

Savills Studley Report South Florida office sector

Q2 2017



SUMMARY

Market Highlights

LEASING RECOVERS

Quarterly leasing activity increased by 25.0% compared to the first quarter, totaling just over 1.5 msf. Deal volume was on par with levels during 2016 as well as the market's long-term average. Tenants have leased 6.2 msf in the last four quarters.

MODERATE DROP IN AVAILABILITY RATE

South Florida's overall availability rate fell to 15.8% in the second quarter, a 60 basis point decline from the first quarter. The Class A availability rate dipped by 40 basis points to 16.9%. Broward and Miami-Dade Counties both posted decreases in their Class A availability rate.

MODEST INCREASE IN RENT

Rental rate growth has been steady since the second half of 2013. Overall asking rent rose by only 1.1% to \$31.42 in the second quarter. The Class A asking rent fell by 0.1% to \$35.48, but was unchanged in Miami-Dade County (remaining at \$41.59) and rose by 1.1% to \$32.61 in Palm Beach County.

SALES DOWN

Year-to-date office property sales totaled \$859 million – falling by 45.1% compared to the \$1.57 billion sold during the same period in 2016.

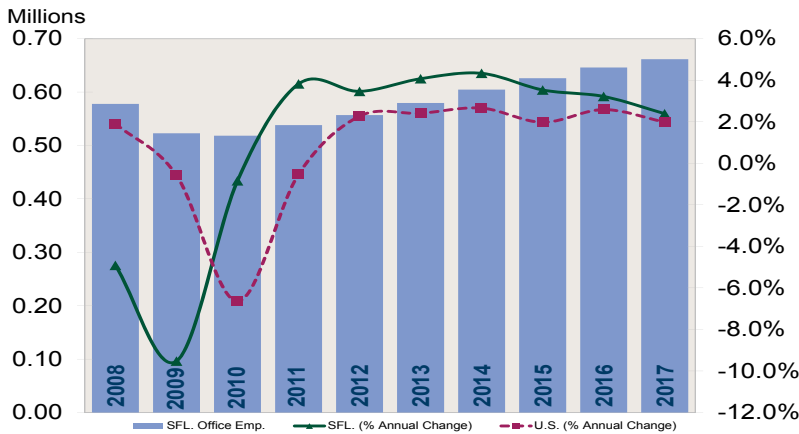
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As they renovate properties, some owners are stealing a page from co-working facilities, building turnkey units and spec suites. They are also adding shared amenities that help reduce the cost of relocating and customizing space that firms would otherwise incur.

Bob Orban,
Senior Vice President

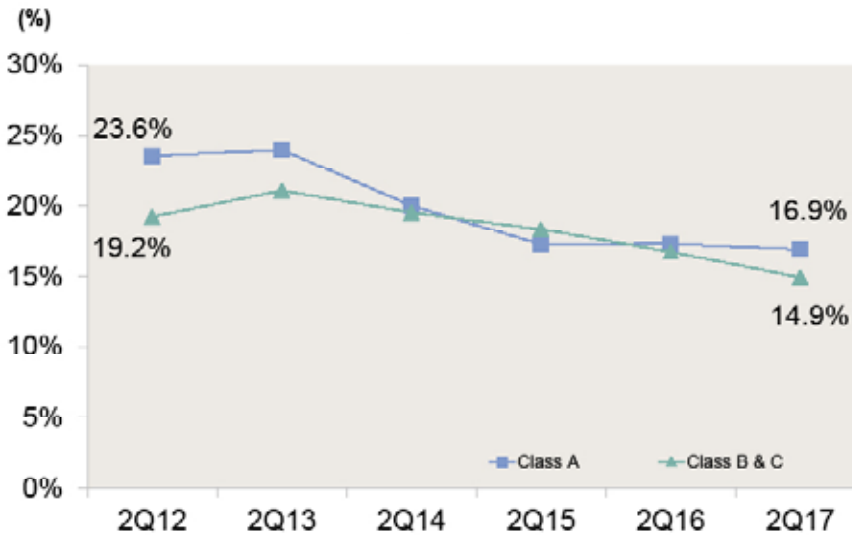
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Office-Using Employment Trends

