# BROWARD OFFICE REPORT

## YEAR-END 2013

COMMERCIAL FLORIDA
REALTY SERVICES, LLC

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Commercial Florida Realty Services is pleased to present its year-end 2013 Office Market Reports for the Broward and Palm Beach County, Florida markets.

These reports represent the second full year of their re-introduction after a long hiatus. The comments and feedback we have been receiving indicate that our reports are providing intuitive insight into the current market conditions in a rapidly changing marketplace, while also serving as a predictor of future trends. Many have recalled that in the mid 1990's, Commercial Florida differentiated itself from its competition by providing proprietary and sophisticated market research information and analysis. While Co-Star has become the industry custodian of property, tenant, and comparable sales information, there is still a need for interpretation of statistical data based upon local market knowledge.

Commercial Florida's primary objective is not only real estate value creation to our Landlord clients and partners, but also strategic advice to our corporate, local, and national tenant clients, coupled with the highest level of professionalism, personal service and commitment to enable the best possible real estate decisions as we move from a long cycle of market recovery to sustainable local economic growth.

Mid-year 2013, we indicated that we were encouraged by the increase in transaction velocity. As we transition into 2014, encouragement is replaced by enthusiastic optimism as we look forward to validating all indicators are indeed true and will confidently report that the office market has recovered!

We continue to look forward to your comments and feedback and hope that you will find the information contained in these reports useful, and that you will turn to Commercial Florida for all of your South Florida tenant and property requirements.

George Sacks
Managing Principal

Peter Reed
Managing Principal

| Direct Vacancy Rates | | |
|---|---|---|
| YE13 | 1H13 | YE12 |
| 14.95% | 15.36% | 15.43% |
| **Sublet Vacancy** | | |
| YE13 | 1H13 | YE12 |
| 0.85% | 0.62% | 0.70% |
| **Overall Vacancy** | | |
| YE13 | 1H13 | YE12 |
| 15.80% | 15.98% | 16.13% |
| **Weighted Average Direct Lease Rate** | | |
| YE13 | 1H13 | YE12 |
| $ 16.61 | $ 16.60 | $ 16.60 |

# Optimism for 2014 as Market Stays Even

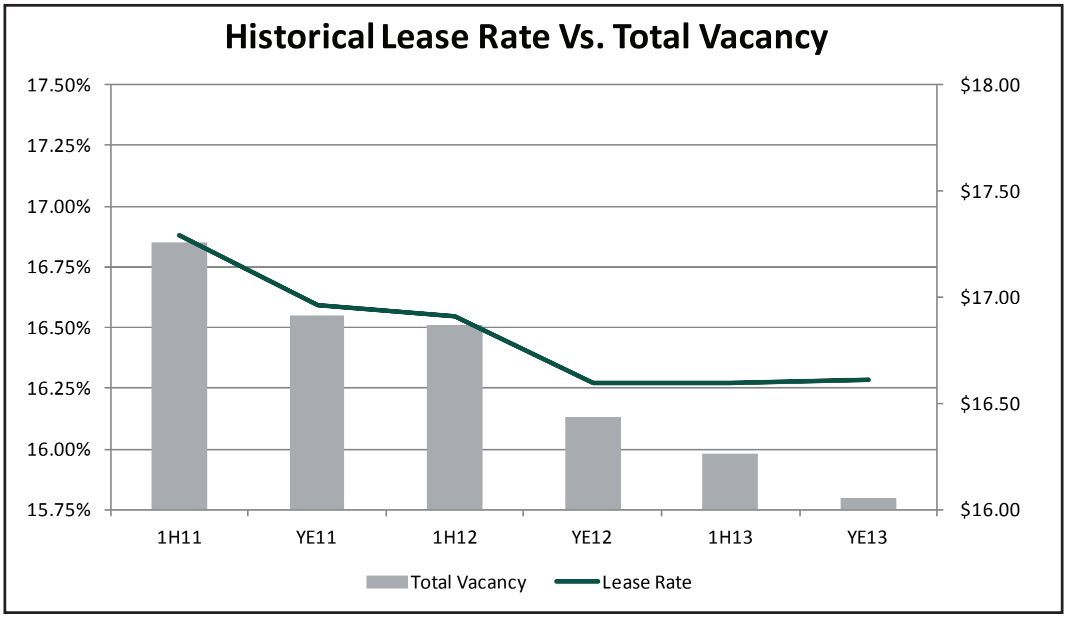
As we move past 2013 we find the Broward County office market to be relatively stable with potential for increasing positive net absorption in 2014 and beyond as economic activity increases giving rising optimism for demand growth. Overall, the county absorbed a mere positive 186,431 square feet in 2013 as asking direct lease rates remained almost entirely flat, moving up just one penny from $16.60 to $16.61 at the end of 2013. The overall vacancy rate declined slightly year over year from 16.13% to 15.80%; however sublet vacancy actually increased year over year from 0.70% to 0.85% indicating there remains soft sectors of the office market despite overall improving economic fundamentals.

