AVISON YOUNG

Office Market Report / Fourth Quarter 2020

Florida

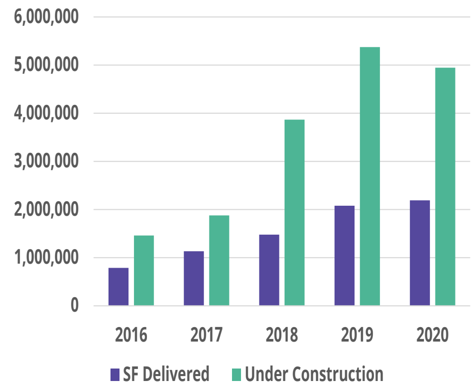
Florida's office markets continue to navigate the new reality imposed by COVID-19 during 2020

2020 was a year like no other. The Covid-19 pandemic has marked a tipping point in the disruption of employment patterns and work styles, forcing companies to adopt solutions that would have normally taken years to reach. Occupiers are re-evaluating space needs in an effort to create efficiencies without sacrificing their 'sense of place' and culture. Work-from-home implications will have a lasting impact on Florida's office markets, and the future impact of the workplace strategies adopted during 2020 will not be known for some time. It is widely expected that most companies will return to the office, albeit with a changed footprint, and while future market dynamics cannot be foreseen at this point certain observations can still be made. The trend of de-densification is beginning to take root and moving forward, many new office developments are expected to focus on flexible building design, incorporating wellness into their footprints, and/or providing a mixed-use component in order to create a more 'livable' workspace for employees. The pandemic may also accelerate growth in suburban areas as some tenants look outside the CBD in search of cost savings and to escape densely populated office towers.

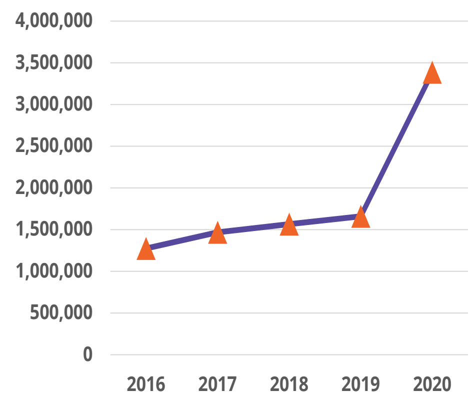
Let's move on to what we do know with certainty – that market dynamics are beginning to shift across the state, and not necessarily for the better in the near term. Florida's office markets weathered the storm that was 2020 for several successive quarters, but the dynamics began to change toward the end of the year. Total vacancy accelerated by 321 basis points (bps) to 13.95% during the trailing 12-month period ending with December, and the expected glut of sublease space has begun to arrive, with total vacant sublease space more than doubling over that period to a current 1.54%, with the highest concentrations in Broward County, Orlando and Jacksonville. Net absorption, which ended 2019 at close to 3 million sf, declined precipitously by the end of 2020, ending the year at –2.6 million sf. Nearly 47% of the absorption losses sustained during 2020 took place in the Miami-Dade and Orlando markets, partly due to the higher-than-average reliance of those two metropolitan areas on the leisure & hospitality sector in addition to an overall declining trend in the average office footprint.

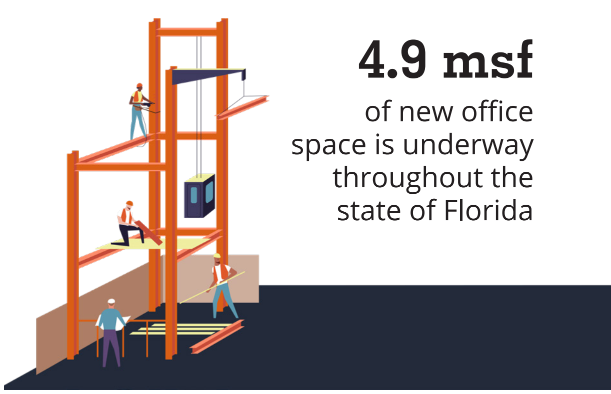
With that said, it's not all gloom and doom. With deal activity picking up toward the end of the year and more tenants increasingly willing to sign traditional term deals beyond the short-term renewals that dominated the conversation for two straight quarters, there is optimism that Florida's office markets will begin to approach a return to normal by the end of 2021. For now, sublease space is on the rise and rental rates, which have grown by 5.7% over the past year in spite of the economic environment, have real potential to decelerate in the near-term, and certainly until the current glut of sublease space begins to be absorbed.

Office construction pipeline



Vacant sublease space trend





4.9 msf
of new office space is underway throughout the state of Florida

220.4 MSF
Total office inventory in the Florida office market

(2,594,273) SF
Direct Y-T-D net absorption as of 4Q-2020

13.95%
Overall vacancy

$33.06/SF/FS
Average rental rate

Short-term market dynamics.
While some tenants remain in business preservation mode, others are keeping an eye toward their operations once pandemic pressures ease. There is a total of 4.9 million sf of office space under construction in Florida's primary office markets, the majority of which is higher-end class A space, and 43% of which is concentrated in the state's largest urban cores. In the short term, the strong uptick in new supply alongside the expected continued increase in sublease space could create some downward pressure on rental rates in those markets. Longer term, the increased supply of large blocks of office space will prove beneficial in securing business with several of the financial and tech firms currently seeking to relocate from the Northeast. One such example is Goldman Sachs, which is reportedly in talks to lease space in Downtown Fort Lauderdale for its asset management division. Elsewhere in South Florida, Microsoft, Citadel, and Chicago-based law firm Baker Makenzie are also touring the Miami market, and there are two companies looking for 40,000+ sf in Palm Beach County.

Muted investment activity during an unprecedented year.
While U.S. office investment volume was down considerably during 2020, there is approximately $200 billion in investment capital expected to come off the sidelines in 2021 that will be targeting commercial real estate. Total office transaction volume during 2020 was down 49.2% over the previous year to $2.4 billion, although there was a corresponding decline of 30.3% in the total number of properties taken to market. Many assets were being prepared to be marketed for sale prior to the pandemic reaching fever pitch in the second quarter, and several of those should hit the market in 2021, leading to optimism that transaction volume will easily eclipse what closed in 2020. With regard to buyer profiles, over 53% of all office investment sales activity during 2020 (properties 20,000 sf and up) was comprised of sales to private investors, followed by 35.1% to institutional investors, which is very much in line with overall buyer composition during 2019 but reverse that of 2018 when sales to institutional investors far outpaced those to private buyers. The top buyer over the trailing 24-mos ending December 2020 was Utah-based Bridge Investment Group, followed by The Related Companies out of New York, and Vanderbilt Partners out of Chicago. These three companies alone accounted for $911.2 million in total office transaction volume during 2019-2020 in Florida's primary markets. The top 5 office transactions in terms of total price occurred within the South Florida and Jacksonville markets, with Brickell City Centre securing the top spot overall. The 260,000-sf class A office building in Miami's Brickell submarket sold to Northwood Investors during the third quarter, trading for $163 million, or $627 per sf.

What's next?
While 2020 was a difficult year in many ways – and certainly for the office market – it is important to note that the crisis was not a real-estate related one but rather a public health emergency. The fear that personified the beginning of the current pandemic continues to fade and there is reason for adopting a cautiously optimistic viewpoint heading into 2021. With a very contentious election cycle in the rear-view mirror and an accelerated COVID-19 vaccine distribution rollout now taking place, attention can now pivot to turning the page and promoting job growth and reversing the occupancy losses sustained during 2020.