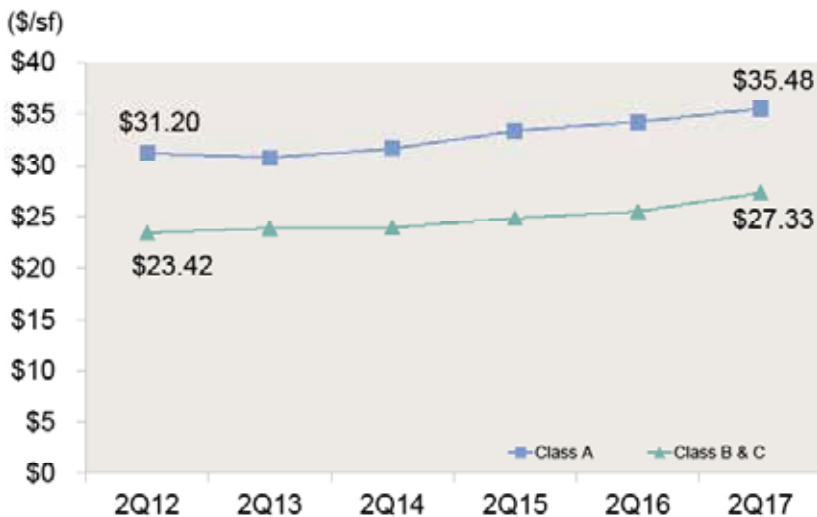


Source: Bureau of Labor Statistics

Availability Rate Trends



Asking Rent Trends



Construction Activity Heating Up

Leasing activity in South Florida has displayed amazing consistency. Deal volume has been far from remarkable, but has hovered right around its long-term historical average (1.6 msf per quarter) since mid-year 2015. Availability rates have consequently fallen steadily across the region, declining to 13.8% in Miami-Dade County during the second quarter, its lowest mark since mid-year 2008. Prime Class A space in Doral and other top suburban locations have been tight for the last several quarters.

Some areas in Palm Beach County have also registered sharp decreases in availability. The Class A availability rate in Palm Beach, for example, decreased from 18.9% to 13.8% in the last four quarters. On the other hand, tenants can still find some soft spots in this market. Boca Raton, for example, which had seen availability decrease as low as 16.0% in 2016, ended mid-year with a 20.5% Class A rate. Similarly, Cypress Creek/Fort Lauderdale's rate sits at 23.3%, up sharply from 15.3% a year ago.

Flight to Quality

The last few months have brought a flurry of leases from banks, law firms and professional/business services companies. As some of these businesses set up operations in South Florida for the first time, they are not opting for the cheapest buildings. Instead, many are leasing space in top-tier buildings. New Orleans-based law firm Adams and Reese is subletting 7,759 from Roetzel & Andress at Las Olas Centre II. Similarly, Texas-based bank Woodforest National Bank signed a seven year lease at New River Center, this will be the first office in South Florida for the bank, bringing 15 employees to Fort Lauderdale. Finally, Pillsbury Winthrop Shaw Pittman leased 10,566 sf at Brickell World Plaza (600 Brickell Avenue) for its first Miami office.

Renovations Across the Region

Tenants looking for big blocks of quality space in Brickell, Downtown Fort Lauderdale and West Palm Beach continue to face challenges. Very restrained construction activity has played a role in the reduction of space options. Most of the properties currently underway are smaller boutique buildings under 200,000 sf. In addition to these smaller properties being built, many owners are undertaking renovations ranging from simple changes

to the lobby to more intensive addition of amenities. A fair number of owners are also responding to the preference of some tenants for plug-and play space. They are building out turnkey units and adding shared amenities. Many smaller and mid-sized firms are not certain about how many employees they will have on payroll in a year or two, much less how much space they will require. More companies are opting for shorter-term leases. Others want to minimize out-of-pocket expenditures and avoid the high costs associated with building out space. Some landlords are responding to this demand, agreeing to shorter leases, building out turnkey units and adding shared amenities.

