

Savills Studley Report South Florida office sector

Q3 2018



SUMMARY

Market Highlights

LEASING FELL SLIGHTLY

Transaction volume fell slightly, decreasing from 1.6 million square feet (msf) to 1.5 msf, increasing from the long-term historical average by 5%. Leasing during the four most recent quarters totaled 6.3 msf, just below the 6.6 msf leased during the prior four quarters.

AVAILABILITY FLAT

South Florida's overall availability rate ticked down by eight basis points from 17.23% to 17.15%. The Class A availability rate inched down by 20 basis points from 18.9% to 18.7%.

RENT PUSHES HIGHER

The overall average asking rent in South Florida jumped by 1.6% to \$33.70 per sf and has increased by 7.0% year-on-year. The Class A average rent increased by 2.1% to \$38.33 and has also posted a 7.0% year-on-year spike.

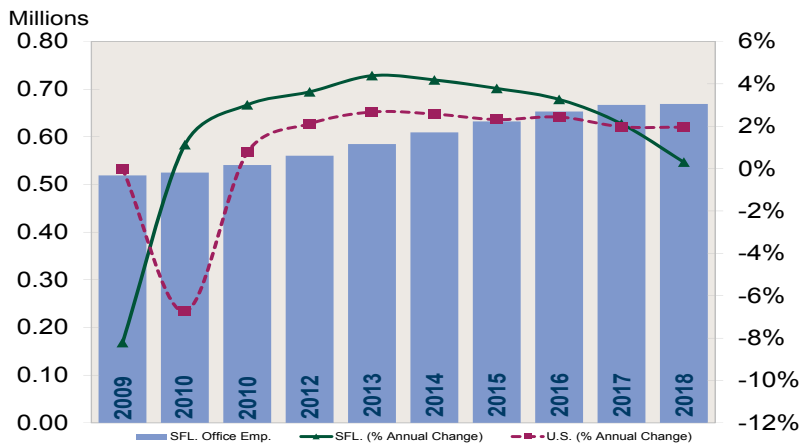
SALES DOWN

Office property sales during the first seven months of the year totaled \$1.8 billion, a 6.5% decrease compared to the first seven months of 2017.

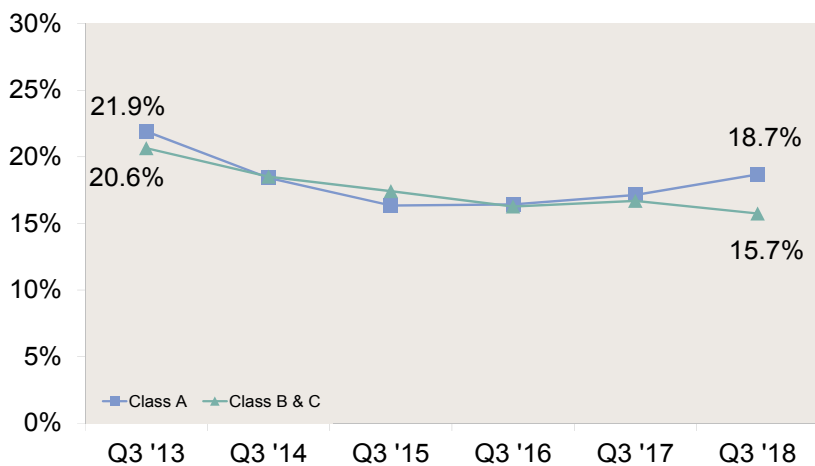
"Asking rent continues to push higher across most of the region. Developers are introducing new projects along the Brightline, as well as on infill sites in areas such as Hallandale Beach and Sunny Isles that will offer some unique opportunities."

