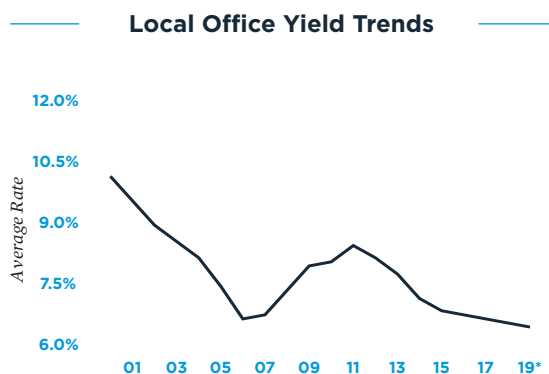


Vacancies and Rents Improve Even as Development Expands in Some Southeast Florida Markets

After moderated period, construction ramps up in West Palm Beach and Fort Lauderdale while fundamentals carry momentum.

A subdued development pipeline and consistent demand for space has substantially improved office operations in West Palm Beach over the past several years. The market's vacancy rate has dropped from a cycle high of 20.7 percent in 2010 to under 14.0 percent this year, the most substantive recovery in the region. Availability will decline sharply again in 2019 despite a year-over-year rise in deliveries, as the metro's largest completions are already fully leased. A similar expansion to the construction pipeline in Fort Lauderdale will hold vacancy flat this year but not impede rent growth. Monthly rates are appreciating at a rapid clip here as biotech and business development companies like Ultimate Software absorb more space.

Fewer arrivals pave way for rent growth in Miami. In contrast to the rest of Southeast Florida, the development pipeline in Miami is contracting this year. Although deliveries will still surpass 1 million square feet, ongoing leasing by healthcare companies, coworking enterprises and business services firms sustains demand. Availability will dip this year following a supply-driven increase in 2018, with vacancy particularly tight in Miami City, West Miami and Medley/Hialeah. A strong interest in occupying office space in these and other submarkets bodes well for rent growth this year, even though asking rates are already some of the highest in the state of Florida.



* Cap rates trailing 12 months through 1Q19
Sources: CoStar Group, Inc.; Real Capital Analytics

Office 2019 Outlook

Metro	Vacancy	Y-O-Y Basis Point Change	Average Asking Rent	Y-O-Y Change
Miami	12.7%	-10	\$35.81	2.4%
Fort Lauderdale	12.9%	0	\$29.75	4.6%
West Palm Beach	13.4%	-70	\$30.46	4.4%

Investment Trends

Miami

- Greater interest from institutional investors translated into several recent high-caliber trades in Downtown Miami and nearby Brickell. Initial returns for these assets were in the mid-4 percent zone.
- Trade volume improved year over year in Kendall as multiple Class B and C assets changed hands for under \$10 million with cap rates in the high-6 to high-7 percent range, above the high-5 percent metro average.

Fort Lauderdale

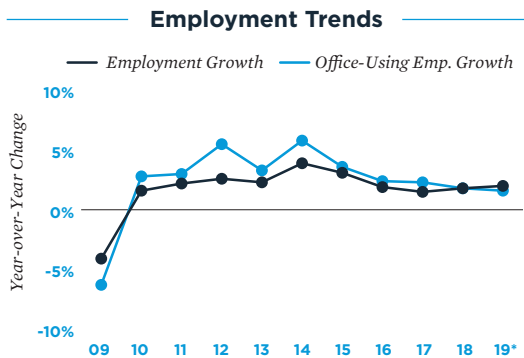
- Private investors have been more active than institutions so far this year as regionally low entry costs attracted parties from outside the market. Sales activity rose notably in Pompano Beach as buyers pursued Class B assets with mid-6 to mid-7 percent initial yields.
- Medical office properties acquired in recent months provided above-market initial returns. Several Class B and C assets in the city of Fort Lauderdale were exchanged with cap rates up to mid-8 percent.

West Palm Beach

- West Palm Beach investors focus on business hubs in Boca Raton, Delray Beach and other areas to obtain properties with high-credit tenants as the metro lacks a prominent central business district.
- Buyers targeting regionally high yields have pursued opportunities in North Palm Beach. Post 1980-built, sub-30,000-square-foot assets have traded recently with cap rates in the 7 to 8 percent zone.

