YEAR END 2011

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 proud to re-introduce the first of its bi-annual market reports on the South Florida Office Market.

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.

As we take a look back on 2011, our best wishes for a prosperous and successful 2012 as we emerge from one of the most challenging real estate and economic cycles of our time.

George Sacks
Principal

Peter Reed
Principal

Wild ride leaves market where it started

Before launching into an in depth discussion of the year that was 2011, let's remember how this year started. In late 2010, it was believed that the world had turned the corner and recovery was going to roar across the globe during 2011 as life returned to normal. Locally, this was evidenced by the return of positive net absorption and slight declines in overall vacancy; even sales transactions began to close once more. Yes, 2011 looked promising for sure. This sense of optimism remained until late in the first quarter, then reality came back.

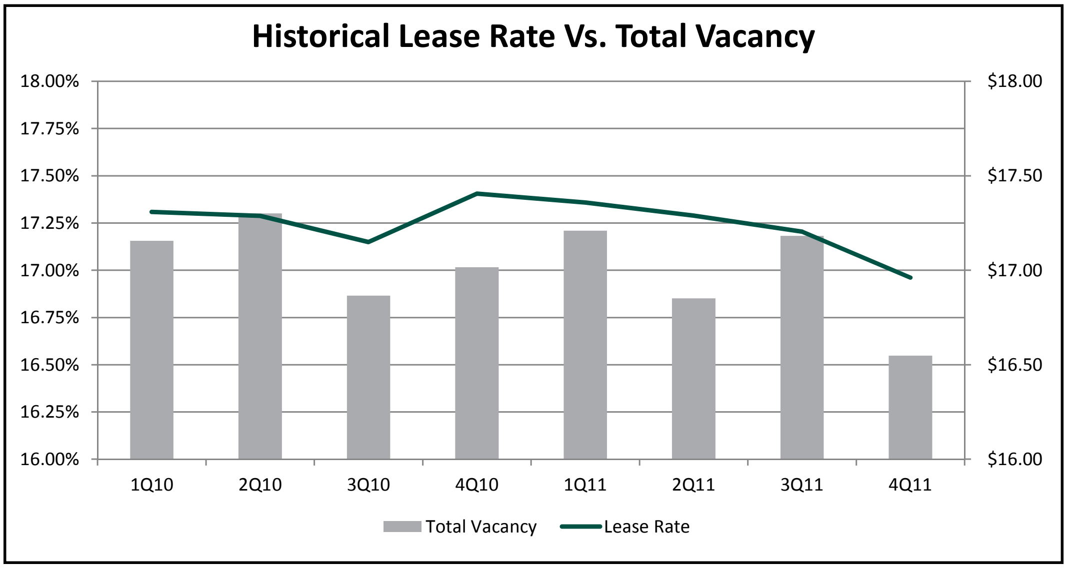
Oil prices shot north as the Middle East erupted with strife, Europe realized its sovereign debt crisis was not going away easily or painlessly, and to top it all off, U. S. politicians decided to take economic brinksmanship to new levels during the summer's debt ceiling debacle. Add to this the roll out of the first round of Dodd-Frank regulations becoming effective and we have an economic situation that is still very unstable despite it being over four years from the start of the crises. Thus, we are left with the question of what is the current state of the economy and our local real estate market?

Flat is one potential answer. As 2011 comes to a close, its appears as if not much has happened since January in summation. Fundamentals, such as asking rental rates ($17.41 in 4Q10 to $16.96 in 4Q11) and overall vacancy (17.02% in 4Q10 to 16.55% in 4Q11) remain largely unchanged. Thus, we are still experiencing an oversupply of vacant space following the recession with asking rental rates still drifting downwards. However, just because the beginning and ending numbers have not changed dramatically, it is not fair to say this has been a boring year. There has been significant volume of both leasing and sales transactions throughout Broward county, a trend that did continue from 2010.

One major item to note is the reduction in sublet vacancy (1.14% in 4Q10 to 0.63% in 4Q11). A glut of space available for sublease has plagued landlords since the beginning of the recession; thankfully, many of these spaces are being absorbed and/or the original lease is expiring. This should help the market improve in 2012.