The CBD/Downtown Ft. Lauderdale market showed the best performance gaining 175,520 square feet through the end of 2013; interestingly, this market was slightly negative in absorption at the mid point of 2013 illustrating how fast trends can reverse. Downtown still has significant Class A vacancy, 18.60% at year end 2013, and thus may be the location of significant leasing transactions in 2014 if the market does indeed get stronger. Of course the CBD also commands a significant asking lease rate premium of up to several dollars compared to certain suburban markets in Broward County. By contrast, Cypress Creek ended the year with a negative 287,525 square feet loss, after it had been up a positive 82,927 square feet at the mid year point. All other submarkets ended with moderate to slight positive net absorption, leading us to conclude the Broward County office market was stable throughout 2013.

Noteworthy lease transactions in the last half of 2013 included Greenspoon Marder, P.A. leasing 64,964 square feet in 200 E Broward in Downtown Ft. Lauderdale and Great Healthworks leasing 50,331 square feet in 4150 SW 28th Way in Hollywood. Others included US Gas and Electric leasing 46,964 square feet in 3700 Lakeside Dr. and EDS leasing 38,303 square feet in 3450 Lakeside Dr., both in the Southwest Broward sub-market.

Noteworthy sale transactions in the latter half of 2013 included Brookwood Financial Partners buying the Lakeside Office Center in Plantation from Invesco Realty Advisors for $21.5 million or $159.92 per square foot.

> **"The overall vacancy rate declined slightly… however sublet vacancy actually increased… indicating there remains soft sectors of the office market despite overall improving economic fundamentals."**

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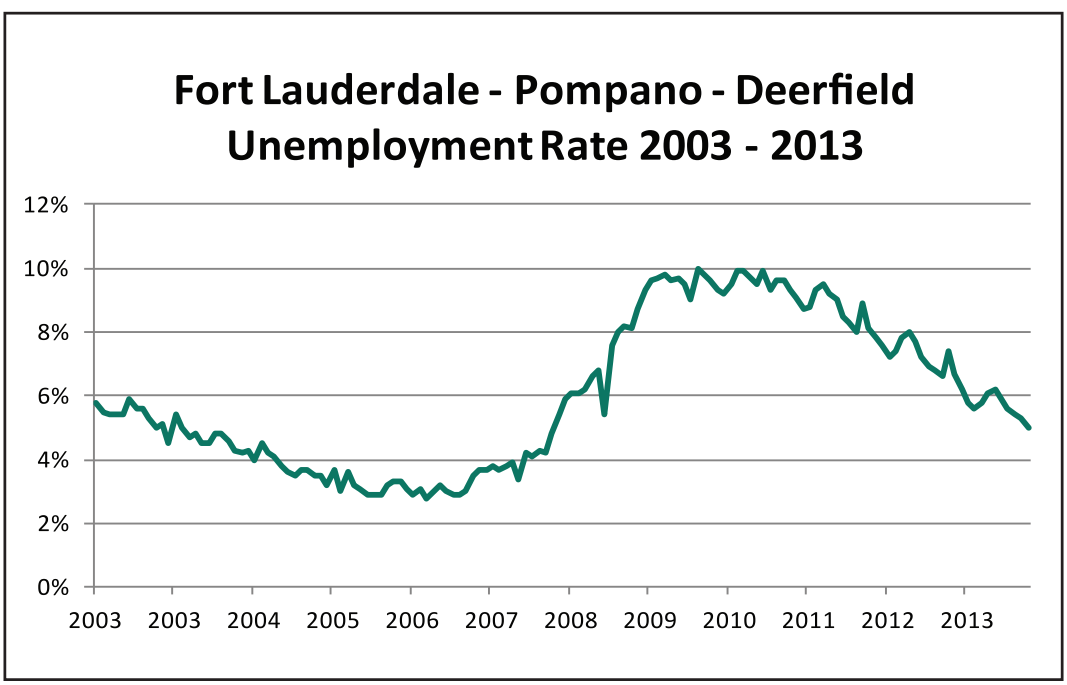
## Broward Economic Focus

