

## **BROWARD COUNTY'S OFFICE SECTOR IS OPERATING AT PEAK PERFORMANCE**

Broward County's office market continues to heat up like the South Florida summer. Vacancy is decreasing while office rental rates in the market increase. Broward County added 32,100 jobs in the past year, the 4 percent nonagricultural employment growth leading to a second quarter unemployment rate of 4.2 percent, outpacing the state (4.5 percent) and national (5.0) averages.

"Many factors drive Broward County's strong economy, including a talented and diverse workforce, our proximity to Latin America and the Caribbean, and access to three international airports and three seaports," says Bob Swindell, president and CEO of the Greater Fort Lauderdale Alliance, the county's public/private partnership for economic development.

Broward County's office sector performance is a big story in an area of very positive commercial real estate headlines. It can be argued that South Florida trails only the two Bay Area bellwethers, San Francisco and the Silicon Valley, in property performance nationwide. Office rental rates in the county — CoStar reported that the market's average rate increased 1.4 percent during first quarter to \$25.14 per square foot — are most likely reaching the top of the arc in the present economic cycle.

"Some of our strongest job



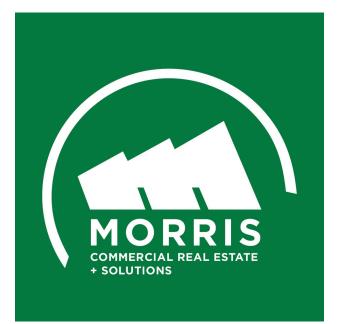
Ken Morris, SIOR, RPA CEO and President, Morris Southeast Group

growth has been in high-wage sectors that utilize significant office space such as professional and business services, financial activities and information technology," Swindell says. Examples of employers that have located or expanded in the area include Chiquita, Ecolab, Magic Leap and Sato Global Solutions. Additionally, Italian lemon juice-maker Polenghi Group selected Broward County for its first U.S. bottling plant in Deerfield Beach. Its 24,000-squarefoot facility includes office space for Polenghi USA Inc.

Broward County's office market vacancy decreased 20 basis points to 11.3 percent during first quarter on the strength of more than 401,000 square feet in net absorption. Comcast's 70,000-square-foot lease at Miramar Centre Business Park, Building 3, in the Southwest Broward submarket was the largest tenant signing of the opening quarter, followed by Nuance Communications' 17,523-square-foot deal at Sawgrass Lake Center in the Sawgrass Park submarket and American Resource Management Group's 13,205-square-foot lease at 1401 Building in the Cypress Creek area.

Lack of new office development in Broward County, fueled by the overall office space consolidation trend and the high price of real estate in South Florida, constitutes a major factor in the sector's advancement. During the quarter, three buildings totaling 293,169 square feet were delivered to the Broward County market with almost 546,000 square feet still under construction at the end of March. The lack of new product has helped owners of Class B and C office properties, which account for more than 76 percent of the nearly 70 million-square-foot office market.

The new 400,000-square-foot regional headquarters for American Express in Sunrise is scheduled to deliver in first-quarter 2017. Riviera Point Development Group will complete a five-story, approximately 67,500-square-



## Contact Information: 954) 240-4400 (cell) (954) 474-1776 X 303 kenmorris@morrissegroup.com www.morrissegroup.com

foot office building in the Southwest Broward submarket in fourth quarter. Also, a three-story, more than 27,000-squarefoot office building in downtown Fort Lauderdale is slated for third-quarter delivery. The downtown, which accounts for 27 and 6.5 percent of the market's Class A and B space, respectively, achieved the highest rental rates in first quarter at \$36.58 and \$26.82 per square foot. However, Fort Lauderdale Class A office space, which consists of only six buildings and nearly 1 million square feet of inventory, remains tepid with a relatively high 21.8 percent vacancy rate at the end of the first quarter.

A couple of major mixed-use projects to keep an eye on are K Group Holdings' \$1.5 billion Metropica in western Broward County and the redevelopment of the former Fashion Mall in Plantation. The 65-acre upscale Metropica development will offer 150,000 square feet of Class A office space situated over retail, as well as a 400,000-square-foot business park campus. After sitting dark for a decade, Fashion Mall's demolition has begun to make way for a reinvigorating \$300 million live-work-play environment west of Fort Lauderdale. How much these multifaceted developments siphon off office tenants from other parts of Broward County remains to be seen.

In the last 18 to 24 months, there has been an acceleration of Broward County office investment sales. As CoStar highlighted, one of the largest deals in the market was the mid-January trade of the 388,112-square-foot Weston Pointe in Weston, Fla. The office building sold to New York Life Real Estate Investors for approximately \$114.8 million (\$295.75 per square foot) at a 6.4 percent cap rate. Overall, cap rates averaged 7.19 percent last year in Broward County. Comparing data from the last two complete years of investment sales in the market, CoStar reports a downward trend: more than \$940 million in total office investment volume in 2014 compared to less than \$669 million last year (\$213.92 versus \$147.16 in average price per square foot).

These are certainly interesting times in Broward County's office investment sector. The region's vitality plus the market's job growth and significant barriers to new development would seem to forecast increased investor competition.

All indications plus the hairs on the back of my neck, however, indicate that we're reaching the end of the cycle, and one driven so much by cheap capital. Is investor appetite specifically for the market's office product or for anything with yield? Buyers are buying because they have capital that must be deployed. The sellers are selling and the question is why.