Direct Vacancy Rates		
4Q11	3Q11	4Q10
15.92%	16.41%	15.87%
Sublet Vacancy		
4Q11	3Q11	4Q10
0.63%	0.77%	1.14%
Overall Vacancy		
4Q11	3Q11	4Q10
16.55%	17.18%	17.02%
Weighted Average Direct Lease Rate		
4Q11	3Q11	4Q10
$ 16.96	$ 17.20	$ 17.41

"just because the beginning and ending numbers have not changed dramatically, it is not fair to say this has been a boring year"



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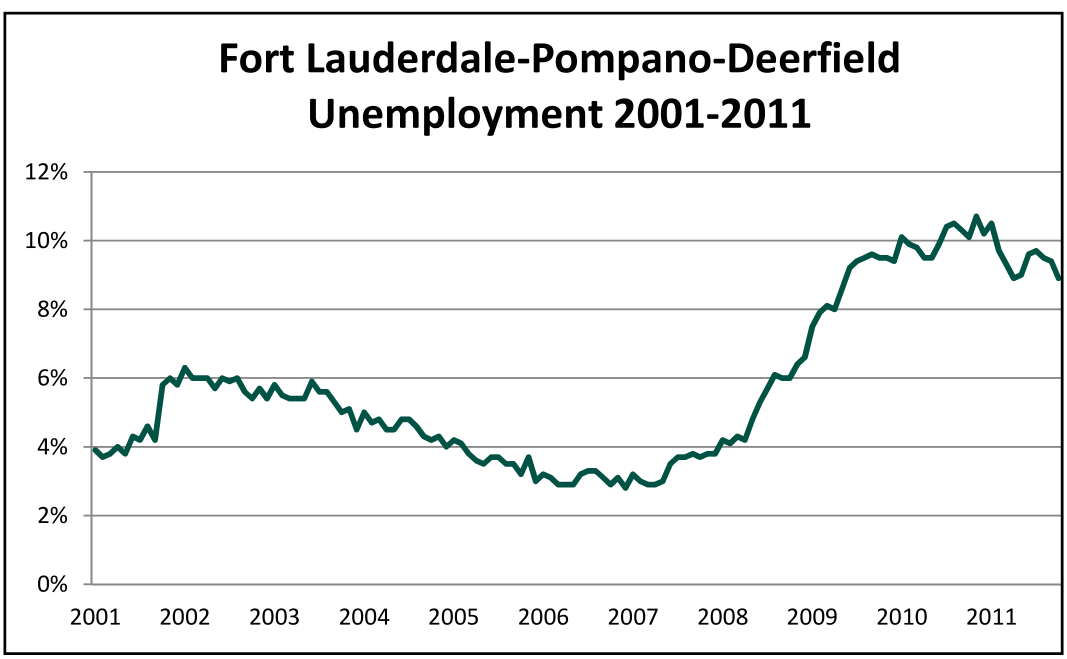
Broward Economic Focus

Demand for office space is often a direct function of overall employment and, in particular, office using sectors of the economy. Within Broward County (defined as Ft. Lauderdale - Pompano - Deerfield Beach by the U.S. Bureau of Labor Statistics) we see that 2011 has been a year of slow growth in overall employment. As of October 2011, the Broward market has added approximately 14 thousand jobs year to date, representing a 1.58% increase in total employment. Correspondingly, the unemployment rate has fallen from 10.1% to 8.9% over the same time period. While these number are not robust enough to signal a real recovery, they are certainly encouraging.

Going deeper into the numbers, the leisure and hospitality sector recorded the strongest 12-month percentage change of 7.3%; this has clearly been evidenced by increased performance of hotels and resorts. The worst performing sector was information which declined by –4.9%; however, while an office using sector, information employment only represents 2% of the total labor force. The other office using sectors generally fared much better; financial activities up 1.9%, professional and business services up 2.3%, education and health services up 1.4%, and government down –0.2%. This level of office using employment growth is just enough to sustain current occupancy rates but not yet enough to drive significant positive net absorption.

Going forward, it is likely tourism and trade will continue to be major drivers of economic growth. Recent announcements of potential major casino-oriented development in Miami will likely spur positive externalities for Broward county. The Seminole Tribe is conducting a major expansion of its Seminole Casino Coconut Creek; they will likely benefit from South Florida becoming a gambling destination. Ft. Lauderdale has always been linked to Miami as one super-giant metropolitan area. Miami has been the fortunate recipient of foreign capital, a trend likely to increase and expand across the entire region in the coming years.

There are still risks to monitor such as state budget deficits, wind insurance rates, and inflation; some of which could actually give some benefits to current owners of office space, but stunt development of new buildings.