Fort Lauderdale Market Contact

Greg Martin
Principal, Managing Director
954.903.1815
greg.martin@avisonyoung.com

Jacksonville Market Contact

Mark Montgomery
Senior Vice President
904.512.0545
mark.montgomery@avisonyoung.com

Miami Market Contacts

Donna Abood
Principal, Managing Director
305.447.7857
donna.abood@avisonyoung.com

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

Orlando Market Contact

Greg Morrison
Principal, Managing Director
407.440.6640
greg.morrison@avisonyoung.com

Palm Beach County Market Contact

Greg Martin
Principal, Managing Director
954.903.1815
greg.martin@avisonyoung.com

Tampa Market Contacts

Ken Lane
Principal, Managing Director
813.444.0623
ken.lane@avisonyoung.com

Clay Witherspoon
Principal, Managing Director
813.444.0626
clay.witherspoon@avisonyoung.com

Get more market information

Lisa McNatt
Director, Research - Florida
+1 813 444 0606
lisa.mcnatt@avisonyoung.com

Avison Young - Orlando
135 W Central Blvd
Suite 700
Orlando, FL 32801

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Statistical Summary by Metro Area

Market	Total Inventory (RSF)	Direct Vacant SF	Sublet Vacant SF	% Occupied	% Direct Vacant	% Sublet Vacant	% Overall Vacant	Under Construction (SF)	YTD Net Absorption (SF)	Average Asking Rate ($/SF FS)
Jacksonville	**25,981,636**	**3,448,093**	**445,399**	**86.73%**	**13.27%**	**1.72%**	**14.99%**	**640,751**	**(339,010)**	**$21.45**
CBD	7,300,256	1,048,644	171,568	85.64%	14.36%	2.35%	16.71%	453,000	(65,913)	$22.78
Class A	5,761,738	902,707	171,568	84.33%	15.67%	2.98%	18.64%	453,000	(69,528)	$23.33
Class B	1,538,518	145,937	0	90.51%	9.49%	0.00%	9.49%	0	3,615	$19.41
Non-CBD/Suburban	18,681,380	2,399,449	273,831	87.16%	12.84%	1.47%	14.31%	187,751	(273,097)	$20.87
Class A	7,008,247	850,268	28,116	87.87%	12.13%	0.40%	12.53%	0	25,420	$24.00
Class B	11,673,133	1,549,181	245,715	86.73%	13.27%	2.10%	15.38%	187,751	(298,517)	$19.15
Orlando	**37,699,072**	**3,551,145**	**749,502**	**90.58%**	**9.42%**	**1.99%**	**11.41%**	**542,495**	**(643,003)**	**$24.94**
CBD	7,465,752	883,142	204,926	88.17%	11.83%	2.74%	14.57%	175,000	(129,746)	$29.28
Class A	4,301,044	352,793	165,547	91.80%	8.20%	3.85%	12.05%	175,000	(107,425)	$30.80
Class B	3,164,708	530,349	39,379	83.24%	16.76%	1.24%	18.00%	0	(22,321)	$28.27
Non-CBD/Suburban	30,233,320	2,668,003	544,576	91.18%	8.82%	1.80%	10.62%	367,495	(513,257)	$23.50
Class A	13,201,159	926,100	368,115	92.98%	7.02%	2.79%	9.81%	300,000	(237,912)	$28.08
Class B	17,032,161	1,741,903	176,461	89.77%	10.23%	1.04%	11.27%	67,495	(275,345)	$21.07
Tampa Bay	**41,524,994**	**4,708,036**	**663,137**	**88.66%**	**11.34%**	**1.60%**	**12.94%**	**1,016,845**	**(304,274)**	**$27.01**
CBD	8,794,819	826,235	134,392	90.61%	9.39%	1.53%	10.92%	405,000	(48,232)	$33.70
Class A	7,156,488	712,414	134,392	90.05%	9.95%	1.88%	11.83%	405,000	20,248	$35.21
Class B	1,638,331	113,831	0	93.05%	6.95%	0.00%	6.95%	0	(68,480)	$24.22
