

A photograph of a waterfront scene in Fort Lauderdale. On the left is a modern, white, multi-story office building with a grid of windows. To its right is a taller, more ornate building with a yellow facade, red roof, and many balconies. Palm trees and other tropical vegetation are in the foreground along the water's edge. The water is blue with some ripples, and the sky is a clear, bright blue.

**AVISON
YOUNG**

Fort Lauderdale Office Insight Report

Q2 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Reopening efforts and higher vaccination rates have allowed South Florida's unemployment rate to rebound from a high of 13.8% to **5.9%**.
- Florida's strong employment base, pro-business environment, deep talent pool, enviable quality of life, and expansive growth in the tech, health, and finance sectors continue to attract the kind of strong in-migration that resulted in the state winning an extra seat in the U.S. House of Representatives.



Recovery rate

- Florida was ranked **#4** in a WalletHub study of the top U.S. states for their rates of recovery, with industries gaining the most jobs over the year including leisure and hospitality, professional and business services, and trade, transportation and utilities.
- While the pandemic has had a considerable effect on Florida's population, its effect on the business economy was lessened (compared to markets like New York and California) as the state has been largely open for the last few quarters, enabling the business base to return to work and begin to move deals forward.



Office demand

- Leasing activity is at **60.5%** of the total volume recorded in 2020 and while there has been strong touring activity with tenants looking at spaces over 5,000 sf, few deals have actually been executed over the past 90 days.
- A majority of occupiers in Fort Lauderdale continue to prefer shorter-term deals at present, likely three to five years in length.
- Several leases were signed during Q2 north of 10,000 sf, the largest of which was Chewy's lease of **221,597 sf** at Plantation Pointe Office Park. The company will be relocating from Central Broward.

Key takeaways



Office supply

- Direct and sublease vacancy is currently at its highest point in 10 years, totaling **18.9%**.
- Available sublease space is largely spoken for, and some blocks that were placed on the market were opportunistic in nature. Currently, there are multiple companies in the process of subleasing blocks greater than **25,000 sf**.



Pricing trends

- Base rents have increased by **10.4%** peak to trough since the onset of the pandemic, growing to a current average of \$35.68 per sf. The opposite trend occurred in the last recession when rents declined by 4.8%, underpinning yet another of the key differences between the two periods. Some of this increase is due to new deliveries and increasing class A vacancies.
- Landlords continue to provide free rent on multiple-year deals although TI allowances are less negotiable given the current complexities involved in obtaining competitive pricing.



Capital markets

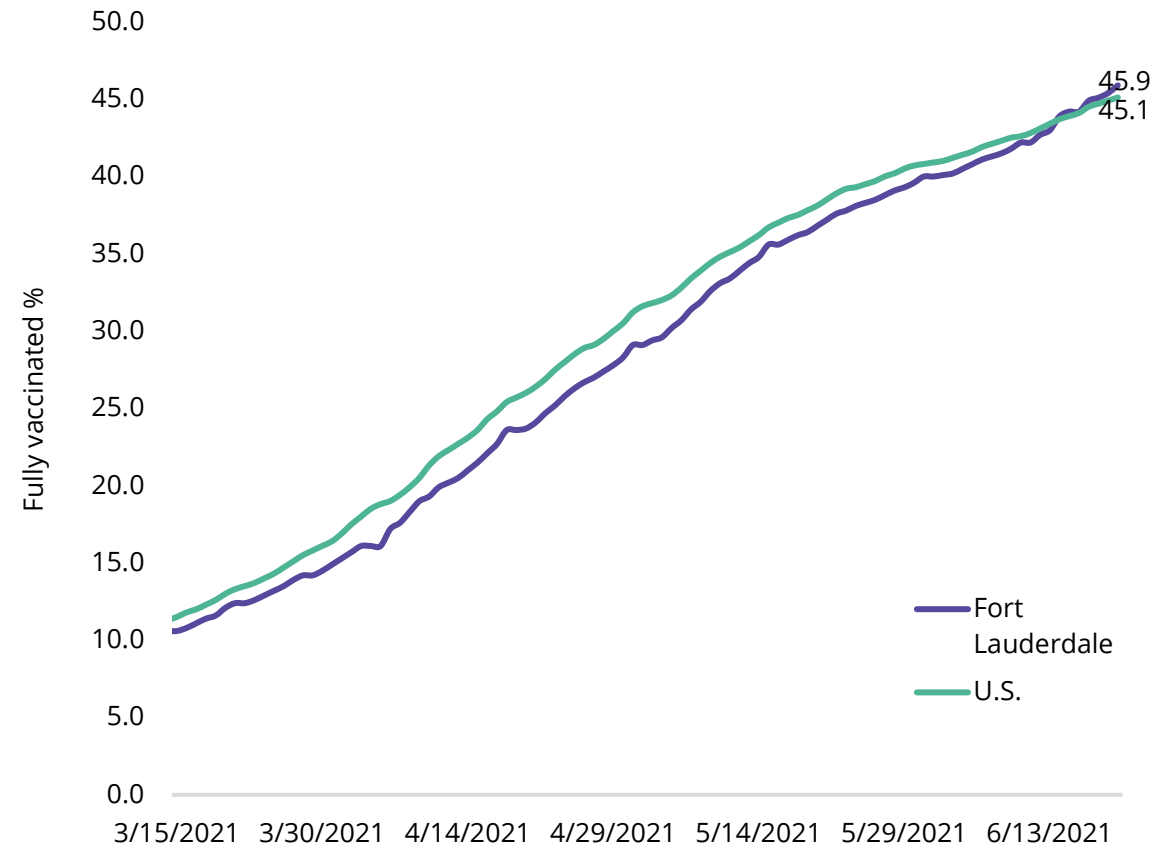
- Office investment activity has been brisk in Fort Lauderdale, with total transaction volume of **\$694.3 million** for the period from Jan 2020 through Jun 2021. The largest sale was Midtown Capital Partners' \$78 million acquisition of 1700 Plantation Pointe, which equated to **\$534 per sf**.
- Investment activity will likely continue at the current pace through the end of 2021 with pricing remaining on an upward trajectory as a steady flow of capital chases deals in Fort Lauderdale.

Vaccination rates

45.9%

Share of total Broward County population that is fully vaccinated

Total vaccinations in Broward County slightly exceed the national average, however the county still lags behind vaccination rates in several major U.S. metros.