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Submarket Highlight: Downtown Ft. Lauderdale

Downtown Ft. Lauderdale has become the home to many firms both large and small as well as local and national. As such, the recent recession took a mighty toll on the CBD's office market. Today, Class A asking rental rates sit at $19.64, nearly indistinguishable from Class B at $19.68, but well off of pre-recession highs. Class A represents nearly 77% of the total square footage of the submarket (4.4 million out of 5.7 million total) and is presently 21.93% vacant, very high relative to pre-bust levels. Class B is faring much better at only 11.75% vacancy, but represents a much smaller segment of the CBD (only 1.3 million square feet or 23%)

This high vacancy is likely partially explainable by the devastation of financial services employment as reported by the Bureau of Labor Statistics (see chart below). Financial sector firms tend to dominate CBDs as well as drive the business of support firms such as law practices and accounting firms. The recovery of the financial industry will likely be needed to return the CBD back to equilibrium vacancy levels.

Despite the still high vacancy levels, Downtown Ft. Lauderdale has been a hotbed for both leasing and sales transactions during 2011; however, many of these deals represent lateral moves within the market and not true net absorption. Broward Financial Center was the hot ticket inking roughly 50,000 square feet of new leases between the Sun Sentinel and Social Security Administration, each leasing 30,000 and 20,000 square feet respectively. Filling the space vacated by the Sun Sentinel, liquor producer Pernod Ricard signed a long term lease for 21,599 square feet within the New River Center. Additionally this quarter, Atlanta based law firm McCalla Raymer expanded its South Florida presence. The firm leased an additional 15,298 square feet, bringing its total footprint within the 110 Tower building to 30,596 square feet.

There is also meaningful uncertainty for many buildings with leases inked pre 2008. Many downtown firms have slashed their workforce over the past few years; thus may not require as much space upon renewal. One prominent example of this is the 65,000 square feet occupied by law firm Ruden McClosky in 200 E. Broward Blvd. They have announced they will maintain a presence in Downtown Ft. Lauderdale despite merging with Greenspoon Marder whose main office is in Cypress Creek; however, it is not clear how much space they actually will keep downtown. Landlords must be aware of these issues when considering proposals today.

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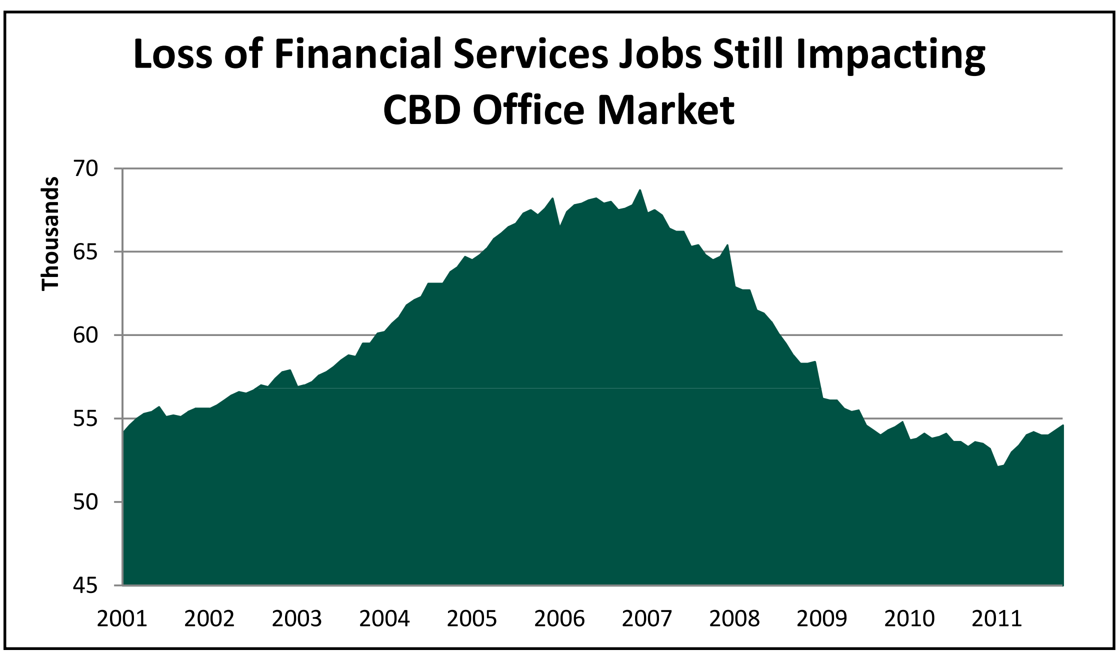