In one year, Broward County's unemployment rate has fallen from 6.7% at the end of 2012 to 5.0% at the end of 2013 according to the U.S. Bureau of Labor Statistics; meaning that in theory, the county is back to "full employment". This does not mean that the local economy is as healthy as it as ever been, or that there is not room for significant improvement, only that statistically the county is near balance with the number of workers seeking a job, actually finding a job. The labor force itself actually declined slightly year over year, meaning that some of these gains came from people exiting the local job market as opposed to finding employment.

The leading sector for improvement was actually Financial Activities which was up 7.0% year over year according the US Bureau of Labor Statistics; this is especially good news as this sector is one of the key office using employment sectors. Information, another office using sector, gained 2.8% year over year and Professional and Business Services rose 0.9%; in all, office using sectors look much stronger and could become catalysts for increasing office space demand in 2014 for Broward County.

The second fastest growth sector in local employment was Construction which grew 5.0% year over year, followed by Trade, Transportation, and Utilities which grew at 3.9% year over year, then Other Services at 3.2% percent. Also somewhat meaningful for office space, Government employment grew at 2.7% year over year. In general, the broad improvement in employment in Broward County, as well as the state and nation, should spur business expansion which will drive the need for additional office space.

Broward County is developing infrastructure to stay connected with global freight flows, specifically the commencement of construction of a 42.5 acre intermodal yard at Port Everglades while simultaneously seeking approvals for additional dredging to increase ship capacity; and tourist/passenger flows with the design of a Ft. Lauderdale station for the All Aboard Florida rail project that will connect the region to Orlando. Additionally, home sales have rebounded and housing construction continues to grow. Both trends should spur positive effects in the office market of Broward County in 2014 and beyond.



## Submarket Highlight: Cypress Creek

Cypress Creek is the second largest office submarket in Broward County with over 7.2 million square feet of space, divided into approximately 2.6 million designated Class A and 4.6 Class B. This submarket is located along Interstate 95, just north of the Downtown Ft. Lauderdale CBD, which actually only has 5.7 million square feet of office space. The submarket lost a net 287,525 square feet of occupied space during 2013 as its vacancy rate reached 20.32% overall. However, its smaller Class A component actually only lost a mere 4,115 square feet and boasts a relatively healthy 15.34% vacancy rate. In contrast, the Cypress Creek Class B market which experienced nearly all the losses sits 23.21% vacant, making it one of the worst Class B markets in the county. Still, the submarket is one of the most attractively priced at an average of $16.38 and $13.43 per square foot for Class A and Class B respectively.

While the loss of tenants in Cypress Creek appears to be a negative signal for the larger market, it looks quite different when some of these moves are analyzed. Many represent local relocations from Cypress Creek to Downtown Ft. Lauderdale as firms seek to enhance their CBD presence and expand into better space. This was the case of law firm Greenspoon Marder that moved all attorneys downtown from Cypress Creek, keeping only some space for support staff according to the South Florida Business Journal. A similar move was reported by the South Florida Business Journal when insurance broker USI moved from Cypress Creek to Coastal Tower on East Commercial Blvd. and US-1. These types of moves have placed some Cypress Creek properties in financial distress including Cypress Creek Tower, a 67,222 square foot building at 800 West Cypress Road, that went to auction in October of 2013 after a foreclosure lawsuit. According to the South Florida Business Journal, Wells Fargo vacated in 2012 leaving the building only 49% occupied.

