS

Tides appeared to be turning as the market shifts from growth to a more balanced approach between supply and demand.

Side effects from the Covid-19 pandemic outbreak has not begun to show yet, but could begin to appear before the midyear point.

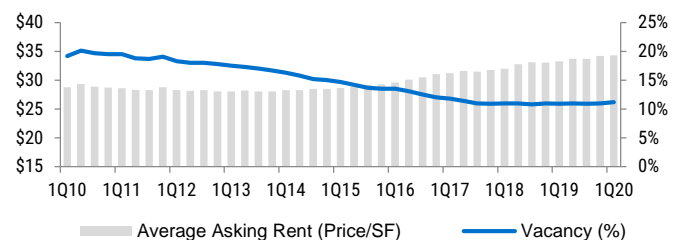
Broward County continued to boast the lowest vacancy within the region while Palm Beach was the only market to see growth.

The overall average rate ticked upward from the previous quarter, as additional Class A vacancy kept asking rents higher.

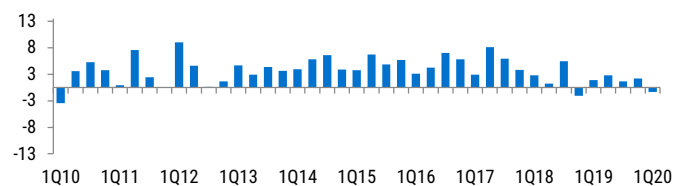
One building was delivered while construction activity continued to climb to the highest point since the previous economic upswing.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, 100,000)



MARKET SUMMARY

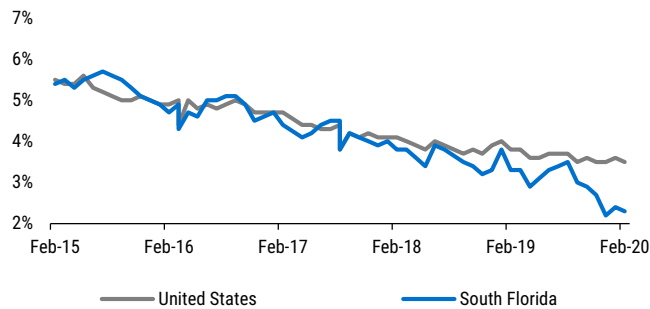
	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	108.2 MSF	108.1 MSF	107.5 MSF	↑
Vacancy Rate	11.2%	11.0%	10.9%	↑
Quarterly Net Absorption	(81,848)	167,711	141,378	↔
Average Asking Rent	\$34.32	\$34.22	\$33.27	↔
Under Construction	3.5 MSF	3.1MSF	2.6 MSF	↔
Deliveries	97,700	354,972	46,233	↑

ECONOMIC CONDITIONS

South Florida's unemployment rate ticked downward 100 basis points to 2.3%, with 28,800 additional jobs added from February of 2019. This was the region's lowest unemployment rate recorded going back to 1990. Miami-Dade County reported the region's strongest drop in unemployment rate, down 50 basis points to 1.5% from one year ago. Palm Beach's rate saw a smaller decrease of 40 basis points to 3.0%, while Broward recorded the same decrease, dropping 50 basis points to 2.9% from last year during the same period. Looking back from the first quarter-2019, although job growth held through February, it was the lowest annual increase in jobs added seen since the economic recovery began. The professional and business services segment took the lead providing the largest increase with 7,300 jobs created while the leisure and hospitality moved into the number two spot with an increase of 6,800 jobs, while the trade, transportation and utilities industry moved into the third spot 6,300 jobs added over the past 12 months. Construction jobs continued to slow in the start of 2020 dropping to 700 jobs added from one year ago. Most remaining sectors experienced moderate improvements with the information sector continuing to struggle with 300 jobs lost while manufacturing jobs decreased by 1,100 from one year ago. South Florida's job growth slowed during the first quarter and with unemployment claims on the rise at the close of the quarter, impacts from the Corona Virus have yet to be accounted for.

UNEMPLOYMENT RATE

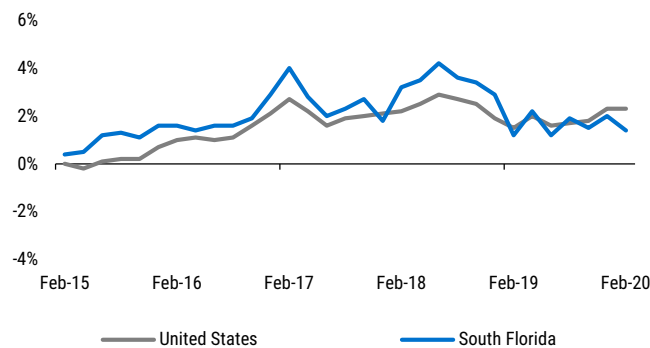
South Florida Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

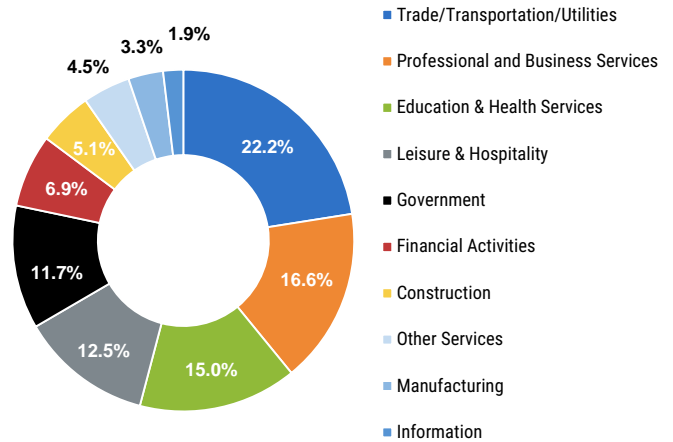
All Items, 12-Month % Change, Not Seasonally Adjusted,



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT BY INDUSTRY

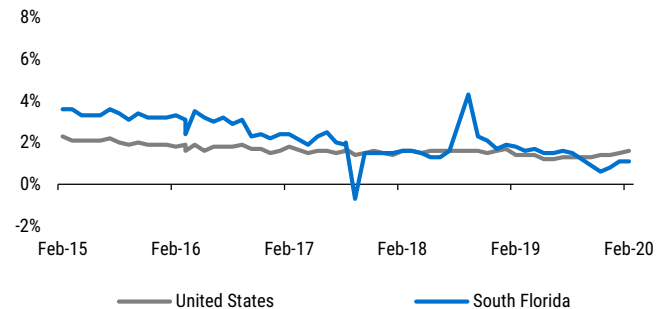
South Florida MSA, February 2020 Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

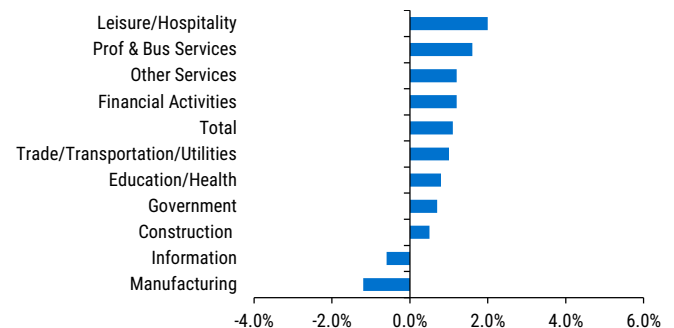
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

South Florida, Feb 2020, MSA, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics