

Florida Investment Review

Y-O-Y Office Deal Volume in Florida Relatively Flat as the Office Market Sails into 2020 with Headwinds on the Horizon; South Florida Once Again a Catalyst for Investment

Office deal volume during 2019 mirrored the activity for 2018, up very slightly by 0.2% to \$5.0 billion and bolstered by healthy portfolio sale volume during the year (28% of the year's total volume). REIT/listed and private investors were net buyers in Florida during 2019, institutional investors were net sellers, and the overall average cap rate was up 26 bps to 7.3%. The top markets for investment were South Florida, which accounted for 50% of all office sales volume in Florida during 2019, Tampa (17%), Orlando (13%) and Jacksonville (11%).

Moving into what will likely be a contentious election year punctuated by geopolitical issues overseas, Florida's office markets appear well positioned to weather any short-term headwinds. Investment sales and leasing activity are expected to remain healthy in 2020 and population is projected to grow at a healthy rate. Interest rates have moderated after the yield curve inversion during the third quarter and the pace of job growth in Florida continues to outpace the nation as a whole. While some concerns are apparent, a significant recession does not appear imminent and the risk of an all-out trade war with China seems to be receding. There are also few signs of overbuilding or irrational exuberance in the underwriting and financing of real estate transactions, and as a result the triggers that characterized many previous real estate cycles are largely absent. In the meantime, the U.S. economic expansion is well into its second decade and the search for yield continues.

Office Investment Influencers During 2019

- The Federal Reserve cited global developments as the rationale for further reducing its policy rate by 25 basis points to a target range of 1.50% to 1.75% in October, after which Fed Chairman Jerome Powell signaled that he felt monetary policy was in a good place as trade tensions were easing and Brexit was coming under control.
- After generating quite a stir in August 2019 when it inverted, the US yield curve on December 31st was at its steepest level since October 2018.
- Office investment returns as of year-end 2019 are considerably higher than multi-family and industrial investments and are trading at a significant discount to replacement cost, unlike the other sectors.
- Private investors accounted for 53% of all office sales volume in Florida during 2019, a 36% increase over 2018.
- Flexible offices are here to stay and will remain one of real estate's hottest growth areas in 2020. Flexible space operators (i.e. WeWork, Industrious, Regus, Novel Coworking, and Venture X) currently account for up to 5% of space across most major global office markets, and within ten years this is expected to accelerate to between 15-30%.
- Growth in the cross-border flow of capital into investment markets around the world is set to accelerate over the coming years as rising wealth in Asia targets investment grade real estate in the west. That said, cross-border investment activity in Florida during 2019 was insignificant (only 6% of the total), and came primarily from Singapore and Brazil.
- Some economists are concerned that the continued expansion of the U.S. economy is built on a foundation of low interest rates coupled with a federal deficit nearing \$1 trillion. While future global economic shocks cannot possibly be foreseen, ample capital continues to steer itself toward real estate in Florida, and the office sector will continue to benefit from the state's strong population and employment growth.

\$5.0 billion

total statewide office transaction volume during 2019

25.1 million

total sf sold during 2019

267

total office sales >\$2.5MM and >20,000 sf during 2019

\$200

avg price/sf for all office sales >20,000 sf closed during 2019

0.2%

Y-O-Y change in total office transaction volume from Dec-18 to Dec-19

South Florida's total office transaction volume for 2019 was 17% greater than that of the Tampa, Orlando and Jacksonville metro areas combined.

Deal volume is up 4.6% in 2019 due primarily to a handful of significant trades of class A trophy assets within the CBD.

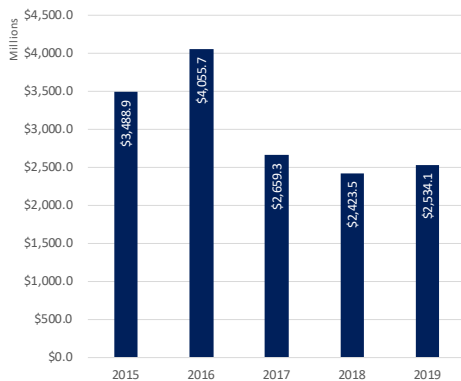
Office investment activity remained strong in South Florida during 2019 as sustained job growth, an expanding business sector and consistent population growth continued to drive the market. Investors continue to be attracted to South Florida's office market due to its tax-friendly business environment, as well as its regional connectivity through Virgin Trains USA, formerly known as Brightline, which has encouraged transit-oriented development and investment activity in all three of South Florida's major downtown areas.

Total office sales volume during 2019 was \$2.5 billion, up 4.6% from the total sales volume recorded during 2018. The increase was due in part to the sale of a handful of class A trophy assets within the CBD. The largest office transaction of the year was the sale of the two office buildings at MiamiCentral in Downtown Miami for \$159.4 million, or \$501 per sf. Investment activity also

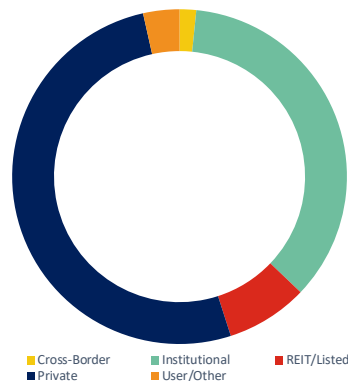
remains strong in the suburban submarkets, which comprised 72% of all investment sales during 2019, as investors seek higher returns as they reposition well-located office assets to compete with the influx of new supply coming online in 2020. Institutional and private investors accounted for 87% of all office transactions closed during 2019.

As of the end of 2019, 3.6 million sf of office space was under construction in South Florida. With an abundance of new space delivering in 2020-2021 and headwinds on the horizon due to slowing global economic growth and an upcoming political election season, it is possible that we will see a moderation in investment activity in 2020. Still, South Florida's investment climate remains positive as robust leasing activity continues to occur, and economic fundamentals remain strong.

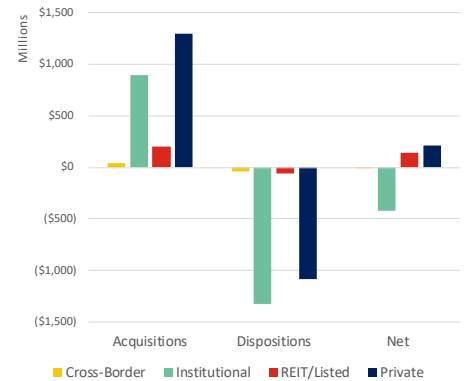
5-Yr Office Sales Volume Trend



Buyer Composition in 2019



Capital Flows in 2019



Significant 2019 Office Transactions Ranked by Sales Price

Property	Date Sold	SF	Sale Price	Price/SF	Buyer	Submarket
2 & 3 MiamiCentral	2Q-2019	317,939	\$159,400,000	\$501	Shorenstein Properties	Downtown Miami
Brickell Bay Office Tower	3Q-2019	517,450	\$157,000,000	\$303	AIMCO	Brickell
800 Brickell	3Q-2019	209,122	\$125,500,000	\$600	Gatsby Enterprises	Brickell
One Financial Plaza	3Q-2019	298,046	\$117,000,000	\$393	Alliance Partners HSP	Downtown Fort Lauderdale
Northbridge Centre	2Q-2019	292,001	\$98,000,000	\$336	C-III Asset Management	Downtown West Palm Beach
The Offices at Flager Station	3Q-2019	387,360	\$85,750,000	\$221	Bridge Investment Group	Medley-Hialeah
Sawgrass Technology Park	1Q-2019	514,332	\$74,250,000	\$144	Bridge Investment Group	Sawgrass Park
Financial Center at the Gardens	3Q-2019	189,000	\$71,800,000	\$379	New York Life	North Palm Beach - Palm Beach
North 40*	1Q-2019	352,595	\$68,350,000	\$194	Mainstreet Capital Partners	Boca Raton
Museum Tower	4Q-2019	259,666	\$64,580,000	\$249	Bridge Investment Group	Downtown Miami

*Avison Young handled this transaction

Tampa Bay

Total deal volume for 2019 up 18% over 2018, 91% of which occurred outside of the urban core, fueled partly by stronger portfolio volume.

Fueled by continued steady business expansion, strong in-migration, vigorous employment growth, and solid consumer confidence, Tampa's office market is heading into 2020 in excellent shape. The pace of job growth in Tampa continues to outpace both the state of Florida and the nation as a whole, and investors are increasingly attracted to this strong secondary market as a target for acquisitions.

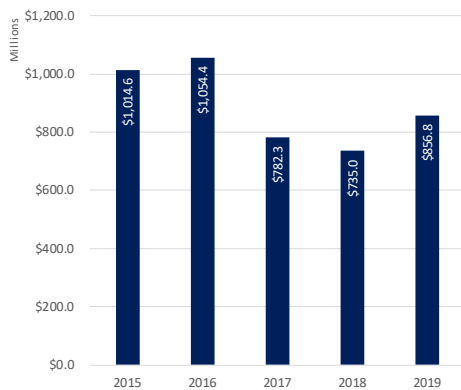
Total office investment sales volume during 2019 totaled \$857 million, accounting for over 4.1 million sf, and portfolio volume outpaced individual property volume. Private investors were net buyers in 2019, accounting for 69% of the year's total deal volume.

Outside of a significant sale-leaseback transaction for the USAA campus near Brandon, the largest transaction of the year occurred in the fourth quarter when Switzerland-based Partners Group

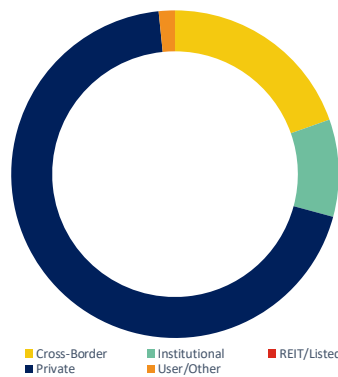
partnered with Orlando-based Parkway Property Investors to acquire a 5-building office portfolio totaling nearly 760,000 sf for \$156.6 million, or \$206 per sf. Located within Tampa's urban core and in the Westshore submarket, the properties were collectively 91% occupied at the time of the sale and are comprised of both class A and value-add class B space. The portfolio was sold by a joint venture partnership of New York-based Angelo Gordon and Commercial Florida Realty Partners.

Major capital investments in office and mixed-use developments in the urban cores of both Tampa and St Petersburg, at Tampa International Airport, and in the Westshore area continue to draw the interest of companies considering relocation. Once largely a top choice for back-office operations, the Tampa area has evolved into a dynamic secondary market, and investment activity in 2020 is expected to remain strong.

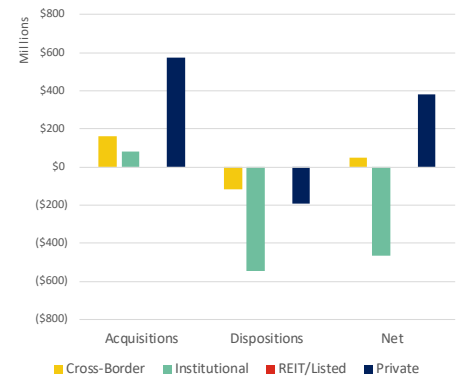
5-Yr Office Sales Volume Trend



Buyer Composition in 2019



Capital Flows in 2019



Significant 2019 Office Transactions Ranked by Sales Price

Property	Date Sold	SF	Sale Price	Price/SF	Buyer	Submarket
USAA Crosstown Portfolio (Sale Leaseback)	3Q-19	497,419	\$199,000,000	\$400	JDM Partners, LLC	I-75 Corridor
5-Bldg Portfolio	4Q-19	758,974	\$156,600,000	\$206	JV Partners Group AG/Parkway	Tampa CBD/Westshore
Bayport Plaza	3Q-19	264,718	\$80,000,000	\$302	IP Capital Partners JV Gem Realty	Westshore
Concourse Center	2Q-19	296,694	\$53,313,000	\$180	Dilweg Companies	Westshore
Westshore Center	2Q-19	215,523	\$52,050,000	\$242	America's Capital Partners	Westshore
Fountain Square II	3Q-19	133,887	\$29,400,000	\$220	Owens Realty Network, LLC	Westshore
Austin Center (5-bldg portfolio)	1Q-19	307,172	\$28,957,500	\$94	Ally Capital Group	Westshore
400/450 Carillon Pky	3Q-19	103,287	\$18,000,000	\$174	Feldman Equities, LLC	Gateway
Meridian Concourse Center*	4Q-19	150,633	\$15,382,000	\$102	Albany Road	Gateway
Grand Plaza Office Center	3Q-19	134,843	\$15,100,000	\$112	RealOp Investments, LLC	Northwest Tampa

*Avison Young handled this transaction

Orlando

Total deal volume for 2019 was down slightly over 2018 due in part to a sharp decline in the number of portfolio transactions.

Nation-leading employment growth, steady leasing and sustained economic fundamentals continue to bolster Orlando's office market. The urban core continues to evolve as office, multifamily and mixed-use developments are planned at a rapid pace, and several major lease transactions have generated excitement about what's to come in 2020.

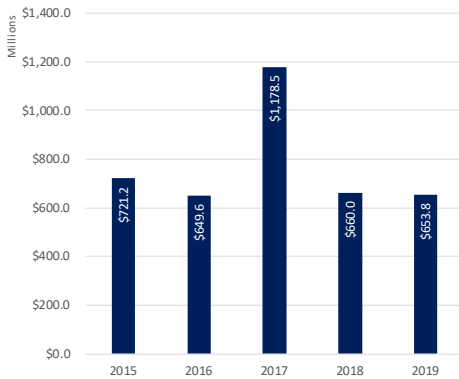
Office sales volume during 2019 totaled \$654 million, accounting for over 3.7 million sf, a slight 2.5% decrease in total volume from the previous year due in part to a decline in major portfolio transactions and robust investment sales activity over the last few years. In short, a significant number of institutional grade and value-add properties have already changed hands, leading to a deceleration in overall sales volume. Nearly half of all transactions were sold to private investors, with institutional investors accounting for 35% of all sales and cross-border capital involved in 13% of all

transactions. There were no major REIT acquisitions during 2019.

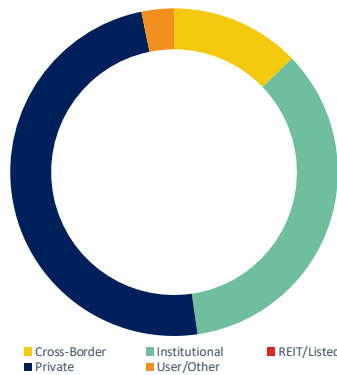
Significant investment sales activity in downtown Orlando over the last several years has resulted in a dearth of opportunities for investors to acquire high-quality and prominently situated assets within the urban core. While downtown trophy office building sales are rare, another prominent class A office tower traded hands during the fourth quarter when Miami-based Black Salmon Capital LLC ("Black Salmon"), in partnership with Tower Realty Partners, acquired 111 North Orange Ave in December for \$67.8 million, or roughly \$275 per sf.

Continued growth within the professional business services sector in Orlando will remain solid in 2020 and is expected to grow at a faster rate than in other Florida metros through 2023, which will provide additional fuel for office investment sales activity in the coming year.

