

An aerial photograph of a city skyline, likely Fort Lauderdale, featuring various high-rise buildings, a prominent blue glass skyscraper, and a street with traffic. The image is used as a background for the report cover.

**AVISON
YOUNG**

Fort Lauderdale Office Insight Report

Q3 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- South Florida's economy showed continued resiliency with the unemployment rate declining to **5.6%** as of July 2021, a substantial drop from 13.7% in May 2020.
- Office-using job losses in South Florida have totaled **5.0%**, with the strongest recovery being in the financial activities sector, which has seen a job gain of 0.2% since February 2020. Across all job sectors, the leisure and hospitality sector continues to be the most affected by the pandemic, recording job losses of 17.5% in July 2021.



Recovery rate

- Florida's GDP has grown by **7.0%** as of the most recently released data from the U.S. Bureau of Economic Analysis, placing it among the top 10 states in the U.S. with the strongest GDP growth.
- South Florida's openness of business and lower tax environment has fueled a large migration of people and businesses to the region, which has helped to mitigate some of the potential downsides of the pandemic that other markets have been experiencing.



Office demand

- Leasing activity has seen a resurgence in the last half of the year with year-to-date volume down only **7.0%** from total leasing volume in 2020 with another quarter still left to go.
- While short-term lease renewals have been quite common in the post-COVID leasing environment, average lease terms have started to gain positive momentum, averaging **59 months** as of September 2021.
- Some tenants touring the market are taking advantage of the surplus of sublease space in the market. The largest office deal of the quarter was GameStop's sublease of **28,890 sf** in Pembroke Pines.

Key takeaways



Office supply

- Fort Lauderdale’s overall vacancy remains at its highest point since 2013 at **18.1%**.
- A number of large subleases have hit the market throughout 2021, bringing sublease vacancy to **2.0%** of office inventory. Some of the largest subleases to recently hit the market included Carnival’s nearly 85,000 sf and Royal Caribbean’s nearly 50,000 sf in Southwest Broward.



Pricing trends

- Base rents have increased by an impressive **12.2%** since year-end 2020, much of which can be attributable to new class A office deliveries in 2020 and 2021 that had minimal pre-leasing. The class A Optima Onyx Tower delivered in Hallandale Beach this quarter, with 51.5% of the building still available for lease.



Capital markets

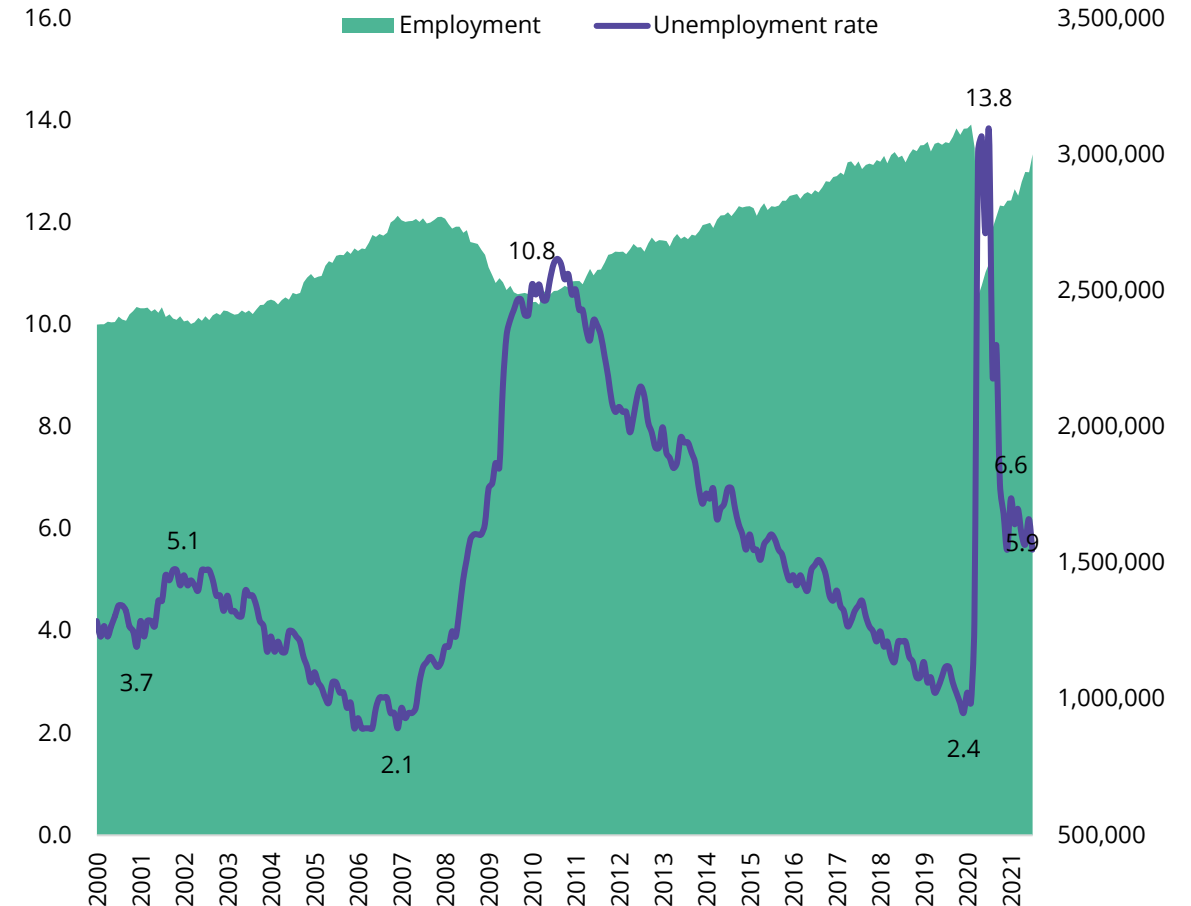
- Office investment activity has been steady with a total transaction volume of **\$747.2M** for 2020 through year-to-date 2021. The largest sale of the quarter was the sale of the three-building Venture Corporate Center in Hollywood to Fox Ridge Capital, TKF Real Estate and Jax Capital Investments for \$50 million, or **\$194 per sf**.
- Asset pricing has softened slightly by **1.7%** from November 2019 to present, though it has demonstrated signs of stabilizing.

