

MID-YEAR 2012

BROWARD OFFICE REPORT



George Sacks
gsacks@commfla.com

Peter D. Reed
preed@commfla.com

**COMMERCIAL
FLORIDA** 
REALTY SERVICES, LLC

561-338-9950
www.commfla.com

4800 N. Federal Highway | Suite D300 | Boca Raton, Florida 33431

Commercial Florida Realty Services is pleased to announce its mid-year 2012 Office Market Reports for the Broward and Palm Beach County markets.

During the mid 90's, Commercial Florida differentiated itself from its competition by providing proprietary and sophisticated market research information and analysis. These market reports were sought after and well regarded by developers, tenants, and private and institutional owners of office properties. While times have changed with the arrival of Co-Star and other online property information sources, the need for intuitive interpretation of market information to determine both current conditions and trends has not.

Commercial Florida's primary objective is real estate value creation through quality real estate services and property solutions with the highest level of professionalism, personal service and commitment to assist our clients in making the best possible real estate decisions in this competitive and volatile business environment.

We look forward to your comments and suggestions and hope that you will not only find these reports useful, but that you will turn to Commercial Florida for all your South Florida office property needs.

Commercial Florida remains encouraged with the increase in transaction velocity in the first half of the year. However, we remain cautiously optimistic that it will sustain itself long enough to have a meaningful impact on occupancy, rental rates and ultimately values.



George Sacks
Principal



Peter Reed
Principal

Market remains flat amid global uncertainty

2012 opened with a renewed sense of optimism as economic recovery and a solid holiday spending season pointed to the potential for sustained growth. These optimistic feelings quickly returned to fear and uncertainty as the European debt crisis, oil price fluctuations, and U.S. domestic political turmoil all reappeared on the front pages. The Broward County office market appears to have lived that roller-coaster as the first half of the year saw a relatively small positive net absorption of just 100,398 square feet despite significant gross leasing activity.

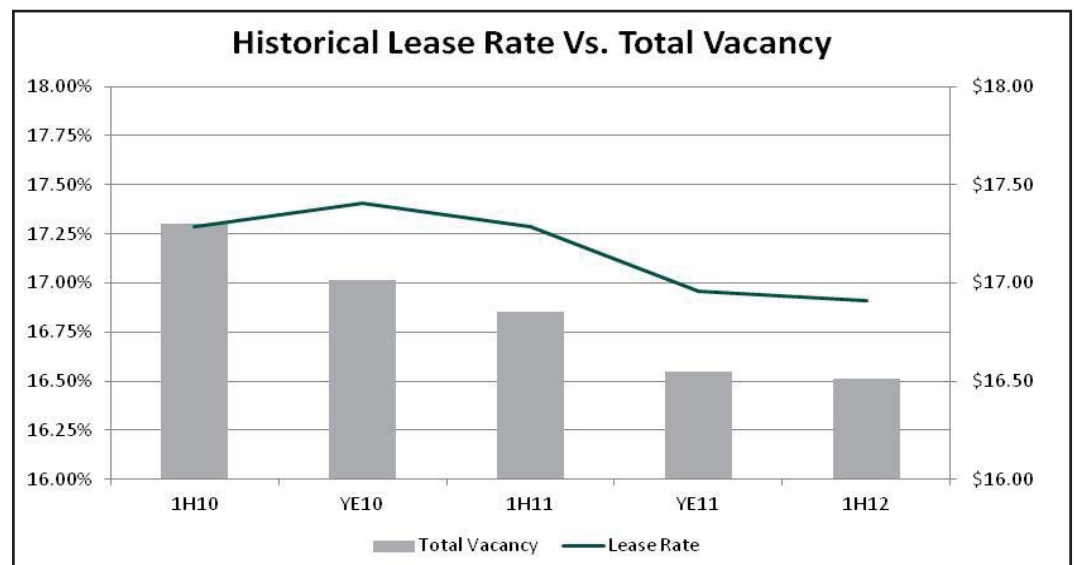
Overall market vacancy remained relatively flat at 16.51%, down just four basis points from the beginning of the year. Direct lease rates remained equally flat as landlords remain defensive, facing a year of lease expirations from many pre-bubble deals. This renewal cycle is proving to be particularly challenging as many tenants are choosing to downsize to reflect the fact that many employees have been shed over the past few years. The net result is struggling net operating incomes in the face of a market that is improving slowly. Landlords with the ability to finance tenant improvements and capital expenditures will have a significant negotiating advantage in renewals and new leases as some owners still lack this capacity.