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Broward By The Numbers

CBD / Downtown Ft. Lauderdale

	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Weighted Average Direct Lease Rate
Class A	4,371,750	918,439	21.93%	0.92%	22.84%	$ 19.64
Class B	1,321,273	155,307	11.75%	0.00%	11.75%	$ 19.95
Downtown Ft. Lauderdale Total	5,693,023	1,073,746	18.86%	0.70%	19.56%	$ 19.68

Cypress Creek

	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Weighted Average Direct Lease Rate
Class A	2,653,019	496,099	18.70%	0.59%	19.29%	$ 15.92
Class B	4,566,471	741,672	16.24%	0.04%	16.28%	$ 13.97
Cypress Creek Total	7,219,490	1,237,771	17.14%	0.24%	17.39%	$ 14.73

Plantation

	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Weighted Average Direct Lease Rate
Class A	1,763,724	305,399	17.32%	2.64%	19.95%	$ 20.49
Class B	1,516,138	101,584	6.70%	0.00%	6.70%	$ 17.29
Plantation Total	3,279,862	406,983	12.41%	1.42%	13.83%	$ 19.69

Northwest Broward

	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Weighted Average Direct Lease Rate
Class A & B	1,582,824	318,157	20.10%	0.16%	20.26%	$ 16.35
Northwest Broward Total	1,582,824	318,157	20.10%	0.16%	20.26%	$ 16.35

Southwest Broward

	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Weighted Average Direct Lease Rate
Class A	4,291,345	665,432	15.51%	0.34%	15.84%	$ 18.44
Class B	3,403,235	287,151	8.44%	1.16%	9.60%	$ 15.44
Southwest Broward Total	7,694,580	952,583	12.38%	0.70%	13.08%	$ 17.55

Pompano Deerfield

	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Weighted Average Direct Lease Rate
Class A & B	2,606,079	480,093	18.42%	0.63%	19.05%	$ 13.55
Pompano Total	2,606,079	480,093	18.42%	0.63%	19.05%	$ 13.55

Overall Market

	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Weighted Average Direct Lease Rate
Overall Market Total	28,075,858	4,469,333	15.92%	0.63%	16.55%	$ 16.96

Submarket Highlight: Downtown Ft. Lauderdale (continued)

The transaction market in the CBD also came to life this year with over $246 million in volume between just three major deals. This activity indicates that investors believe in the underlying fundamentals of the submarket and are optimistic that growth will improve. The $160 million dollar sale of Las Olas City Centre represented the largest transaction. This transaction between JP Morgan Asset Management (Buyer) and Shorenstein (Seller) is indicative of the national trend of trophy property acquisitions as a price of $402 per square foot was paid for this property.

The $402 per square foot price tag for Las Olas seems hefty when compared to the $124 per square foot Ivy Realty paid in the sale of the distressed Wells Fargo Tower, a price likely well below replacement costs. This bifurcation of pricing between distressed assets and trophy assets is likely to persist through 2012.

There is also a significant disconnect in the space market as well, where premium locations demand premium lease rates. For example, Las Olas addresses have seen large disparities in lease rates relative others within the CBD. This trend has been occurring for sometime and is likely to continue; spreads of up to $10 per square are not uncommon. Thus, Las Olas has surpassed Broward Boulevard as the premier address for office users.

In fact, Las Olas could be in store for new development, however it is not clear which exact product types and mixes will prove feasible. The Las Olas Riverfront retail center was sold for $17 million to a group of investors who likely intend to redevelop. According to the South Florida Business Journal, this site is approved for up to 1.3 million square feet of development but specific plans are still unclear. New office space is not likely to be developed in the CBD for sometime, however development of other property types, especially multifamily, could actually spur more activity resulting in higher leasing volume for office space in the submarket.