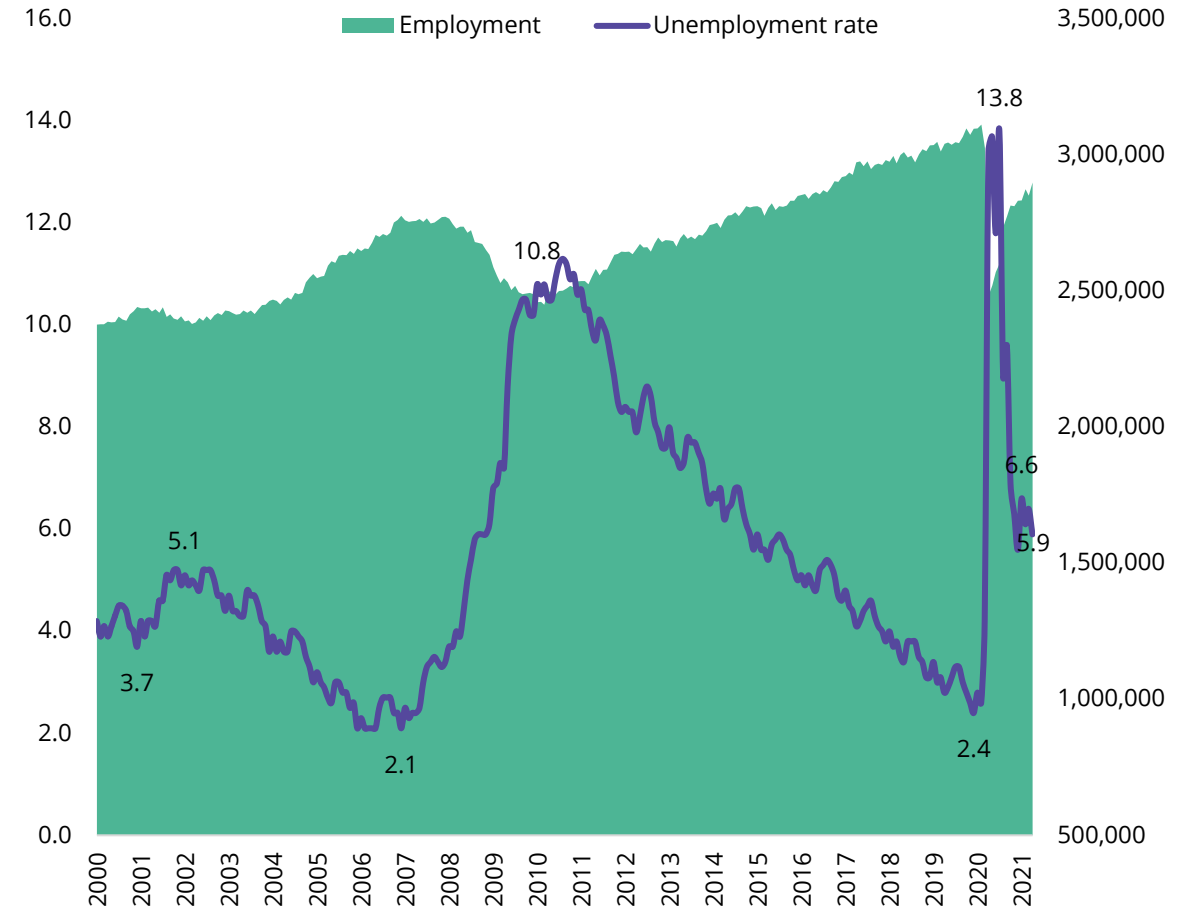
Source: CDC

Employment and unemployment rate

5.9%

South Florida's unemployment rate as of April 2021, 790 bps below the height of the pandemic

Historically tightened labor market conditions were halted by the pandemic with 629,600 job losses between February and April 2020. However, reopening efforts in the months since have enabled the economy to add over 417,000 jobs since May 2020.



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

Office-using job gains and losses

-4.0%

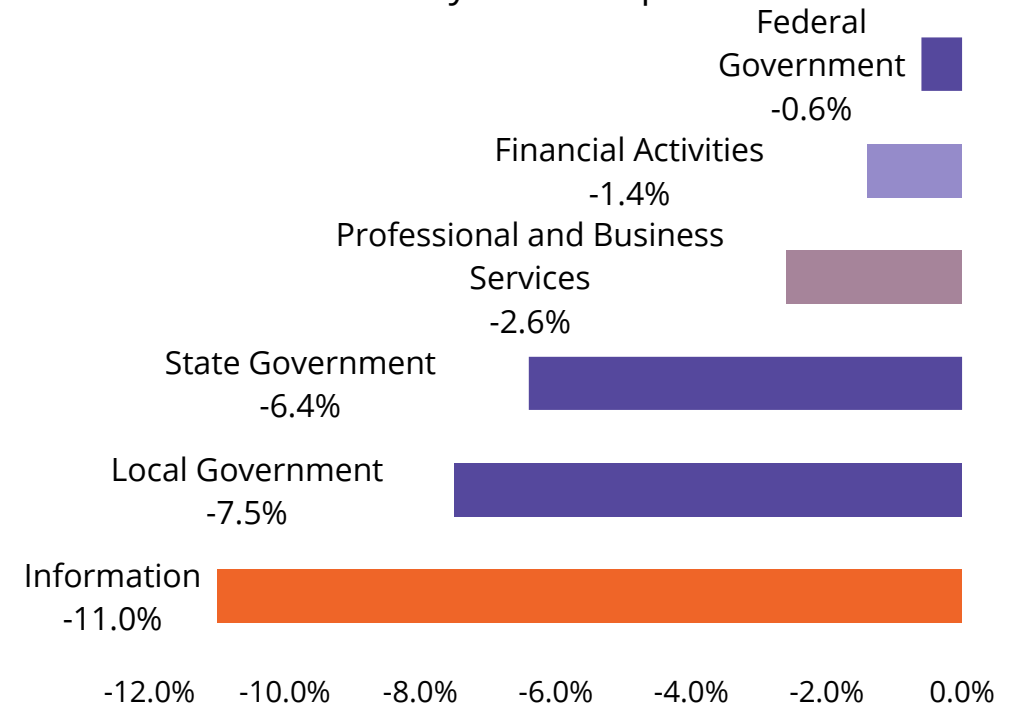
Change in office-using employment during the pandemic

Job losses in South Florida have declined by 7.2% since the start of the pandemic, though office-using jobs contracted by just 4.0%. As was the case with the global financial crisis over a decade ago, the impact of this recession will be felt in South Florida's office markets to some degree for years to come.

[VIEW DASHBOARD](#)

Total change in South Florida* job gains/(losses)

February 2020 to April 2021



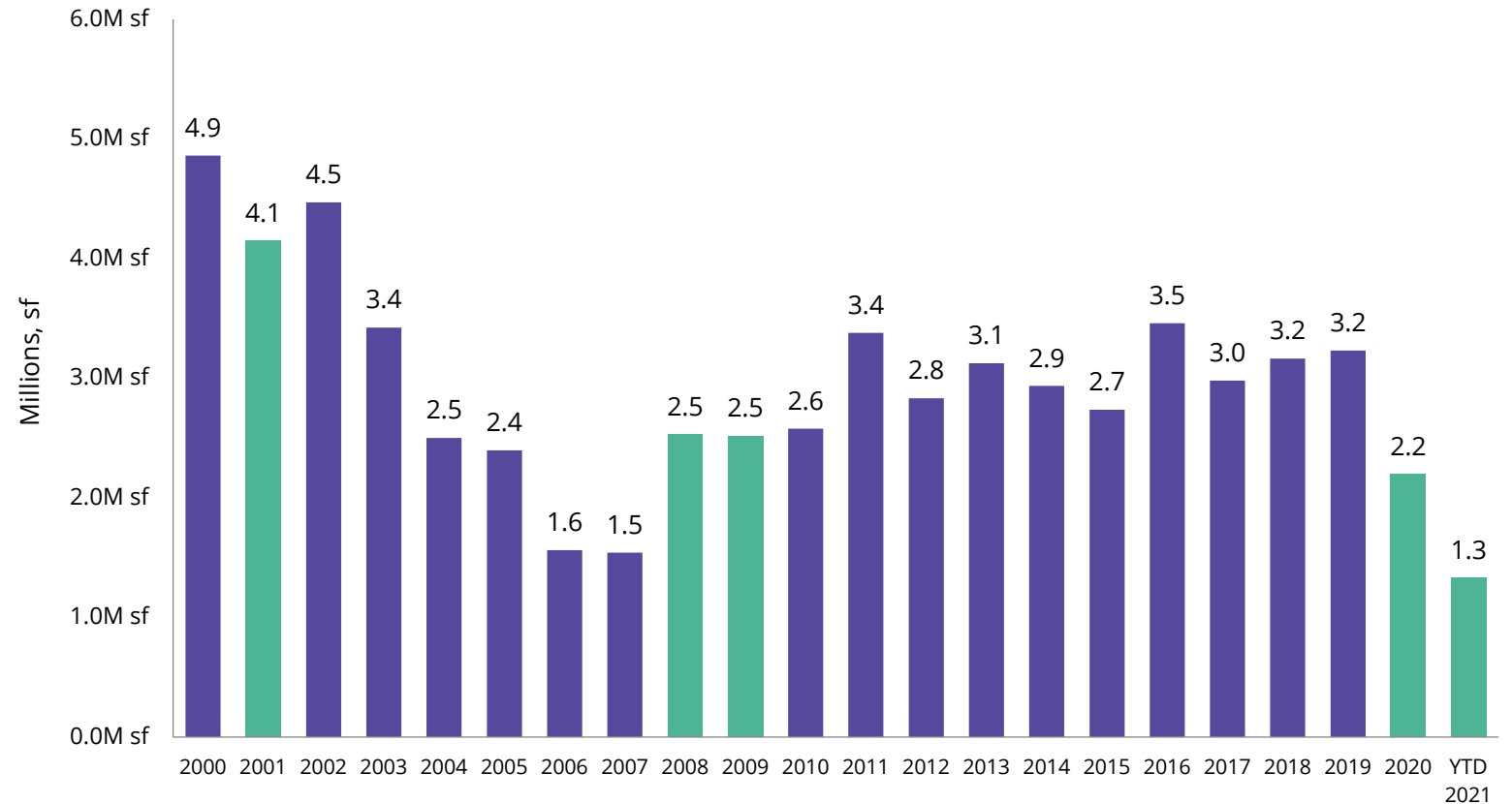
Note: Not seasonally adjusted data. *Metropolitan statistical area.
Source: Bureau of Labor Statistics

Office leasing activity

60.5%

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

There is no modern equivalent for the post-COVID slowdown in leasing activity in the previous 20-yr period, although 2006-2007 comes close, however leasing activity is expected to grow through the end of the year.



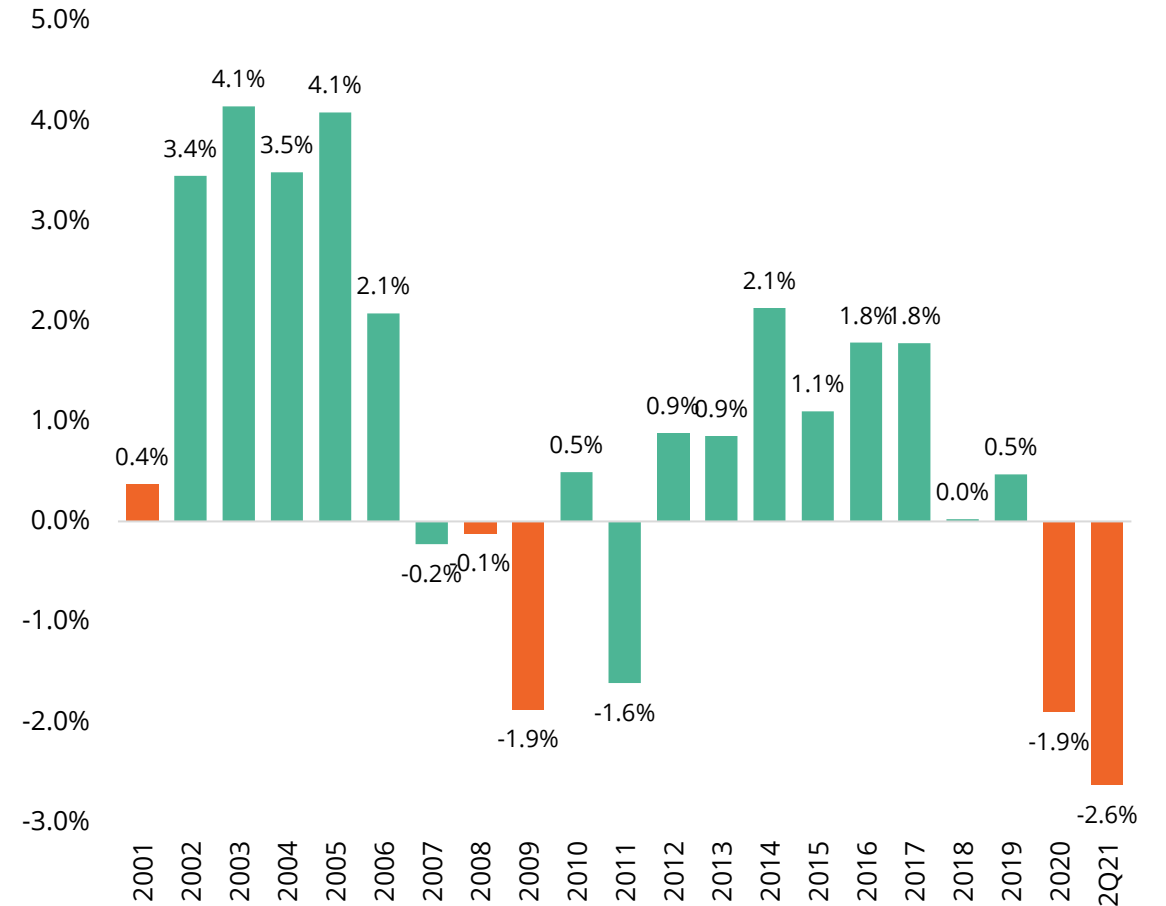
Source: AVANT by Avison Young

Absorption

-4.5%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Negative absorption from 2020 to 1Q21 has totaled 1.4 million sf, totaling -4.5% of the existing stock. This negative absorption significantly surpasses the low of the global financial crisis (-1.9%).



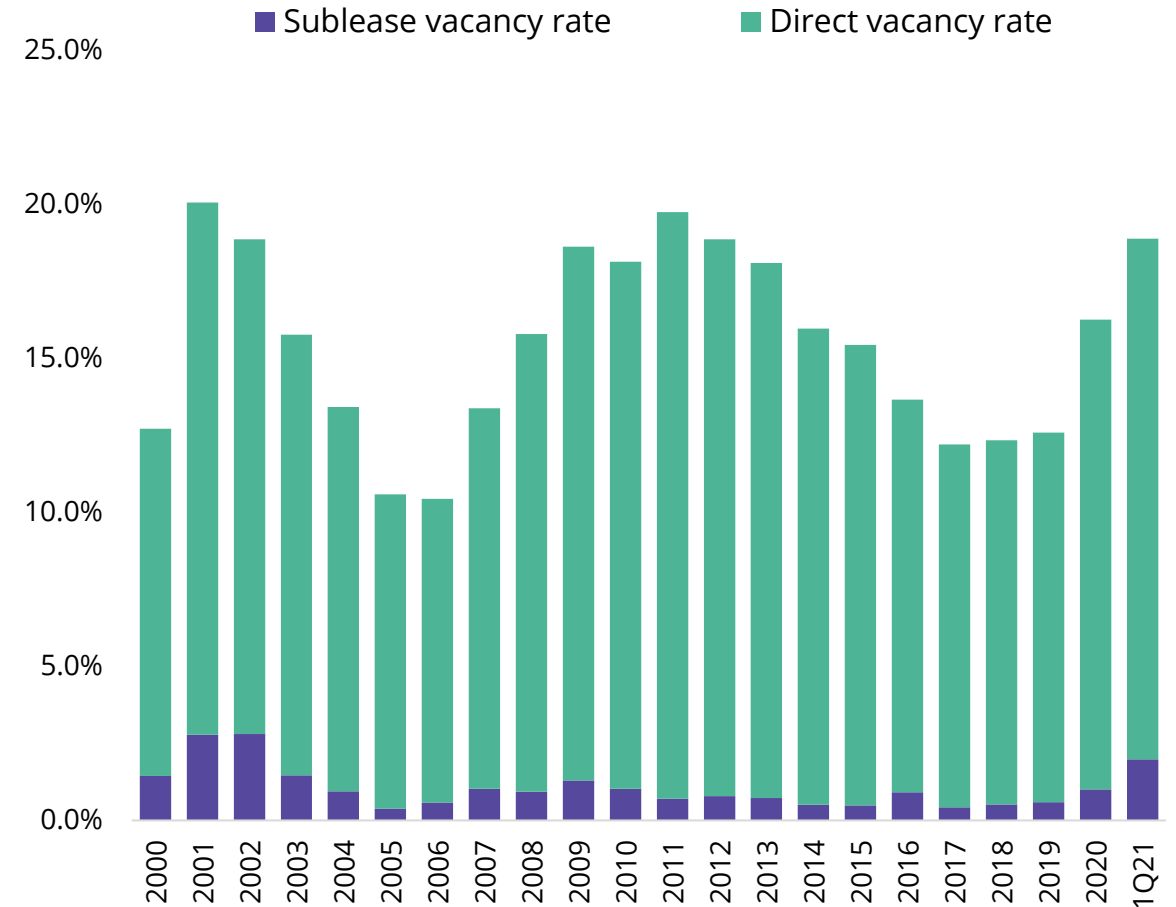
Source: AVANT by Avison Young

Vacancy rate

18.9%

Record high Fort Lauderdale vacancy as of Q2 2021

The Q2 2021 vacancy rate is at its highest point in 10 years, remaining well below the 19.8% rate recorded in 2011. Rents for the current quarter have increased by 1.7 percent Y-o-Y, although it is the slowest rate of increase since a Y-o-Y loss was reported in 2014.



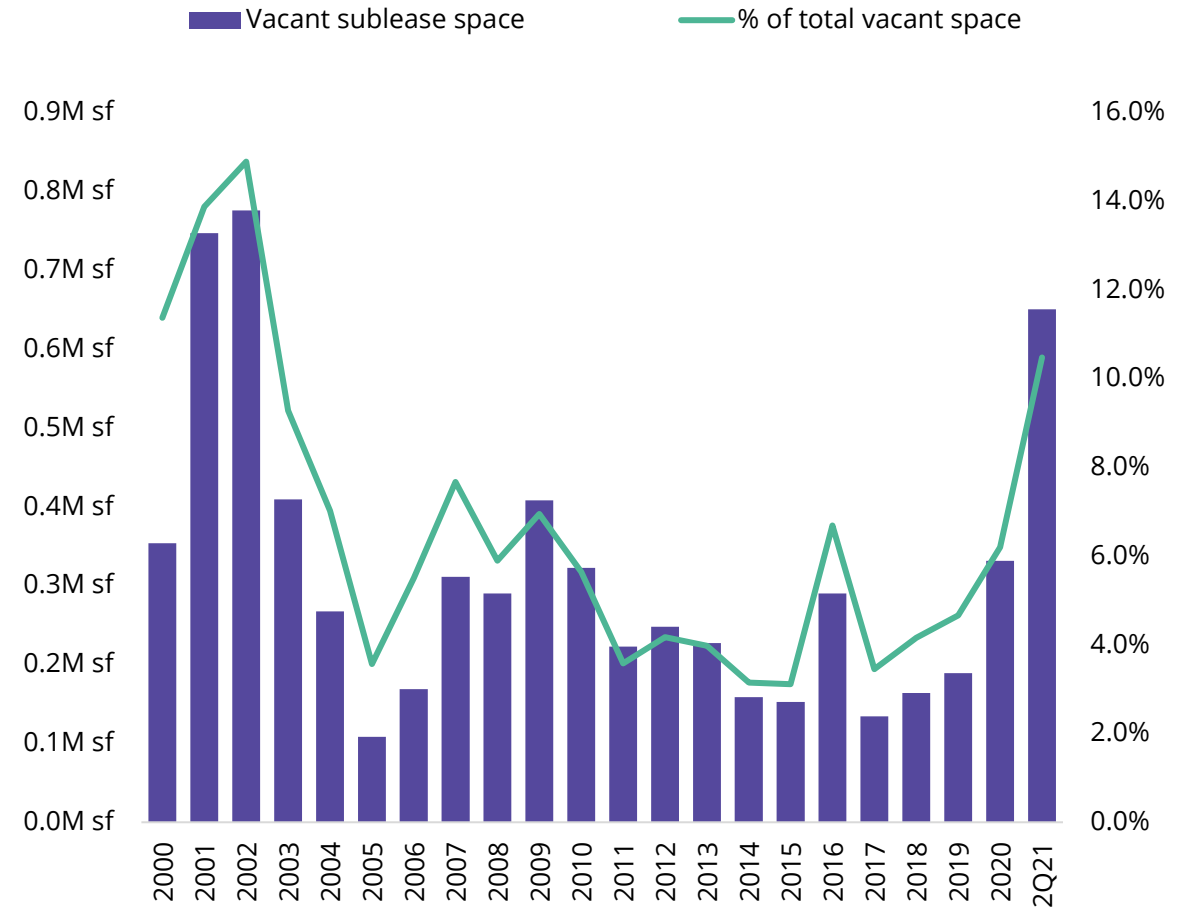
Source: AVANT by Avison Young

Vacant sublease space

0.6 msf

Record levels of sublease vacant space

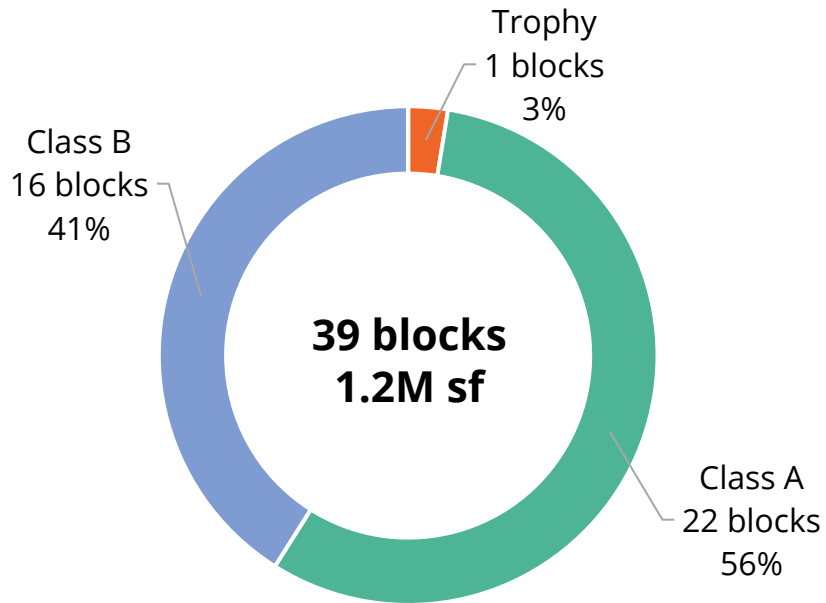
The share of sublease-to-total vacant space of 10.5% has surpassed the peak of 7.0% from the global financial crisis levels, however it has not yet reached the magnitude of 14.9% during the Dot-com Recession.



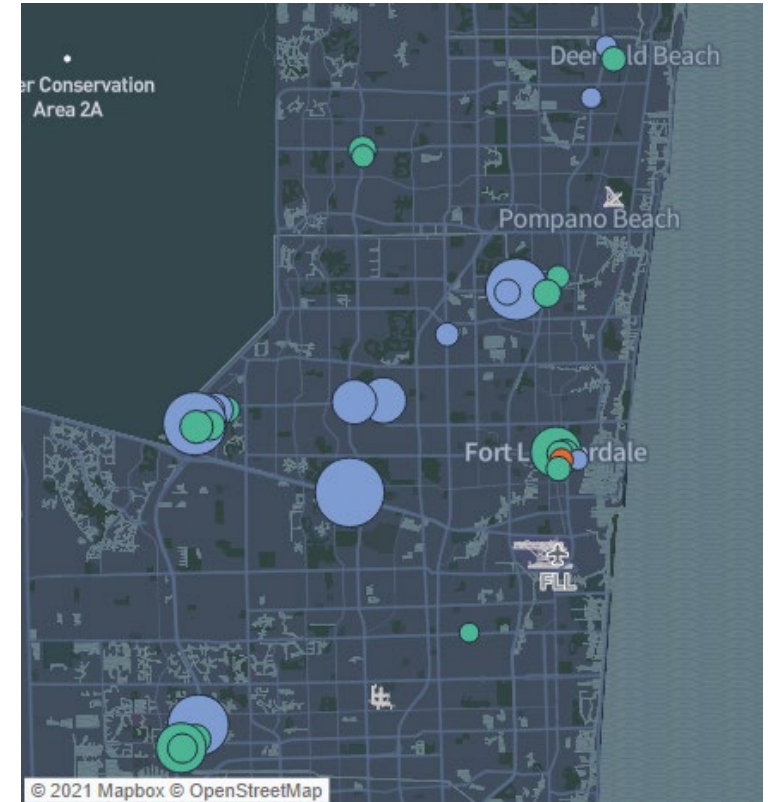
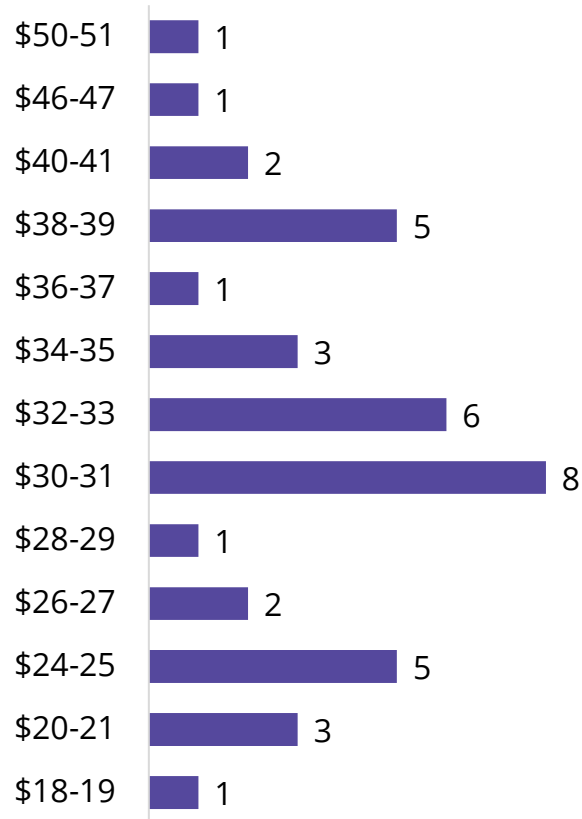
Source: AVANT by Avison Young

