

Savills Studley Report

South Florida office sector

Q3 2017



SUMMARY

Market Highlights

LEASING JUMPS

Quarterly leasing activity rose to 1.8 msf, exceeding the long-term market average of 1.6 msf. Tenants have leased 6.5 msf in the four most recent quarters – also slightly above the annual pace of 6.3 msf.

AVAILABILITY RATE UP

Despite this quarter's increased leasing volume, South Florida's overall availability rate rose by 20 basis points from 15.8% to 16.0%. The Class A availability rate was unchanged, staying at 16.9%. A quarter-on-quarter decrease of 190 basis points (from 22.0% to 22.1%) in Broward County offset an increase of 80 basis points (to 15.9%) in Palm Beach County.

RENTAL RATES FLAT

Rental rate growth has lost momentum. Overall asking rent fell by 0.1% to \$31.39. The Class A asking rent inched down by 0.3% to \$35.36, due to a 1.5% decrease in Miami-Dade County to \$40.95.

SALES DOWN

As of July, year-to-date office property sales in South Florida totaled \$510 million – a sharp 62% decrease from the \$1.3 billion during the same period of 2016.

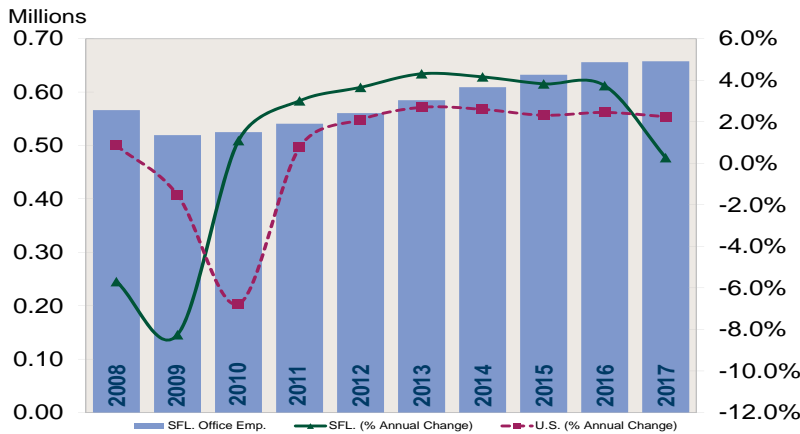
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"Having dodged what appeared to be shaping up as a direct hit from Hurricane Irma, South Florida's office market remained on a relatively steady course in the third quarter.

Leasing activity rose, with continued demand for bigger blocks in suburban office properties."

Bob Orban,
Senior Vice President

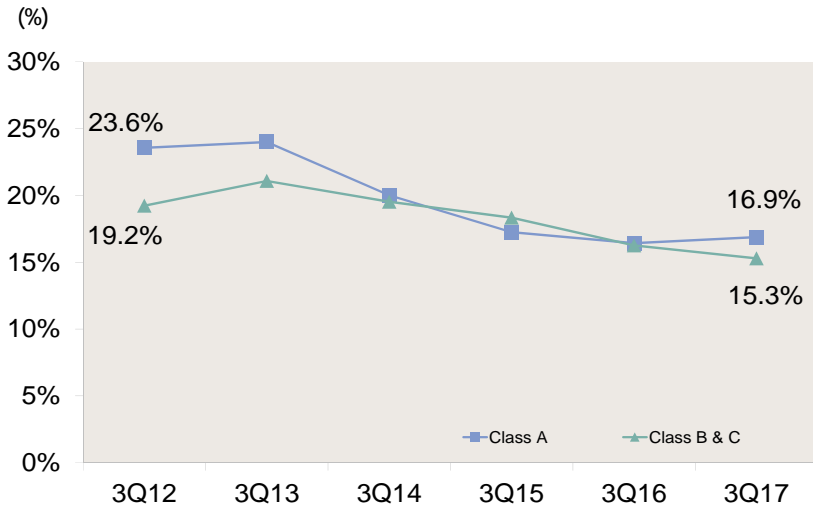
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Office-Using Employment Trends

