




Broward's Office Market Experiences Moderate Growth as Economic Expansion Continues

Broward County's office market remained solid during the second quarter of 2019, but began to show signs of softening as moderate gains in absorption and limited rent growth were recorded for a second quarter in a row. The month of June marked the tenth anniversary of the end of the Great Recession in 2009, and the economy is right on the cusp of entering the longest expansion in the history of the United States, leading some investors to become wary of the length of this cycle. None the less, strong economic fundamentals continue to propel demand in Broward County's office market. As of May 2019, Broward County again led the way in employment and recorded the lowest unemployment rate of the tri-county area at 3.0%. The largest year-over-year employment gain was in the office-using sector of professional and business services (up 4.0%), which should help bolster demand for office space. Overall average asking rents have grown by a modest 1.8% over the trailing 12-month period ending with the second quarter of 2019, with class A rents growing at a faster pace of 7.3%. Class A rates in the CBD reached as high as \$45.09 (up 8.8%), reflecting a boost in absorption within suburban submarkets.

Leasing activity has been brisk, with Cypress Creek largely outperforming other submarkets. After years of limited office development, Broward will see the most significant amount of office space delivered in a decade with the completions of the 165,000-sf phase I of The Edison project in Pembroke Pines and the 95,000-sf 550 Building in Downtown Fort Lauderdale, both of which are currently on track for third quarter deliveries.



260,532 sf
of class A office
deliveries are
scheduled for a 3Q-
2019 finish. These two
office projects will be
the most significant
deliveries in 10 years.

Office Market Snapshot

- After a strong start out of the gate in the first quarter of 2019, office investment sales activity has decelerated slightly as buyers that are wary of an eventual recession are being more cautious and selective during the sales process, sometimes opting out of a deal in the wake of any issue that arises during the underwriting process. Despite headwinds due to global economic uncertainty, total investment volume for the trailing 12-month period ending June 2019 was \$913.9 million, a substantial 38.7% increase from the same period one year prior. Investment activity should persist as long as the market continues to prove its resiliency.
- Art Falcone, the developer behind the \$350 million mixed-use project Plantation Walk, recently announced that phase I of the project, which includes a 171,000-sf renovated class A office building, has opened and welcomed its first tenant Aetna. The healthcare company took 85,000 sf at the new building as it relocated from 100,710 sf at its previous headquarters in Sawgrass Park, however the former space was quickly backfilled by Ultimate Software this quarter.
- Pompano Beach is emerging as a hotbed for redevelopment with one of the most significant proposed projects being the Pompano Beach Innovation District. The city's Community Redevelopment

Agency is currently accepting bids from developers for the 30-acre project with a master plan that calls for 750,000 sf of office/flex space, 165,000 sf of retail space, 1,500 residential units, and up to 420 hotel rooms.

- In light of an office development boom and persistent tenant demand for highly amenitized spaces, class B office vacancies have risen to 11.21%, a 297-basis point (bps) increase from the second quarter of 2018. As the older buildings face challenges in competing with newer class A space delivering this year and into 2020, significant renovation projects are on the rise and present great value-add opportunities for investors as the assets can often be purchased at a discount and renovations can be a cheaper alternative to ground-up construction.
- In June, the Federal Reserve announced that interest rates remain unchanged at the benchmark target range of 2.25% and 2.5%, but at the same time expressed concerns over economic uncertainty and slowing global growth, suggesting that an interest rate cut may be in the works by the end of the summer. It would be the first time the Federal Reserve cut the benchmark short-term rate since 2008.