Employment and unemployment rate

5.6%

South Florida's unemployment rate as of July 2021, 820 basis points below the height of the pandemic

After reaching near full employment levels in 2019 and early 2020, unemployment soared to a record high due to the pandemic, with nearly 591,083 job losses between February and May 2020. However, the labor market has begun to recoup its strength during the last half of the year, adding back 19.1% jobs since May 2020.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

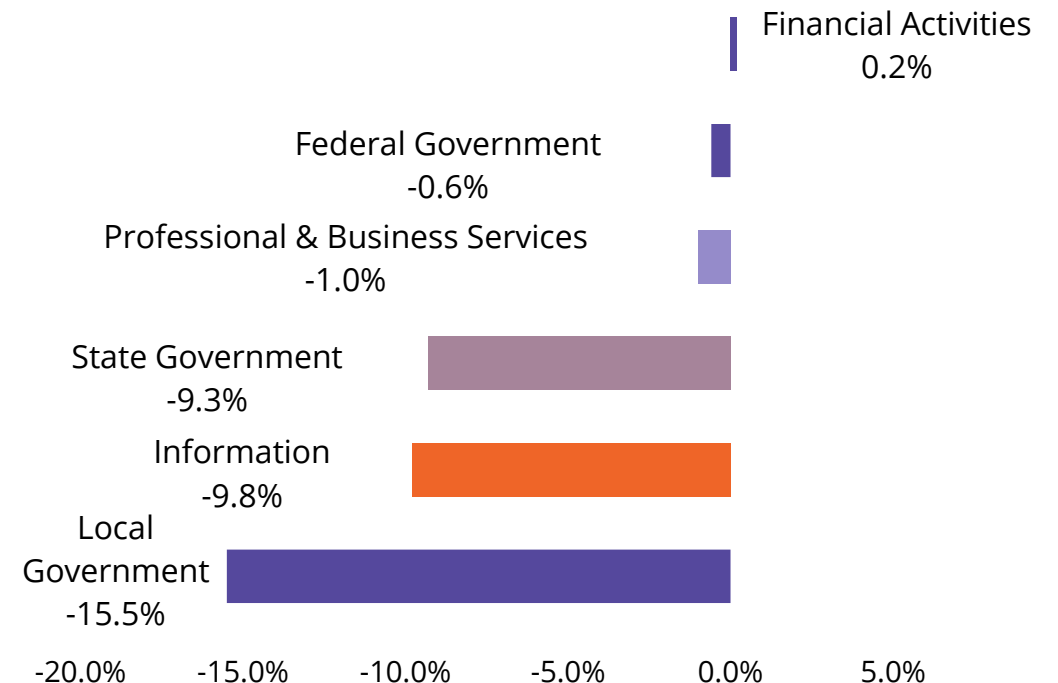
-5.0%

Change in office-using employment during the pandemic

South Florida MSA job losses have declined by 6.8% since the start of the pandemic, though office-using jobs contracted by just 5.0%. This recession's impact on the office-using labor market has been less severe than the global financial crisis, when financial activities job losses totaled 13.9%.

[VIEW DASHBOARD](#)

Total change in South Florida MSA* job gains/(losses) February 2020 to July 2021



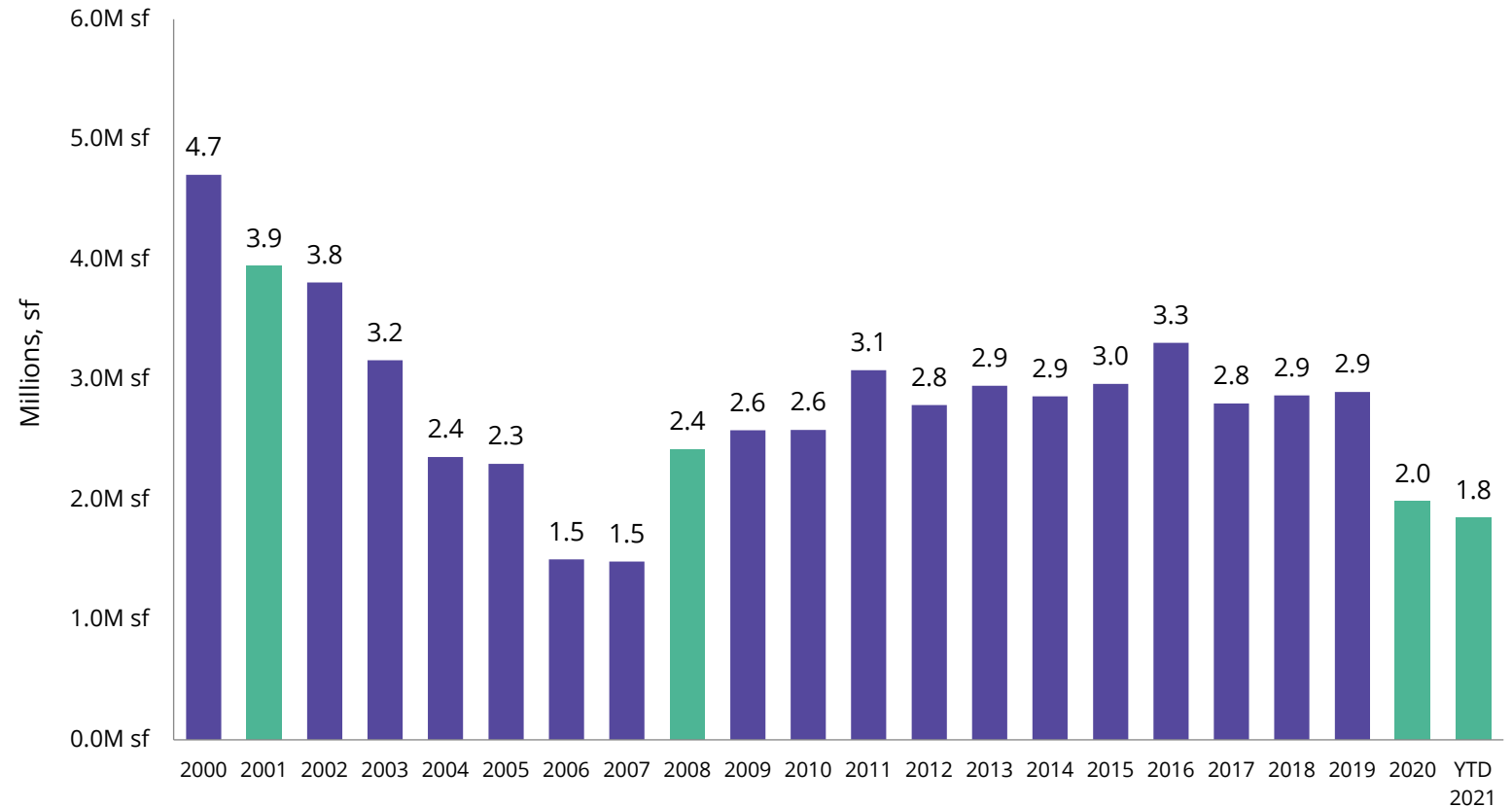
Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Office leasing activity