Do these series of outbound relocations mean that investors are giving up on the Cypress Creek submarket? Absolutely not, in fact Northwestern Mutual just sold Pinnacle Corporate Park I & II, located at 500 and 550 West Cypress Creek Rd to a joint venture between Banyan Street Capital and DRA Advisors for $38.1 million or $145.18 per square foot (the buildings totaled 262,434 square feet). According to the South Florida Business Journal, these buildings were 85% leased at the time of sale to tenants such as University of Phoenix and Fannie Mae.

Other transactions to have occurred in Cypress Creek in the latter half of 2013 include the acquisition of Cypress Court, a 42,000 square foot office building located at 6360 NW Fifth Way, for $4.3 million by NRNS Acquisition led by Howard Dvorkin. According to the South Florida Business Journal, the buyer plans on using the majority of the space and leasing the rest to unrelated parties. This type of owner/user acquisition appears to be a trend as the paper reports that over $17 million of these types of transaction have occurred in Cypress Creek recently.

This market has large spaces that can be configured to a variety of uses and will likely see absorption once corporate relocations and expansions resume in earnest. These buildings are primed to be converted into new office formats such as what Citrix has done in its Cypress Creek offices. According to the South Florida Business Journal, the firm spent $1.6 million to convert two floors to the new type of office space with fewer traditional desks and more common work spaces.

# Broward By The Numbers

| CBD / Downtown Ft. Lauderdale | Total RSF | Direct Vacant | Direct Vacancy Rate | Sublet Vacancy Rate | Total Vacancy Rate | YTD Absorption | Weighted Average Direct Lease Rate |
|---|---|---|---|---|---|---|---|
| Class A | 4,371,750 | 745,201 | 17.82% | 0.78% | 18.60% | 148,125 | $ 21.01 |
| Class B | 1,321,273 | 145,484 | 11.01% | 0.00% | 11.01% | 27,395 | $ 18.92 |
| **Downtown Ft. Lauderdale Total** | **5,693,023** | **890,685** | **15.65%** | **0.60%** | **16.24%** | **175,520** | **$ 20.69** |

| Cypress Creek | Total RSF | Direct Vacant | Direct Vacancy Rate | Sublet Vacancy Rate | Total Vacancy Rate | YTD Absorption | Weighted Average Direct Lease Rate |
|---|---|---|---|---|---|---|---|
| Class A | 2,653,019 | 391,308 | 14.75% | 0.59% | 15.34% | -4,115 | $ 16.38 |
| Class B | 4,566,471 | 1,035,004 | 22.67% | 0.55% | 23.21% | -283,410 | $ 13.43 |
| **Cypress Creek Total** | **7,219,490** | **1,426,312** | **19.76%** | **0.56%** | **20.32%** | **-287,525** | **$ 14.51** |

| Plantation | Total RSF | Direct Vacant | Direct Vacancy Rate | Sublet Vacancy Rate | Total Vacancy Rate | YTD Absorption | Weighted Average Direct Lease Rate |
|---|---|---|---|---|---|---|---|
| Class A | 1,763,724 | 127,786 | 7.25% | 5.08% | 12.32% | 136,916 | $ 19.22 |
| Class B | 1,516,138 | 162,611 | 10.73% | 0.08% | 10.81% | -62,883 | $ 18.44 |
| **Plantation Total** | **3,279,862** | **290,397** | **8.85%** | **2.77%** | **11.62%** | **74,033** | **$ 18.77** |

| Northwest Broward | Total RSF | Direct Vacant | Direct Vacancy Rate | Sublet Vacancy Rate | Total Vacancy Rate | YTD Absorption | Weighted Average Direct Lease Rate |
|---|---|---|---|---|---|---|---|
| Class A & B | 1,582,824 | 374,157 | 23.64% | 0.25% | 23.89% | 20,525 | $ 16.32 |
| **Northwest Broward Total** | **1,582,824** | **374,157** | **23.64%** | **0.25%** | **23.89%** | **20,525** | **$ 16.32** |