The Southwest Broward submarket has been the top performer this year with positive net absorption of 87,741 square feet. Cypress Creek came in a close second at a positive 82,927 square feet. Most other submarkets, including the downtown/CBD remained relatively flat. Northwest Broward and Pompano-Deerfield saw modest declines of negative 34,795 and 29,028 square feet respectively.

Many of the largest leasing transactions this year have been renewals and few of any significant size were reported. The largest sale transaction was the Ultimate Software HQ building in the Southwest Broward submarket for \$16.1 million. Other large sales included the Cypress Center for \$13 million and Atrium West for \$4.8 million, both located in the Cypress Creek submarket. Given the upcoming elections and global macro economic uncertainty, we do not expect there to be a significant surge in activity for the remainder of 2012.

Direct Vacancy Rates		
1H12	YE11	1H11
15.76%	15.92%	15.93%
Sublet Vacancy		
1H12	YE11	1H11
0.75%	0.63%	0.92%
Overall Vacancy		
1H12	YE11	1H11
16.51%	16.55%	16.85%
Weighted Average Direct Lease Rate		
1H12	YE11	1H11
\$ 16.91	\$ 16.96	\$ 17.29

“This renewal cycle is proving to be particularly challenging as many tenants chose to downsize to reflect the fact that many employees have been shed...”

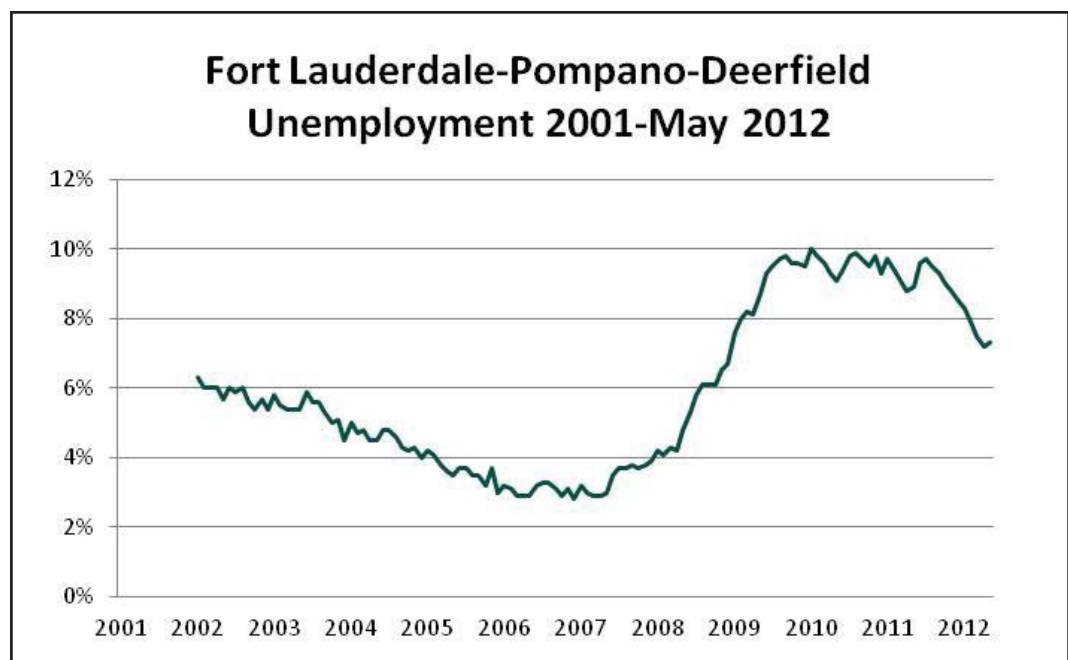


Broward Economic Focus

Overall, the Broward County economy has seen continued improvement as the unemployment rate has fallen from 8.5% in December of 2011 to 7.3% in May of 2012 according to the last report from the Bureau of Labor Statistics. Overall this is very good news, as it reflects an approximate 13 thousand net new jobs to the county. Even better, this occurred as the labor force actually grew slightly in the region. This is a stark contrast to what has been seen nationwide where declines in the unemployment rate have been largely motivated by people ceasing to look for work. Thus, for the first time in several years, Broward County looks better than the nation in terms of employment.

