Broward Absorption Strong in the 2nd Quarter

▼ 18.5% Total Vacancy Rate

▲ 128,300 SF Quarterly Net Absorption

▶ 179,900 SF Construction

▲ $25.65 NNN / Lease Rate

Note: Arrows indicate change from previous year.

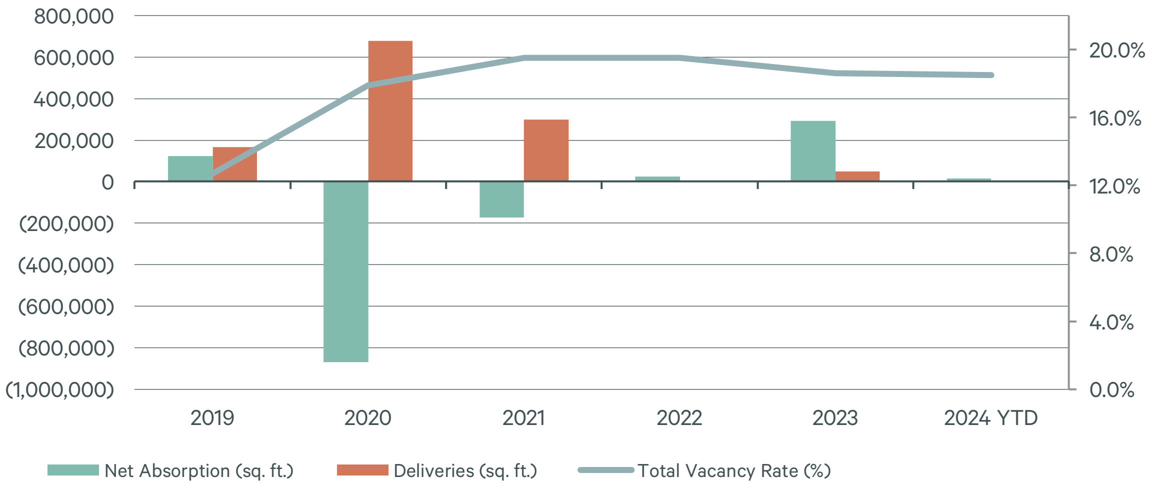
OVERVIEW

- Broward saw strong absorption of 128K SF in Q2, largely due to Jazzwares moving into 130K SF in Plantation.
- The CBD saw 58K SF of negative absorption propelled by Akamai Technologies which listed their 33K SF space for sublease.
- Trophy buildings in the CBD maintain a resilient position with below average vacancy of 16.6% and asking rents 50.9% higher than Class A peers in the CBD.

The Broward office market continues to stabilize in the 2nd quarter. Strong absorption of 171K SF in the suburban areas brought vacancy to 18.5% in the county, its lowest point since 2021. Still sublease space in large blocks continue to be listed on the market, and over 860K is currently available for sublease. Office development remains quiet; however, in the first quarter of 2024 saw Broward's first downtown office development break ground since 2018. Fat Village is a 180,000 square foot office building located in the Fat Village district of Downtown Fort Lauderdale.

Note: Optima Onyx and 1895 Tyler, two newer buildings, still going through their initial lease up are not included.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

DEMAND

Absorption levels were strong in the 2nd quarter, particularly in the suburban markets. Suburban Broward saw 171K SF of positive absorption while the CBD had negative absorption of 43K SF. While the absorption is a big positive shift in the market, it isn't a result of any recent trends. The positive absorption was propelled by Jazzwares who signed for 133KS in two deals in 2021/2022.

Sublease

Sublease availability in Broward county remains inflated compared with pre-pandemic levels; sublease availability sits at 3.5% compared with 2.3% in Q1 2020. Large spaces remain the biggest driver of sublease space in Broward; more than 70% of space listed is in blocks over 10K SF.

Rent Growth

Rent growth was positive this quarter, albeit slower than in the past. The average asking rent have increased 1.3% ($0.32 per square foot) year-over-year to $25.65 per square foot.

Investment

While investment in development was a major story last quarter as the new Fat Village development by Hines broke ground, capital market activity remains subdued. Market expectation is for this to slowly improve as a handful of major buildings are on the market for sale.