-7.0%

**Year-to-date 2021
leasing activity
compared to 2020**

Leasing activity saw an improvement during 3Q21 and remains down by only 7.0% of 2020's total leasing activity. There is still room to go to reach pre-pandemic levels, but leasing momentum is moving in the right direction.



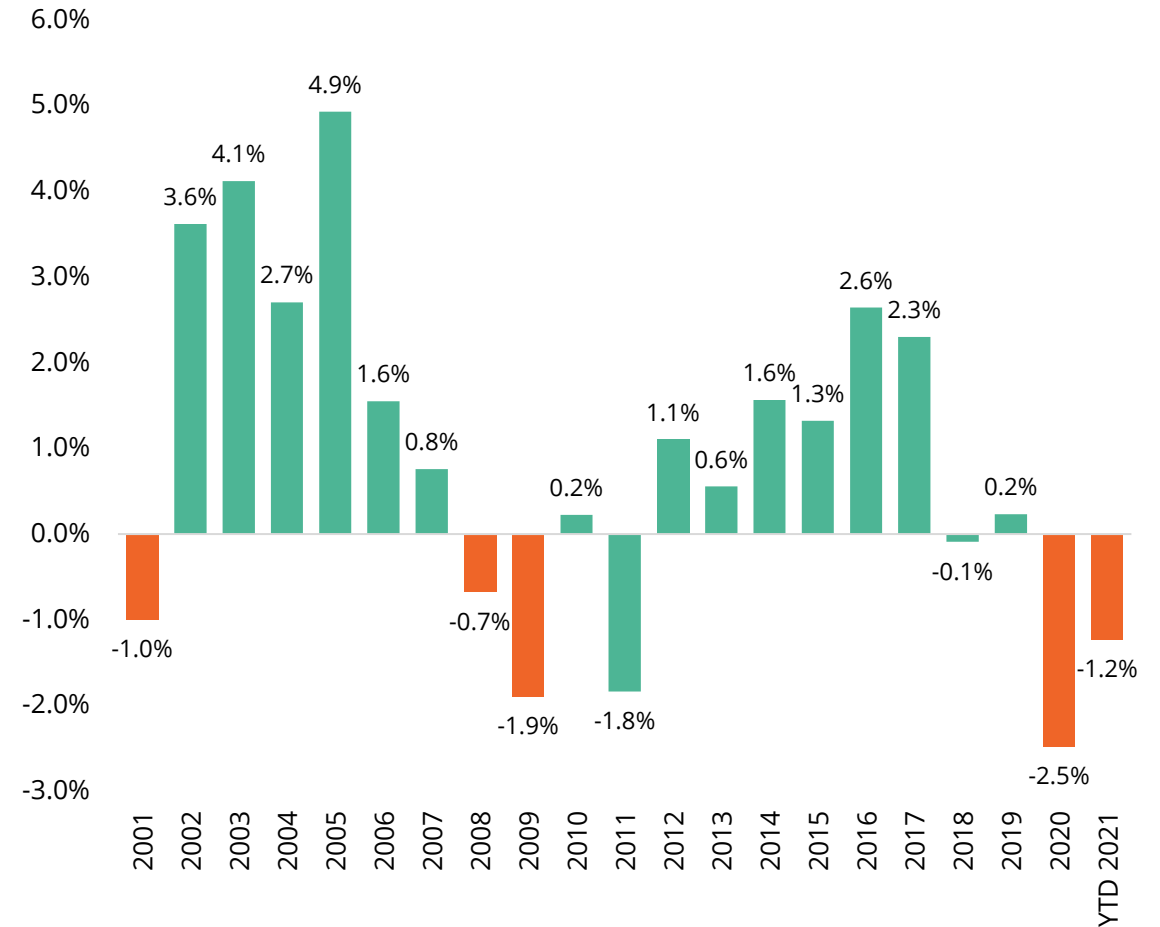
Source: AVANT by Avison Young

Absorption

-3.7%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Negative absorption from 2020 to 3Q21 has totaled 1.2 million sf, totaling 3.7% of the existing stock. This negative absorption significantly surpasses the lows of the global financial crisis (-1.9%) and the early 2000s recession.