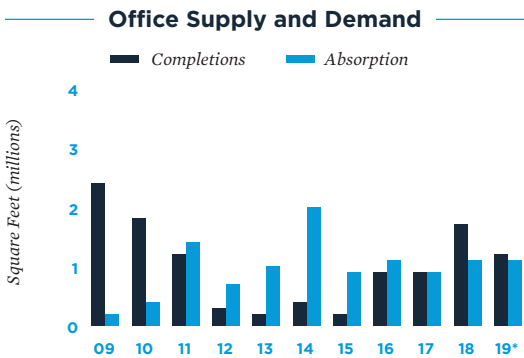
1Q19 - 12-Month Trend

EMPLOYMENT



2.2% increase in total employment Y-O-Y

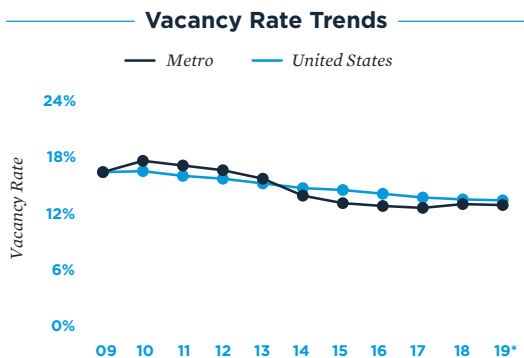
- Employment growth expanded year over year in March with the creation of 25,700 new jobs, 7,600 more positions than were added to the market during the 12-month period ended in March 2018.
- Hiring over the past four quarters was led by the professional and businesses services sector as about 8,600 personnel joined payrolls. In that same span, the construction sector grew at the fastest pace, 6.7 percent, between March 2018 and March 2019.



CONSTRUCTION

1.6 million square feet completed Y-O-Y

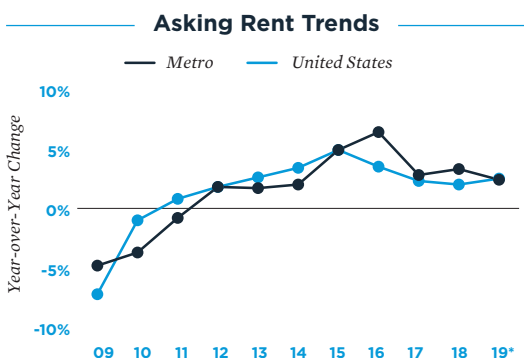
- The development pipeline approximately doubled compared with a year ago as an additional 863,000 square feet was delivered over the 12-month period ended in March.
- Construction activity was focused in Downtown Miami and nearby Coral Gables as well as farther north in Aventura. Large-scale completions in these submarkets include Miami Central towers Two and Three as well as the Ofizzina building.



VACANCY

40 basis point decrease in vacancy Y-O-Y

- The smallest quarterly delivery total in three years contributed to a decline in the metro's vacancy rate to 12.1 percent in March, the lowest value for this time of year since 2007.
- Leasing activity by distribution-related firms near Mimi-Opa Locka Executive Airport has supported a 820-basis-point decline in the Miami Lakes vacancy rate to 15.1 percent. Availability is lowest, at 2.9 percent, in West Miami.



RENTS

2.3% increase in the average asking rent Y-O-Y

- The average asking rent ended the first quarter at \$34.94 per square foot, up 2.3 percent from a year ago. Monthly rates advanced the most, by 7.9 percent, in the Brickell submarket. The waterfront office district just south of downtown commands the metro's highest rents.
- Oceanfront submarkets reported above-market rent growth for the past four quarters. Asking rates appreciated by 3.5 and 4.0 percent in Coconut Grove and the Biscayne Corridor.

* Forecast
Source: CoStar Group, Inc.

