

Savills Studley Report South Florida Office Sector

Q1 2018



SUMMARY

Market Highlights

LEASING REMAINS STEADY

Transaction volume totaled 6.5 million square feet (msf) during the last four quarters, on par with the 6.5 msf leased during 2017.

AVAILABILITY UP SLIGHTLY

South Florida's overall availability rate, 17.1%, rose by 20 basis points during the first quarter of the year. The Class A availability rate increased by 90 basis points to 18.7%.

RENT INCREASES

The overall average asking rent in South Florida rose by 1.9% to \$32.60 during the quarter, and by 2.8% year-on-year. The Class A rent also increased, ticking up by 1.2% in the quarter to \$37.31 and has increased by 4.4% year-on-year.

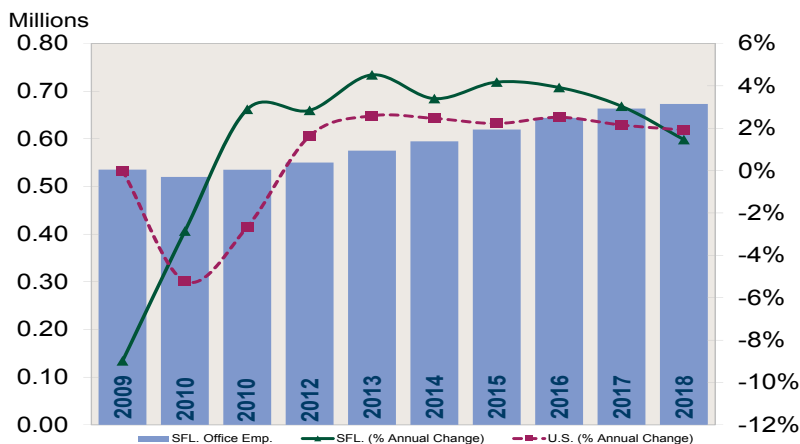
SALES DOWN

Office property sales during the last six months (through February 2018) totaled \$927 million, a 51% decrease compared to the previous six-month total of \$1.9 billion.

"Availability has started to increase in certain areas. Larger leases have become more infrequent and an uptick in new construction is impacting the market. Nevertheless, rent for the very highest-caliber space in Brickell, Coral Gables and Downtown Fort Lauderdale remains at record levels, as these submarkets have more limited space options."

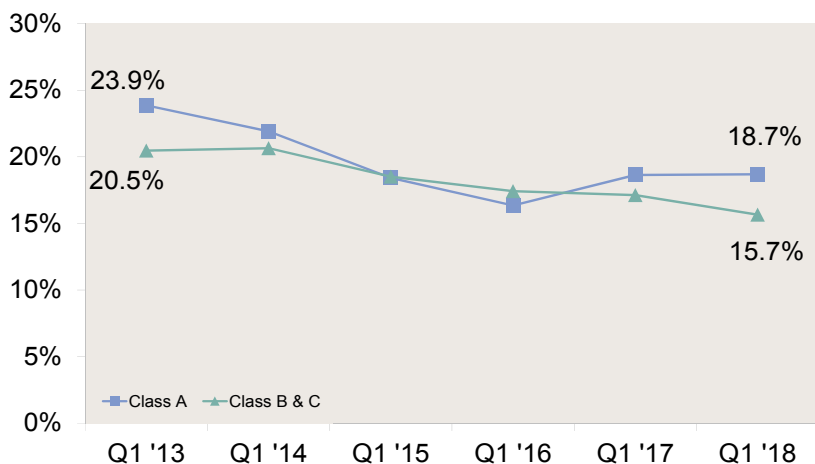
Bob Orban,
Senior Vice President

Office-Using Employment Trends

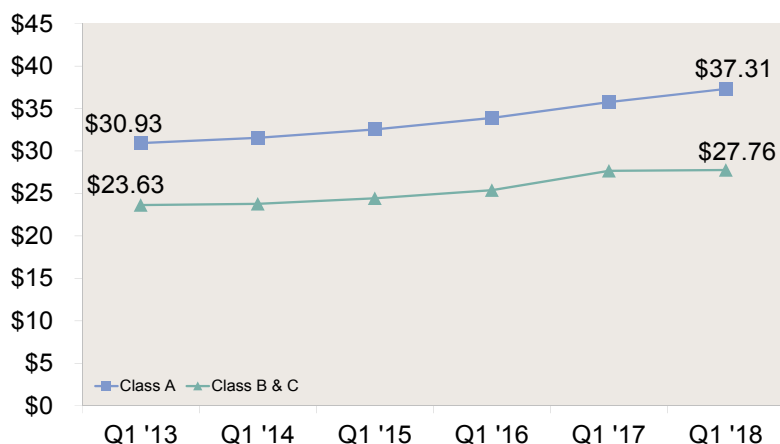


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Solid Fundamentals Even as Hiring and Leasing Slows

South Florida's office market fundamentals are very sound. This is as much due to controlled supply as sustained demand. Job growth has been steady in the last several years, but not off the charts, and has shown some recent signs of slipping. Office-using employment rose by 1.5% during the last 12 months, a fraction of the 3.4% growth in the prior 12-month period. Overall employment in South Florida has decreased more sharply in the same periods falling from 2.6% to 0.8%.

