



South Florida Office Market Report

The Office Sector Saw Mixed Signals From Previous Quarter

Although supply continued to outpace demand during the fourth quarter with over 213,000 square feet of negative absorption, this was far less than the almost 1 million square feet of negative absorption seen during the third quarter of 2020, when impacts from the pandemic began to surface. Over 1.3 million square feet of negative absorption occurred throughout South Florida during 2020. Notably, this was significantly down from the previous economic recession in 2009, when 2.6 million square feet of negative absorption occurred during the Great Recession. Broward continued to feel the brunt of space returned to the market, while Palm Beach and Miami-Dade experienced a more balanced approach between supply and demand during the fourth quarter. The Class A segment recorded over 822,000 square feet of negative absorption in 2020, as the Class B sector followed with 259,000 square feet of returned supply. Lower-tier Class C office space saw a similar performance with 249,500 square feet of negative absorption. The majority of office space coming back to the market were from tenants under 5,000 square feet, coupled with downsizes and consolidations. This, combined with the completion of eight office projects totaling over 1.4 million square feet, helped push vacancy upward 240 basis points from one year ago to settle at 13.3%.

Landlords continued to hold asking rents level in all segments throughout the region. This, coupled with the completion of four Class A office buildings delivering 880,000 square feet of high-end new office space during the fourth quarter, pushed the overall average to another record level, at \$36.45/SF. During the previous downturn, it took five quarters after the initial onset of the financial crisis before landlords gave way and average asking rates began to move downward. South Florida landlords are largely made up of large institutions and investment firms, asking rental rates will likely hold steady until the equation of continued higher vacancy rates and lack of activity will shift landlords to become proactive. In the meantime, concessions have returned as a method of attracting new tenants; however, given the high cost of relocating, such concessions are not expected to materially impact relocations but entice existing occupants to remain in place.

12-Month Forecast

The market will likely remain in a holding pattern through the first half of 2021 due to the longer-term impacts from the pandemic, along with the future economic outlook as a new administration takes its place. Most leasing activity will likely remain short-term renewals and lease extensions as companies hold off on long-term decisions with hopes that asking rents will contract if available space options increase further. Landlords will be paying attention to the speed of the economic recovery as COVID-19 vaccinations become readily available and how much space companies return to. Asking rates may begin to dip toward the second half of 2021 dependent on working from home trends as companies weigh their options with office space needs post-pandemic.

Current Conditions

Impacts from the pandemic continued through the end of 2020, but at a significantly decreased rate from the previous quarter.

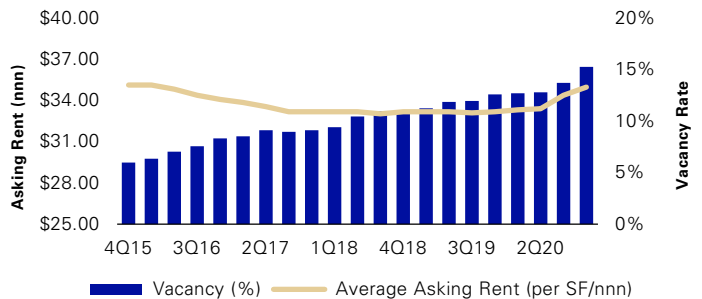
Most supply returned to the market in 2020 came from Class A buildings, as smaller downsizes and consolidations, along with a handful of companies closing offices, were the key component of the increased supply.

The office sector should remain flat through the first half of next year, as landlords will likely hold off decreasing asking rents to gauge market conditions in the second half of 2021.

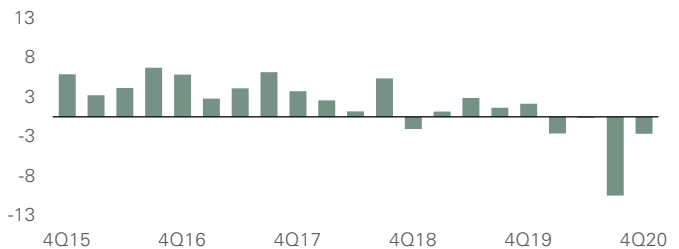
The increase of Class A available space coupled with the completion of new Class A buildings pushed the overall and Class A average asking rates to new record levels.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (100,000 SF)



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	107.7M	106.8M	106.3M	↑
Vacancy Rate	13.3%	12.5%	10.9%	↑
Quarterly Net Absorption (SF)	(213,713)	(995,034)	165,385	↔
Average Asking Rent/SF	\$36.45	\$35.28	\$34.44	↓
Under Construction (SF)	2.9M	3.6M	3.5M	↓
Deliveries	880,000	409,971	354,972	↔