Citigroup Center, for example, built out a full floor of executive suites between 2,500 and 3,500 sf. The landlord also renovated the building lobby and added a shared conference center. Renovations may have helped the building secure several recent renewals including those by Apex Brasil (10,683 sf) and Black Srebnick Korspan. The building also lured a couple of tenants away from other properties. Harvard Maintenance leased 23,540 sf in a relocation from One Biscayne Tower. Also, Citigroup expanded its office space by 9,507 square feet and opened a new ground floor retail banking center.

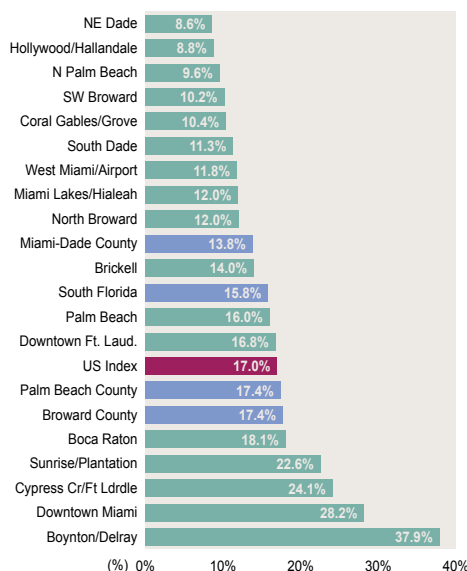
Sublet space can also offer alternatives to tenants looking for a shorter lease commitment and reasonable rent. Garrett Laughlin subleased 25,907 square feet of space on the entire ninth floor at Broward Financial Center. This will be a big jump from the 4,000 sf they occupy on nearby East Broward Boulevard. Garrett Laughlin plans to hire approximately 75 new employees.

New Owners Upgrade Assets

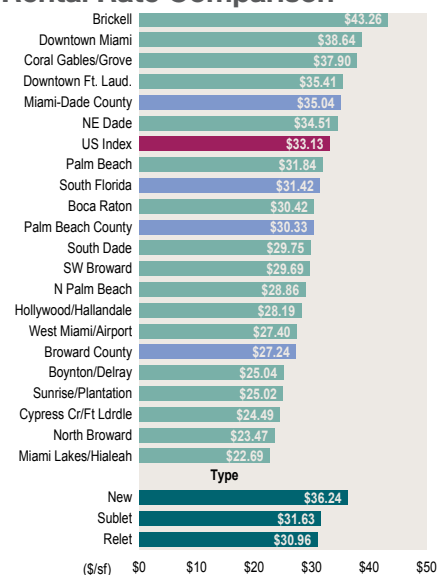
New ownership often clears the way for renovations. New York City-based Brickman, for example, bought Courthouse Tower and 200 Southeast First in 2016, they are now undertaking a \$5 million capital improvement program that includes upgrades to the building's façade, signage, lobby, corridors, elevator lobbies and amenity spaces. Brickman also plans to design spec suites with an open layout on some floors.