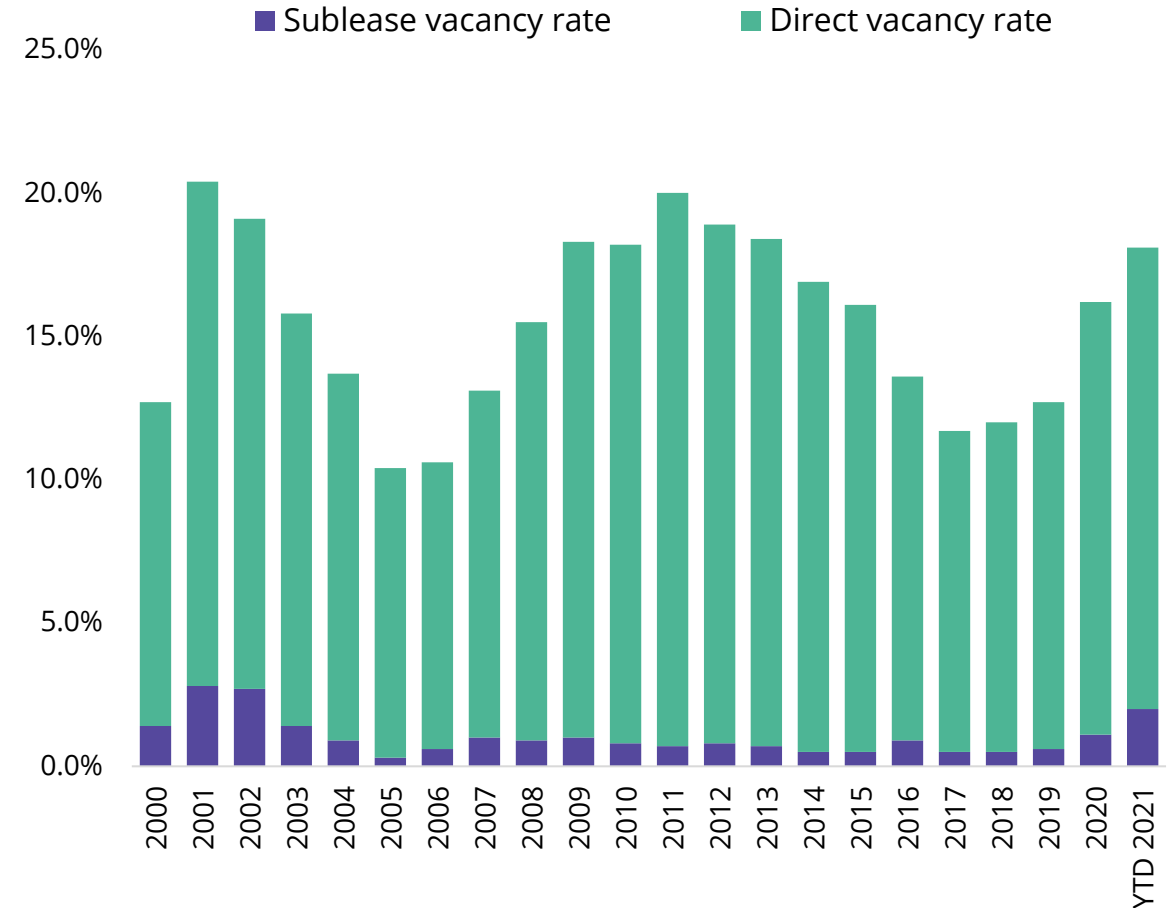
Source: AVANT by Avison Young

Vacancy rate

18.1%

Record high Fort Lauderdale vacancy as of Q3 2021

Fort Lauderdale's vacancy rate remains at the highest level since 2013 at 18.1%. The delivery of the Optima Onyx Tower in Hallandale drove some of the direct vacancy, while a handful of large subleases that have hit the market throughout the year brought sublease vacancy to 2.0% of the office market in Broward.