| Southwest Broward | Total RSF | Direct Vacant | Direct Vacancy Rate | Sublet Vacancy Rate | Total Vacancy Rate | YTD Absorption | Weighted Average Direct Lease Rate |
|---|---|---|---|---|---|---|---|
| Class A | 4,291,345 | 487,746 | 11.37% | 0.34% | 11.71% | 68,156 | $ 16.44 |
| Class B | 3,403,235 | 261,645 | 7.69% | 1.42% | 9.11% | 27,070 | $ 15.39 |
| **Southwest Broward Total** | **7,694,580** | **749,391** | **9.74%** | **0.82%** | **10.56%** | **95,226** | **$ 16.08** |

| Pompano Deerfield | Total RSF | Direct Vacant | Direct Vacancy Rate | Sublet Vacancy Rate | Total Vacancy Rate | YTD Absorption | Weighted Average Direct Lease Rate |
|---|---|---|---|---|---|---|---|
| Class A & B | 2,606,079 | 467,027 | 17.92% | 0.22% | 18.14% | 108,652 | $ 15.02 |
| **Pompano Total** | **2,606,079** | **467,027** | **17.92%** | **0.22%** | **18.14%** | **108,652** | **$ 15.02** |

| Overall Market | Total RSF | Direct Vacant | Direct Vacancy Rate | Sublet Vacancy Rate | Total Vacancy Rate | YTD Absorption | Weighted Average Direct Lease Rate |
|---|---|---|---|---|---|---|---|
| **Overall Market Total** | **28,075,858** | **4,197,969** | **14.95%** | **0.85%** | **15.80%** | **186,431** | **$ 16.61** |

## Special Focus: The Impact of South America on South Florida

International headlines about South America all speak of political instability, rapid inflation, currency controls, and risk of government confiscation of property (as is the case in Venezuela). What could these events mean for South Florida and its real estate markets? It is difficult to say for sure, but it is clear that the rich and middle class in those countries, such as Venezuela and Argentina, will want to get out with their money if possible. Will they be able to do it is the real question.

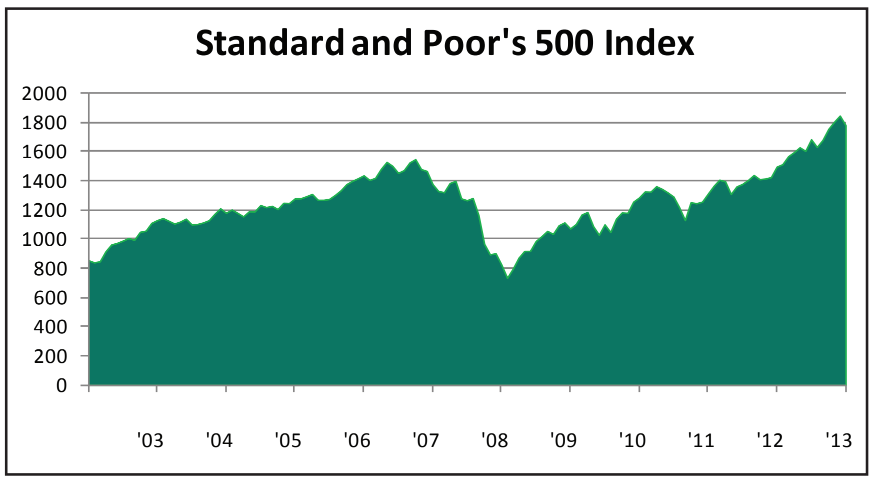
If they use unique and sometimes dubious methods, including buying the new internet based currency "bitcoin" or simply wearing "gold ropes" as suggested by a commentator in the South Florida Business Journal, they may be successful in getting currency or similar purchasing power into the United States. South Florida is already the gateway hub of Latin American business and will likely be the recipient of such moves in the future. The same article reports that an estimated 200,000 Venezuelans already call South Florida their home.