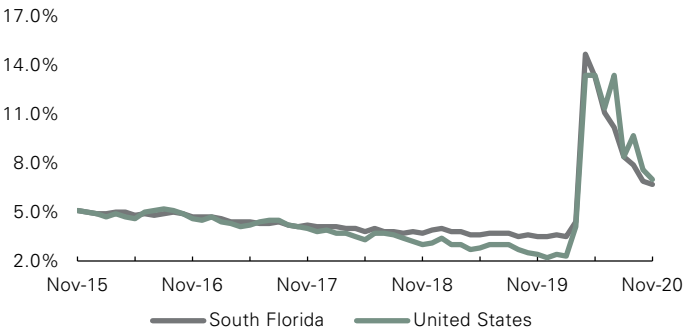
Economic Conditions

South Florida's unemployment rate fell to 7.0% from the 13.4% peak back in April/May from the national shut down throughout the region in late March for three months. Year-over-year, a total of 167,000 jobs remained lost as a result from the Covid-19 pandemic outbreak, an improvement from the 207,000 year-over-year job losses from third-quarter 2020. The unemployment rate did fall below the 11.3% peak rate recorded during the financial crisis in 2008. Palm Beach County's 6.2% remained the lowest throughout the region, and fell the furthest after peaking at 14.2% in April. Broward's unemployment rate of 7.9% was a 790 basis point drop from the 15.2% peak back in April, while Miami-Dade saw unemployment drop to 7.0% from the 13.4% high recorded in May.

South Florida's strong ties to tourism continued to devastate the leisure and hospitality industry, still reporting the most year-over-year jobs lost with 63,300 from one year ago. The education and health services segment moved into the second spot for job losses, totaling more than 24,500 from this time last year as professional and business services ticked down to the third spot with 20,100 jobs lost from the end of 2019. All key industries continued to feel the impacts from the sudden economic downturn, with the Financial industry fairing the best with only 200 jobs lost from one year ago. Job gains should continue to improve as the vaccine rollout occurs through 2021.

Unemployment Rate

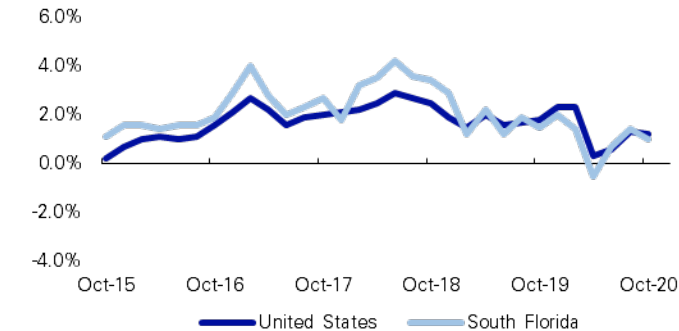
South Florida, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

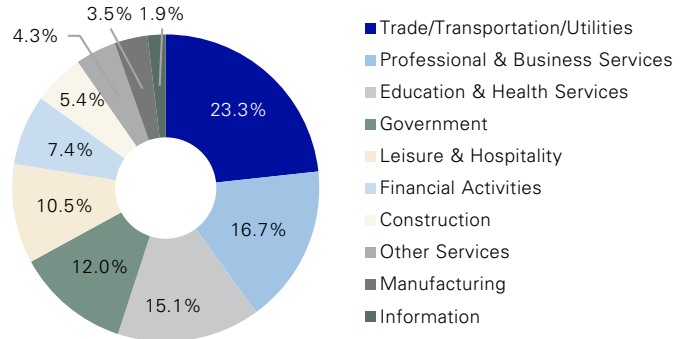
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

Employment By Industry

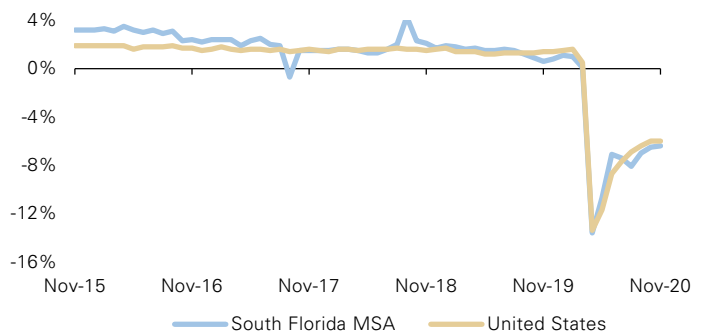
South Florida MSA, Nov 2020 | Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

Payroll Employment

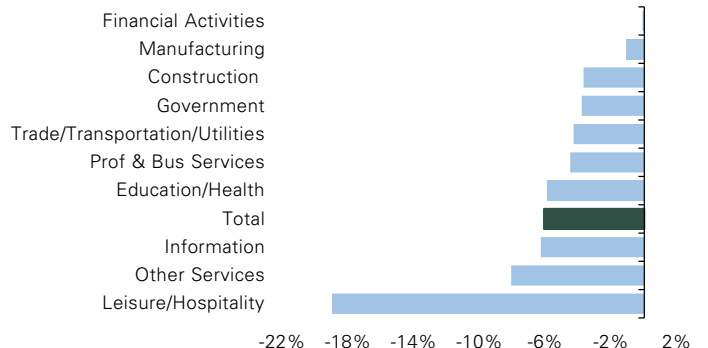
Total Nonfarm, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

South Florida, Nov 2020, MSA, 12-Month % Change



Source: U.S. Bureau of Labor Statistics | Not Seasonally Adjusted