JONES LANG LASALLE

Real value in a changing world

/pulse/

Americas Research

Fort Lauderdale - Broward County Office Insight Q4 2009

Economy

Job growth remained flat as the unemployment rate was reported at 9.7 percent at the end of 2009. Broward County posted 18,040 year-to-date job losses, the area's unemployment rate experienced a slight decrease of 0.1 percentage points from the 9.8 percent rate recorded at the end of third quarter. Unemployment levels continue to hover just below the 10.0 percent mark and rebounds in employment growth aren't projected until the second half of 2010.

Market conditions

Reports of national economic improvements started to surface during fourth quarter. Improved residential real estate sales, stock market rebounds and slowing unemployment are indicators that we have begun to move in a positive direction. Although this is good news, the office sector tends to be the caboose of the economic recovery train. The county continued to feel flat conditions as the direct vacancy rate experienced a slight decrease and can be attributed to the continued expansion of the Law Offices of David Stern in the Plantation submarket. This coupled with the slow down of direct space being returned to the market helped direct rates dip for the first time in over two years. However, overall vacancy rates continued to climb upward with a 0.3 percentage point increase. The contributing factor was Nortel's recent move out of their 144,000 square feet at 1500 Concord Terrace in the Sawgrass Park submarket. The telecommunications company was allowed to close operations and continue their efforts to sublease the space while the process of their bankruptcy filing moves forward. This also contributed to supply just outpacing demand as modest negative absorption was recorded for the fifth consecutive quarter.

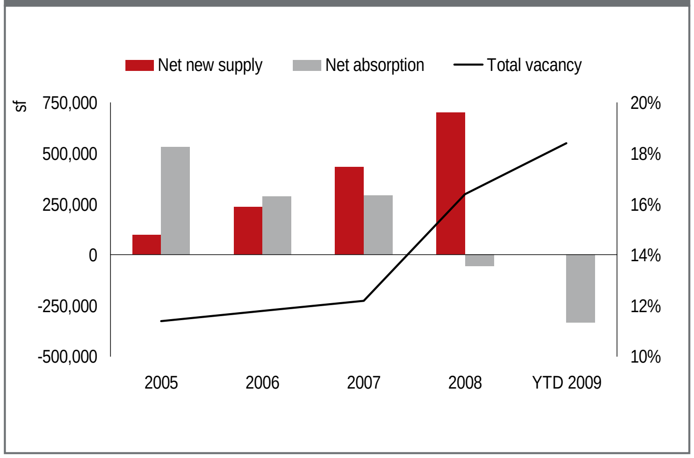
Outlook

Demand is projected to remain flat for the first half of 2010 as economic growth isn't likely to gain momentum until the second half of the year. This coupled with vacancy rates holding steady between 15.0 and 20.0 percent will continue to give businesses the upper hand in lease negotiations over the next year. This will continue to put pressure on owners to decrease asking rates and remain aggressive during talks as companies take advantage of increased space opportunities. No plans for new development will continue to aid market corrections once recovery begins within the office sector. Developers are placing plans of ground breaking on hold until market conditions improve or an anchor tenant is secured. Both are unlikely to occur this year as well as 2011. Economic recovery looks to be building steam, but the caboose is always the last car to pull out of the station, we still have some time before the office market begins to pick up speed.

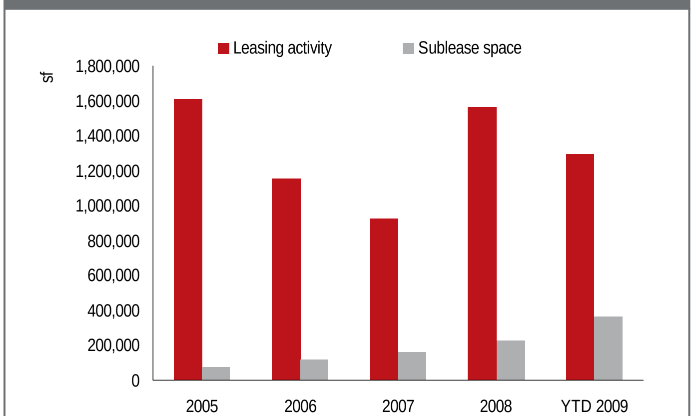
Key market indicators

	Key market indicators		12-month forecast
Supply	Supply	15,210,811 sf	
Supply	Direct vacancy rate	16.0%	
Supply	Total vacancy rate	18.4%	
Supply	Under construction (% preleased)	0 sf (0%)	
Demand	Leasing activity 12 mo. % change	-16.9%	
Demand	YTD net absorption	(334,418) sf	
Pricing	12-month overall rent % change	-2.8%	
Pricing	Class A overall asking rent	$31.37 psf	
Pricing	Class B overall asking rent	$23.18 psf	