Bob Orban,
Senior Vice President

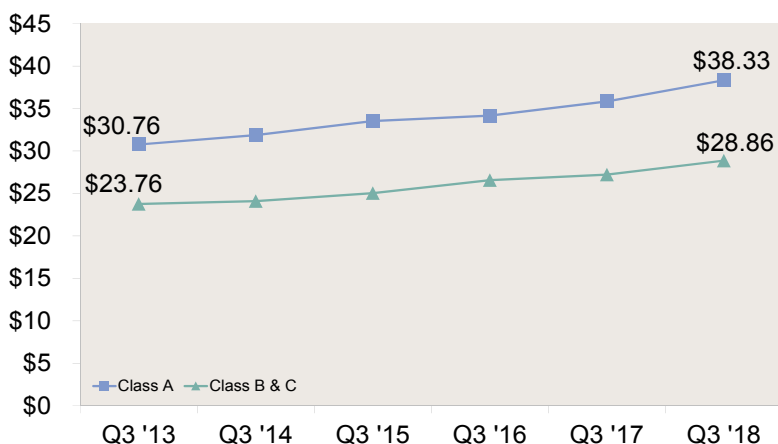
Office-Using Employment Trends

Source: Bureau of Labor Statistics[^]

Availability Rate Trends



Asking Rent Trends (\$/sf)



Expansion Carries On, Development Spreads

South Florida is benefiting from strong corporate profits and optimism among businesses. Companies are hiring and adding space. Florida – including South Florida – has seen its economy gain increasing momentum since 2010. The State Chamber of Commerce recently reported that the state's GDP hit \$1 trillion for the first time on record and that Florida is adding an estimated \$2.74 billion per day. Miami-Dade, Broward and Palm Beach Counties rank first through third for GDP growth in the state. Strong population growth and the movement of companies from other U.S. cities, as well as businesses from abroad, supports demand for office space. Scythian Biosciences, for example, recently announced plans to open a U.S. headquarters in Fort Lauderdale at 2300 E. Las Olas Boulevard. The Toronto-based company is publicly traded in Canada. Scythian recently bought Ruskin, Florida-based 3 Boys Farm as it competes for its share of the \$1 billion medical marijuana market with hopes that recreational marijuana will eventually be made legal.

Zoning Clear Ways for Growth

South Florida's development pipeline has become more active in the last several quarters, with several major mixed-use projects getting a start. Palm Beach County accounted for many of the biggest mixed-use projects during the 1980s and 1990s. At the time of construction, projects such as Mizner Park and City Place were some of the most innovative live/work/play settings in the country. Development has been much more restrained in the last two cycles, particularly in Broward and Palm Beach Counties. Only 8.6 msf has been constructed in Palm Beach County since 2005. This may be slowly changing, though. The West Palm Beach Commission recently approved the new Okeechobee Business District that will allow Related Companies to construct a 25-story, 275,000-sf office building at 809 S. Flagler Drive. The project is contingent upon the developer promoting pedestrian access, providing public open space and achieving LEED certification. Related is already moving ahead with 360 Rosemary, a 285,000-sf tower at the corner of Rosemary Avenue and Evernia Street.

Brightline Buildings Gain a Recruiting Edge

A few more micro/boutique buildings are poised to get underway along the Brightline. FECI's 101 Fort Lauderdale will have 190,000-sf at 101 Northwest 3rd Street, (directly across from the new Brightline Fort Lauderdale station). The developer will offer build-to-suit offices and 26,500-sf floorplates. Buildings constructed around the Brightline stations allow their owners to introduce a new dynamic that has often been lacking in South Florida. They can bill their property as offering "optimal commuting times," a difference maker for companies trying to recruit in the challenging labor market. While startups and biotech

companies are growing in South Florida, they are not the dominant market industry in the region's office market. The smaller size of South Florida's tech sector puts banks, law firms and general professional services in position to dominate leasing in transit-oriented properties.

Development is also branching out to some of the smaller Oceanside towns that have typically seen only residential and retail projects in recent years. Coral Gables-based J. Milton & Associates is currently working on Milton Tower in Sunny Isles Beach. The 14-story building will feature executive suites, a six-floor parking garage and amenities such as an electric vehicle charging station, valet parking and car wash service. Tenants will enjoy floor-to-ceiling windows, giving occupants direct ocean and intracoastal vistas. The 102,000-sf building is expected to be complete in late 2019.