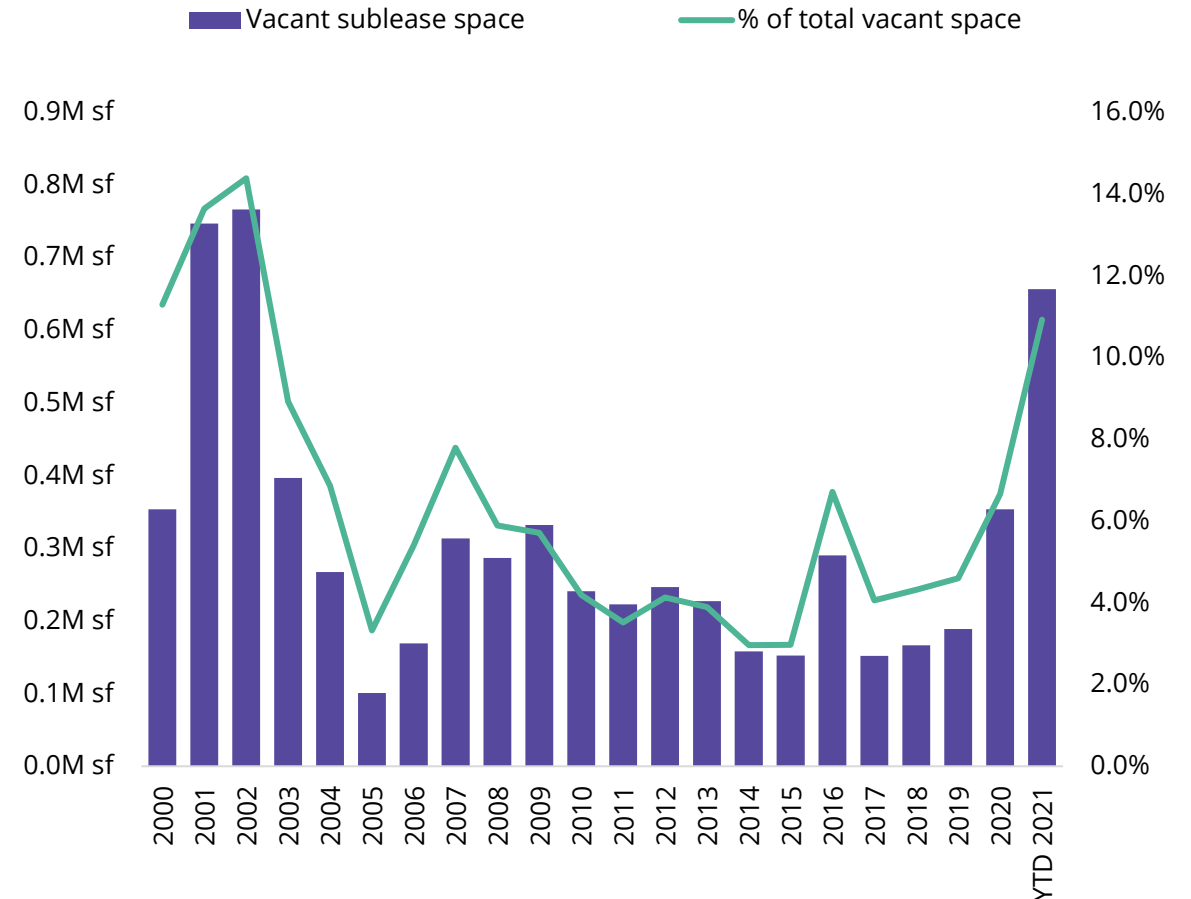
Source: AVANT by Avison Young

Vacant sublease space

0.6 msf

Record levels of sublease vacant space

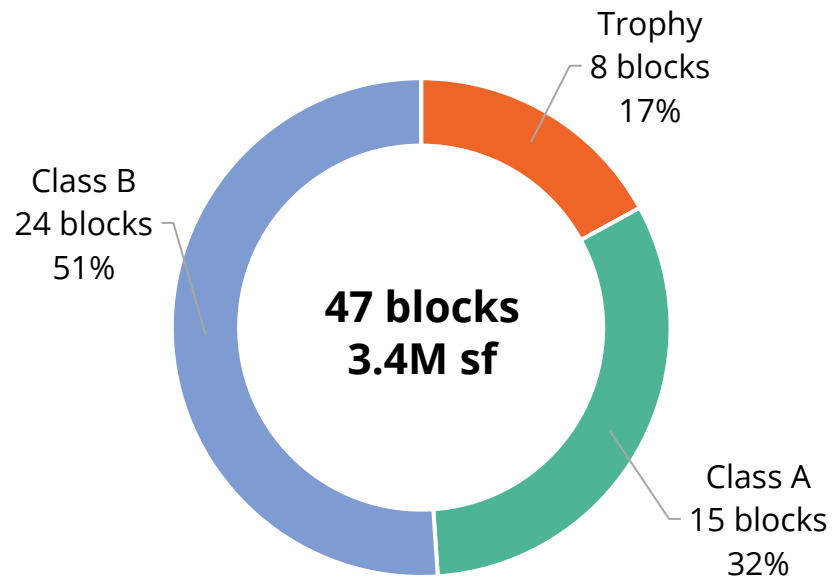
The share of sublease-to-total vacant space remains in double-digit territory at 10.9% and has surpassed the peak of 7.8% from the global financial crisis levels, but has not yet reached magnitude of 14.4% during the Dot-com Recession.



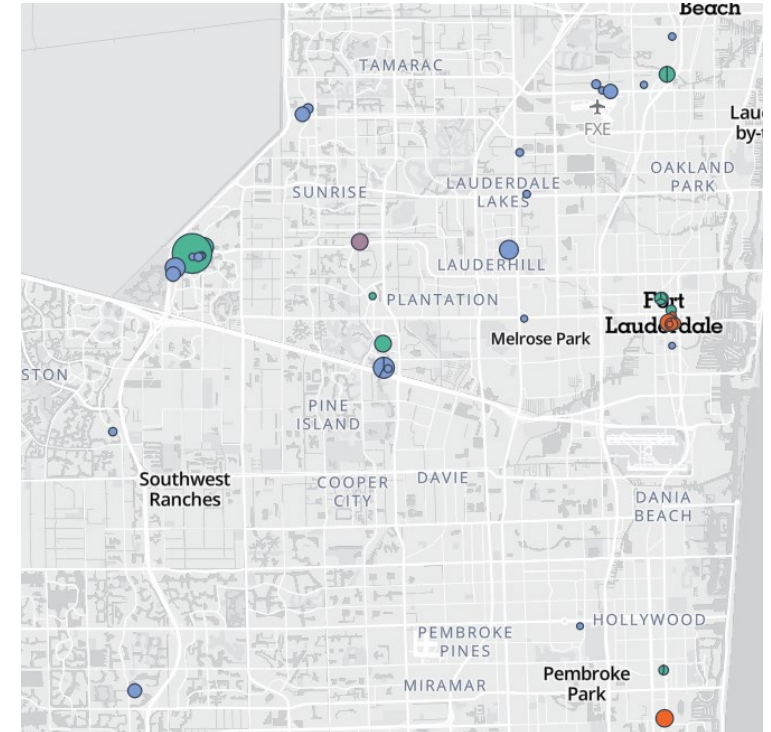
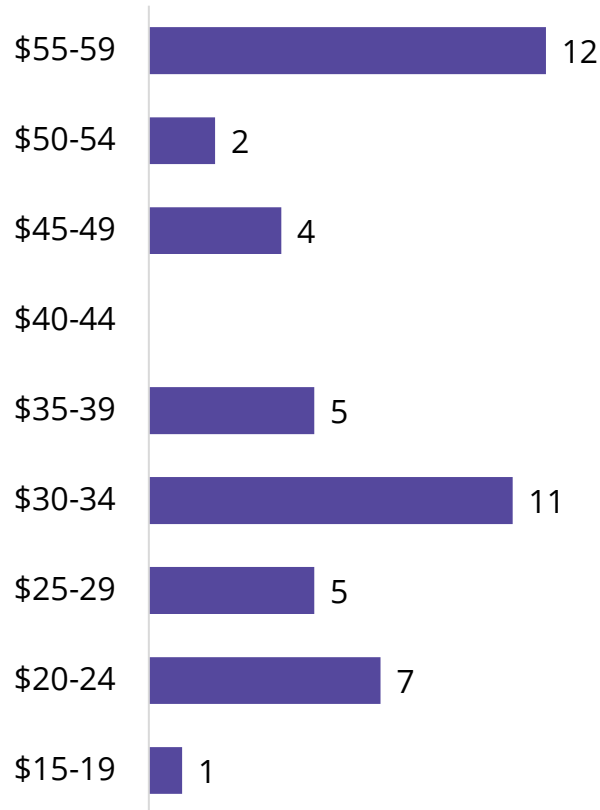
Source: AVANT by Avison Young

