MORRIS SOUTHEAST GROUP FALL/WINTER 2017 REPORT
FT. CITY OF FORT LAUDERDALE

ON HURRICANES, ECONOMIC GROWTH, OFFICE MARKETS AND THE CITY OF THE FUTURE

Despite a recent Wall Street Journal headline – *Hurricane's Don't Slow Down the Economy for Long*, Hurricane Irma was the 5th most destructive natural disaster in U.S. history according to recent analysis by Moody's Analytics. Inflation adjusted, Irma destroyed nearly $50 billion in property and also caused losses of approximately $25 billion in output. The 2005 Hurricane Katrina topped Moody's list at $147 billion in destroyed property and about $60 billion in lost output while Harvey ranked second, at $130 billion and $18 billion, respectively.

WSJ's story reported that the U.S. economy grew at 2.7% in the third quarter, according to updated estimates from Macroeconomic Advisers. Analysts had expected the triple whammy of Harvey, Irma and Maria to have greater adverse effects on the economy, and it did, briefly.

After the storm-related stumble, nationwide hiring picked up in October. The Labor Department reported the U.S. added 261,000 jobs in October, versus a gain of 18,000 in September in the aftermath of the hurricanes.

Broward County reported a 3.3 percent unemployment rate at the end of September, which was a full 150 basis points lower than a year earlier. Nonagricultural employment increased by 13,000 jobs year-over-year, bringing total employment in the Ft. Lauderdale-Pompano Beach-Deerfield Beach MSA (Broward County) to 833,900. In a press release, the **Greater Fort Lauderdale Alliance** CEO **Bob Swindell** said that Florida's unemployment rate has declined or held steady for the past 87 consecutive months and that 9 out of 10 major industries experienced positive job growth in the past year.

COMMERCIAL REAL ESTATE MARKETS AT A GLANCE

Through mid-year ***Broward County's*** vacancy rate for Class A office properties stood at 14 % while Class B offices was just under 10% and Class C vacancy rate was 6%, according to CoStar Market Analytics. About half of the 800,000 square feet of total office product added to the inventory this year has been leased and the other half is still available.

Since 2013, the submarkets with the greatest amount of new supply are Southwest Broward, with nearly 700,000 square feet of new offices, Sawgrass Park, with just under 500,000 square feet of new product and Plantation, with 275,000 square feet, while Pompano-Deerfield Beach had 200,000 square feet added to inventory in the past 4.5 years.

Overall rental rate growth in Broward has been consistently upward since we emerged from recession in late 2011. Office rents increased 4.6% in 2015, 5.3% in 2016 and 2.5% through the first half of 2017.

Miami's office stats through mid-year were comparable to Broward County, with vacancy for Class A properties at 12.3%, Class B offices at 9% and Class C office product at 5%. There was 500,000 square feet of office space under construction in Coral Gables at mid-year, 450,000 square feet in the Miami Airport submarket, 300,000 square feet in downtown Miami, 180,000 square feet in Aventura, 150,000 square feet in Northeast Dade County and about 150,000 square feet of new office construction underway in Brickell. Overall, about half of that space has been preleased.

Overall rental rate growth in 2015 was 7.2% -- the high watermark coming out of the recession and 5.4% in 2016. Supply appears to be catching up with demand as rent growth through the first half of 2017 was only 1.3%, CoStar reports.

The vacancy rates for ***Palm Beach offices*** at mid-year were 14.2% for Class A, just over 10% for Class B and almost 10% for Class C properties. In terms of development, approximately 55,000 square feet of offices are under construction in the outlying areas around Palm Beach City while 30,000 square feet of new product in Delray Beach is coming to the market by mid-2018. As one of the more desirable submarkets in South Florida, Palm Beach office rents have spiked the most in recent years. Rental rate growth was 5.9% in 2014, 7.3% in 2015, 8.4% in 2016 and 2.1% through the first six months of 2017, or a cumulative rent increase of 23.7% in the last 3.5 years.

FORT LAUDERDALE MAKES ULI'S ANNUAL TRENDS REPORT AS A TOP 10 GROWING METRO MARKET

Meanwhile, Fort Lauderdale garnered national media attention by claiming the 6th fastest growing Metro market in the U.S., according to the recently published ULI and PwC Emerging Trends in Real Estate 2018. The top five cities were Seattle, Austin, Salt Lake City, Raleigh/Durham and Dallas/Ft. Worth. Los Angeles, San Jose, Nashville and Boston were ranked 7th through 10th.

"*The trend of smaller markets displacing larger ones as investment hubs is setting a new course for urban development that is reshaping cities across the nation,*" said ULI Global CEO **Patrick L. Phillips**. "*These cities are positioning themselves as highly competitive, in terms of livability, employment offerings, and recreational and cultural amenities.*"

THESE CITIES ARE POSITIONING THEMSELVES AS HIGHLY COMPETITIVE, IN TERMS OF LIVABILITY, EMPLOYMENT OFFERINGS, AND RECREATIONAL AND CULTURAL AMENITIES.