FIGURE 2: Statistical Snapshot

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q2 2024 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/NNN)
Cypress Creek	5,367,000	14.3%	16.0%	(23,400)	(89,800)	-	$21.07
Fort Lauderdale CBD	4,851,100	17.0%	18.6%	(42,900)	(18,300)	179,900	$37.19
NE Broward	1,506,600	15.0%	15.0%	34,500	30,600	-	$22.06
NW Broward	874,500	13.9%	18.4%	19,900	34,900	-	$21.91
Plantation	3,576,100	13.3%	14.2%	156,000	155,200	-	$24.41
Sawgrass Park	2,843,400	22.4%	23.5%	(15,400)	(106,100)	-	$22.82
SE Broward	2,531,400	23.8%	25.9%	(9,000)	9,900	-	$23.92
SW Broward	2,882,700	13.8%	18.7%	8,600	(1,900)	-	$23.69
Suburban Total	19,581,600	16.5%	18.5%	171,200	32,900	-	$22.67
Total	24,432,700	16.6%	18.5%	128,300	14,600	179,900	$25.65

FIGURE 3: Class A Fort Lauderdale CBD Statistical Snapshot

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q2 2024 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/NNN)
Trophy*	1,751,500	12.9%	16.6%	(42,100)	(46,000)	-	$49.45
Class A	2,697,800	21.0%	21.1%	(15,800)	4,100	179,900	$32.78
Total	4,449,300	17.8%	19.3%	(57,900)	(42,000)	179,900	$37.76

Note: All spaces at The Main have been marked as fully occupied as of Q1 2024.