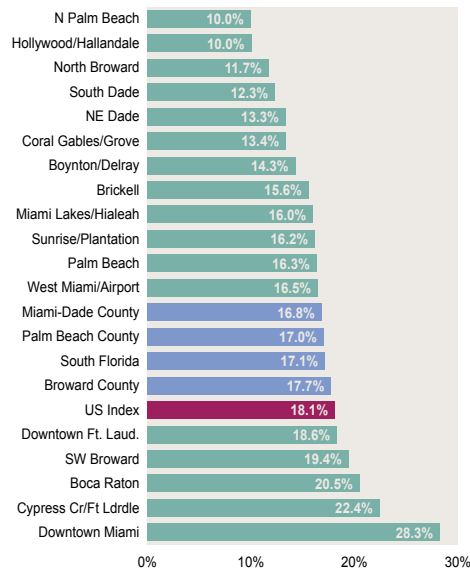
Potential projects in other locations such as Hallandale Beach are on the horizon. A development site being marketed as The Element, at 804 South Federal Highway in Hallandale Beach, is entitled to up to 202,380-sf of hospitality, office or mixed-use. The parcel is in the middle of the town's extensive redevelopment zone situated in front of the Gulfstream Park and Casino. Following the lead of other areas, Hallandale is pursuing an effort to transform the town into a walkable, pedestrian-friendly neighborhood with 5,000 new residences and major mixed-use district centers. Developments in Sunny Isles Beach and Hallandale Beach are a result of very limited developable land remaining in Downtown Miami, Brickell and Downtown Fort Lauderdale.

Coworking and Renovated Buildings Add to Space Options

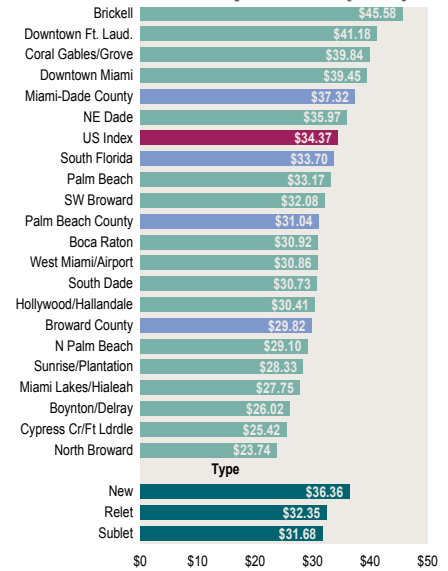
Coworking and executive suite operators continued to expand in South Florida. Caxa Group signed a 18,394-sf lease at One East Broward in Downtown Fort Lauderdale. Class A rent is exceeding \$40/sf, with B and C rent also on the increase. Demand from entrepreneurs and growth among startups is spurring demand for coworking space. Some of the office product constructed two to three decades ago in Coconut Grove is prime for repositioning. The Optimum Group broke ground on a 40,000-sf building at 3480 Main Highway. Terra Group is converting a former parking garage at 3310 Mary Street into 78,000 sf of office space and 18,000 sf of retail. Federal Realty Investment Trust's redevelopment of CocoWalk will include One CocoWalk – a 85,000-sf office building, 75% of the project has been preleased.

Tenants from a diverse set of sectors are taking on more space. Spirit Airlines added 26,287 sf at its corporate headquarters at the Miramar Park of Commerce (2800 Executive Way). Spirit first moved to the Park in 1999 with a 56,194-sf lease. The airline added 14,625 sf in 2013 and is now adding more than 25,000 sf. The eighth largest airline in North America, Spirit now has more than 1,000

Availability Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
FEMA	68,754	2001 NW 107th Ave	West Miami/Airport
Kaufman Rossin & Co PA	64,666	3310 Mary St	Coral Gables/Grove
MobileHelp	54,000	5050 Conference Way N	Boca Raton
MacNeill Group	37,818	1300 Sawgrass Corporate Pky	Sunrise/Plantation
INTECH	25,678	250 S Australian Ave	Palm Beach
SunTrust Bank	25,488	777 Brickell Ave	Brickell
Tambourine	24,946	100 W Cypress Creek Rd	Cypress Creek/Fort Lauderdale
Hair Club For Men	23,130	1499 W Palmetto Park Rd	Boca Raton
Merryl Lynch	21,769	609 E Atlantic Ave	Boynton/Delray
United Data Technologies	21,154	2900 Monarch Lakes Blvd	SW Broward
Sum of Top 10 Leases	367,403		

employees based at the park and plans to hire as many as 225 more employees in the near future.