31.1 MSF

Total office inventory in the Broward County market

151,957 SF

Direct Y-T-D net absorption as of 2Q-2019

10.94%

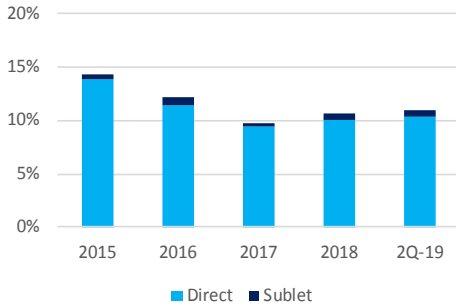
Overall Vacancy

\$38.27/SF/FS

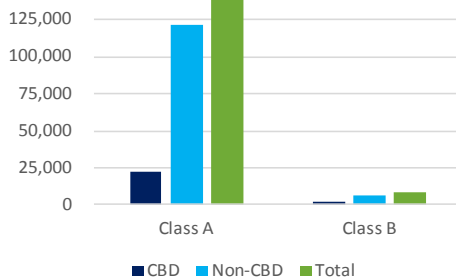
Average rental rate for class A space

Statistical Snapshot

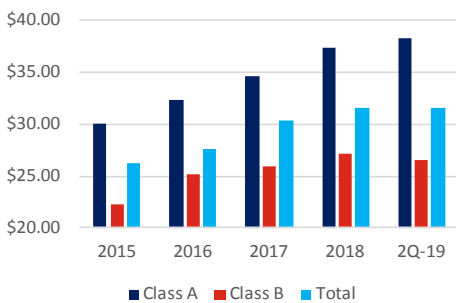
Vacancy Rate



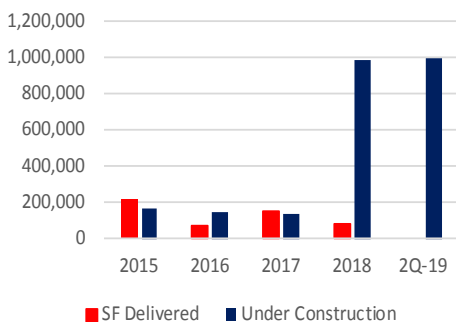
YTD Net Absorption (SF)



Average Asking Rent Rate (\$/SF/FS)



Construction Pipeline



Broward County Office Market At A Glance

Demographics & Economy

35 million people visited Florida during the first quarter of 2019, a 5.8% increase from 2018

4.0%

year-over-year increase in employment in the professional and business services job sector

3.2% **3.0%**
MAY-2018 MAY-2019
change in the Broward County unemployment rate

11,200
increase in total non-farm employment since 2Q-2018

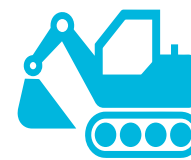
Development

The Main Las Olas
a 357,000-sf class A office tower is currently underway in Downtown Ft. Lauderdale with a 4Q-2020 estimated delivery

1,568

multifamily units delivered in Downtown Ft. Lauderdale since the beginning of 2018

\$350 million
Plantation Walk Project
Phase II under construction to include 171 apartments and the first retail portion of the project



999K
square feet currently under construction in Broward County

Market Influencers

\$913.9 MILLION
in total office sales volume during the T-12 months ending 2Q-19

7.3%
increase in class A rents over the trailing 12-months ending 2Q-2019



Virgin Trains USA, formerly known as Brightline, broke ground on a route connecting Miami to Orlando. The project is expected to be complete by 2022.



Rise in class B vacancy creating more value-add opportunities for investors to renovate and reposition assets

Broward County

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	13,616,060	1,373,396	69,761	\$38.27	89.91%	10.09%	0.51%	10.60%	962,906	143,586
Class B	17,483,676	1,838,535	121,134	\$26.57	89.48%	10.52%	0.69%	11.21%	36,216	8,371
Total	31,099,736	3,211,931	190,895	\$31.57	89.67%	10.33%	0.61%	10.94%	999,122	151,957

CBD

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	4,038,063	536,541	27,544	\$45.09	86.71%	13.29%	0.68%	13.97%	452,480	22,551
Class B	985,423	72,489	5,410	\$38.31	92.64%	7.36%	0.55%	7.91%	36,216	1,678
Total	5,023,486	609,030	32,954	\$44.28	87.88%	12.12%	0.66%	12.78%	488,696	24,229

Non-CBD

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	9,577,997	836,855	42,217	\$33.90	91.26%	8.74%	0.44%	9.18%	510,426	121,035
Class B	16,498,253	1,766,046	115,724	\$26.08	89.30%	10.70%	0.70%	11.41%	0	6,693
Total	26,076,250	2,602,901	157,941	\$28.60	90.02%	9.98%	0.61%	10.59%	510,426	127,728

Cypress Creek

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	2,656,961	285,687	19,267	\$31.15	89.25%	10.75%	0.73%	11.48%	0	95,152
Class B	3,589,144	558,196	7,606	\$23.75	84.45%	15.55%	0.21%	15.76%	0	47,440
Total	6,246,105	843,883	26,873	\$26.26	86.49%	13.51%	0.43%	13.94%	0	142,592

Central Broward

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	2,550,429	308,145	0	\$27.91	87.92%	12.08%	0.00%	12.08%	0	(19,891)
Total	2,550,429	308,145	0	\$27.91	87.92%	12.08%	0.00%	12.08%	0	(19,891)

Downtown Fort Lauderdale

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	4,038,063	536,541	27,544	\$45.09	86.71%	13.29%	0.68%	13.97%	452,480	22,551
Class B	985,423	72,489	5,410	\$38.31	92.64%	7.36%	0.55%	7.91%	36,216	1,678
Total	5,023,486	609,030	32,954	\$44.28	87.88%	12.12%	0.66%	12.78%	488,696	24,229