Non-CBD/Suburban	32,730,175	3,881,801	528,745	88.14%	11.86%	1.62%	13.48%	611,845	(256,042)	$25.59
Class A	15,624,169	1,479,178	299,120	90.53%	9.47%	1.91%	11.38%	611,845	(186,462)	$30.45
Class B	17,106,006	2,402,623	229,625	85.95%	14.05%	1.34%	15.39%	0	(69,580)	$22.60
SOUTH FLORIDA										
Broward County	**32,713,715**	**4,332,547**	**657,540**	**86.76%**	**13.24%**	**2.01%**	**15.25%**	**523,198**	**(369,289)**	**$34.59**
CBD	5,485,338	1,136,753	109,703	79.28%	20.72%	2.00%	22.72%	0	(38,623)	$47.62
Class A	4,399,978	1,011,435	95,061	77.01%	22.99%	2.16%	25.15%	0	(5,269)	$49.28
Class B	1,085,360	125,318	14,642	88.45%	11.55%	1.35%	12.90%	0	(33,354)	$34.29
Non-CBD/Suburban	27,228,377	3,195,794	547,837	88.26%	11.74%	2.01%	13.75%	523,198	(330,666)	$29.95
Class A	11,427,932	1,377,000	313,808	87.95%	12.05%	2.75%	14.80%	523,198	(211,302)	$34.82
Class B	15,800,445	1,818,794	234,029	88.49%	11.51%	1.48%	12.99%	0	(119,364)	$26.27
Miami-Dade County	**55,502,698**	**7,821,394**	**528,967**	**85.91%**	**14.09%**	**0.95%**	**15.04%**	**1,476,192**	**(745,378)**	**$42.33**
CBD	15,896,206	2,532,697	228,081	84.07%	15.93%	1.43%	17.36%	613,000	(184,840)	$45.89
Class A	9,744,586	1,529,897	195,013	84.30%	15.70%	2.00%	17.70%	613,000	(130,639)	$53.91
Class B	6,151,620	1,002,800	33,068	83.70%	16.30%	0.54%	16.84%	0	(54,201)	$33.65
Non-CBD/Suburban	39,606,492	5,288,697	300,886	86.65%	13.35%	0.76%	14.11%	863,192	(560,538)	$40.63
Class A	17,679,670	2,987,431	210,218	83.10%	16.90%	1.19%	18.09%	830,015	(290,925)	$45.90
Class B	21,926,822	2,301,266	90,668	89.50%	10.50%	0.41%	10.91%	33,177	(269,613)	$33.78
Palm Beach County	**27,009,725**	**3,512,545**	**339,349**	**87.00%**	**13.00%**	**1.26%**	**14.26%**	**745,258**	**(193,319)**	**$38.25**
CBD	3,276,548	579,596	51,685	82.31%	17.69%	1.58%	19.27%	503,950	(138,109)	$51.19
Class A	1,733,212	286,334	49,385	83.48%	16.52%	2.85%	19.37%	503,950	(67,814)	$64.83
Class B	1,543,336	293,262	2,300	81.00%	19.00%	0.15%	19.15%	0	(70,295)	$37.88
Non-CBD/Suburban	23,733,177	2,932,949	287,664	87.64%	12.36%	1.21%	13.57%	241,308	(55,210)	$35.70
Class A	6,784,802	974,767	73,375	85.63%	14.37%	1.08%	15.45%	241,308	15,488	$42.09
Class B	16,948,375	1,958,182	214,289	88.45%	11.55%	1.26%	12.81%	0	(70,698)	$32.42
FLORIDA	**220,431,840**	**27,373,760**	**3,383,894**	**87.58%**	**12.42%**	**1.54%**	**13.95%**	**4,944,739**	**(2,594,273)**	**$33.06**
CBD	48,218,919	7,007,067	900,355	85.47%	14.53%	1.87%	16.40%	2,149,950	(605,463)	$39.62
Class A	33,097,046	4,795,580	810,966	85.51%	14.49%	2.45%	16.94%	2,149,950	(360,427)	$43.35
Class B	15,121,873	2,211,497	89,389	85.38%	14.62%	0.59%	15.22%	0	(245,036)	$31.53
Non-CBD/Suburban	172,212,921	20,366,693	2,483,539	88.17%	11.83%	1.44%	13.27%	2,794,789	(1,988,810)	$30.81
Class A	71,725,979	8,594,744	1,292,752	88.02%	11.98%	1.80%	13.79%	2,506,366	(885,693)	$36.95
Class B	100,486,942	11,771,949	1,190,787	88.29%	11.71%	1.19%	12.90%	288,423	(1,103,117)	$26.31

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