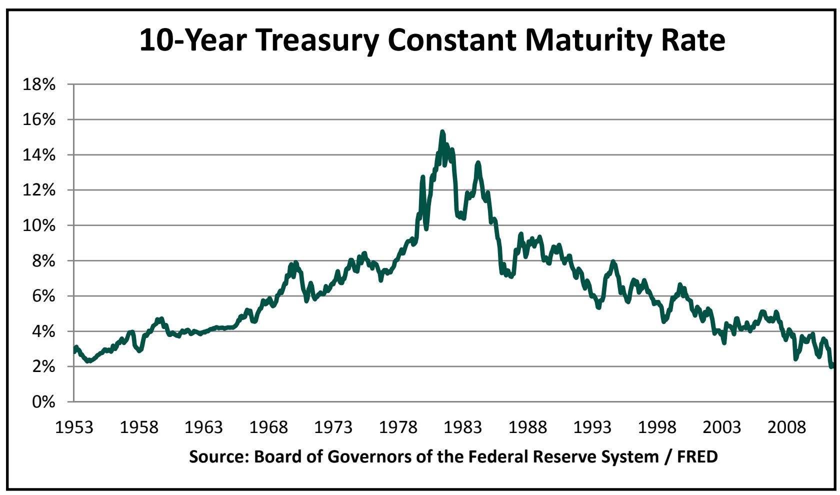
Noteworthy Leasing Transactions

Tenant	Building	Submarket	Leased Sq. Ft.	Tenant Broker	Landlord Broker
Convergys	Convergys at Westpoint Center	NW Broward	50,000	-	CBRE
State Farm Mutual Auto Insurance	Convergys at Westpoint Center	NW Broward	50,000	-	Direct Deal
Sun Sentinel	Broward Financial Centre	Downtown Ft. Lauderdale	30,000	-	ComReal Fort Lauderdale
Hale's Academy for Higher Learning	Coral Park Education Center	Northwest Broward	30,000	-	Brenner Real Estate Group
Sunshine State Health Plan	Lake Shore Plaza	SW Broward	29,547	Direct Deal	CBRE
GSA - Social Security	1457 W Cypress Creek Rd	Cypress Creek	29,000	Direct Deal	Com Property Realty Group
FOX Sports	Broward Financial Centre	Downtown Ft. Lauderdale	24,290	CresaPartners	ComReal Fort Lauderdale
Pernod Ricard	New River Center	Downtown Ft. Lauderdale	21,599	Cushman & Wakefield	CBRE
Yum! Brands	New River Center	Downtown Ft. Lauderdale	21,113	Studley	CBRE
GSA - Social Security	Broward Financial Centre	Downtown Ft. Lauderdale	20,000	-	Commercial Property Realty
Brock & Scott PLLC	Spectrum Offic Park 1501	Cypress Creek	17,255	CBRE	Sara David Realty, Inc
Archy Aluminum	800 Fairway	Pompano Beach	16,498	-	ComReal Fort Lauderdale
-	Hilsburo Center I-IV	Pompano Beach	16,244	-	Commercial Florida
McCalla Raymer	110 Tower	Downtown Ft. Lauderdale	15,298	Commercial Florida	Transwestern
WWR	Pinnacle Corporate Park - Bldg II	Cypress Creek	12,418	-	Podolsky Associates of Florida
McFarlane & Dolan	Coral Springs Executive Center	Northwest Broward	10,666	Bryason Realty	Bryason Realty

Noteworthy Sales Transactions

Buyer	Seller	Building	Submarket	Total SF	Sales Price / Price per SF
JP Morgan Asset Management	Shorenstein	Las Olas City Centre	Downtown Ft. Lauderdale	408,079	$164,000,000 ($402.00)
Crocker Partners / Westcity Realty	Compass Bank	One Financial Plaza	Downtown Ft. Lauderdale	236,000	$44,000,000 ($186.44)
Gov. Properties Income Trust	Federal Properties	Southpointe I	Plantation	135,819	$40,750,000 ($300.00)
Ivy Realty	-	Wells Fargo Tower	Downtown Ft. Lauderdale	338,201	$42,000,000 ($124.19)
Wells Core Office Income REIT	The Towbes Group	Miramar Centre II	SW Broward	96,394	$21,500,000 ($223.04)

Capital Market Overview



The European sovereign debt crisis as well as decreased confidence in Washington's ability to effectively stimulate economic growth have sent investors on a flight to safety that drove 10-year treasury yields to all time lows. Not surprisingly several large CMBS issuances were caught in the cross hairs and ultimately failed to materialize. Locally, CMBS delinquency reached an all time high in the 2nd quarter; however is forecast to drop significantly as lenders liquidate troubled assets. Miami based special servicer LNR has recently liquidated several of these troubled assets at a fraction of the original note value via the online platform Auction.com. These sales have both distracted investors and distorted pricing.

Earlier this year, Duke Realty was able to take advantage of these market conditions by taking ownership of the 388,911 square foot Cross Roads Business Park in Plantation via an assumption a $41 million dollar note originated by Wells Fargo. This acquisition received additional press as a major Cross Roads tenant and well known foreclosure king David J. Stern filed for bankruptcy leaving Duke with a 50,000 square foot vacancy to backfill. As lenders' balance sheets remain weak, debt remains the most difficult component of the capital stack to procure. The good news is that equity has been relatively plentiful as investors seek to profit on depressed pricing and earn current yields unavailable from bonds or stocks.