Demographic Highlights



2019 Forecast Job growth

Metro **2.0%**

U.S. Average 1.3%



2019 Office-Using Job growth

Metro **1.6%**

U.S. Average 1.7%



Population Age 20-34*

Metro **20.4%**

U.S. Average 20.6%



Population of Age 25+ Percent with Bachelor Degree+**

Metro **30.5%**

U.S. Average 29.9%



Sq. Ft. Per Office Worker*

Metro **298**

U.S. Average 215

Office Square footage*



13.2% Urban

U.S. Average 32.0%



86.8% Suburban

U.S. Average 68.0%

*1Q19
**2018

SUBMARKET TRENDS

Lowest Vacancy Rates 1Q19*

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Asking Rent	Y-O-Y % Change
West Miami	2.9%	160	\$23.82	-0.7%
Miami City	5.2%	-10	\$35.75	-5.2%
Medley/Hialeah	5.8%	70	\$25.11	-9.5%
Coral Way	5.9%	80	\$32.85	1.8%
Kendall	6.7%	-130	\$31.44	1.3%
South Dade	8.3%	-130	\$24.13	3.3%
Miami Airport	11.5%	-10	\$30.14	3.6%
Coral Gables	12.2%	60	\$39.54	1.6%
Northeast Dade	12.6%	-220	\$26.48	1.5%
Miami Beach	13.1%	210	\$43.29	-2.0%
Overall Metro	12.1%	-40	\$34.94	2.3%

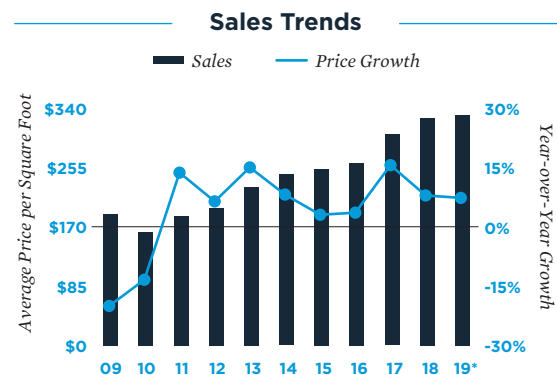
* Includes submarkets with more than 100,000 square feet of inventory

SALES TRENDS

Healthy Office Market, Strong Demographics Encourage Investment and Bolster Sales Prices

- The Miami metro has demonstrated improved sales price appreciation since 2017, with the average price per square foot increasing 7.3 percent to \$330 year over year in March.
- While initial returns have remained stable over the past three years, price growth contributed to a 10-basis-point dip in the market average cap rate into the high-5 percent zone in the first quarter.

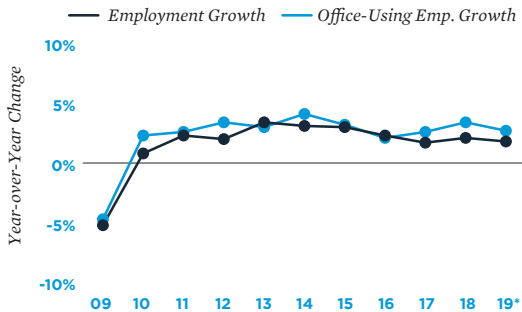
Outlook: As companies continue to expand their footprints in Miami, contributing to population and income growth, investors from the nation's primary gateway markets will look more toward the metro. Lower entry costs and favorable yield arbitrage are also major draws.



* Trailing 12 months through 1Q19 over previous time period
Sources: CoStar Group, Inc.; Real Capital Analytics

1Q19 - 12-Month Trend

Employment Trends

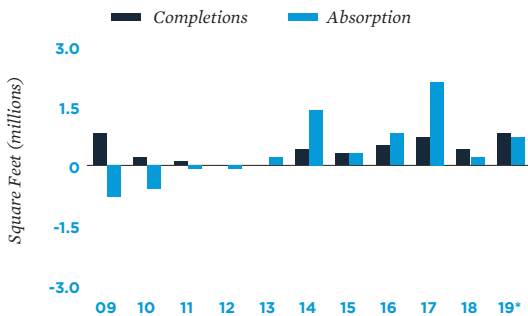


EMPLOYMENT

1.6% increase in total employment Y-O-Y

- Local employers added about 13,400 personnel to staffs over the past four quarters, about 600 more jobs than were created during the previous annual period.
- Employment growth was higher among traditionally office-using professions at a 3.2 percent annual increase in March. Over that time, the professional and business services and the education and health services sectors hired a combined 9,000 individuals.