Here is ULI/PwC's snapshot of Fort Lauderdale in its full report:

The local property market outlook states "positive sentiment regarding multifamily, industrial and single family local economy, investor demand and capital availability.

For demographics and livability – 5-year resident growth of 29,000 per year with 12.4% population growth in ages 15-34 in recent 5 years. One brewery per 238,000 (what a metric!). High outdoor activity index and high cultural ranking.

On cost, an 8.6% 5-year growth in disposable index and cost of doing business at 102%. By comparison, Boston's cost of doing business was 130%. Strong household growth with an affordability index of 115.6. The report noted that housing prices have not returned to the 2008 peak.

The report also ranked connectivity, with 4.1% global employment in Foreign Owned Enterprises (FOE), while the cost of doing business in Fort Lauderdale also scored high markets as measured by business creation with 13.4% of firms less than three-years-old, or 4.4% of total employment.

TREND WATCH: DRIVERLESS CARS - THE MOST PROFOUND GAME CHANGER OF OUR TIME

Over in trend setting San Francisco, one of our moles scored a seat at The Registry's Annual Landscape San Francisco event, and this year's theme as The City of the Future. The first panel featured **Andy Cohen**, Co-CEO of world renowned architectural firm, Gensler, and **Max Crowley**, who manages strategic initiatives for Uber.

Crowley was Uber's 25th employee and recounted on how he and a colleague literally got the ride-sharing business going "with a box of iPhones and a million Google searches for any service that involved drivers." A Chicago native, he was out to dinner with his parents when he got an alert on his phone that the company had hired its 10th driver. He said to his parents, "my goodness we might actually pull this thing off."

GENSLER'S ANDY COHEN WAS UNEQUIVOCAL ABOUT THE IMPACT THAT DRIVERLESS CARS WILL HAVE ON SOCIETY.

In the early days of Uber, Crowley and his merry band of disrupters literally had to meet drivers to teach them how to use the phone app to engage with customers, pick them up and take them where they wanted to go.

Uber is now in 500 cities, 80 countries and does 80 million rides a week. Increasingly, Uber is used in conjunction with mass transit to move people, Crowley said. In fact, 25% of Uber rides now begin or end at mass transit. "We're seeing definite patterns, particularly in European cities and U.S. cities with mature mass transit in which habits are forming around using Uber and trains or Uber and ferries to commute."

He went on to say that Uber's original mission to make transportation as reliable as running water is somewhat dated now because of the firm's other, related and growing businesses. Uber Eats is now doing 1 million deliveries per week, while Uber Freight (the trucking business) is also growing. Uber's Enterprise division is working with cities around the world and architectural firms like Gensler on advanced transportation initiatives. The Enterprise division is the group that brought the test pilot of driverless Ubers to Pittsburgh, PA, for example, where the ride sharing company did 30,000 trips in the last year.

Gensler's Andy Cohen was unequivocal about the impact that driverless cars will have on society.

"Driverless cars is the most profound game changer of our time," the Co-CEO said.

There are 260 million cars and motorcycles in the U.S. now, and cars are actually only driven 5% of the time, according to Cohen. By 2030, he predicts there will be no gas-powered cars in the U.S., a boon to the economy and drop in CO2 emissions. There are 125,000 gas stations in the U.S. that will be able to be repurposed and redeveloped. There are 500 million parking stalls in the U.S., or 30 spaces per resident, that can be rebuilt into new space, open space or amenity space.

Cohen was particularly passionate when talking about the impact driverless vehicles will have on communities that will require fewer roadways, saying our cities will become much more pedestrian oriented again. Crowley pointed out that about 10% of Millennials have already given up their cars, and while there are no hard numbers yet on the how many households have gone from two or more cars to just one vehicle, the anecdotal evidence exists. Within a few years, families simply will not need a second car.

Make no mistake, the autonomous vehicle industry has its challenges, foremost among them, according to Cohen:

- Legislation
- Insurance
- Cyber Security
- Safety

Cities, states and federal laws have to grapple with the changeover to driverless vehicles. The insurance industry is one of the world's oldest and biggest lobbies – they will have their say in the matter. Cyber Security is probably the biggest threat. Once traffic on highways and city streets are managed and programmed by computers, we can't afford a breach at any level, even small scale. And of course safety will be an ongoing issue, particularly as we integrate driverless vehicles with humans behind the wheel.

It's worth remembering that 93% of car accidents are caused by humans. And as it relates to change, the last buggy whip manufacturer went out of business around 1918, or 10 years after Henry Ford's first Model T left the factory at the Ford Piquette Avenue Plant in Detroit, Michigan.

To learn more about the South Florida commercial real estate market or for assistance with a lease, purchase or sale of commercial property, please call Ken Morris at 954.240.4400.
You can also email Ken at ken@morrissegroup.com.