Health care has supplemented space demand throughout this cycle. Related nonprofits are also growing. The Gift of Life Marrow Registry, recently leased the 17,465-sf penthouse at Sabre Centre I (5901 Broken Sound Parkway) in Boca Raton. Sabre Centre recently underwent a lobby modernization as well as renovations to the elevator, common areas and tenant spaces. Schools and universities have provided an additional boost to leasing. The Florida Vocational Institute took 28,849 sf at 3502-3600 Enterprise Way in Miramar, and will open its second campus in South Florida at the flex building. The vocational institute's main campus is in Miami.

Availability rates remain elevated in suburban Broward and Palm Beach County submarkets such as Cypress Creek/Fort Lauderdale and Boca Raton. Cypress Creek has seen more vacancies arise as some tenants move closer to Downtown Fort Lauderdale and amenity-laden properties. A few spots are filling in, though. Tambourine leased 25,000 sf at Trade Center South (100 W. Cypress Creek Road). The e-commerce marketing company will more than triple the size of its space from the

space it currently leases at nearby 2941 W. Cypress Creek Road. The company plans to hire more than 60 people in 2019, up from its current count of 100. With an average of \$25.42, rent in Cypress Creek is a bargain relative to mid-\$30/sf in Boca Raton and many properties do not charge for parking.

Office property sales totaled \$1.27 billion for the region through mid-year, an increase of 9.2% from the first half of 2017. Many buyers are making opportunistic and value-add investments. Local investor COFE Properties paid \$34.75 million (\$200/sf) for Kendall Summit Office Park. The six-building, 173,661-sf office park, consisting of a mix of medical and professional office space, was 73% occupied at time of sale. The complex was developed in the mid to late 1980s and is near to The Palms at Town & Country. The new owners plan to reposition the complex within the Kendall micro-market but will still target smaller entrepreneurs seeking turnkey space. Investor demand is still strong particularly in Downtown Fort Lauderdale, Coral Gables, and Miami. California's largest pension fund, CalSTRS sold 2400 E Commercial Boulevard for \$48 million to Halcra Coastal, an affiliate of a Tampa-based investor. The 261,676 sf office building changed hands for \$182/sf and was 67.0% occupied at time of sale.