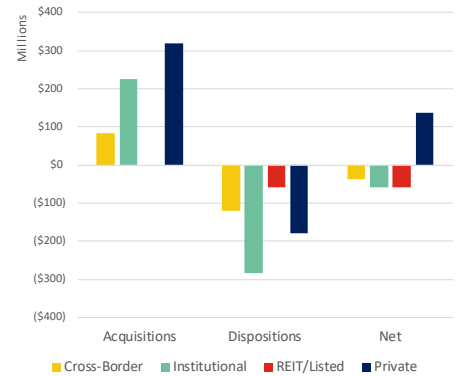
5-Yr Office Sales Volume Trend



Buyer Composition in 2019



Capital Flows in 2019



Significant 2019 Office Transactions Ranked by Sales Price

Property	Date Sold	SF	Sale Price	Price/SF	Buyer	Submarket
111 N Orange Ave	4Q-19	246,511	\$67,750,000	\$275	Black Salmon Capital LLC	Downtown Orlando
University Park (5 bldgs)	2Q-19	388,863	\$67,357,859	\$173	IP Capital Partners	University/Research
Siemens Bldg	2Q-19	225,608	\$53,750,000	\$238	Real Capital Solutions	University/Research
Discovery Point	2Q-19	364,000	\$49,500,000	\$136	Tower Realty Partners/DRA Advisors	University/Research
Maitland Promenade I	1Q-19	229,837	\$48,500,000	\$211	KBS Realty Advisors	Maitland
11950 Corporate Blvd	4Q-19	226,548	\$47,900,000	\$211	Stockbridge Capital Group LLC	University/Research
Millenia Park One	3Q-19	157,291	\$38,250,000	\$243	Warmack Investments	Southwest
Reserve at Maitland I	1Q-19	196,835	\$33,500,000	\$170	Jefferson River Capital LLC	Maitland
Highwoods Portfolio (2 bldgs)	2Q-19	186,832	\$32,500,000	\$174	New York Life	Southwest
Maitland Concourse	4Q-19	133,592	\$22,000,000	\$165	Warmack Investments	Maitland

Private investors are increasingly targeting the Jacksonville area, accounting for 40% of all sales volume in 2019.

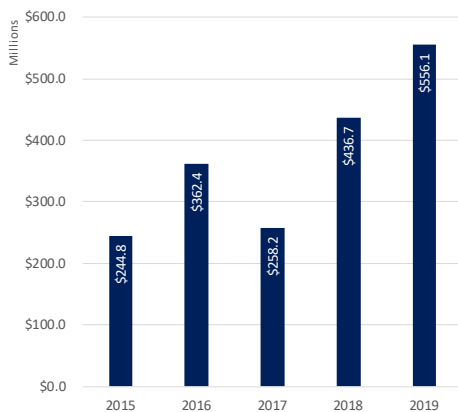
Commercial real estate leasing and investment activity got off to a slow start in 2019 but the year did not disappoint. The year was punctuated by several significant leasing transactions, strong development and permitting activity (particularly residential and multifamily), accelerating investment volume, and a flight to quality on the part of tenants and investors. Downtown Jacksonville is seeing a resurgence of interest in the urban core, with Florida Blue, Fidelity National Information Services and VyStar all announcing major new projects downtown or in the immediate periphery, and multiple new commercial developments are proposed or underway throughout the metro area.

Sales volume for the final quarter of 2019 totaled only \$87.3 million, however year-over-year volume was up markedly (+22%) due in large part to increased portfolio volume over the course of the year. A total of 32 properties traded hands

during 2019 totaling 4.1 million sf and 94% of all transactions were to institutional and private buyers.