A partnership between Federal Realty Investment Trust, Grass River Property and the Comras Co are tackling the challenging redevelopment of CocoWalk in the Grove. The joint venture, which bought the complex in 2015, recently announced plans to construct a 78,000-sf, Class A building

Availability Rate Comparison



Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Shoes For Crews	34,780	5000 T Rex Ave	Boca Raton
Everest Business Funding	27,706	8200 NW 52nd	West Miami/Airport
Garrett Laughlin	25,907	500 E Broward Blvd	Downtown Fort Lauderdale
Cosentino North America	23,923	355 Alhambra Cir	Coral Gables/Grove
Harvard Maintenance	23,509	201 S Biscayne Blvd	Downtown Miami
Bank Leumi USA	18,861	19495 Biscayne Blvd	NE Dade
Trilogy Home Healthcare	17,485	1645 Palm Beach Lakes Blvd	Palm Beach
Banco do Brasil	17,000	1221 Brickell Ave	Brickell
Black Srebnick Korspan Stumpf	11,562	201 S Biscayne Blvd	Downtown Miami
Kobre & Kim	9,366	201 S Biscayne Blvd	Downtown Miami
Sum of Top 10 Leases	210,099		

on the site. The revamping of the lifestyle center's massive retail section will take much longer – they plan to have retail on the ground level and office space on the upper four floors. An entertainment terrace on the roof will top off the complex. Construction should start in 2018, with completion set for 2019.

Looming Competition

Timing will be critical for some of these repositioning projects, particularly buildings in Downtown Miami. This submarket is poised for substantial new developments centered around the new Brightline transit hub. The inter-city express train will link Miami, Fort Lauderdale, Palm Beach and Orlando. Central Fare, being billed as the city's first food hall, is scheduled to start later this year. Two office buildings - Miami Central 2 and 3 - are underway.

Just a few blocks away, Hines recently

unveiled plans for 110 Tenth Street, a 600,000-sf, 45-story building at Miami WorldCenter. The building is part of the first phase at the 27-acre mixed-use center. Retail will be a critical component of this complex – Paramount Miami Worldcenter will feature 360,000 sf of high-street retail and multi-family apartments. A 1,700-room Marriott Marquis Miami Worldcenter Hotel & Expo, to be built in two phases.

Other projects might take longer to get started and run the risk of building into a recession. ASRR Capital and its two Chinese partners have plans for a 1.7-msf residential, retail, and office complex at the Miami Arts & Entertainment District site. Plans for the block-long site at 18th Street and Northeast Second Avenue include two towers, one rising 60 stories and a second rising 40 stories, with up to 1,200 rental units, 20,000 square feet of retail space, and 350,000 square feet of office space.