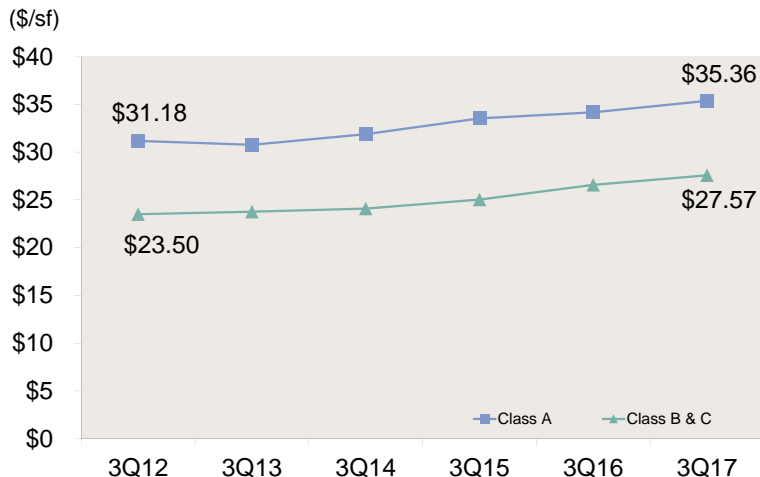


Source: Bureau of Labor Statistics

Availability Rate Trends



Asking Rent Trends



Steady Activity

South Florida's office market remained on a steady course in the third quarter. Hurricane Irma left about 80% of Miami-Dade County without power at peak outage, and it was nearly a week before power was restored in some areas such as Coral Gables. It was a narrow escape – a look South to the Keys reveals how much worse things could have been. FEMA estimates that roughly one in every four homes was destroyed in Monroe County. Of note, FEMA set up a temporary outpost in West Miami, signing a three-month short-term lease at 2001 NW 107th Avenue in Doral. The agency has an option to extend their lease up to 11 months.

Leasing volume rose during the third quarter, totaling 1.8 msf. Tenants were once again active in suburban areas with particularly strong leasing in Cypress Creek/Fort Lauderdale and West Miami/Airport. In the top transaction of the quarter, Kaplan renewed its two-building, 193,000-sf lease at Cypress Creek Concourse. The university has been headquartered at the property since 2004. Universities were active during the quarter. Southeastern College signed a seven-year, 20,760-sf lease for space previously occupied by ITT Tech at Congress Avenue Office Park (1756-1758 N Congress Avenue). The space is already built out as classroom and administrative space.

Tenants Target Suburban Properties

South Florida has not seen a lot of larger expansions but a few firms are adding space. Simply Healthcare leased 83,714 sf at Flagler Corporate Center. They will consolidate two Coral Gables offices at the building. The lease represents an increase of about 24,000 sf from their two current locations. The expanded footprint will accommodate their plan to increase payroll to about 900 employees. West Miami/Airport remains an attractive option for tenants that are either priced out of Coral Gables or can not find room for expansion. Doral continues to attract a lot of tenant activity, despite limited availability. Travel tech firm Amadeus committed to 115,000 sf at One Park Square at Doral (3470 NW 82nd Avenue). Headquartered in Madrid, the travel and tourism technology provider operates in 195 countries around the globe.

Availability up Slightly, Rent Stable in Most Submarkets

While leasing activity held up relatively well,

there are other signs suggesting that the cycle could be winding down a bit. Job growth has also been losing its kick lately. Office-using employment in Miami-Dade County increased by only 1.4% year-on-year, falling short of the national growth rate of 2.3%. The region lost 750 jobs in its financial sector during this period. Employment in information services has been flat, but professional/business services added 4,500 jobs in the last 12 months.

Availability rates have also leveled off in recent quarters. The region's availability rate increased by 20 basis points to 16.0%, but the Class A availability rate was unchanged, sticking at 16.9%. Even with some jumps in availability in Miami-Dade, the number of larger quality blocks of contiguous space has decreased..

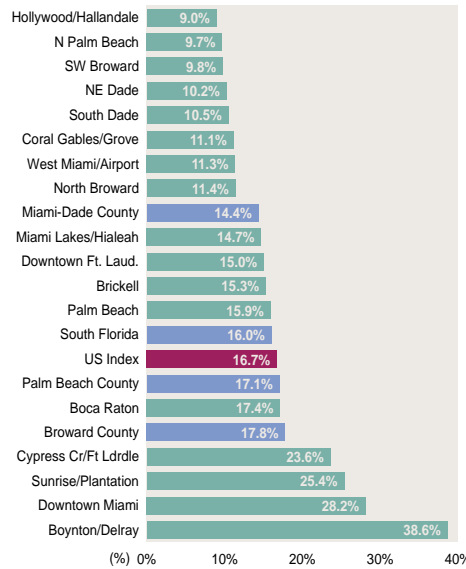
Overall asking rent has stabilized. During the third quarter, overall asking rent was essentially unchanged in Broward County, remaining at \$27.25, but it fell by 0.5% to \$30.18 in Palm Beach County and inched down from \$35.04 to \$35.03 in Miami-Dade County. Rent continues to mount, though, in the most sought-after locations such as West Miami/Airport – jumping by 2.4% to \$28.05. Similarly, in Downtown Fort Lauderdale, asking rent increased by 1.4% to \$35.91 during the quarter.

