

MARKET REPORT

OFFICE

Fort Lauderdale Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

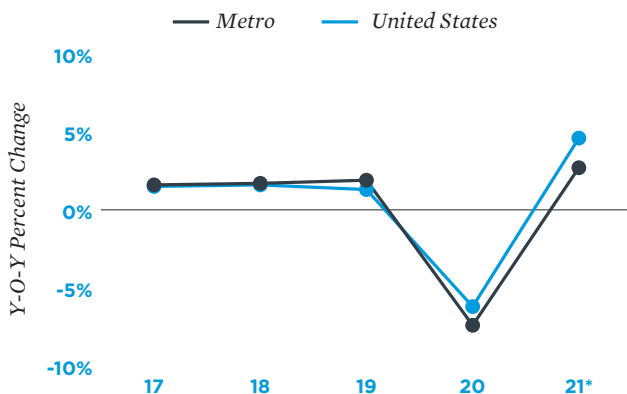
4Q/21

Class B/C Recovery Accelerates While Class A Lags Behind, Beleaguered by New Supply

Low- and mid-tier fundamentals exhibit improvement. More Class B/C space was leased than relinquished in the April through June period of this year, which had not occurred in any of the previous six quarters. Stronger demand pushed Class B/C vacancy down 70 basis points in the second quarter, notching a rate of 12.5 percent, just 60 basis points above the pre-recession level. The segment's average asking rent also climbed 1.1 percent during that three-month stretch. Class B/C absorption was the highest in Cypress Creek and Plantation during the first half of 2021. Both of these submarkets have asking rents that trail the market average, luring tenants seeking lower-cost space. Recent lease signings in these two areas include commitments by accounting, insurance and healthcare industry tenants.

New supply weighs on Class A recovery. Contrasting the resilience shown by the Class B/C sector, the top-tier remains debilitated. Completions over the past 18 months grew Class A stock by 6.5 percent, coinciding with weak demand during the health crisis. As a result, Class A vacancy rose by at least 70 basis points in each of the past six quarters. More than 26 percent of the market's Class A space was sitting vacant in June 2021 even as additional space works its way through the pipeline. On a positive note, the largest projects set to finalize over the next few quarters are pre-leased, highlighted by the new Spirit Airlines headquarters. The firm will occupy 500,000 square feet near the Fort Lauderdale International Airport in March 2022.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook



**22,000
JOBS**

will be created

EMPLOYMENT:

Fort Lauderdale is expected to recover about one-third of the positions lost in 2020 as the metro job total expands by 2.7 percent this year. The headcount for traditional office-using sectors will rise by 4,500 spots, equating to 2.0 percent annual growth.



**1,000,000
SQ. FT.**

will be completed

CONSTRUCTION:

More office space is projected to finalize in 2021 than in any year dating back to 2008. Market inventory is forecast to enlarge by 1.6 percent, potentially presenting new supply-side headwinds to the ongoing office sector recovery in Fort Lauderdale.



**50
BASIS POINT**

increase in vacancy

VACANCY:

Following a combined 390-basis-point vacancy elevation over the preceding two years, the rate will continue to increase in 2021. The upward trajectory should ease, however, as demand picks up. Availability will end the year at 17.3 percent.



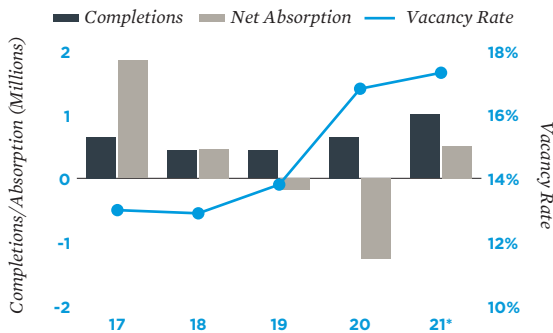
**0.5%
INCREASE**

in asking rent

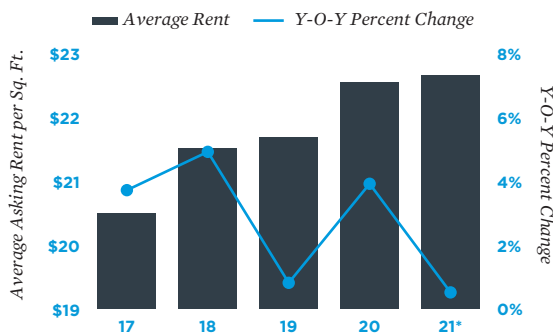
RENT:

Elevated vacancy could stunt rent growth this year; however, the arrival of new space at the upper end of the price spectrum will help offset downward pressure to the marketwide average. The mean asking rent climbs to \$22.65 per square foot.

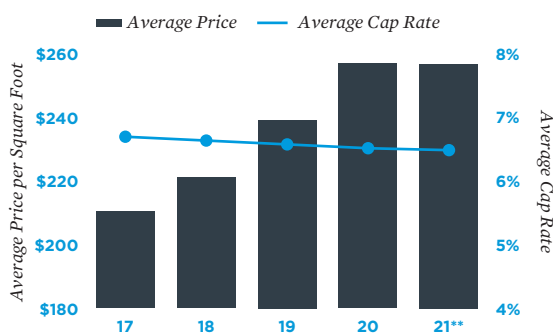
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q
Sources: CoStar Group, Inc.; Real Capital Analytics

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2Q21 - 12-Month Period

CONSTRUCTION
1,127,000 sq. ft. completed

- Completions over the past year ended in June nearly tripled the volume of additions recorded in the prior period. The suburbs were the recipients of about two-thirds of the new space at 741,000 square feet.
- The 334,000-square-foot Optima Onyx Tower was the largest project to finalize. It alone expanded Hallandale's inventory by 30 percent.

VACANCY
190 basis point increase in vacancy Y-O-Y

- Vacancy rose an additional 20 basis points in the first half of this year after the rate jumped 170 basis points during the final six months of 2020. In June 2021, availability stood at 17.0 percent.
- Roughly 1.4 million square feet of Class A space became vacant over the past year as the rate shot up 580 basis points to 26.4 percent.

RENT
2.2% increase in the average asking rent Y-O-Y

- The average asking rent was unabated by rising vacancy as the composition of leasable space changed. Higher-end floor plans returned to the market, lifting the mean asking rate to \$22.73 per square foot.
- Fort Lauderdale proper registered a 7.6 percent year-over-year rent hike, primarily attributed to strong demand for Class B/C space.

Investment Highlights

- Trading activity jumped more than 30 percent and dollar volume soared 75 percent on an annual basis during the 12-month period ended in June. Competition for assets helped facilitate a 4 percent bump in the average sale price to \$256 per square foot. The mean first-year return was unchanged relative to the prior year at 6.5 percent.
- Cypress Creek and Plantation were focal points for an array of investors looking higher on the quality scale. Here, Class A and B buildings attract regional and out-of-state buyers seeking higher first-year returns than can be achieved in their home marketplace. Private investors looking to acquire lower-tier assets often scour the same two submarkets as well as Hollywood and Fort Lauderdale proper.
- During the past year ended in the second quarter, more medical offices traded than in the previous 12-month period, including an uptick in assets priced above \$15 million. Medical offices typically transacted with cap rates in the 6 percent to 8 percent range with sale prices near \$200 per square foot on average. Buyers primarily concentrated on assets within the city limits of Fort Lauderdale or just west in Plantation.