Moving Freight Better, Commuters a Different Story

As soon as the top 20 list of cities for Amazon's HQ2 site came out, analysts began handicapping which market would win. Miami is seen as a longshot. The region does have its selling points—including its strong logistics/distribution network and status as the gateway to Latin America. The Port of Miami is also the only port south of the Port of Virginia able to dock the mega-ships built to flow through the Panama Canal. Additionally, Miami International is the second-busiest airport nationally based on metric tons of international cargo.

The region's investment in its port and airport infrastructure has enhanced the ability to move freight. The region is just starting to address mass transit concerns. The Brightline commuter train is a key step forward. Service between downtown West Palm Beach and Fort Lauderdale started in early 2018, and is projected to push to Downtown Miami by this May.

Brightline Spurring Development

The Brightline also sets the stage for transit-oriented developments in areas that were previously considered too far off the beaten path. In South Miami, Link at Douglas is expected to start construction. The joint venture between the Adler Group and 13th Floor Investments calls for 280,000 sf of office space, 1,375 residential units; 75,000 sf of retail space and 83,000 sf of public space. The new Douglas Road Metrorail station will be at the center of the complex, providing residents a quick commute to Downtown Miami.

According to the Greater Fort Lauderdale Alliance, 2.5 million square of projects have started construction since the Brightline service was approved in 2014. Two blocks from the Brightline station in Downtown

Fort Lauderdale, Joe Traina Jr. is expected to start construction of FATCity. Plans call for two 30-story office towers that include 183,000 sf of office space, 612 apartments and retail space. Additionally, Stiles has proposed a 23-story 360,000-sf office building and two apartment buildings on Las Olas Boulevard.

Looking for the Upside

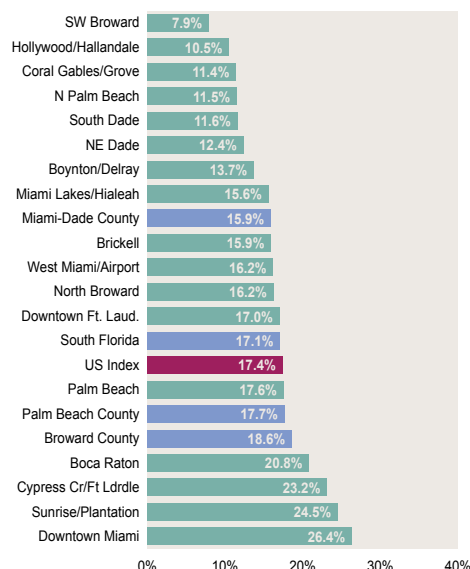
As investors pursue higher yields, the region is seeing more opportunistic and riskier acquisitions of late. Some hope to replicate the outsized gains achieved by investors who took a risk on assets earlier in the cycle. A few buyers acquired older and higher-vacancy buildings in Broward County and Palm Beach County and are now capturing a decent gain upon sale. These investors followed a tried-and-true model of buying below replacement cost, investing extensively in capital improvements and offering generous concessions and aggressive below market rents. Fountain Square, in Boca Raton, for example, recently sold for \$54.5 million – a 47% spike from the \$37 million that Contrarian Capital Management paid for the asset in 2014. The seller spent several million dollars to upgrade common areas and tenant suites. Of note, even with the gain, the \$54.5 million price fell short of the \$63.5 million that JPMorgan paid for the asset in 2007.