Submarket	Total	Leasing Activity	Available SF			Availability Rate			Asking Rents Per SF		
	SF (1000's)	Last 12 Months	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. ⁽¹⁾	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
Miami Lakes/Hialeah	2,790	169	446	-0.4%	538	16.0%	0.6%	18.2%	\$27.75	12.5%	\$22.96
Miami Lakes/Hialeah - Class A	703	40	172	-7.1%	205	24.4%	-1.9%	29.2%	\$35.64	31.6%	\$26.33
West Miami/Airport	10,568	659	1,743	1.5%	1,363	16.5%	0.3%	12.9%	\$30.86	1.2%	\$28.05
West Miami/Airport - Class A	5,480	192	1,032	-0.8%	527	18.8%	-0.2%	9.6%	\$33.45	1.6%	\$30.71
Downtown Miami	8,313	228	2,350	7.0%	2,024	28.3%	1.2%	25.0%	\$39.45	-1.0%	\$37.71
Downtown Miami - Class A	5,420	154	1,544	6.5%	1,276	28.5%	1.1%	24.1%	\$43.64	-1.1%	\$43.01
Brickell	7,377	384	1,148	1.1%	1,064	15.6%	0.2%	14.4%	\$45.58	4.0%	\$42.60
Brickell - Class A	4,897	185	795	6.7%	606	16.2%	1.0%	12.4%	\$50.22	3.7%	\$48.87
Coral Gables/Grove	9,073	529	1,213	6.4%	958	13.4%	0.8%	10.8%	\$39.84	0.2%	\$38.37
Coral Gables/Grove - Class A	4,884	289	661	10.3%	578	13.5%	1.1%	11.7%	\$42.30	2.1%	\$41.29
North Broward	3,170	213	371	-23.6%	485	11.7%	-3.1%	15.1%	\$23.74	-0.9%	\$23.50
North Broward - Class A	874	56	84	5.5%	141	9.7%	-0.5%	18.0%	\$28.28	2.2%	\$25.95
Cypress Creek/Fort Lauderdale	8,062	517	1,808	0.0%	2,032	22.4%	0.0%	25.2%	\$25.42	0.6%	\$24.79
Cypress Creek/Fort Lauderdale - Class A	2,378	219	534	-7.0%	757	22.5%	-1.7%	31.9%	\$27.52	1.0%	\$26.63
Sunrise/Plantation	6,600	536	1,068	-22.9%	1,776	16.2%	-4.8%	26.5%	\$28.33	0.2%	\$25.20
Sunrise/Plantation - Class A	4,070	215	772	-25.7%	1,086	19.0%	-6.6%	26.0%	\$31.28	1.0%	\$27.29
Downtown Fort Lauderdale	5,744	428	1,052	4.8%	900	18.3%	0.4%	16.1%	\$41.18	1.2%	\$39.38
Downtown Fort Lauderdale - Class A	4,295	318	875	7.2%	737	20.4%	1.1%	17.4%	\$43.70	1.6%	\$41.07
Southwest Broward	4,153	133	807	62.3%	285	19.4%	6.6%	7.6%	\$32.08	5.1%	\$28.25
Southwest Broward - Class A	2,591	85	543	78.1%	250	20.9%	8.4%	10.3%	\$32.72	7.2%	\$28.36
North Palm Beach	4,038	309	403	-22.3%	477	10.0%	-2.6%	11.7%	\$29.10	-3.0%	\$28.83
North Palm Beach - Class A	1,374	164	113	-44.2%	195	8.2%	-6.5%	14.2%	\$30.46	-4.9%	\$30.12
Palm Beach	6,743	458	1,102	-10.0%	1,239	16.3%	-1.5%	17.7%	\$33.17	1.0%	\$31.71
Palm Beach - Class A	2,686	172	438	-10.4%	464	16.3%	-1.6%	16.3%	\$37.83	-2.8%	\$37.61
Boynton/Delray	2,295	128	328	19.8%	791	14.3%	2.0%	35.5%	\$26.02	0.4%	\$24.90
Boynton/Delray - Class A	414	12	76	52.3%	36	18.4%	3.2%	10.8%	\$24.50	1.1%	\$23.57
Boca Raton	11,312	967	2,318	-3.7%	2,038	20.5%	-0.9%	18.6%	\$30.92	0.6%	\$30.24
Boca Raton - Class A	5,712	522	1,270	-3.8%	1,238	22.2%	-0.9%	21.7%	\$33.61	0.3%	\$32.15
Miami-Dade County Total	50,661	2,405	8,533	4.2%	7,308	16.8%	0.5%	14.6%	\$37.32	3.6%	\$35.04
Miami-Dade County Total - Class A	25,431	976	4,628	5.1%	3,571	18.2%	0.6%	14.2%	\$42.78	3.0%	\$41.59
Broward County Total	30,126	1,996	5,346	-1.1%	5,776	17.7%	-0.3%	19.4%	\$29.82	4.2%	\$27.24
Broward County Total - Class A	14,563	912	2,848	-0.1%	3,016	19.6%	-0.4%	21.0%	\$33.75	4.0%	\$30.20
Palm Beach County Total	24,388	1,861	4,150	-6.2%	4,545	17.0%	-1.1%	18.7%	\$31.04	0.5%	\$30.33
Palm Beach County Total - Class A	10,186	871	1,896	-8.0%	1,932	18.6%	-1.7%	18.8%	\$34.26	-1.0%	\$32.61
South Florida Total	105,175	6,262	18,029	0.1%	17,629	17.1%	-0.1%	16.9%	\$33.70	1.6%	\$31.47
South Florida Total - Class A	50,180	2,759	9,373	0.6%	8,519	18.7%	-0.2%	17.1%	\$38.33	2.1%	\$35.83

Please contact us for further information

Savills Studley
Wells Fargo Center,
333 S.E. 2nd Avenue
Suite 2800
Miami, FL 33131
(305) 423-1919

Corporate Research Contact
Keith DeCoster - Director,
U.S. Real Estate Analytics
kdecoster@savills-studley.com

.....

(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
Statistics are calculated using both direct and sublease information.
Short-term sublet spaces (terms under two years) were excluded.
^Unless otherwise noted, source for data is Savills Studley.
The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.
Copyright © 2018 Savills Studley