Net new supply, net absorption and total vacancy



Leasing activity vs. sublease vacant space



Sublease space only includes vacant space

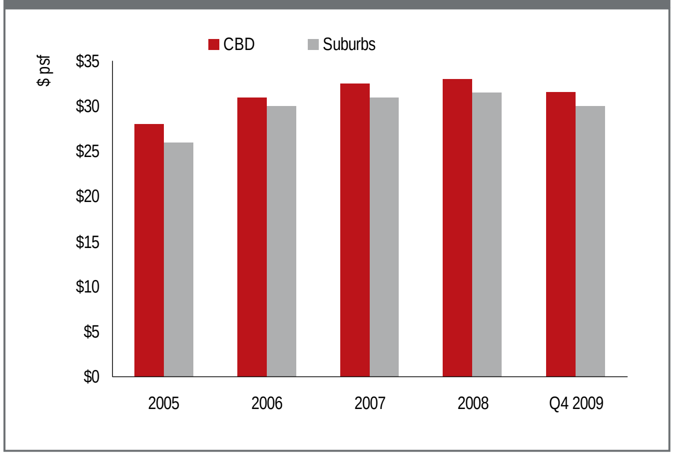
Tenant perspective

Leasing activity continued to remain limited during fourth quarter with the majority of transactions coming from tenants already in the market who renewed, expanded, downsized or consolidated offices. Companies remained aggressive in seeking rate reductions during lease negotiations. The three factors which continue to aid tenants negotiating power include credit worthiness, size and length of term. Tripp Scott renewed and expanded at 110 Tower in the downtown submarket. The law firm signed the 12 year deal while receiving 12 months of rent abatement and $45.00 in tenant improvement dollars for the expansion space. Holland and Knight will be relocating and downsizing from the Wachovia building to SunTrust Center within the central business district . The law firm inked a 10 year deal with 12 months rent abatement and a reported $75.00 tenant improvement allowance. Kaplan University expanded into 124,000 square feet when the subleased 1601 NW 80th Terrace in Plantation. The education company signed for the remainder 11 year term and received eight months of half base rent in lieu of tenant improvement dollars. All deals were done below asking rates.

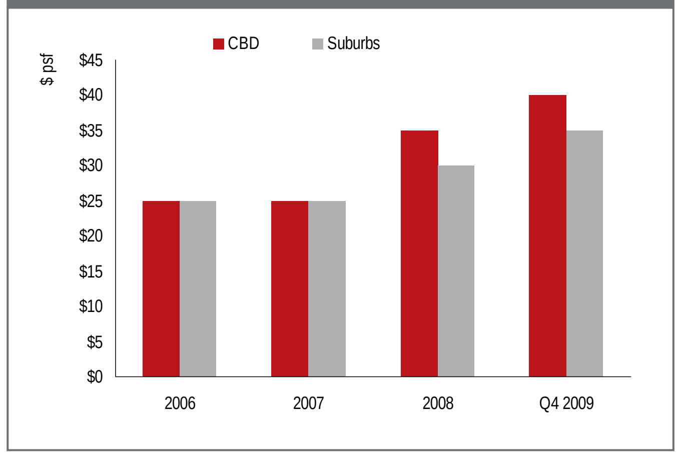
Landlord perspective

Landlords continued to feel their tenants financial burdens as the common trend of businesses attempting to renegotiate a reduction in their current rent structure in exchange for extending their lease term (“blend and extend”) continued during fourth quarter. Landlords have become increasingly concerned about rising vacancy rates which has contributed to full service quoted asking rates decreasing by 4.5 percentage points from the $28.85 per square foot rate quoted at the end of 2008. Effective rates are ranging from near quoted prices up to $2.50 per square foot below asking rates. Landlords look to a companies financial stability, the size of the requirement and term of the lease as key factors when it comes to a tenants negotiating arsenal and offering aggressive rental rates. Tenant favorable conditions will remain throughout 2010 and into the first half of next year. Owners are projected to decrease asking rates another three to five percentage points over 2010 and likely will level out in the second half of 2011.