Office Supply and Demand

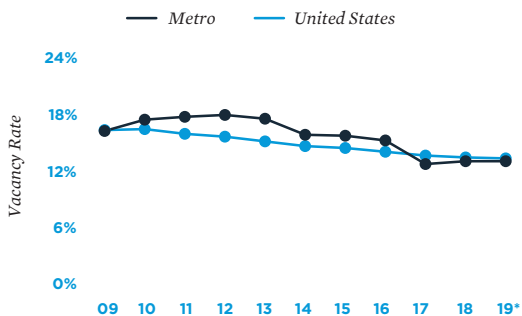


CONSTRUCTION

325,500 square feet completed Y-O-Y

- The development pipeline expanded over the past four quarters as construction activity increased in Cypress Creek, Northwest Broward/Coral Springs and Southwest Broward County.
- Major deliveries to the metro since March 2018 include a pair of medical office properties, the 81,700-square-foot Cypress Creek Medical Pavilion and the Cleveland Clinic in Coral Springs, which spans 63,360 square feet.

Vacancy Rate Trends

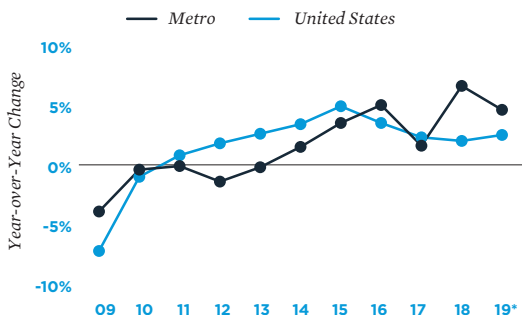


VACANCY

20 basis point decrease in vacancy Y-O-Y

- The metrowide vacancy rate dipped down to 13.0 percent year over year in the first quarter, led by triple-digit contractions in Sawgrass Park, Commercial Boulevard, Northwest Broward/Coral Springs and Hollywood.
- Southwest Broward is now the least vacant submarket at 8.0 percent in Fort Lauderdale, followed by Hollywood at 9.1 percent. All other submarkets have availability of 10 percent or higher.

Asking Rent Trends



RENTS

7.5% increase in the average asking rent Y-O-Y

- The average marketed rental rate improved by the highest margin in more than a decade to \$28.91 per square foot in March. A year ago, rents had appreciated by 3.1 percent on average.
- Declining availability in multiple submarkets contributed to above-market rent growth, particularly in Sawgrass Park and Northwest Broward/Coral Springs. Demand for urban office space also helped drive asking rates up more than 15 percent downtown.

* Forecast
Source: CoStar Group, Inc.

Demographic Highlights



2019 Forecast Job growth

Metro **1.8%**
U.S. Average 1.3%



2019 Office-Using Job growth

Metro **2.7%**
U.S. Average 1.7%



Population Age 20-34*

Metro **19.2%**
U.S. Average 20.6%



Population of Age 25+ Percent with Bachelor Degree+**

Metro **29.1%**
U.S. Average 29.9%



Sq. Ft. Per Office Worker*

Metro **221**
U.S. Average 215



Office Square footage*

12.6% Urban
U.S. Average 32.0%



87.4% Suburban
U.S. Average 68.0%

*1Q19
**2018

SUBMARKET TRENDS

Lowest Vacancy Rates 1Q19*

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Asking Rent	Y-O-Y % Change
Southwest Broward	8.0%	100	\$30.34	5.0%
Hollywood	9.1%	-220	\$28.02	-2.1%
Pompano Beach	11.5%	-120	\$23.26	2.8%
Sawgrass Park	11.9%	-570	\$30.01	10.4%
Northwest Broward/ Coral Springs	12.9%	-270	\$25.79	8.1%
City of Fort Lauderdale	13.1%	30	\$25.36	7.2%
Plantation	13.7%	320	\$28.82	9.0%
Downtown Fort Lauderdale	16.5%	60	\$41.58	15.1%
Cypress Creek	18.4%	0	\$25.21	6.3%
Overall Metro	13.0%	-20	\$28.91	7.5%