Large block supply pipeline

Building classification



Asking rent per square foot



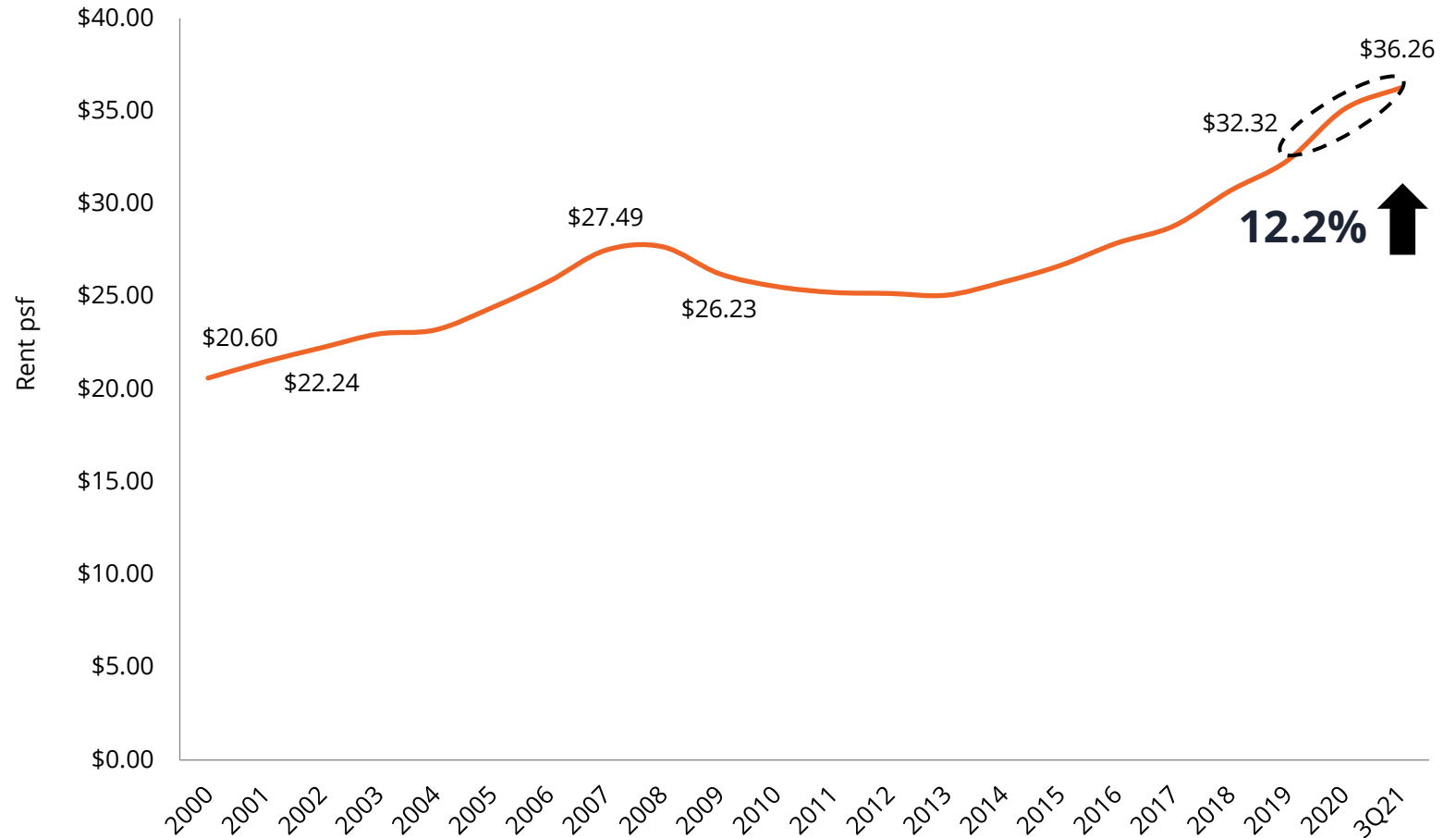
Source: AVANT by Avison Young

Base rents

12.2%

Increase in base rents since the onset of the pandemic

Base rents have increased by an impressive 12.2% since the onset of the pandemic, the highest rate among the South Florida metros. Much of the increase can be attributable to new construction deliveries with minimal pre-leasing.