The most significant transaction in 2019 occurred in the second quarter when an 11-building class A portfolio in Deerwood Park was purchased for \$231 million by a joint venture of Starwood Real Estate Income Trust, Inc., Vanderbilt Office Properties and Trinity Capital Advisors. The off-market transaction totaled 1.3 million sf and the portfolio was 90% leased with major tenants including Fidelity Investments, The Adecco Group and JP Morgan Chase. The buildings had previously sold for \$195 million three years prior. Moving forward, healthy investment sales activity during the final quarter of the year bodes well for 2020. Even with a contentious upcoming election year looming, Jacksonville's office market is expected to remain healthy in 2020

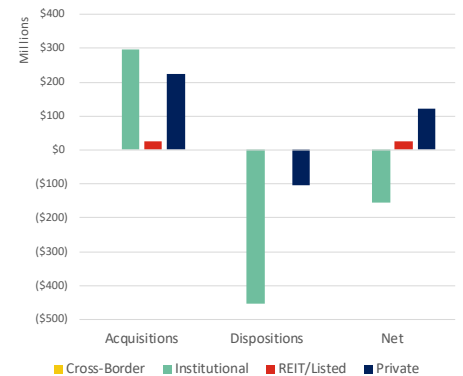
5-Yr Office Sales Volume Trend



Buyer Composition in 2019



Capital Flows in 2019



Significant 2019 Office Transactions Ranked by Sales Price

Property	Date Sold	SF	Sale Price	Price/SF	Buyer	Submarket
Deerwood Park Portfolio	2Q-19	1,270,000	\$231,000,000	\$182	Starwood Capital JV Trinity Capital JV Vanderbilt Partners	Deerwood Park
9000 Southside (4 bldgs)	2Q-19	430,816	\$53,000,000	\$123	Glenfield Capital	Baymeadows
Capital Plaza at Deerwood Park	3Q-19	448,096	\$51,500,000	\$115	Somerset Properties	Deerwood Park
Southside Quarter	3Q-19	125,000	\$42,266,402	\$338	Real Capital Solutions	Deerwood Park
Butler Plaza	4Q-19	242,360	\$37,900,000	\$156	TPG Global LLC	Southpoint
Cypress Point Business Park	2Q-19	344,000	\$35,800,000	\$104	Viking Partners	Baymeadows
Midtown Centre	3Q-19	760,793	\$31,500,000	\$41	Nova Capital Partners	Southside
5201 Gate Pky	4Q-19	150,000	\$27,750,000	\$185	SOP 5201 Gate Pky, LLC	Deerwood Park
Enterprise Park	3Q-19	224,360	\$20,675,000	\$92	LRC Properties	Southpoint



LEADERSHIP

Michael T. Fay
Principal, Managing Director, Miami
305.447.7842
michael.fay@avisonyoung.com

David Duckworth
Principal
954.938.1806
david.duckworth@avisonyoung.com

BOCA RATON

Keith O'Donnell
Principal
561.893.7011
keith.odonnell@avisonyoung.com

Mark Rubin
Principal
561.229.0859
mark.rubin@avisonyoung.com

FORT LAUDERDALE

A. J. Belt, III
Principal
954.375.2069
aj.belt@avisonyoung.com

Berkley Bloodworth
Associate
954.938.1804
berkley.bloodworth@avisonyoung.com

MIAMI

George Vail
Principal, Debt Equity
305.447.7869
george.vail@avisonyoung.com

Jay A. Ziv, CCIM, SIOR, ALC
Principal
305.447.7849
jay.ziv@avisonyoung.com

John K. Crotty, CCIM
Principal
305.447.7865
john.crotty@avisonyoung.com

Rosendo Caveiro, CPA
Senior Vice President
305.447.7868
rosendo.caveiro@avisonyoung.com

Brian C. De la Fé
Senior Associate
305.446.7134
brian.delafe@avisonyoung.com

Mariano Perez
Vice President
305.447.7851
mariano.perez@avisonyoung.com

Emily Brais
Associate
305.447.7858
emily.brais@avisonyoung.com

TAMPA

Tim Callahan
Principal
813.280.8372
tim.callahan@avisonyoung.com

Allen Henderson
Vice President
813.444.5330
allen.henderson@avisonyoung.com

GAINESVILLE

Nick Banks
Principal, Managing Director, Gainesville
352.505.3700
nick.banks@avisonyoung.com



Platinum member

avisonyoung.com