Hallandale

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	345,426	0
Class B	500,355	84,583	0	\$32.59	83.10%	16.90%	0.00%	16.90%	0	1,041
Total	500,355	84,583	0	\$32.59	83.10%	16.90%	0.00%	16.90%	345,426	1,041

Hollywood

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	351,624	38,838	4,929	\$35.98	88.95%	11.05%	1.40%	12.45%	0	14,477
Class B	1,460,770	120,245	978	\$28.98	91.77%	8.23%	0.07%	8.30%	0	(2,300)
Total	1,812,394	159,083	5,907	\$30.69	91.22%	8.78%	0.33%	9.10%	0	12,177

Northwest Broward

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	509,089	71,631	2,478	\$31.60	85.93%	14.07%	0.49%	14.56%	0	5,601
Class B	1,323,866	80,991	180	\$21.80	93.88%	6.12%	0.01%	6.13%	0	(4,383)
Total	1,832,955	152,622	2,658	\$26.40	91.67%	8.33%	0.15%	8.47%	0	1,218

Plantation

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	1,461,223	112,744	4,984	\$37.95	92.28%	7.72%	0.34%	8.06%	0	(14,453)
Class B	2,211,364	148,422	106,960	\$25.18	93.29%	6.71%	4.84%	11.55%	0	8,656
Total	3,672,587	261,166	111,944	\$30.69	92.89%	7.11%	3.05%	10.16%	0	(5,797)

Northeast Broward

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	375,692	34,415	0	\$30.38	90.84%	9.16%	0.00%	9.16%	0	3,101
Class B	1,851,674	188,451	0	\$26.86	89.82%	10.18%	0.00%	10.18%	0	(38,795)
Total	2,227,366	222,866	0	\$27.40	89.99%	10.01%	0.00%	10.01%	0	(35,694)

Sawgrass Park

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	1,687,573	89,458	6,735	\$34.49	94.70%	5.30%	0.40%	5.70%	0	13,572
Class B	1,309,778	107,687	0	\$18.01	91.78%	8.22%	0.00%	8.22%	0	5,637
Total	2,997,351	197,145	6,735	\$25.49	93.42%	6.58%	0.22%	6.80%	0	19,209

Southwest Broward

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	2,535,835	204,082	3,824	\$36.27	91.95%	8.05%	0.15%	8.20%	165,000	3,585
Class B	1,700,873	169,326	0	\$32.25	90.04%	9.96%	0.00%	9.96%	0	9,288
Total	4,236,708	373,408	3,824	\$34.45	91.19%	8.81%	0.09%	8.90%	165,000	12,873

Reporting Methodology: This report includes all class 'A' and 'B' office buildings and parks 20,000 SF and greater in Broward County that are not owner occupied, office medical, or government owned. All rents are reported on a full-service gross basis and are direct weighted averages calculated on total available space. The information in this report has been collected by the Avison Young research team via sources that are deemed reliable but is not guaranteed.

Broward County's year-over-year employment growth continues to drive the office market as the county added 6,000 office-using jobs to the professional and business services sector.

Leading Indicators (Y-O-Y 2Q-2018 to 2Q-2019)

Vacancy Rate	Net Absorption	Average Asking Rate (FS)	New Construction	Total Employment
↑	↓	↑	↑	↑
10.94%	151,957 SF	\$31.57	999,122 SF	1.01 MM

Significant Second Quarter 2019 Lease Transactions - Sorted by SF

Tenant	Property	Type	SF	Submarket
Bolton Medical	799 International Pkwy	Renewal	48,606	Sawgrass Park
CBS Interactive	Crown Center	Renewal/Expansion	43,622	Cypress Creek
Florida Office of the Attorney General	110 Tower	Renewal	42,027	Downtown Fort Lauderdale
Fidelity National Title Insurance*	Sawgrass Commerce Center	Renewal	25,000	Sawgrass Park
MD Live	Huntington Square III	New	23,105	Southwest Broward
Vertiv IT Systems, Inc.*	Pinnacle Corporate Park II	New	22,774	Cypress Creek
ARRIS Solutions, Inc.	Hotwire Technology Center	New	16,779	Cypress Creek
US Warranty	Cypress Park West I	New	13,588	Cypress Creek

*Avison Young handled this transaction

Significant Second Quarter 2019 Sales Transactions - Sorted by Sale Price

Property	SF	Sale Price	Price/SF	Buyer	Submarket
Royal Caribbean Center	134,786	\$45,000,000	\$334	Chateau Group	Southwest Broward
Radice III	139,864	\$24,165,000	\$172	RCC III, LLC	Cypress Creek
MedArts at Coral	108,968	\$18,350,000	\$168	Welltower, Inc.	Northwest Broward