Seeking Neglected Buildings

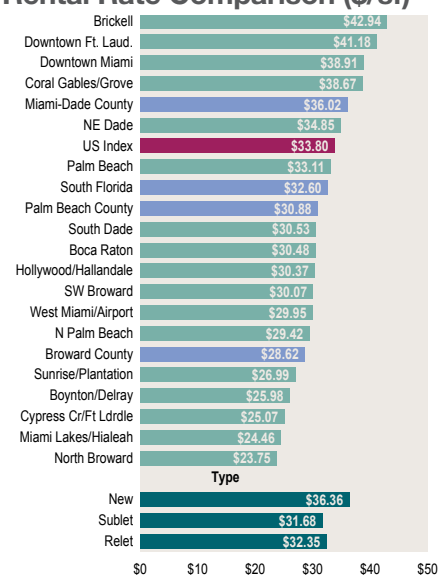
Downtown Fort Lauderdale remains extremely challenging, even for mid-sized tenants. A flurry of leases in Downtown Fort Lauderdale, particularly along Las Olas Boulevard, and surrounding the Courthouse, further depleted an already tight office market in the last few quarters. With a dearth of available space options in Downtown Fort Lauderdale, big blocks of vacant space and future lease rollovers are currently viewed as having a very strong upside. Value-add and opportunistic investors are looking for buildings that could be repositioned from an Class B to a B+ or A- complex. Stockbridge Capital Corporation, for example, recently paid \$41.0 million for the leasehold interest in 110 East Broward in a foreclosure auction. Constructed in 1981, the 342,465-sf building complex was only 42% leased at time of sale. The buyer, based in San Francisco, plans common area improvements and other much needed renovations.

In prime Miami and Fort Lauderdale locations, such as Coral Gables and Brickell, the highest and best use may be to raze the existing structure and then build new.

Availability Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
Confidential	26,227	1 E Broward Blvd	Downtown Fort Lauderdale
First Bank of Florida	26,000	800 Waterford Way	West Miami/Airport
Wound Technology Network	21,697	200 S Park Rd	Hollywood/Hallandale
Ameriprise Financial Services, Inc.	15,100	11300 US Highway 1	North Palm Beach
Alliance Laundry Systems	13,397	255 Alhambra Cir	Coral Gables/Grove
Nicklaus Companies	13,000	3801 PGA Blvd	North Palm Beach
Solis Health	11,117	2301 NW 87th Ave	West Miami/Airport
Cendyn Spaces	9,000	980 N Federal Hwy	Boca Raton
Realauction.com LLC	8,700	861 SW 78th Ave	Sunrise/Plantation
Harris Corporation	8,456	1000 Sawgrass Corporate Pky	Sunrise/Plantation
Sum of Top 10 Leases	152,694		

Existing Class A properties constructed in the last few years are capturing \$40 to \$50/sf-plus rent. Rent growth has been strong enough in prime locations such as Brickell, Coral Gables and Downtown Fort Lauderdale to warrant such construction.

Mixed Performance in Suburban South Florida

Larger tenants looking for quality blocks of Class A space can still find many more options in suburban submarkets such as Sunrise/Plantation and Cypress Creek. Smaller and mid-sized tenants have more buildings to pick from, even in Coral Gables, Brickell and Doral, however, they will face higher rent.

Conditions have also tightened in a handful of suburban submarkets. Doral/West Miami, for example only has six existing buildings offering a 50,000 sf block of space for lease. Once Burger King relocates to its new corporate headquarters later this year it will free up a rare big block of space (totaling

213,000 sf) at 5505 Blue Lagoon Drive. Other than this block, there are only six other buildings offering a block of 50,000 sf or more.

Leasing activity in Doral has remained quite strong. Tenants have quickly leased space as it has popped up. During the first quarter, First Bank of Florida signed a 26,000-sf lease at 800 Waterford. In contrast, other suburban areas are going in a different direction, proposing to convert or raze office product as they pursue live/work/play development. The City of Coral Springs approved knocking down Financial Plaza, a 145,465-sf office building at 3300 N. University Drive. Boca Raton-based PreDevCo hopes to break ground on Coral Springs Citi Center, a \$152 million mixed-use complex. Located in the heart of Coral Springs new Downtown district, plans call for 540 apartments in two eight-story tower, extensive retail and entertainment space, a 150-room hotel and 1,530 parking spaces.