Development Activity Rising Slightly

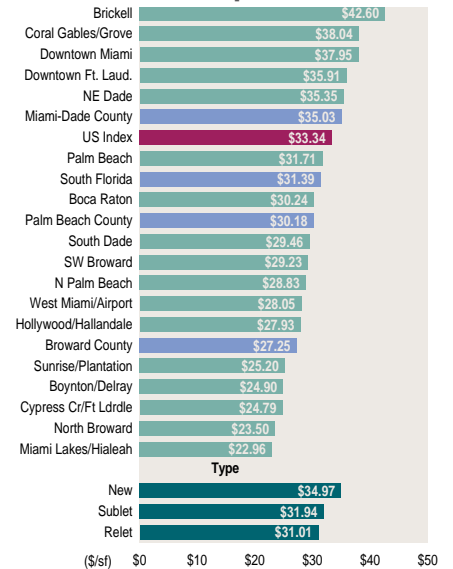
New office construction has increased slightly in the last few quarters. Since the start of 2016, 1.1 msf has delivered. South Florida currently has slightly less than 900,000 sf underway in non owner-user properties. This still pales in comparison to the prior cycle, when an average of 2.0 msf delivered every year between 2007 and 2010.

Many developers continue to move ahead with residential development, in some cases including a very small office component. Istanbul-based Turkish Okan Group, for example, submitted plans for a 73-story tower at 555 North Miami Avenue. The proposal calls for a 300-unit hotel, 362 apartments and 55,400 sf of office space. The developer paid \$18.1 million for the site, currently a parking lot, earlier this year. Other developers are more optimistic about future prospects for office properties. Swire Properties, for example, is reportedly contemplating the construction of more office product in Brickell. They already have plans for substantial office development at One Brickell City Centre.

Availability Rate Comparison



Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Kaplan	193,000	1515 & 1525 W Cypress Creek Rd	Cypress Creek/Fort Lauderdale
Amadeus	115,000	3470 NW 82nd Ave	West Miami/Airport
FEMA	93,384	2001 NW 107th Ave	West Miami/Airport
Simply Healthcare	83,714	9250 W Flagler St	West Miami/Airport
Southeastern College	20,760	1756-1758 N Congress Ave	West Miami/Airport
USI	17,351	201 Alhambra Cir	SunTrust Plaza
JLL	16,898	200 S Biscayne Blvd	Southeast Financial Center
Morgan Stanley	15,003	350 E Las Olas Blvd	350 Las Olas Centre
Nationshearing	14,775	855 SW 78th Ave	Sunrise/Plantation
Ritz-Carlton Yacht Collection	14,400	2601 S Bayshore Dr	Coral Gables/Grove
Sum of Top 10 Leases	584,285		

Investors Remain Active

Investors were quite active during the quarter. In mid-September, TA Realty acquired One Park Square for \$96.1 million (\$341/sf). The institutional investor bought the 281,786-sf property from New Boston Fund. The institutional investor purchased the property in the depths of the recession, October of 2010, for only \$27.5 million.

Properties within walking distance to retail and residential continue to capture higher rent and increased demand from investors. The building sits on the edge of City Place at Doral which features 22 restaurants and bars, extensive retail and 701 luxury apartment units. Communities such as Doral are having success as they incorporate more urban amenities. Of note, Doral is the third-fastest growing city in the U.S., its population has more than doubled between 2003 and 2016.

Looking Forward

Devastating hurricanes in Texas and the Caribbean serve as a tough reminder of the critical nature of infrastructure maintenance and a strong building code.

The steepest part of the rental rate growth curve is likely in the rearview mirror. Nevertheless, particular submarkets present more challenging conditions and in general, tenants can not expect much relief in terms of rents and other occupancy costs during the next several quarters. Conditions remain very tight in micro-markets such as Las Olas Boulevard. Additionally, bigger blocks of quality view space are few and far between in Coral Gables, Brickell and Downtown Fort Lauderdale.