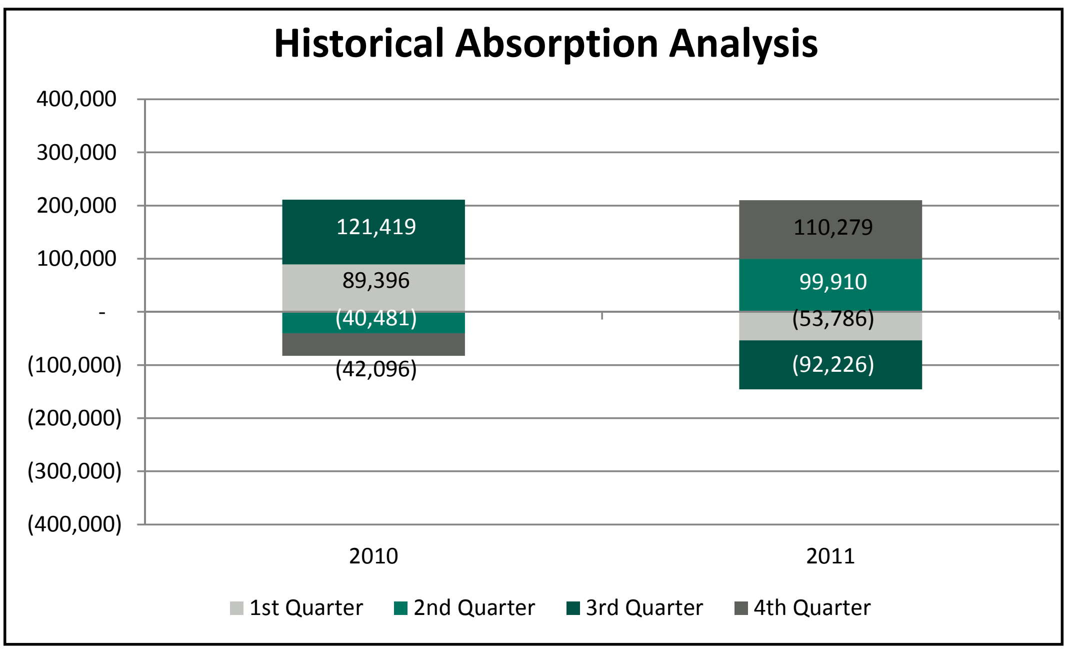
As we close 2011, we are not sure what the capital markets will hold for 2012 and beyond. Investors are likely to seek yield that income producing real estate can provide, but may demand higher cap rates if they perceive higher levels of macroeconomic risk. Many believed the U.S. would be experiencing sustained job growth by now; reexamining future expectations could cause higher yield requirements in the office sector. If you have not yet invested after the crash, you are likely to find more attractive opportunities in the future.

Closing Thoughts and Future Expectations

This year began with high hopes that the crises of the last few years was over and a slow, but steadily growing recovery was underway. By the end of the second quarter, uncertainty had returned and wreaked havoc on economic conditions as consumers and businesses are still slow to find solid ground amid a highly volatile market. Opinions on the direction of the economy remain mixed, however all agree that job creation will be essential for a recovery to sustain. Thus competing for what little growth does exist becomes increasingly important.

Broward county remains poised to capture much of this growth as businesses still covet the area's excellent lifestyle, weather, and diverse business climate. The CBD, as to be expected, has attracted the majority of activity thus far due to its proximity to valued amenities. Nonetheless, a strong uptick in demand coupled with no significant new supply should quickly help to spread the growth trend to other Broward county markets. For tenants, we believe now is the time to make the move; since once the market begins to fully gain traction, there will be little time before today's highly attractive pricing is gone and normalized growth in rental rates resume.

Interestingly, the virtual shutdown of all new office construction could lead to a significant turn around in a few years time. In previous real estate cycles double digit rental rate growth has been seen in the years following recessions as demand for space quickly exceeds supply. This was seen after the recession of the early 90's and the early 2000's. For owners, it means fast appreciation, thus making another case for acquiring today. For tenants, it means higher space costs and less options to choose from, furthering the case to lock in long term rates today. We are hesitant to make firm predictions about exactly when this could occur, but it will not likely be before 2014 at this rate. A lot of space must get absorbed before anything like a shortage will be experienced.



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

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