Key office using sectors of the local economy are still lagging in growth but remaining fairly stable for most of 2012. Information technology remained flat for the year but still down 3.5% year over year; financial services employment continued its positive trend upwards seeing annual growth of 2.7%; and professional and business services also gained at an annual rate of 1.2%. Education and health services, a sector also known to impact office space demand, grew at a robust 2.6% annual rate as well; unfortunately, government, another sector tied to office space, continued to fall at a negative 1.6% annual rate. The overall conclusion from these statistics is that net demand for office space should remain fairly stable in the short term.

On a more macro level, Broward County is being impacted by the growing state of uncertainty being presented by Washington D.C. and other global factors. The impending “fiscal cliff” that could send tax rates soaring in January 2013 is likely impeding many business leaders and investors from making decisions on a wide array of issues including new hiring, expansion, and investment. If tax rates rise on a national level (seemingly very likely), and most assuredly in many states (California, Illinois, and New York to name a few), Florida and specifically Broward County could be net recipients of individuals and businesses fleeing high tax locales. Of course Florida is not entirely safe either, our state’s fiscal situation is weak, likely causing increased property tax rates and fees along with reductions in state spending in key areas including education. Thus, many are looking to the November elections to better understand political risk and provide some clarity



Submarket Highlight: Southwest Broward

The Southwest Broward submarket is the largest submarket tracked in Broward County representing over 27% of the total market and including nearly as much Class A space as downtown Ft. Lauderdale. During the first half of the year the submarket absorbed 87,741 square feet of space bringing total vacancy down to 12.11%, dramatically lower than surrounding areas and a dramatic decline from a 23% high seen just a few years ago. This sharp decrease in available space is partially due to distressed sale of the former Nortel building by Mednax/Pediatrix. The property was purchased after Nortel Networks vacated a 177,000 square foot space in the building following its bankruptcy proceeding. Many market participants who witnessed the exodus of Nortel are now closely watching another large technology tenant in the area, Research in Motion. The Blackberry manufacturer occupies 160,000 square feet of space within the submarket and has recently seen its share price tumble 75% from June 2011 to June 2012.

Landlords have acknowledged strengthening fundamentals as such, lease rates moved higher over the first half of the year gaining \$0.15 to settle at \$17.70 per square foot overall. These gains were led by increases in Class B rents as available supply declined leading to vacancy dropping below 8%. Demonstrating the demand for assets in this submarket by institutional investors The Brookdale Group acquired a portfolio of four office buildings totaling 344,260 square feet for an undisclosed amount. The portfolio was roughly 65% leased at the time of purchase and included a number of investment grade corporate tenants such as Dunn and Bradstreet.

The submarket includes the Sunrise/Sawgrass area, best known for its world class destination shopping experience, Sawgrass Mills. Located well west of heavily congested Interstate 95 with primary access by I-595, Sawgrass Expressway, and I-75 the area benefits from convenient transportation routes to Ft. Lauderdale, Miami, and the west coast of Florida making this a location of strategic importance for many businesses. In recent years however, the area has also gained popularity as a prime location for companies seeking a suburban corporate campus.

As of this writing, it has been announced that both Emerson Electric and Wendy's International have both chosen Sunrise as their new Latin American Headquarters. The State of Florida, City of Sunrise, and the Ft. Lauderdale CEO Alliance are all stepping up to the plate to make sure the region can compete in terms of economic incentives. For Emerson, an incentive package totaling \$683,500 was used to bring the company, and the 50 employees that will call South Florida home, to the area. This trend is likely to persist, adding to the 150+ companies that are headquartered in the greater Ft. Lauderdale area, as the clustering of other international businesses drives additional growth. Further, Sunrise is ideally located within a short drive of three international airports providing efficient access to Central and South America. It should then come to no surprise that employment growth, as mentioned earlier, has been strong in this area outpacing the national statistics.