Sublease supply pipeline

Building classification



Asking rent per square foot



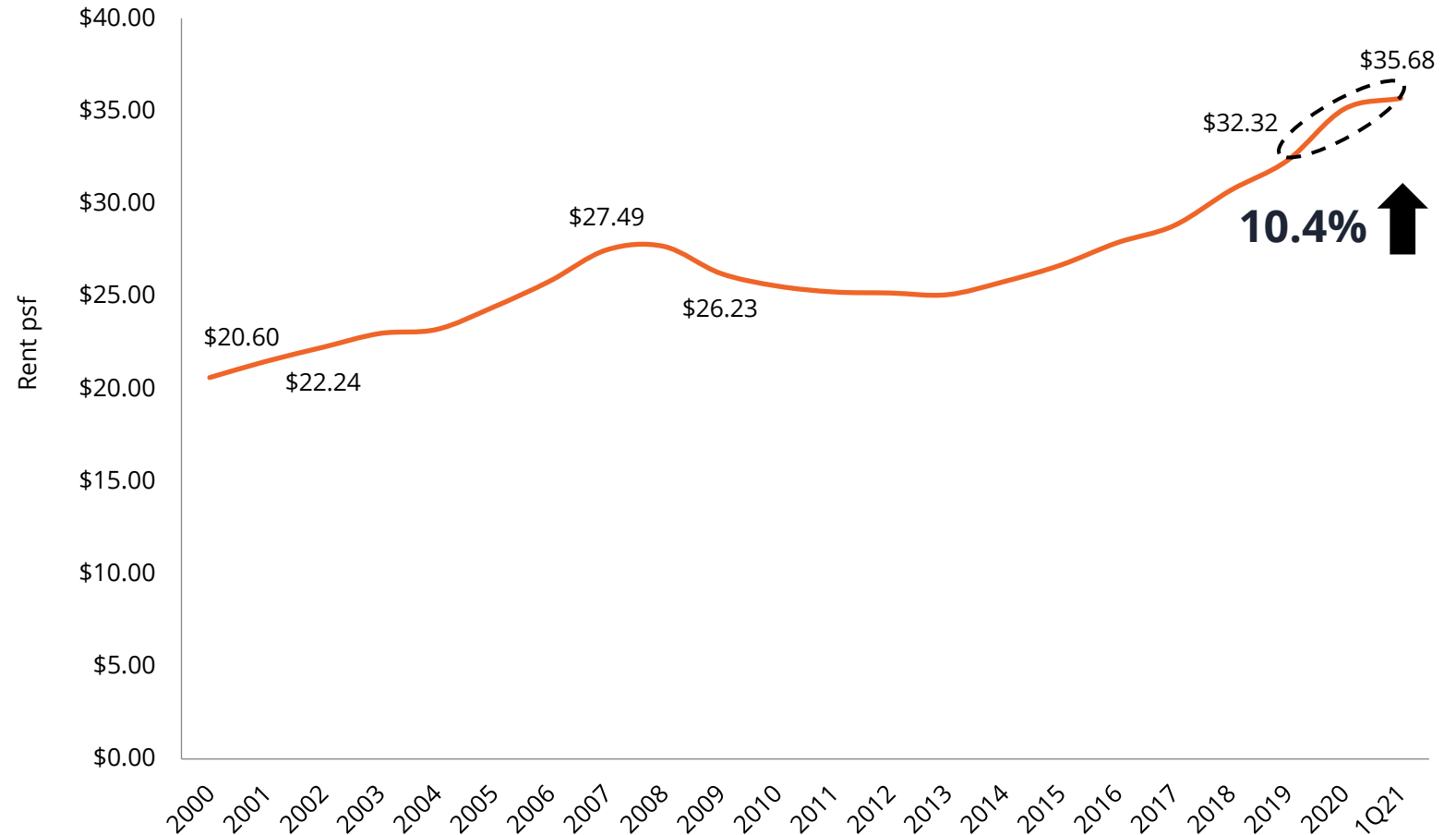
Source: AVANT by Avison Young

Base rents

10.4%

**Peak-to-trough change
in rents since the onset
of the pandemic**

Base rents continue to steadily increase, rising over ten percentage points since the end of 2019, which is the opposite of what occurred during the Great Financial Crisis when rates declined by 4.8%.