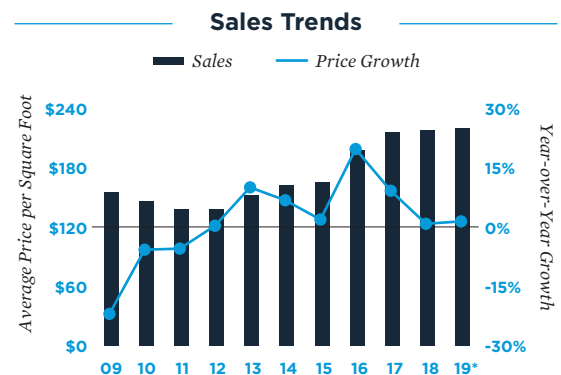
* Includes all submarkets with at least 2 million square feet of inventory

SALES TRENDS

Competitive Sales Pricing Drives Increased Trade Velocity for Class B/C Assets

- Trade velocity rose over the past 12 months ending in March as lower average sale prices than in the region's other primary metros attracted more buying activity in the sub-\$10 million tranche.
- More Class B and C office sales contributed to an overall slower rate of price appreciation over the past four quarters. The metro's average sale price rose 1.4 percent to \$219 per square foot in March, while the average cap rate dipped into the mid-6 percent band.

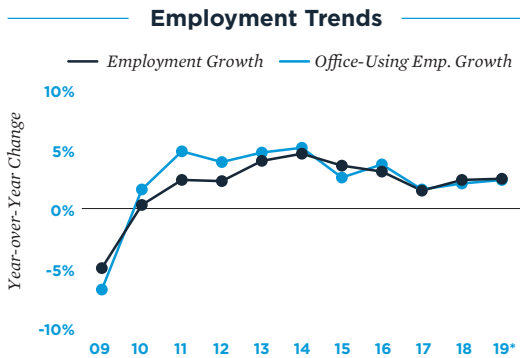
Outlook: Capital-constrained investors from Miami may look toward Fort Lauderdale due to comparatively lower entry costs and an average 70-basis-point difference in first-year yields.



* Trailing 12 months through 1Q19 over previous time period
Sources: CoStar Group, Inc.; Real Capital Analytics

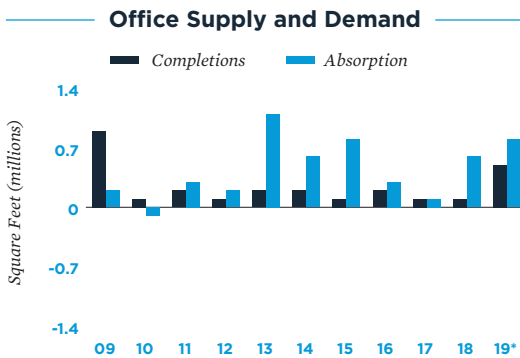
1Q19 - 12-Month Trend

EMPLOYMENT



2.6% increase in total employment Y-O-Y

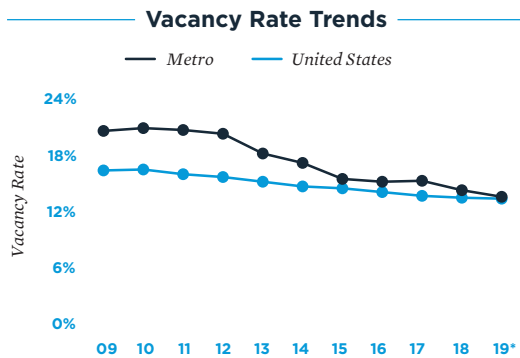
- Over the 12-month period ended in March, approximately 16,000 jobs were created, almost double the previous annual period when about 8,300 personnel were added to payrolls. The professional and business services sector led hiring over the past four quarters, expanding by 5,900 workers.
- Greater employment growth contributed to a 20-basis-point decline in the unemployment rate to 3.6 percent, matching the U.S. level.