When they get their money to the U.S., purchasing real estate can be one of the best means they see to protect and invest it, even if it is for the future hopes of being able to permanently move to the U.S. Many economists are predicting an increased demand in condos and single family homes as this capital exodus continues. This means our prices of all properties, even some commercial ones, will likely go up due to increased demand. While this is positive on many levels, the risk of overbuilding or new speculative bubbles being formed cannot be ignored. Areas like Broward County are not likely to be as desirous as Miami, but may likely get the spillover effect as prices rise in already hot markets.

| Noteworthy Leasing Transactions | | | | | |
|---|---|---|---|---|---|
| **Tenant** | **Building** | **Submarket** | **Leased Sq. Ft.** | **Tenant Broker** | **Landlord Broker** |
| Greenspoon Marder, P.A. | 200 E Broward | Downtown Ft. Lauderdale | 64,964 | Studley | JLL |
| Great Healthworks | 4150 SW 28th Way | Hollywood | 50,331 | - | Butters Realty & Management |
| US Gas and Electric | 3700 Lakeside Dr | SW Broward | 46,964 | Rise Realty | CBRE |
| EDS | 3450 Lakeside Dr | SW Broward | 38,303 | JLL | Liberty Property Trust |
| Prolexic Technologies, Inc. | 200 E Las Olas Blvd | Downtown Ft. Lauderdale | 35,000 | Newmark Grubb Knight Frank | CBRE |
| Universal Property and Casualty | 1100 W Commercial Blvd | Cypress Creek | 29,018 | - | Brenner Real Estate Group |
| Hospital Physician Partners | 300 S Park Rd | Hollywood | 26,242 | Cushman & Wakefield | Taylor & Mathis |
| Boca Raton Regional Hospital | 3313 W Hillsboro Blvd | Pompano Beach | 25,018 | - | Keith Corporation |
| USI | Coastal Tower | Ft. Lauderdale | 17,400 | Cushman & Wakefield | CBRE |

| Noteworthy Sales Transactions | | | | | |
|---|---|---|---|---|---|
| **Buyer** | **Seller** | **Building** | **Submarket** | **Total SF** | **Sales Price / Price per SF** |
| DRA Advisors | Northwestern Mutual | Pinnacle Corporate Park | Fort Lauderdale | 270,000 | $38,100,000 ($140.00) |
| Stockbridge Capital | TIAA-CREF | Cypress Park West | Fort Lauderdale | 242,991 | $32,950,000 ($135.60) |
| Brookwood Financial Partners, LP | Invesco Realty Advisors | Lakeside Office Center | Plantation | 134,443 | $21,500,000 ($159.92) |
| Zell Holdings | Wells Fargo | Radice Corporate Center II | Fort Lauderdale | 121,709 | $13,875,000 ($114.00) |
| Sawgrass Office, LLC | Douglas Management Realty, Inc. | 1391 NW 136th Ave | Sunrise | 64,241 | $13,250,000 ($206.25) |
| Atid Investments, LLC | Nivcab, Inc. | 3101 N Federal Hwy | Fort Lauderdale | 86,000 | $10,400,000 ($120.93) |

## Capital Market Overview




Broadly speaking, 2013 was a great year for the capital markets as assets across the globe grew in value under renewed confidence in the economy and stability of the U.S. political system. The Standard and Poor's 500 Index, while down slightly in the opening of 2014, experienced record highs in 2013 and gave investors a total return of 31.9% including dividends.

Money from the broad equity markets, and especially bond markets which did not fare as well in the face of rising interest rates has begun to move back into income producing real estate as the Federal Reserve seems content to reduce stimulus measures in the face of a growing economy. Real estate offers potential for real income returns that can be hedged for inflation, thus it is logical for money to rotate into property.