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	3,659	240	437	9.1%	539	12.0%	1.0%	16.3%	\$22.69	-1.3%	\$22.81
Miami Lakes/Hialeah - Class A	885	127	122	8.3%	166	13.8%	1.1%	19.2%	\$25.82	-1.5%	\$26.41
West Miami/Airport	12,035	474	1,418	-0.1%	1,347	11.8%	0.0%	12.1%	\$27.40	1.6%	\$25.98
West Miami/Airport - Class A	5,355	162	518	-1.4%	454	9.7%	-0.1%	10.5%	\$30.71	3.0%	\$29.49
Downtown Miami	7,988	437	2,251	-0.1%	2,056	28.2%	0.0%	25.7%	\$38.64	0.3%	\$36.76
Downtown Miami - Class A	5,027	304	1,302	1.4%	1,036	25.9%	0.4%	20.5%	\$43.87	-0.3%	\$42.15
Brickell	6,967	488	975	-8.6%	1,109	14.0%	-1.3%	16.5%	\$43.26	1.4%	\$41.24
Brickell - Class A	4,100	306	564	-7.6%	639	13.8%	-1.1%	15.2%	\$49.95	0.6%	\$47.33
Coral Gables/Grove	8,592	631	893	-15.0%	999	10.4%	-1.8%	11.0%	\$37.90	-0.1%	\$36.86
Coral Gables/Grove - Class A	4,180	438	541	-16.8%	599	12.9%	-2.6%	13.2%	\$40.62	-0.4%	\$39.49
North Broward	4,255	252	510	-18.1%	738	12.0%	-2.6%	17.9%	\$23.47	0.6%	\$22.69
North Broward - Class A	928	127	146	-18.0%	251	15.7%	-3.4%	27.7%	\$25.65	-1.0%	\$25.26
Cypress Creek/Fort Lauderdale	8,610	475	2,076	1.6%	2,038	24.1%	0.4%	22.3%	\$24.49	2.4%	\$23.57
Cypress Creek/Fort Lauderdale - Class A	2,992	137	698	21.1%	566	23.3%	4.1%	15.3%	\$26.64	0.3%	\$26.68
Sunrise/Plantation	7,342	568	1,657	-18.0%	2,337	22.6%	-4.9%	30.6%	\$25.02	0.7%	\$25.35
Sunrise/Plantation - Class A	4,579	424	1,132	-24.3%	1,736	24.7%	-7.9%	35.9%	\$27.31	-2.1%	\$27.07
Downtown Fort Lauderdale	6,090	381	1,021	-0.4%	912	16.8%	-0.1%	14.7%	\$35.41	1.6%	\$31.98
Downtown Fort Lauderdale - Class A	4,479	229	847	-2.3%	711	18.9%	-0.4%	15.6%	\$36.33	0.6%	\$34.16
Southwest Broward	4,091	193	417	0.6%	609	10.2%	0.1%	14.1%	\$29.69	-2.4%	\$29.09
Southwest Broward - Class A	2,609	101	378	0.3%	536	14.5%	0.0%	18.8%	\$29.92	-2.9%	\$29.75
North Palm Beach	4,919	287	471	12.4%	516	9.6%	1.1%	11.3%	\$28.86	3.6%	\$25.87
North Palm Beach - Class A	1,820	128	188	14.6%	212	10.3%	1.3%	10.9%	\$30.85	2.6%	\$28.75
Palm Beach	7,799	354	1,247	-6.1%	1,370	16.0%	-1.0%	19.3%	\$31.84	4.1%	\$29.90
Palm Beach - Class A	3,351	100	461	1.2%	458	13.8%	0.2%	18.9%	\$36.35	7.2%	\$34.86
Boynton/Delray	2,047	81	775	-0.3%	826	37.9%	-0.1%	41.4%	\$25.04	11.8%	\$22.69
Boynton/Delray - Class A	304	41	38	-11.4%	72	12.5%	-1.6%	20.1%	\$23.63	-0.2%	\$26.40
Boca Raton	11,890	626	2,147	6.8%	2,106	18.1%	1.1%	16.6%	\$30.42	0.1%	\$29.13
Boca Raton - Class A	6,706	264	1,377	17.1%	1,161	20.5%	3.0%	17.2%	\$31.87	-1.2%	\$30.69
Miami-Dade County Total	52,423	2,925	7,244	-3.0%	7,477	13.8%	-0.4%	14.5%	\$35.04	-0.5%	\$33.15
Miami-Dade County Total - Class A	23,471	1,613	3,424	-4.6%	3,365	14.6%	-0.7%	14.2%	\$41.59	0.0%	\$39.59
Broward County Total	33,719	1,980	5,974	-6.4%	6,950	17.7%	-1.2%	19.8%	\$27.24	2.2%	\$25.75
Broward County Total - Class A	16,066	1,037	3,251	-8.1%	3,835	20.2%	-1.8%	22.3%	\$30.20	-0.2%	\$28.80
Palm Beach County Total	26,655	1,347	4,640	2.3%	4,818	17.4%	0.4%	18.3%	\$30.33	3.2%	\$26.81
Palm Beach County Total - Class A	12,181	532	2,064	12.3%	1,903	16.9%	1.9%	16.8%	\$32.61	1.1%	\$32.27
South Florida Total	112,796	6,252	17,858	-2.9%	19,245	15.8%	-0.5%	17.0%	\$31.42	1.1%	\$29.32
South Florida Total - Class A	51,718	3,183	8,739	-2.5%	9,103	16.9%	-0.4%	17.3%	\$35.48	-0.1%	\$34.21

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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.

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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