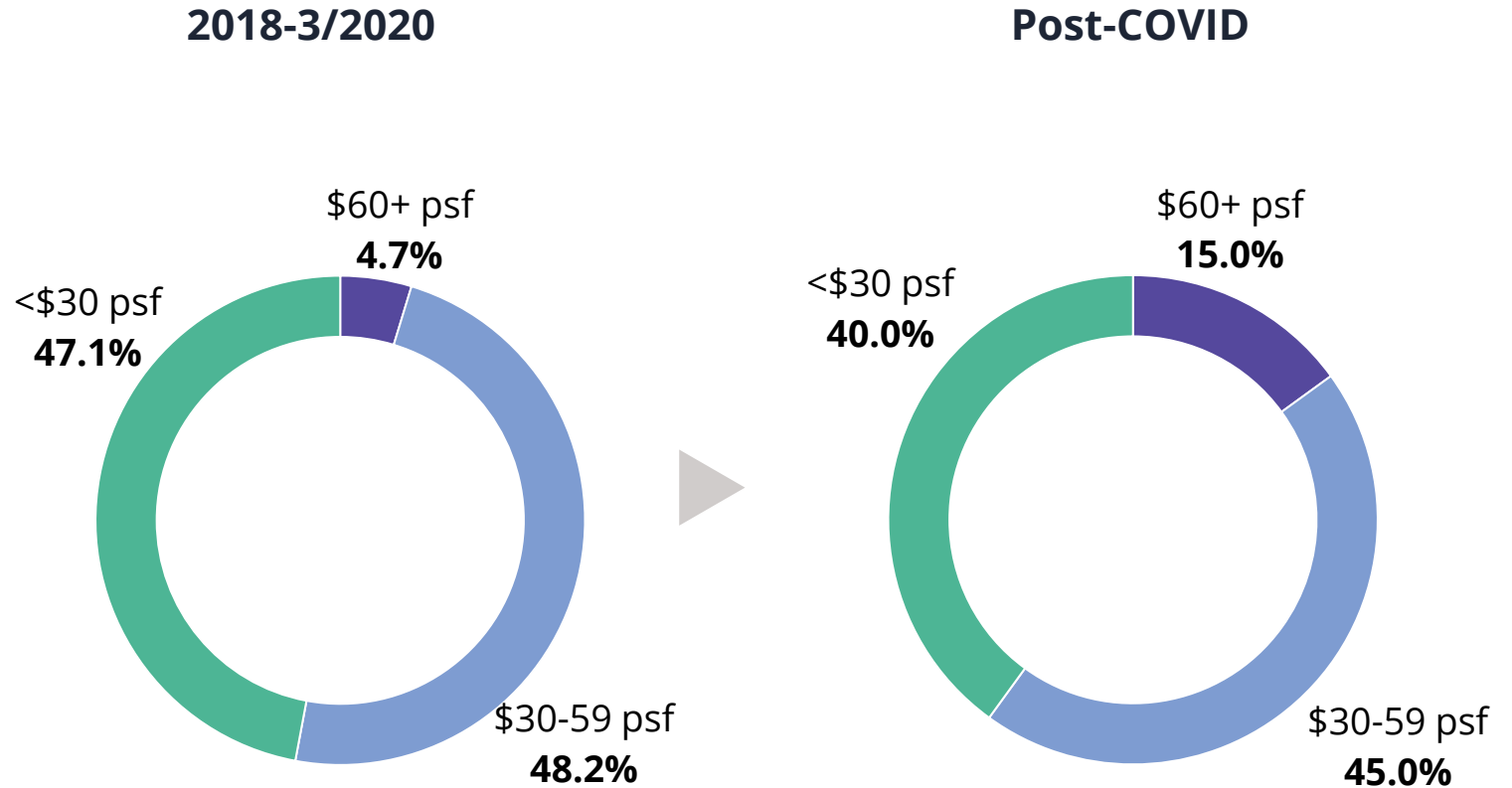
Source: AVANT by Avison Young

Concessions trends pre-COVID vs post-COVID

15.0%

Number of all class A deals since March 2020 with TI allowances above \$60 per sf

While free rent is still being offered on deals, landlords are struggling with TI allowances on smaller deals given the steadily increasing prices of both materials and labor.