Broward By The Numbers

CBD / Downtown Ft. Lauderdale							
	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Mid-Year Absorption	Weighted Average Direct Lease Rate
Class A	4,371,750	971,128	23.07%	0.86%	23.93%	2,658	\$ 19.12
Class B	1,321,273	167,291	14.10%	1.44%	15.54%	-11,984	\$ 17.15
Downtown Ft. Lauderdale Total	5,693,023	1,138,419	20.00%	0.99%	20.99%	-9,326	\$ 18.83
Cypress Creek							
	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Mid-Year Absorption	Weighted Average Direct Lease Rate
Class A	2,653,019	416,760	15.71%	0.59%	16.30%	79,339	\$ 15.99
Class B	4,566,471	738,084	16.16%	0.11%	16.27%	3,588	\$ 14.18
Cypress Creek Total	7,219,490	1,154,844	16.00%	0.29%	16.28%	82,927	\$ 14.89
Plantation							
	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Mid-Year Absorption	Weighted Average Direct Lease Rate
Class A	1,763,724	305,383	17.31%	3.23%	20.55%	16	\$ 19.62
Class B	1,516,138	98,721	6.51%	0.00%	6.51%	2,863	\$ 19.21
Plantation Total	3,279,862	404,104	12.32%	1.74%	14.06%	2,879	\$ 19.52
Northwest Broward							
	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Mid-Year Absorption	Weighted Average Direct Lease Rate
Class A & B	1,582,824	352,952	22.30%	0.16%	22.46%	-34,795	\$ 18.25
Northwest Broward Total	1,582,824	352,952	22.30%	0.16%	22.46%	-34,795	\$ 18.25
Southwest Broward							
	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Mid-Year Absorption	Weighted Average Direct Lease Rate
Class A	4,291,345	611,202	14.24%	0.41%	14.65%	54,230	\$ 18.30
Class B	3,403,235	253,640	7.45%	1.45%	8.91%	33,511	\$ 16.25
Southwest Broward Total	7,694,580	864,842	11.24%	0.87%	12.11%	87,741	\$ 17.70
Pompano Deerfield							
	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Mid-Year Absorption	Weighted Average Direct Lease Rate
Class A & B	2,606,079	509,121	19.54%	0.25%	19.79%	-29,028	\$ 12.84
Pompano Total	2,606,079	509,121	19.54%	0.25%	19.79%	-29,028	\$ 12.84
Overall Market							
	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Mid-Year Absorption	Weighted Average Direct Lease Rate
Overall Market Total	28,075,858	4,424,282	15.76%	0.75%	16.51%	100,398	\$ 16.91

Special Focus: The Impact of Distress

Distress sales and distressed landlords are likely to remain a major impact factor in the Broward County office market for sometime as resolution remains slow, especially given the magnitude of the recent real estate downturn. In fact, the second largest office transaction to close in the first half of the year, Cypress Center, occurred after the original owner was foreclosed by the lender, New York Life Insurance Co., with a total judgment amount of \$17.9 million including fees and interest. New York Life turned around and sold the building to an investor for \$13 million. At 124,462 square feet, this Cypress Creek building sold for just \$104.44 per square, a price markedly below replacement cost.

New York Life was not the only lender to take back a sizable asset during the first half of the year. AIG/Western Life took back 800 Fairway Drive in Deerfield Beach as well as Commercial Place I & II at 3230-3250 West Commercial Blvd. in Ft. Lauderdale.

Following the foreclosure, the properties are now managed and leased for turnaround by Stiles. We expect more sales like this to occur as lenders continue to find the relatively low cap rate environment favorable to disposing of assets.

Still, most of the distress transactions that will be seen in the coming years will largely be from properties whose problems are already known. In fact, according to CMBS performance tracking firm, Trepp LLC, South Florida's overall CMBS delinquency rate fell to 9% from a previous high of 13%; this is now below the national average of 10.16%. This is indicative of two facts. First, the demand for space has fundamentally improved from the recession lows, and second, that national and international investors have very positive views on the region and are ready to act as willing buyers of distressed properties. Neither trend is likely to reverse anytime soon.

BROWARD OFFICE REPORT

Noteworthy Leasing Transactions

Tenant	Building	Submarket	Leased Sq. Ft.	Tenant Broker	Landlord Broker
Conroy, Simberg, Ganon, Krevans, Abel, Lurvey, Morrow & Schefer, P.A.	Venture Corporate Center I	SW Broward	41,752	RW Banks Real Estate Inc.	Taylor & Mathis, Inc.
Regus	Cypress Park West II	Cypress Creek	27,385	Jones Lang LaSalle	Jones Lang LaSalle
Broward Charter School	1800 Douglas Building	SW Broward	24,246	New Community Strategies	Morris Southeast Group
Astor & Black	Herald Plaza	SW Broward	22,000	Stiles	Butters Realty & Management
Intermedix Corporation	AtlanTech Tower	Ft Lauderdale	20,600	CresaPartners	Jones Lang LaSalle
Hamilton Group Funding	Lakeview Plaza II	SW Broward	17,720	Olschansky Group	Liberty Property Trust
The Center for Allied Health & Nursing Education	Riverbend Corporate Bldg B	Ft Lauderdale	17,225	Cushman & Wakefield	Flagler