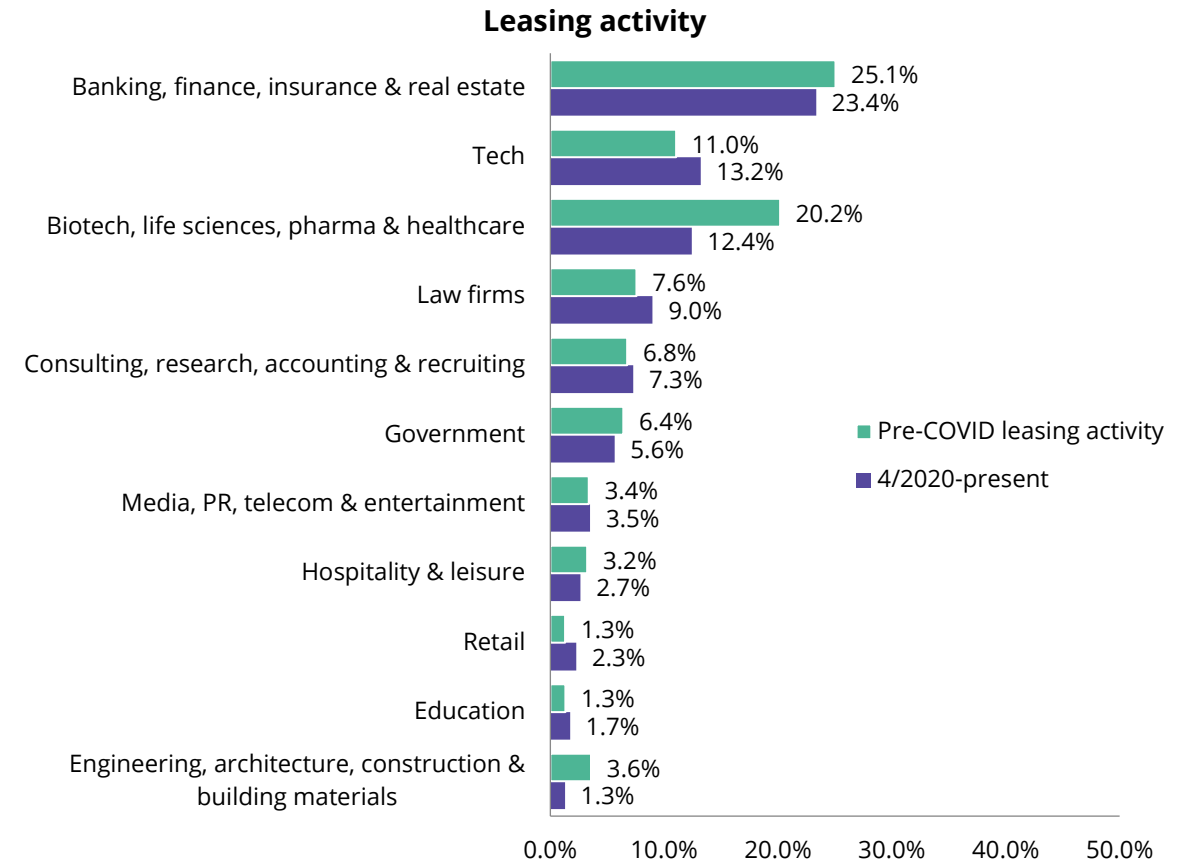
Source: AVANT by Avison Young

Leasing activity trends

13.2%

of post-COVID leasing activity was from tech tenants, up 2.2% from pre-COVID levels

While leasing activity for banking, finance, insurance and real estate tenants remained in-line to pre-COVID levels, leasing activity in the post-COVID environment increased slightly for tech tenants (2.2%) and law firms (1.4%).



