

Morris Southeast Group Commercial Real Estate Trends 1Q2017



The South Florida economy enters the New Year with the wind at its back after modest though steady employment gains in 2016.

Last year Broward County grew its labor force by 28,100 jobs (+3.4 percent), Palm Beach County added 9,900 jobs (+1.6 percent) while Miami-Dade County added 22,800 jobs (+2.0 percent). Broward County's unemployment rate as of December 2016 was 4.7 percent with of a workforce of 1,025,431, unemployment was 4.7 percent with of a workforce of 614,200 in Palm Beach County and the unemployment rate was 5.5 percent with of a workforce of 1,404,274 in Miami-Dade County.

	December 2016 Unemployment Rate (Seasonally Adjusted)	December 2016 Unemployment Rate (Not Seasonally Adjusted)	November 2016 to December 2016 Unemployment Rate Change (Not Seasonally Adjusted)
Miami-Dade County	5.5%	5.5%	(+0.4%)
Broward/Palm Beach/ Miami-Dade		4.7%	(-0.2%)
Florida	4.9%	4.7%	(-0.2%)
United States	4.7%	4.5%	(+0.1%)

Source: Florida Department of Economic Opportunity

Magic Leap Inc., the “mixed reality” tech firm made headlines when it announced new R&D centers in Plantation and Dania Beach that will create 725 new jobs with a capital investment of \$150 million. The company selected Broward County over Texas and California. According to a November article in Forbes, Magic Leap has raised nearly \$1.4 billion in venture capital since its founding in 2011, including a \$794 million infusion last February that was reportedly the largest C-round funding in history. Seemingly every blue-chip tech investor has a stake in Magic Leap, with such luminaries as Andreessen Horowitz, Kleiner Perkins, Google, JPMorgan, Fidelity, Alibaba and Warner Bros.

Trade with South America, which is the region's biggest trading partner other than Canada, fueled much of the region's job growth, yet business and professional services, government and manufacturing were also significant net-job creators in 2016.

South Americans also remain active investors in our region. Late last year Bisnow hosted a Capital Markets and Foreign Investment conference held inside the downtown Miami Macy's on Flagler Street and one of the conversations that emerged involved Latin American investors pushing aggressively into retail, especially acquiring assets involving single-tenant leases like a Walgreens or CVS pharmacy. So-called NNN leases offer investors long-term, “coupon clipping” returns typically in the 5 percent to 6 percent range with good-credit tenants guaranteeing rent payments of at least a dozen years and often as long as 19 years in lease agreements.

Separately, The Real Deal South Florida reported a couple weeks ago that a group of Venezuelan investors had closed on the final portion of a land assemblage deal they are working in Little Havana, with an eye toward cashing in on the property's proximity to Brickell. The property has 400 feet of frontage on Eight Street and the buyers paid a combined \$8.75 million for about 62,000 square feet of land. They have not announced what their development plans are for the site.

Broward County's 31 municipalities are doing their best to keep the economy humming and stand to gain substantially by the investments and expansion of Port Everglades and the Fort Lauderdale/Hollywood International Airport. On Dec. 16, 2016 President Obama signed the Water Infrastructure Improvements for the Nation Act which locally meant the Port Everglades Navigation Improvements Project would get the federal funding it needs to complete the deepening and widening of the port's channels to accommodate the newest Panamax ships on the ocean. The project is currently in the engineering and design phase and is expected to create an estimated 2,200 construction jobs and nearly 1,500 permanent direct jobs locally resulting from additional cargo capacity.



South Florida Real Estate by Product Sector



INDUSTRIAL

From a commercial real estate perspective, e-Commerce has been and continues to be the biggest business driver, particularly as the growing trend in retail sales affects the local industrial marketplace.

The South Florida overall industrial vacancy rate ended the fourth quarter at 3.8 percent from an existing inventory base of over 424 million square feet. "Overall" industrial product includes warehouse and flex buildings. Rents for flex space averaged \$14.13 per-square-foot (asking rates) while warehouse rents averaged \$9.18 a foot, according to CoStar.

Net absorption of industrial space was positive in each of the four quarters in 2016 and for the year, more than 7.1 million square of industrial space was positively absorbed in South Florida. During the fourth quarter, 12 buildings totaling 822,633 square feet were delivered to the market. Starting the New Year, approximately 4.8 million square feet of industrial product is under construction with most of it scheduled for delivery this year. CoStar reported that the largest industrial sale of the year closed on Sept. 30, 2016, when South Florida Logistics Center in Miami traded for \$209 million and change. That worked out to \$223.59 per-square-foot for the 935,413-square-foot property. Average cap rates declined during the first nine months of 2016 to 6.63 percent, compared with 6.95 percent for the first nine months of 2015.

OFFICE

The South Florida office market ended the fourth quarter with an overall vacancy rate of 10.0 percent – which is very respectable. Generally speaking the office markets in most primary and secondary markets in the U.S. have been sluggish in recent years and vacancy rates are usually north of 13 percent in many other major cities.

Approximately 893,000 square feet of Class A offices were positively (net) absorbed in 2016, with all four quarters in positive territory, CoStar reported. For the year, a little more than 2 million square feet of combined Class B and Class C offices were positively net absorbed. The overall vacancy rate dropped 1.1 percent during the course of the year – it started 2016 at 11.1 percent.

Average asking rent for all office space was \$29.68 per-square-foot, whereas in South Florida's CBD (Central Business District) average asking rent ended the year at \$36.84 a foot. Approximately 1.1 million square feet of new offices were delivered in 25 separate projects in 2016. Starting this year, there were 2,760,943 square feet of office space under construction. The largest project underway currently is in City of Sunrise -- a 400,000-square-foot office building that is 100 percent pre-leased to American Express. Also, a 246,085-square-foot office project is being built at 800 Waterford Way in Miami that is 11 percent pre-leased.

Total office building sales were up during the first nine months of 2016 compared with the same period in 2015. A total of 102 office buildings (of 15,000 square feet or larger) valued at \$2.2 billion sold from January through the end of September last year, compared with 142 sales totaling \$1.9 billion in the same period during 2015. Cap rates increased slightly last year, moving from 6.41 percent in 2015 to 6.53 percent in 2016.



RETAIL

South Florida's retail real estate market remains vibrant and relatively tight, with a 4.0 percent overall vacancy rate to close out 2016. All of the sub-sectors, including Shopping Centers, Power Centers, General Retail Centers, Specialty Centers, and even Malls, performed well last year.

Like many U.S. cities, food retail is driving the South Florida retail market. QSR magazine (Quick Service Restaurants) reported last year that the Miami-based owner of Yardbird Southern Table & Bar opened three new fast casual restaurants in South Florida – a Spring Chicken near the University of Miami, one in South Beach and a Spring Chicken in Ft. Lauderdale.

Spring Chicken's fried chicken sandwich

Meanwhile Tim Gannon, who co-founded Outback Steakhouse, teamed up with his 32-year-old son Chris to open a new fast casual concept called Bolay, with the first restaurant opening in Wellington near West Palm Beach.

Currently, there are 133 retail buildings under construction totaling almost 4 million square feet, of which about 2.2 million square feet is pre-leased.

Overall, year-end quoted rates for retail rents averaged \$30.36 per-square-foot with the highest asking rents in Brickell at \$96.90 a foot whereas rents along the Biscayne Corridor were \$49.91 per foot and in Coconut Grove they were \$42.70 a foot, respectively.