CONSTRUCTION

230,300 square feet completed Y-O-Y

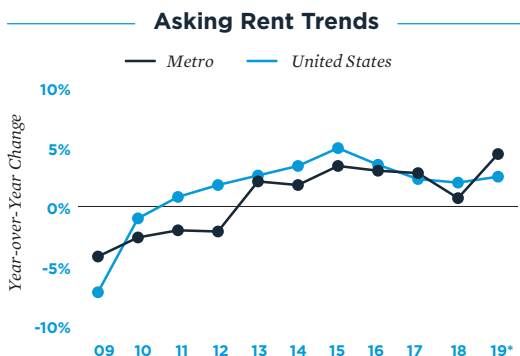
- The pace of development quickened over the past year to achieve a cycle high. Construction activity was focused on Delray Beach and the Palm Beach barrier island. Medical offices comprised approximately 99,900 square feet of the deliveries.
- Outside of medical office properties, major arrivals over the past 12 months include the Geo Group Headquarters in Boca Raton, which spans 106,900 square feet.



VACANCY

90 basis point decrease in vacancy Y-O-Y

- A lack of deliveries in most submarkets contributed to substantial declines in local vacancy rates, lowering the metrowide level to 13.7 percent in March.
- Availability has fallen under 10 percent in Jupiter, Royal Palm Beach/Wellington and Palm Springs/Lake Worth, where there is less existing supply and few completions underway. Operations are also improving in most other parts of the market.



RENTS

2.3% increase in the average asking rent Y-O-Y

- The metro's average marketed rent improved by a similar margin to a year ago to reach \$29.80 per square foot. Monthly rates advanced the most in the Delray Beach and Palm Springs/Lake Worth submarkets.
- Boca Raton and North Palm Beach both demonstrated above-market rent growth, facilitated by falling vacancy and a lack of recent completions. Asking rates remain highest for properties on Palm Beach island, where financial services firms have been leasing space.

* Forecast
Source: CoStar Group, Inc.

Demographic Highlights



2019 Forecast Job growth

Metro **2.5%**
U.S. Average 1.3%



2019 Office-Using Job growth

Metro **2.4%**
U.S. Average 1.7%



Population Age 20-34*

Metro **17.2%**
U.S. Average 20.6%



Population of Age 25+ Percent with Bachelor Degree+**

Metro **39.2%**
U.S. Average 29.9%



Sq. Ft. Per Office Worker*

Metro **244**
U.S. Average 215

Office Square footage*



57.2% Urban
U.S. Average 32.0%



42.8% Suburban
U.S. Average 68.0%

*1Q19
**2018

SUBMARKET TRENDS

Lowest Vacancy Rates 1Q19

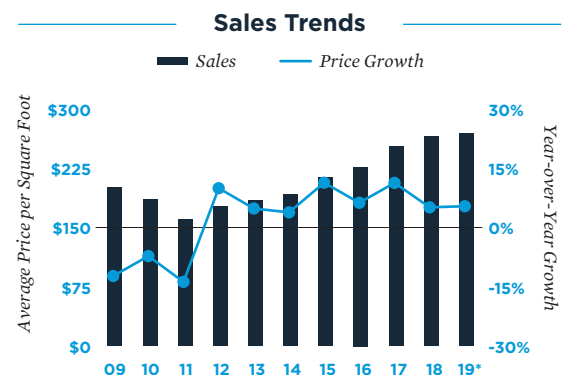
Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Asking Rent	Y-O-Y % Change
Royal Palm Beach/Wellington	5.0%	-390	\$25.85	-8.8%
Palm Springs/Lake Worth	7.1%	-450	\$24.40	10.8%
Jupiter	8.7%	-150	\$27.79	-2.3%
North Palm Beach	11.6%	-140	\$29.06	3.4%
Palm Beach	13.2%	-60	\$39.40	-7.3%
Delray Beach	13.7%	150	\$29.41	8.5%
City of West Palm Beach	13.7%	-120	\$28.85	1.0%
Boynton/Lantana	14.4%	0	\$26.21	2.1%
Boca Raton	16.5%	-80	\$30.78	4.5%
Overall Metro	13.7%	-90	\$29.80	2.3%