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	163	538	23.0%	506	14.7%	3.7%	16.3%	\$22.96	1.2%	\$23.07
Miami Lakes/Hialeah - Class A	885	46	205	68.0%	179	23.2%	10.4%	19.2%	\$26.33	2.0%	\$26.42
West Miami/Airport	12,035	735	1,363	-3.9%	1,463	11.3%	-0.5%	12.1%	\$28.05	2.4%	\$26.25
West Miami/Airport - Class A	5,355	267	527	1.6%	472	9.8%	0.0%	10.5%	\$30.71	0.0%	\$29.51
Downtown Miami	7,988	491	2,249	-0.1%	2,098	28.2%	-0.1%	25.7%	\$37.95	-1.8%	\$37.32
Downtown Miami - Class A	5,027	376	1,276	-2.0%	1,079	25.4%	-0.2%	20.5%	\$43.01	-2.0%	\$42.90
Brickell	6,967	472	1,064	9.2%	1,046	15.3%	0.0%	16.5%	\$42.60	-1.5%	\$41.30
Brickell - Class A	4,100	289	606	7.5%	599	14.8%	-0.1%	15.2%	\$48.87	-2.2%	\$47.53
Coral Gables/Grove	8,592	651	958	7.2%	1,005	11.1%	-1.1%	11.0%	\$38.04	0.4%	\$37.11
Coral Gables/Grove - Class A	4,180	451	578	6.9%	575	13.8%	-1.7%	13.2%	\$40.76	0.3%	\$39.67
North Broward	4,255	264	485	-5.0%	678	11.4%	-3.2%	17.9%	\$23.50	0.1%	\$22.90
North Broward - Class A	928	133	141	-3.1%	196	15.2%	-3.9%	27.7%	\$25.95	1.2%	\$26.37
Cypress Creek/Fort Lauderdale	8,610	633	2,032	-2.1%	1,988	23.6%	-0.1%	22.3%	\$24.79	1.2%	\$23.85
Cypress Creek/Fort Lauderdale - Class A	2,992	285	757	8.5%	565	25.3%	6.0%	15.3%	\$26.63	0.0%	\$26.47
Sunrise/Plantation	7,342	464	1,863	12.4%	1,835	25.4%	-2.1%	30.6%	\$25.20	0.7%	\$25.28
Sunrise/Plantation - Class A	4,579	347	1,173	3.6%	1,266	25.6%	-7.0%	35.9%	\$27.29	-0.1%	\$26.96
Downtown Fort Lauderdale	6,090	385	915	-10.4%	942	15.0%	-1.8%	14.7%	\$35.91	1.4%	\$33.16
Downtown Fort Lauderdale - Class A	4,479	291	753	-11.1%	737	16.8%	-2.6%	15.6%	\$36.97	1.8%	\$35.03
Southwest Broward	4,091	125	400	-4.1%	535	9.8%	-0.4%	14.1%	\$29.23	-1.6%	\$29.48
Southwest Broward - Class A	2,609	107	360	-4.8%	472	13.8%	-0.7%	18.8%	\$29.40	-1.7%	\$30.07
North Palm Beach	4,919	250	477	1.3%	447	9.7%	1.2%	11.3%	\$28.83	-0.1%	\$27.29
North Palm Beach - Class A	1,820	104	195	3.6%	209	10.7%	1.7%	10.9%	\$30.12	-2.4%	\$29.93
Palm Beach	7,799	351	1,239	-0.6%	1,294	15.9%	-1.1%	19.3%	\$31.71	-0.4%	\$32.12
Palm Beach - Class A	3,351	99	464	0.6%	483	13.8%	0.3%	18.9%	\$37.61	3.5%	\$34.68
Boynton/Delray	2,047	78	791	2.1%	888	38.6%	0.7%	41.4%	\$24.90	-0.5%	\$23.89
Boynton/Delray - Class A	304	35	36	-6.4%	71	11.7%	-2.4%	20.1%	\$23.57	-0.2%	\$26.15
Boca Raton	11,890	706	2,038	-5.1%	1,976	17.1%	0.2%	16.6%	\$30.24	-0.6%	\$29.50
Boca Raton - Class A	6,706	402	1,238	-10.1%	1,070	18.5%	0.9%	17.2%	\$32.15	0.9%	\$31.09
Miami-Dade County Total	52,423	3,122	7,533	4.0%	7,567	14.4%	0.1%	14.5%	\$35.03	0.0%	\$33.67
Miami-Dade County Total - Class A	23,471	1,684	3,571	4.3%	3,386	15.2%	-0.1%	14.2%	\$40.95	-1.5%	\$39.96
Broward County Total	33,719	1,982	5,993	0.3%	6,257	17.8%	-1.2%	19.8%	\$27.25	0.0%	\$26.13
Broward County Total - Class A	16,066	1,176	3,229	-0.7%	3,278	20.1%	-1.9%	22.3%	\$30.04	-0.5%	\$29.20
Palm Beach County Total	26,655	1,385	4,545	-2.0%	4,606	17.1%	0.0%	18.3%	\$30.18	-0.5%	\$29.30
Palm Beach County Total - Class A	12,181	640	1,932	-6.4%	1,833	15.9%	0.8%	16.8%	\$33.17	1.7%	\$31.70
South Florida Total	112,796	6,488	18,071	1.2%	18,430	16.0%	0.2%	16.3%	\$31.39	-0.1%	\$30.10
South Florida Total - Class A	51,718	3,500	8,732	-0.1%	8,497	16.9%	0.0%	16.4%	\$35.36	-0.3%	\$34.16

Please contact us for further information

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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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