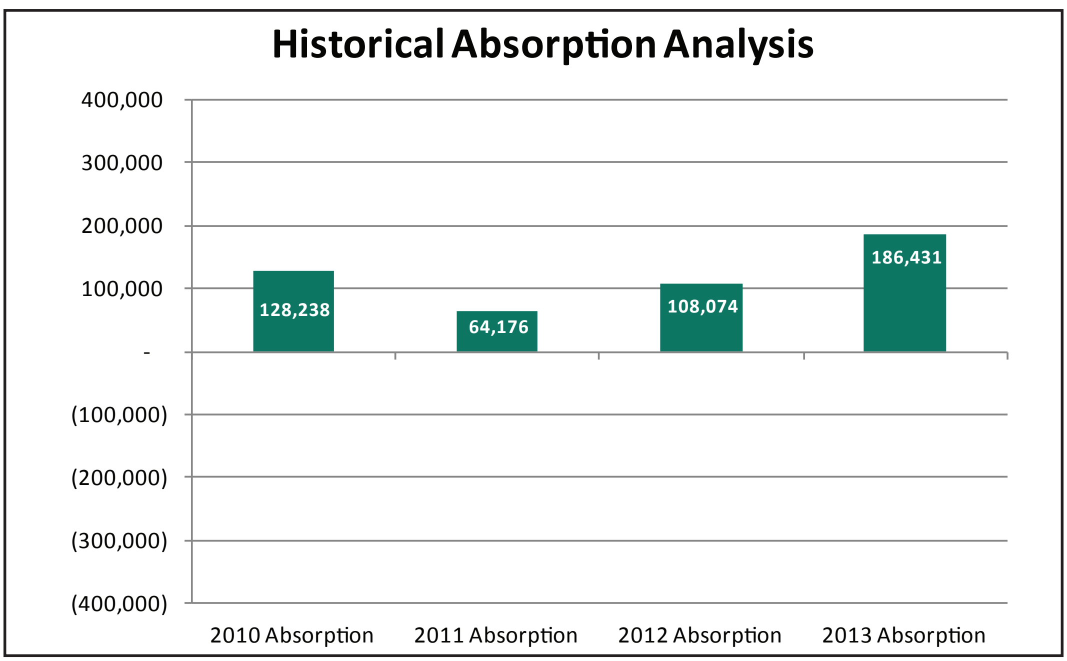
Commercial Mortgage Backed Securities and commercial bank lending also peaked noticeably upwards in 2013 allowing for transaction volume to surpass 2012 levels according to Real Capital Analytics by 19% year over year. Many of the gains in transaction volume in 2013 came from sales of assets in secondary and tertiary market indicating investors were no longer operating on a "flight to quality" mentality and instead are willing to take additional risk for higher expected returns and yields. This is a trend that is likely to continue into 2014 given the continued positive expectation of the economy.

It is worth noting that interest rates have moved up, with the ten year treasury sitting in the mid to high 2% range, but this has not appeared to translate into any lack of interest in real estate as investment. Investors still see the relative risk of holding fixed income investment such as bonds to be greater than investment real estate which can adjust rents with inflation and thus keep values stable and growing for the long term. If interest rates were to spike dramatically, which is not forecasted but always a possibility, investor demand for real estate could decline. At present, few are thinking this is a significant risk for the next few years.

## Closing Thoughts and Future Expectations

Throughout 2013, many key economic data points, such as unemployment, have shown dramatic improvement and this has especially been the case in Broward County. In fact, Broward County's unemployment rate is lower than Miami, West Palm Beach, Orlando, Tampa, and Jacksonville. If this is the case, shouldn't it be rational to expect more office space demand than what was seen in 2013? Yes, but it is important to realize that demand for office space in markets such as those in Broward County is only likely to spike well after the broad recovery in the general economy occurs. This is because much of Broward County's office users are service based, such as law firms and banks, and thus must first get an increase in business demand before they can decide to hire new people and thus need more space to place them.

In 2013, many of the major leasing transactions were within county relocations. Some firms sought bigger, nicer space to accommodate growth and others looked to downsize or implement new work space arrangements such as the one discussed in Cypress Creek by Citrix. We believe these trends will likely continue into 2014. The look and feel of the modern office space is changing as technology advances to allow more and more unique ways to collaborate and get things done. If you are a landlord, be aware that many consultancies (including some housed in national real estate brokerages) are approaching users with a central proposition "Let me show you how to reduce occupancy costs and get the same productivity." Which essentially means, "Let me show you how to lower your office space needs and just make people work from home." It is right to be skeptical if firms will be able to get the same productivity from "co-working spaces", "hoteling" and "tele-communting", but it is without question that they are financially motivated to at least attempt to make it work. Office properties that can offer flexible floor plans and modern amenities are poised to be the most in demand. If you have large open spaces that are vacant, you may want to consider ways to repurpose the space to accommodate firms looking for this "new office."

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