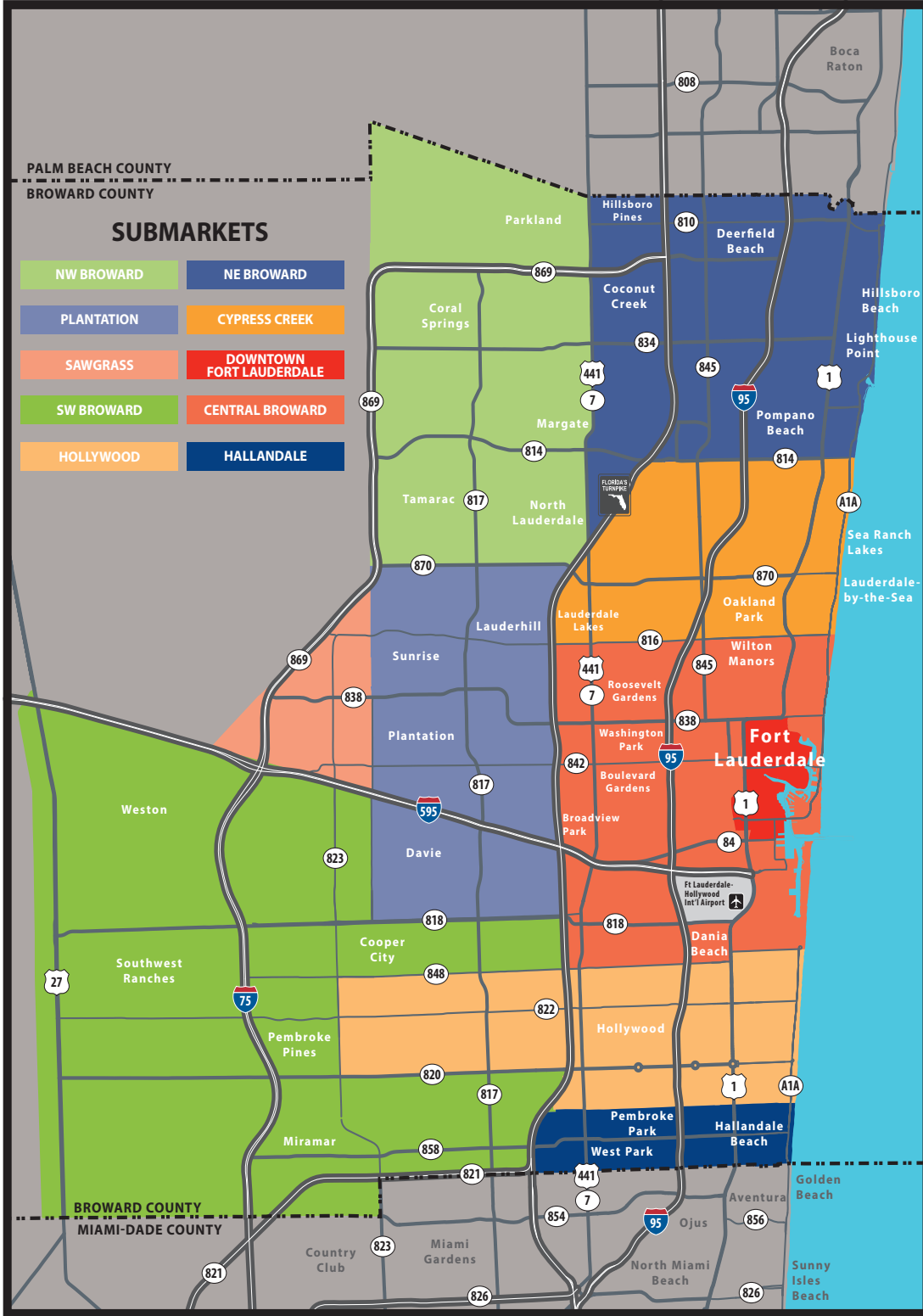


Gramercy Property Trust Sells Royal Caribbean Operations Center for \$45M

The largest office investment sale of the second quarter of 2019 was Gramercy Property Trust's \$45-million sale of the 134,786-sf Royal Caribbean Center in Miramar to the Chateau Group. The sale follows Gramercy's sale of another office building in Miramar earlier this year and represents the growth of private investors. As of the end of the second quarter of 2019, private investors made up 65.9% of buyers in office investment sales this year. The building last sold for \$26 million in 2009.

Broward County Office Market Report

Second Quarter 2019



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