New Supply Hampers Broward County Top-Tier Office Fundamentals; Class B/C Shines

Construction cycle sets new high watermark, weighing on Class A fundamentals. Developers more than double the pace of supply growth this year, applying upward pressure to vacancy in the top tier. Pre-leasing stands at less than 50 percent, and Class A vacancy rests well above 15 percent entering 2020, which will test the market's ability to attract and retain tenants in the near term. Competition for tenants also comes from nearby South Florida markets Miami and Palm Beach, where top-tier vacancy is elevated. Nonetheless, the long-term outlook remains bright in Broward County. Spirit Airlines, for example, recently announced a $250 million headquarters in Dania Beach that will house 1,200 employees, while Sunshine State Health committed to nearly 150,000 square feet in Plantation during the second half of last year. In the Class B/C sector, vacancy is closer to the 12 percent range. Only Cypress Creek faces a significant supply overhang entering the year.

Investors remarkably consistent in Broward County. Buyers are targeting mid-tier office buildings with a modest vacancy component near 30 percent in an effort to create additional value after acquisition. Core locations and Plantation are top investor targets, though well-priced assets in nearly every area of the county generate interest among local investors. Class A and Class C deals, meanwhile, are exhibiting divergent trends. Institutions are ramping up top-tier acquisitions in Broward County in an effort to balance their portfolios with higher-cap-rate metros after binging on gateway market offerings. First-year returns for these deals can be 50 to 100 basis points higher than nearby Miami. Class C sales velocity, meanwhile, has slowed over the past couple of years, particularly in suburban areas. Buyer demand for Class C listings in core locations remains sturdy.

2020 Market Forecast

Employment
up 1.6%

Payrolls expand by 14,000 positions in 2020, up modestly from the 13,700 spots generated last year. Office-using employment grows 2 percent as 4,800 jobs are created.

Construction
980,000 sq. ft.

Developers more than double the pace of construction, lifting countywide stock by 1.6 percent.

Vacancy
up 40 bps

New construction lifts vacancy to 13.7 percent. Last year, vacancy climbed 70 basis points.
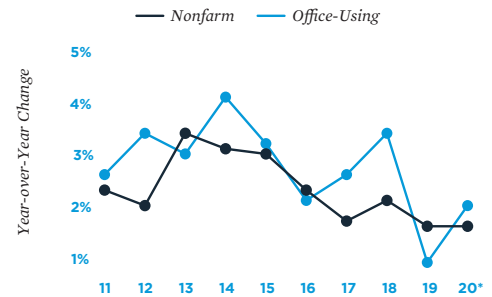
Rent
up 2.7%

Average asking rent ticks up $29.74 per square foot this year, advancing faster than the 2.0 percent increase in 2019.
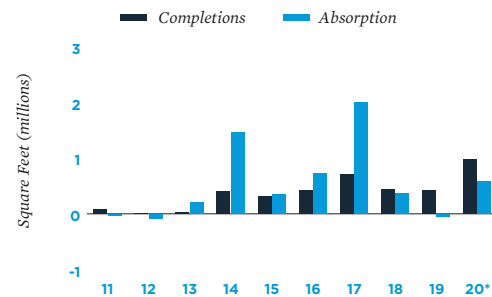
Investment

Mid-tier properties with a vacancy factor attract local investors, while core Class C listings also generate substantial interest. Out-of-state capital in search of Class A properties with favorable cap rates remains active.
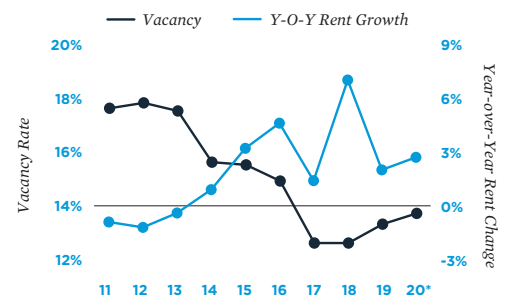
Employment Trends

Nonfarm — *Office-Using*

Office Supply and Demand

Completions — *Absorption*

Vacancy and Rent Trends

Vacancy — *Y-O-Y Rent Growth*

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

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