Noteworthy Sales Transactions

Buyer	Seller	Building	Submarket	Total SF	Sales Price / Price per SF
Prime Investment Management, LLC	888 Realty Investors	Ultimate Software HQ	SW Broward	61,264	\$16,100,000 (\$262.80)
6600 North Andrew Avenue, LLC	New York Life Insurance	Cypress Centre	Cypress Creek	124,462	\$13,000,000 (\$104.44)
ROVI Properties	ATC Realty One	Atrium West	Cypress Creek	92,689	\$4,800,000 (\$51.79)

Capital Market Overview

Today is a curious time for the capital markets, a European banking collapse is seen as a real potential; taxes on capital gains and dividend income seem sure to rise in the coming years; broad growth in economic output (as measured by Gross Domestic Product) is slowing; yet, the broad stock market remain at relatively high levels and interest rates at all time lows. This is not a situation often seen, nor one we can believe is long-term sustainable.

At time of writing, the Dow Jones Industrial Average sits just above 13 thousand and ten-year U.S. Treasury Bond yields around 1.5%. The VIX index, widely regarded as a “fear” index, that measures the volatility of the options on the S&P 500 sits around 17, a value significant down from peak levels and indicating relatively good future expectations.

What is causing this unique situation is the fact that the world generally believes the United States and the Dollar currency are the best bets around. The Euro is shaky and no other stable reserve currency exists. Dollar denominated assets, such as our Treasury Bonds, are the winners in this flight to safety. This could of course reverse direction, even suddenly, thus investors should not be lulled into believing these conditions will remain forever.

In the meantime, those with the credit and capacity to borrow money will do so at shockingly low long-term interest rates. Banks, insurance companies, and even CMBS conduits (at times) all appear to be more and more willing to loan on

10-Year Treasury Constant Maturity Rate



Source: Board of Governors of the Federal Reserve System / FRED

quality office properties, including those located in the South Florida region. Loan issuance is on the rise for commercial real estate and is likely to continue for the near future. Local banks, such as Ft. Lauderdale based Stonegate Bank for instance, are reporting growing loan portfolios as they feel more confident in their ability to lend and the overall risk of macro default. Even Small Business Administration loans have seen major increases in 2012 in the region. These facts could translate into increased demand for Broward County office space.

In summation, today is potentially a great time to buy and borrow, but we strongly caution doing so, keeping in mind the real potential for rising interest rates. This means utilizing long-term fixed rate debt and acquiring quality assets with diverse tenant mixes that can weather potential storms.

Closing Thoughts and Future Expectations

If you have been watching any television news or reading any newspaper, you have undoubtedly seen plenty of coverage about the European banking crises and the European sovereign debt crises. Further, it is often stated that these issues could dramatically harm the U.S. domestic economy; however, what often goes unsaid is how this could potentially impact South Florida's economy.

First, tourism is a major economic activity of the state and especially South Florida. Many European tourists visit the region and tend to spend large amounts of cash on lodging, restaurants, entertainment, and retail. Additionally, this spending generates massive amounts of tax revenue from a group that uses relatively less state services (such as schools). Thus, tourism is an export activity that is not much different than shipping goods overseas except that they are consumed locally. Therefore, a decline in the European economy will reduce the ability for European tourists to visit Florida and spend money. Even worse, the falling Euro makes our prices look more expensive potentially further hurting demand. Thus we do take significant risk if Europe and the Euro Zone were to "fall apart". As a state, we tend to thrive in "weak dollar" times thus we should carefully monitor the situation across the pond.

On the positive side, America and the US Dollar are being considered relatively the best investments by Europeans and South Americans at an increasing rate. Thus, the amount of foreign investment dollars entering South Florida is likely to increase as these investors seek shelter from their home country's woes. These investments, many of which are slated for Downtown Miami, will likely boost local employment in sectors like construction.

In conclusion, the short term is likely to see more pain due to the "Euro Crises" but the long term net investment that foreign uncertainty brings may pay long term dividends and economic growth for South Florida.

For more information
and for all your
leasing and
brokerage needs
please contact:

George Sacks
gsacks@commfla.com

Peter D. Reed
preed@commfla.com