Source: AVANT by Avison Young

Fort Lauderdale's construction pipeline

17 properties

proposed or under construction

4.0 msf

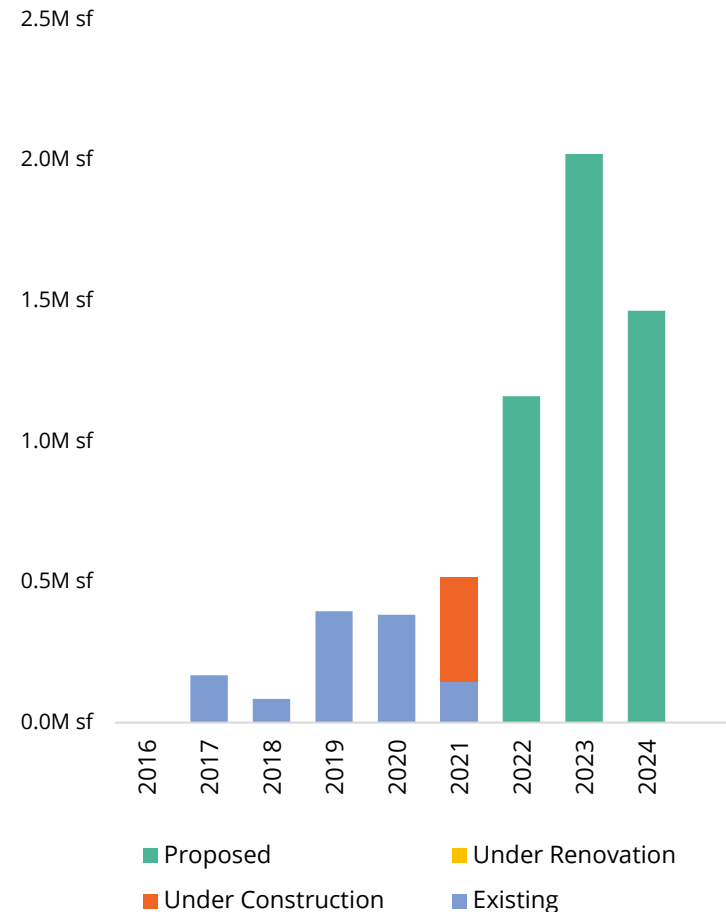
proposed or under construction

9.8%

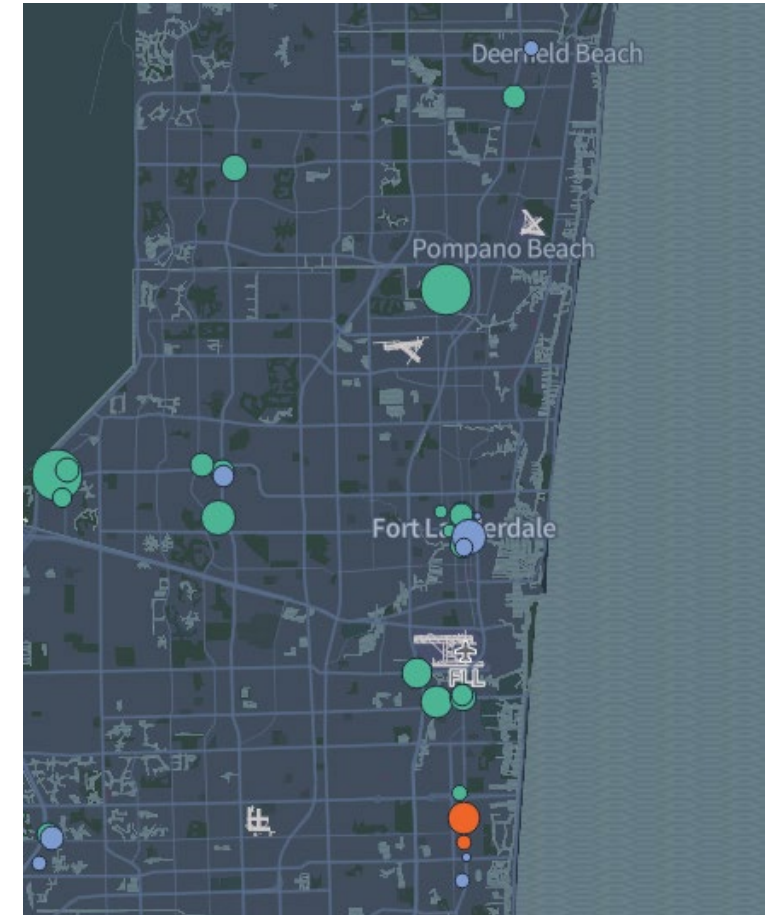
share of office inventory

1.1 msf

New construction deliveries
in Fort Lauderdale since 2016



Source: AVANT by Avison Young

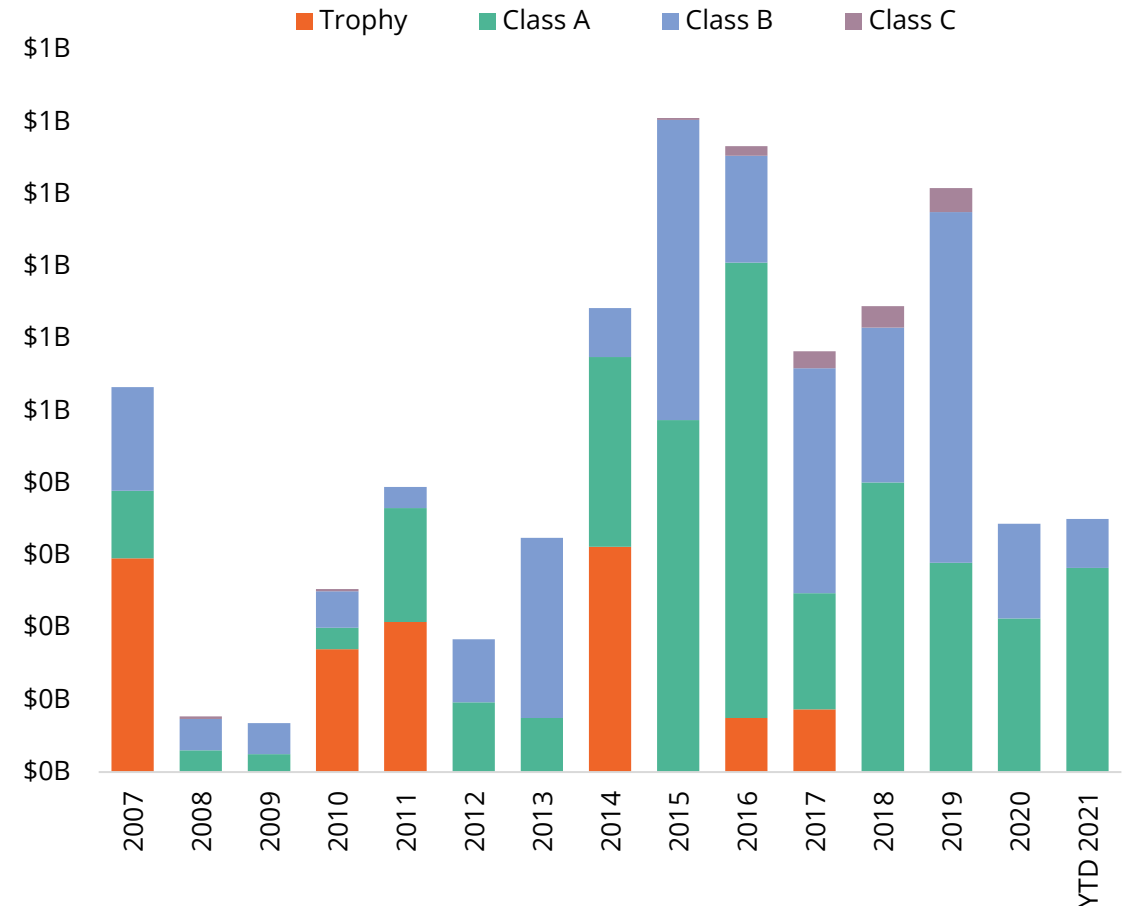


Office investment dollar volume

\$694.3

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 8.8% compared to the prior five-year average dollar volume.



Source: AVANT by Avison Young

Office asset pricing

-0.8%

Fort Lauderdale office pricing decrease from November 2019 to present

Fort Lauderdale's office pricing was minimally impacted 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, only decreasing from \$263 psf in November 2019 to \$261 psf in June 2021.



Source: AVANT by Avison Young
New York City Department of Finance, RCA

Looking forward



Here's what we can expect

- Leasing interest in office space is up significantly, however the process from proposal through lease execution is taking longer, which means deals have been slower to get done. So, while overall activity is strong it has yet to translate to leasing velocity. Industries expected to fuel leasing this year include the **insurance, medical administration and financial sectors**.
- An increasing number of tenants will be seeking **move-in ready** space that fits their needs in order to avoid the complexities and cost overruns involved in building out office space in the current climate.
- The passage of Florida Senate Bill 50 will have **positive implications for commercial real estate** as it will dramatically cut the state tax portion of the business rent tax from 5.5% to 2.0% once Florida's Unemployment Compensation Trust Fund is replenished to pre-pandemic levels. While every tenant will save on their overall business costs, considerable cost savings will be realized by larger occupiers in Florida.
- Investment activity is expected to remain strong through the end of the year as a steady supply of **private equity** continues to chase deals in South Florida.



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Let's talk

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