SALES TRENDS

Lack of Construction Underscores Strength of Investment Landscape as Prices Continue to Rise

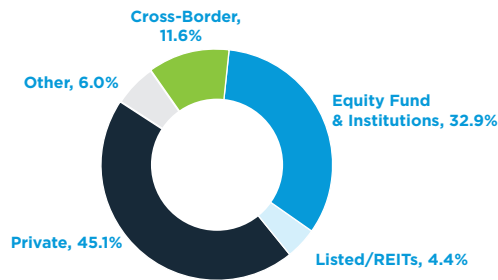
- Transaction velocity improved over the past four quarters as investor demand contributed to a 5.4 percent rise in the average sale price to \$269 per square foot in March.
- Price appreciation prompted a 30-basis-point annual dip in the average cap rate to the mid-to-high 6 percent band. Initial returns exceed those found in Miami and remain about on par with Fort Lauderdale.

Outlook: Office developers have largely overlooked West Palm Beach, growing the metro's inventory by a region-low 2.5 percent over the past decade. The lack of competition for existing properties has bolstered property performance and sustains investor interest in the metro.

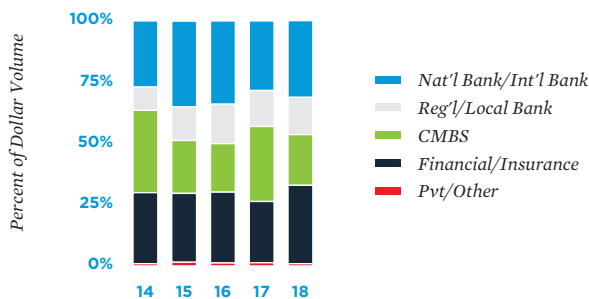


* Trailing 12 months through 1Q19 over previous time period
Sources: CoStar Group, Inc.; Real Capital Analytics

**1Q19* Office Acquisitions
By Buyer Type**



**Office Mortgage Originations
By Lender**



* Trailing 12 months through 1Q19
 Include sales \$2.5 million and greater
 Sources: CoStar Group, Inc.; Real Capital Analytics

Capital Markets

By **DAVID G. SHILLINGTON**, President,
 Marcus & Millichap Capital Corporation

- Ongoing trade concerns weigh on growth outlook; Fed plots next steps.** Amid rising trade tensions between the U.S. and China and slowing global growth, the outlook has turned more cautious. Market volatility, along with a flight to safety trade, has flattened the yield curve dramatically, with the 10-Year Treasury trading below 2.2 percent. This has pushed the broader yield curve into inversion, a closely watched precursor to a potential recession. Meanwhile, many measures of the domestic economy remain buoyant, including continued job and wage growth, historically low unemployment and muted inflationary pressure. These conditions have prompted a dichotomy, with Federal Reserve officials signaling more accommodative policies. The impending end of quantitative tightening in September, coupled with potential cuts to the Fed funds rate in the second half of the year, highlight the shift in Fed policy. As a result, long-term interest rates are likely to remain subdued, with Fed policy leaning toward accommodation.
- Conservative underwriting balances abundant marketplace liquidity.** While debt availability for office assets remains widely available from a wide range of sources including local, regional and national banks and insurance companies, sentiment surrounding the health of the economy has fallen somewhat in recent months. Lenders remain broadly cautious in underwriting, with loan-to-value (LTV) ratios typically in the 55 to 70 percent range, depending on the borrower, asset and location. The conservative approach has filtered into a focus on proven property results, with much less willingness to lend against pro forma rents. This has prompted investors to turn toward short-term mezzanine debt and bridge loans to cover capital improvements, while seeking long-term solutions once returns have been solidified. Construction origination remains muted, with lenders focusing on core locations with proven demand.

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 Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; Moody's Analytics; Real Capital Analytics; TWR/Dodge Pipeline; U.S. Census Bureau