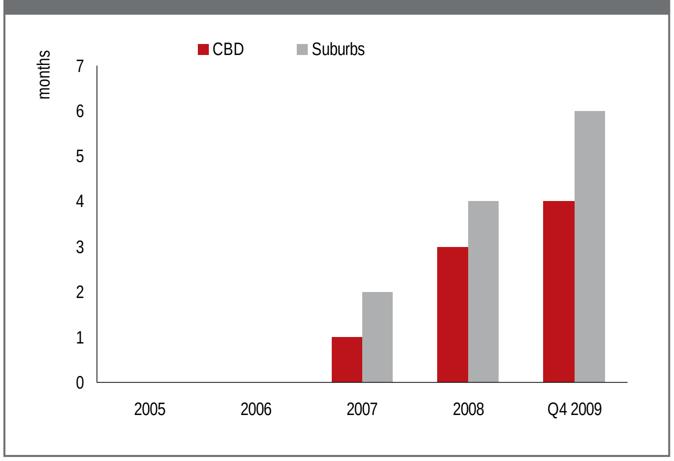
Class A overall asking rents



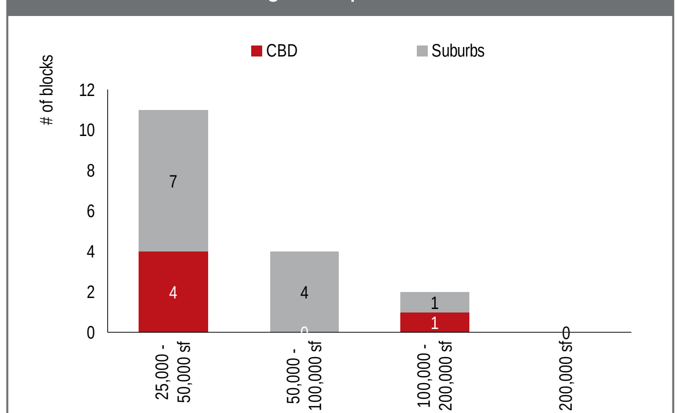
Class A tenant improvement allowance



Class A free rent

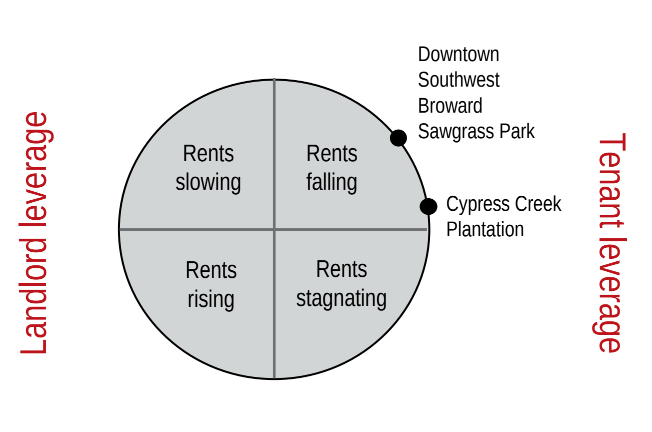


Class A blocks of contiguous space

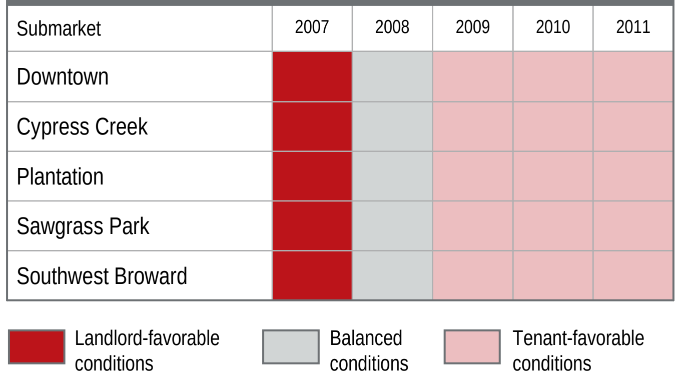


Includes vacant existing blocks and available UC/UR blocks

Property clock – current market conditions



Submarket leverage – market history and forecast



Completed lease transactions

Tenant	Address	Submarket	sf	Type
Kaplan University	Jacaranda Park of Commerce - 1601 S.W. 80th Terrace	Plantation	124,000	New / Expansion
Law Offices of David Stern	Crossroads 3 - 8100 S.W. 10th Street	Plantation	40,296	New / Expansion
Tripp Scott	110 Tower - 110 S.E. 6th Avenue	Downtown	30,600	Renewal / Expansion
Brown & Brown Insurance	Crown Center - 1201 W. Cypress Creek Road	Cypress Creek	29,670	New / Downsize
IntegriGuard	Huntington Centre I - 2901 S.W. 14th Avenue	Southwest Broward	24,150	Sublease / Expansion
Holland & Knight	SunTrust Center - 515 E. Las Olas Boulevard	Downtown	21,988	Relocation / Downsize

Completed sale transactions

Address	Submarket	Buyer / Seller	sf	$ psf
Royal Caribbean Administration Operations 14700 Royal Caribbean Way	Southwest	Private real estate Trust/ Bahringer Harvard	128,540	$193.17
DeVry Institute Building 2300 SW 145th Avenue	Southwest	Private real estate Trust/ Bahringer Harvard	94,060	$193.17

Broward County methodology: Inventory includes all Class A & B office properties > 40,000 square feet, excluding all condo, medical and government owned buildings, and owner occupied buildings

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