Source: AVANT by Avison Young

Fort Lauderdale's construction pipeline

21 properties

proposed or under construction

4.6 msf

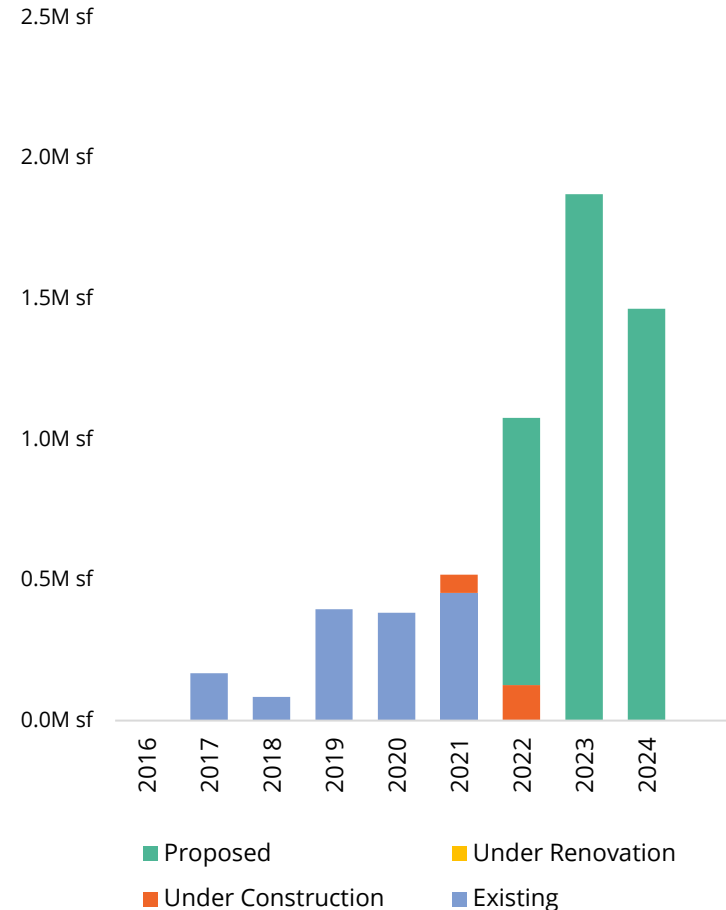
proposed or under construction

11.0%

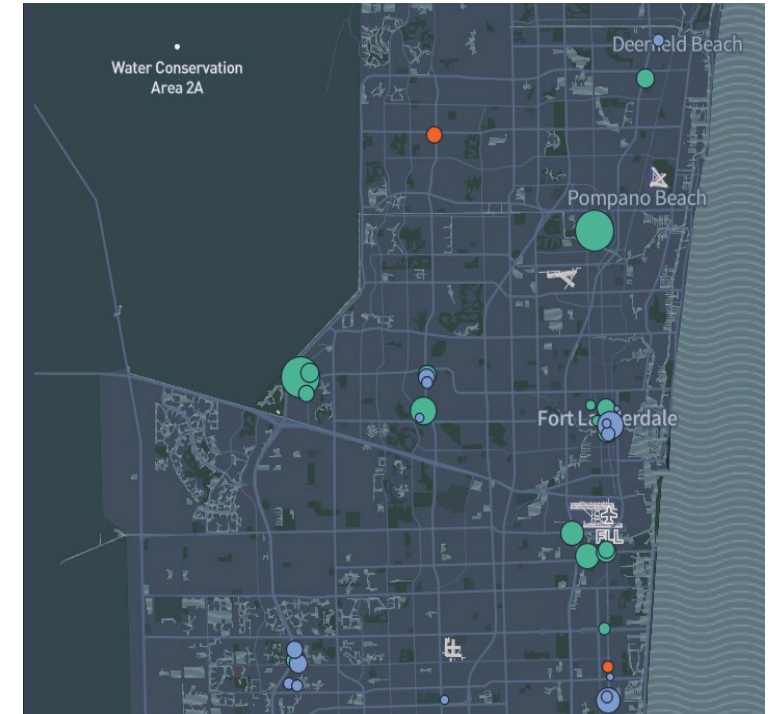
share of office inventory

1.4 msf

new construction deliveries
in Fort Lauderdale since 2016



Source: AVANT by Avison Young

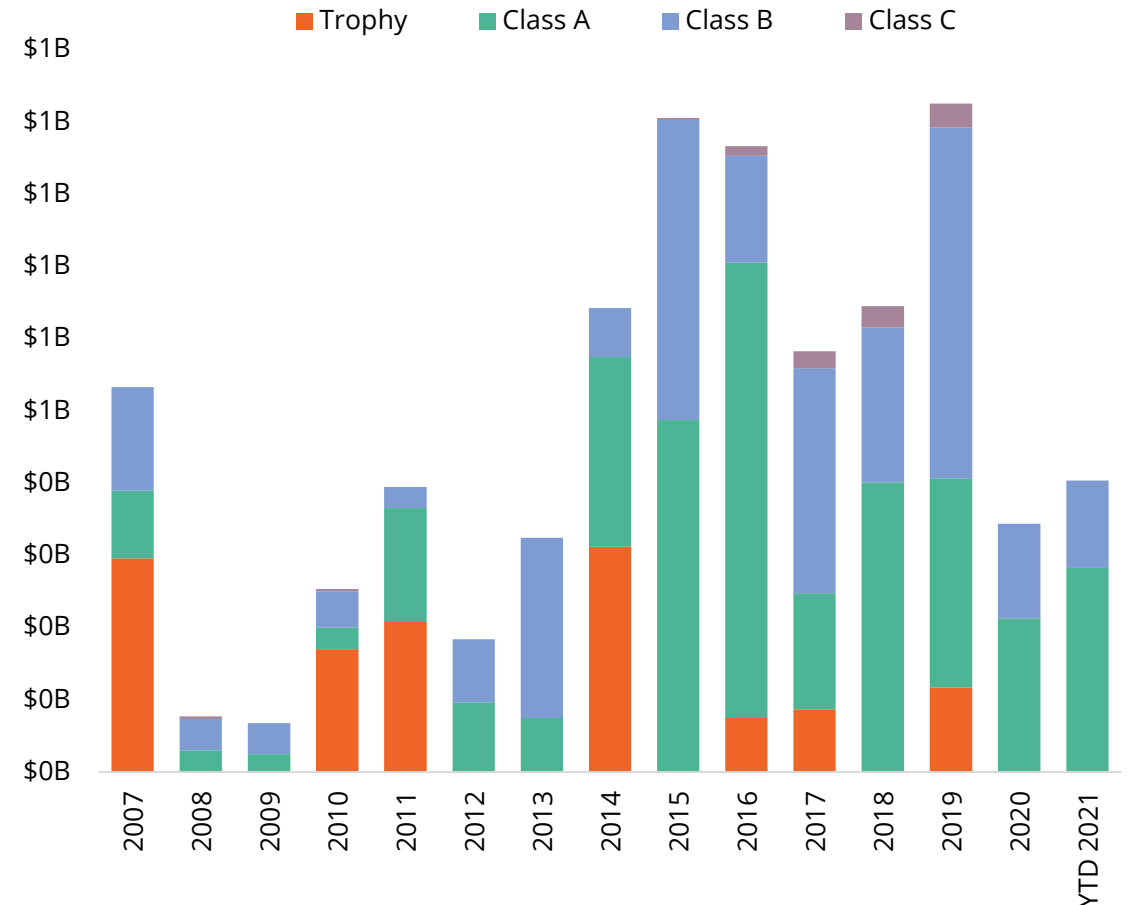


Office investment dollar volume

\$747.2M

Fort Lauderdale office dollar volume 2020 to present

Office sales activity temporarily paused during the pandemic and, as a result, total sales volume from 2020 through year-to-date 2021 remains down 4.8% compared to the prior five-year average dollar volume.



Source: AVANT by Avison Young, RCA

Office asset pricing

-0.8%

Fort Lauderdale office pricing from November 2019 to present

Fort Lauderdale's office pricing has remained stable during the pandemic as investors briefly put sales on hold. As investment activity has begun to pick back up, office pricing has recovered well in 2021, decreasing slightly from \$263 psf in November 2019 to only \$261 psf in August 2021.



Source: AVANT by Avison Young, RCA

Looking forward



Here's what we can expect

- **Leasing activity has improved** at the close of the third quarter, and the market is beginning to rebound. Although several large-block sublease spaces remain on the market, there has been an **uptick in activity from opportunistic tenants scooping up sublease space** and taking advantage of the discount in pricing.
- While rents have reached all-time highs in Miami and West Palm Beach due to a wave of demand from new-to-market tenants, Fort Lauderdale may pose as an **attractive, lower cost alternative** for smaller, local tenants in these neighboring markets that cannot keep up with the premium rents being offered in the CBD.
- The **highly anticipated office deliveries** of the Main Las Olas and the Optima Onyx Tower in 2020 and 2021 have put added **upward pressure on vacancy** and will likely take some time for the market to absorb the new space. However, economic fundamentals are improving and office-using employment is on the rise, indicating positive signs of growth on the horizon.



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Let's talk

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