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	2,960	139	463	-5.2%	401	15.6%	-0.9%	13.5%	\$24.46	2.3%	\$23.00
Miami Lakes/Hialeah - Class A	703	31	183	2.0%	113	26.1%	0.5%	16.0%	\$27.28	0.7%	\$26.22
West Miami/Airport	10,568	844	1,714	5.1%	1,614	16.2%	0.8%	15.3%	\$29.95	3.2%	\$27.16
West Miami/Airport - Class A	5,480	270	1,042	11.1%	739	19.0%	1.9%	13.5%	\$32.26	4.0%	\$28.56
Downtown Miami	8,096	349	2,134	2.7%	2,125	26.4%	0.7%	26.3%	\$38.91	1.6%	\$42.58
Downtown Miami - Class A	5,293	248	1,438	4.7%	1,379	27.2%	1.2%	26.1%	\$43.83	1.8%	\$43.29
Brickell	7,377	370	1,176	3.1%	1,177	15.9%	0.5%	16.0%	\$42.94	1.0%	\$42.55
Brickell - Class A	4,897	233	707	-2.1%	720	14.4%	-0.3%	14.7%	\$47.90	1.2%	\$48.34
Coral Gables/Grove	8,878	735	1,014	0.4%	1,058	11.4%	0.0%	11.9%	\$38.67	0.6%	\$37.95
Coral Gables/Grove - Class A	4,923	542	594	-4.5%	658	12.1%	-0.6%	13.4%	\$41.41	-0.1%	\$40.75
North Broward	3,216	244	523	10.1%	543	16.2%	1.5%	16.9%	\$23.75	2.8%	\$26.80
North Broward - Class A	787	55	170	24.4%	178	21.7%	4.2%	22.6%	\$27.38	4.3%	\$25.92
Cypress Creek/Fort Lauderdale	8,068	627	1,868	8.9%	2,017	23.2%	1.9%	25.0%	\$25.07	1.0%	\$24.29
Cypress Creek/Fort Lauderdale - Class A	2,378	337	602	-7.0%	577	25.3%	-1.9%	24.3%	\$26.66	-0.1%	\$26.57
Sunrise/Plantation	6,714	391	1,648	3.4%	1,934	24.5%	0.8%	28.8%	\$26.99	4.0%	\$24.85
Sunrise/Plantation - Class A	4,184	168	1,034	0.9%	1,407	24.7%	0.2%	33.6%	\$30.27	2.2%	\$27.91
Downtown Fort Lauderdale	5,596	473	953	3.9%	1,010	17.0%	0.6%	18.0%	\$41.18	4.2%	\$35.44
Downtown Fort Lauderdale - Class A	4,235	414	780	5.1%	851	18.4%	0.9%	20.1%	\$43.32	4.8%	\$36.84
Southwest Broward	3,767	85	299	-7.4%	384	7.9%	-0.6%	10.2%	\$30.07	6.7%	\$39.18
Southwest Broward - Class A	2,426	71	269	-4.9%	351	11.1%	-0.6%	14.5%	\$30.57	4.4%	\$40.59
North Palm Beach	4,063	300	468	-4.9%	419	11.5%	-0.6%	10.3%	\$29.42	-1.2%	\$27.85
North Palm Beach - Class A	1,374	128	174	-3.3%	164	12.7%	-0.4%	11.9%	\$31.27	0.5%	\$30.06
Palm Beach	7,018	363	1,232	7.7%	1,328	17.6%	1.3%	18.9%	\$33.11	4.0%	\$30.58
Palm Beach - Class A	2,838	105	508	6.9%	455	17.9%	1.2%	16.0%	\$39.73	4.0%	\$33.91
Boynton/Delray	2,229	111	306	-61.8%	777	13.7%	-22.2%	34.9%	\$25.98	0.5%	\$22.40
Boynton/Delray - Class A	330	33	46	6.8%	43	14.0%	0.9%	13.0%	\$24.40	-1.7%	\$23.68
Boca Raton	10,974	866	2,287	8.7%	2,177	20.8%	1.7%	19.8%	\$30.48	1.9%	\$28.99
Boca Raton - Class A	5,712	554	1,300	19.6%	1,176	22.8%	3.7%	20.6%	\$33.14	-2.6%	\$32.25
Miami-Dade County Total	50,198	2,949	7,994	3.2%	7,770	15.9%	0.5%	15.5%	\$36.02	1.8%	\$36.04
Miami-Dade County Total - Class A	25,098	1,542	4,357	4.2%	4,017	17.4%	0.7%	16.0%	\$41.53	1.4%	\$40.53
Broward County Total	29,842	1,946	5,552	4.4%	6,143	18.6%	0.8%	20.6%	\$28.62	1.2%	\$27.82
Broward County Total - Class A	14,365	1,058	2,906	0.7%	3,409	20.2%	0.1%	23.7%	\$32.44	0.9%	\$31.44
Palm Beach County Total	24,284	1,640	4,293	-5.5%	4,702	17.7%	-1.0%	19.4%	\$30.88	2.2%	\$28.72
Palm Beach County Total - Class A	10,254	820	2,029	13.6%	1,838	19.8%	2.4%	17.9%	\$34.62	-0.5%	\$32.25
South Florida Total	104,325	6,536	17,840	1.3%	18,614	17.1%	0.2%	17.8%	\$32.60	1.9%	\$31.72
South Florida Total - Class A	49,717	3,420	9,292	5.0%	9,265	18.7%	0.9%	18.6%	\$37.31	1.2%	\$35.75

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(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.
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