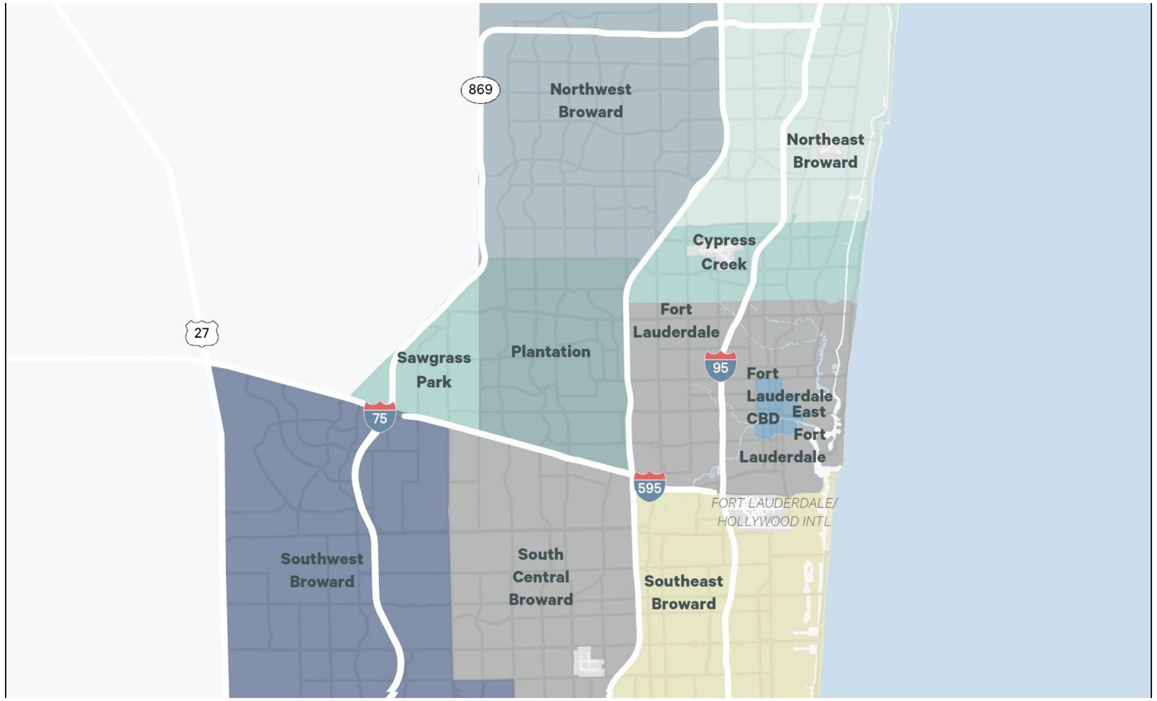
FIGURE 4: Class A Statistical Snapshot

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q2 2024 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/NNN)
Cypress Creek	2,247,700	16.6%	17.5%	(21,700)	(63,200)	-	$23.69
FTL CBD	4,449,300	17.7%	19.2%	(52,900)	(36,900)	179,900	$37.76
NE Broward	229,000	19.0%	19.0%	6,500	(11,000)	-	$24.00
NW Broward	461,600	13.7%	18.8%	13,700	29,200	-	$25.16
Plantation	2,262,500	9.0%	10.2%	146,600	157,000	-	$28.12
Sawgrass Park	1,791,000	21.1%	22.1%	(700)	(72,700)	-	$23.84
SE Broward	1,015,600	31.6%	34.3%	(6,400)	8,800	-	$25.58
SW Broward	2,437,800	15.6%	20.9%	4,500	(7,500)	-	$24.57
Suburban Total	10,445,200	16.9%	19.2%	142,400	40,700	-	$24.66
Total	14,894,500	17.1%	19.2%	89,500	3,800	179,900	$28.54

FIGURE 5: Class B Statistical Snapshot

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q2 2024 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/NNN)
Cypress Creek	3,119,300	12.7%	15.0%	(1,600)	(26,600)	-	$17.51
FTL CBD	401,700	9.1%	11.7%	10,000	18,700	-	$26.30
NE Broward	1,277,600	14.3%	14.3%	28,000	41,600	-	$21.33
NW Broward	412,900	14.1%	18.0%	6,200	5,800	-	$17.70
Plantation	1,313,500	20.9%	21.1%	9,500	(1,800)	-	$20.65
Sawgrass Park	1,052,400	24.8%	25.8%	(14,800)	(33,400)	-	$20.98
SE Broward	1,515,800	18.5%	20.3%	(2,700)	1,100	-	$23.01
SW Broward	445,000	3.7%	6.3%	4,200	5,500	-	$17.92
Suburban Total	9,136,400	16.1%	17.6%	28,800	(7,800)	-	$19.93
Total	9,538,100	15.8%	17.4%	38,900	10,900	-	$20.12

Market Area Overview



ECONOMIC OUTLOOK

Following a year of expectation-busting growth, which has given us interest rates higher for much longer, it seems we will get a "soft landing" in 2024. Last year's expansion was almost certainly driven by fiscal stimulus that far exceeded other western countries. Today, stimulus effects are fading, and higher interest rates continue to bite. There is evidence of this on the consumer front, wherein delinquency rates are trending upward, and credit growth is quickly slowing. The latter signals that consumption—a key driver of GDP growth in recent quarters—is poised to slow further. This partly explains why we believe growth will settle at the mid-1% range this year.

A more severe contraction in consumption would require the labor market to contract. Presently, conditions are merely softening. Both job openings and hours worked are falling. Also, most of the job growth is clustered in sectors that are immune to higher interest rates and receive at least some public funding, such as education, healthcare and government jobs. Leisure & hospitality has been a growth sector, but these cooling trends are evident here too.

A soft landing in consumption and hiring point to further disinflation. Labor-intensive service costs are poised to soften and falling rents across the Sun Belt suggest weaker housing inflation is on the horizon. Fed rate cuts are downstream of disinflation, and a most welcome outcome within the commercial real estate space where higher financing costs and devaluations are triggering distress. The prospect of a rate cut this autumn will at least help ease rate volatility, put cap rates on a slight downward trajectory, and generate more common ground between buyers and sellers in coming quarters.

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Survey Criteria: Includes all competitive Class A and Class B office buildings 30,000 sq. ft. and greater in size in Broward County. Beginning Q1 2022, single tenant non-owner-occupied buildings have been added to the set and their inclusion is reflected historically in the data. Excludes: government and medical buildings..