BEYOND THE GLOBAL HEALTH CRISIS

Marcus & Millichap

MARKET REPORT *Fort Lauderdale Metro Area* 2H/20

Weak Tourism Weighs on Local Economy; Suburban Momentum Draws Investor Interest

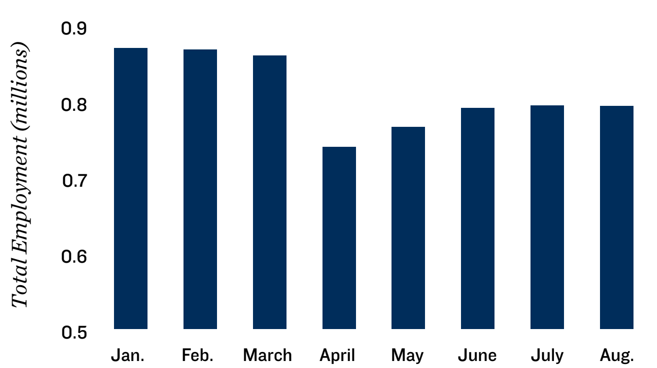
Greater challenges surrounding travel impacting employment growth. Nearly 131,000 jobs were lost from February through April, led by the leisure and hospitality sector where employment fell by 52,000 positions. The unemployment rate reached a new high of 15.5 percent in April after holding at a record low of 2.8 percent prior to the pandemic, though it has since fallen back to 9 percent as of August. Phased reopenings have helped to bring back more than 54,000 workers, accounting for just 42 percent of jobs lost, a smaller share than other large markets. With restrictions on the cruise industry still in place, the impact is being felt across the regional economy amid reduced spending on tourism-related industries. A strong travel and services sector will lead to a bifurcated recovery for the market as some positions take longer to return and others are eliminated as businesses face difficulties.

Work-from-home trends benefit area apartments. The pandemic is accelerating the movement out of densely populated metros to Fort Lauderdale and the surrounding suburbs as workers and their families search for more space. Remote work capabilities bode well for the more than 5,000 apartments underway as many of these workers are in higher-paying roles and are able to afford Class A and Class B rental rates. Flagler Village and Las Olas Boulevard have been a target of development as these areas are highly sought by young professionals. Elevated unemployment in the tourism-related industries, though, will likely weigh on the fundamentals of workforce housing over the coming months.

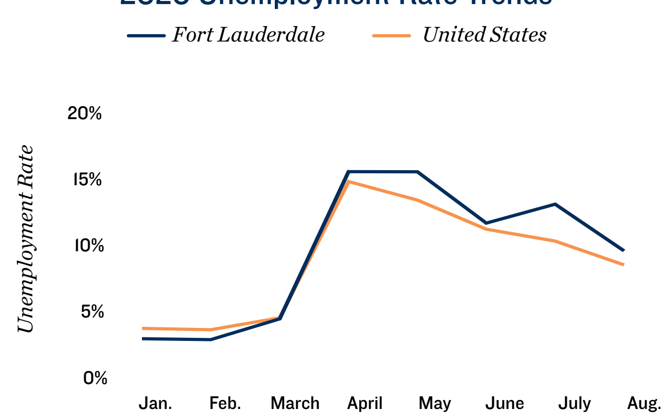
Industrial sector faces near-term challenges, though long-term prospects remain in place. Driven by its central location and trade through Port Everglades, Broward County's industrial sector is more insulated than other property types. Challenges were mounting prior to the pandemic, though, with more speculative space underway and softening demand, which will continue to impact property metrics over the coming quarters. The industrial market is closely tied to the strength of the local economy, which, as it faces a bumpy and extended recovery, will likely lift vacancies and slow rent growth. Momentum has been building, though, with a large lease recently signed by fashion retailer Brandy Melville for more than 432,000 square feet in Miramar along with deals inked by logistics and distribution firms following e-commerce and online shopping trends. Southwest Broward will remain a strong target of investors.

Broward County fits array of investment targets and emerging trends. Zoning changes along corridors of Fort Lauderdale proper and the Brightline commuter rail have made the area more attractive to investors and developers, changing the face of the market to draw more residents and businesses. A diverse corporate base and strong growth among the younger cohorts has helped to attract large institutional buyers and sustain investor interest. Suburban areas have also garnered the attention of investors. Moving forward, office and multifamily buyers will increase their focus on these lower-density properties as the pandemic shifts employer and worker preferences, and more millennials transition to homeownership.

2020 Employment Trends

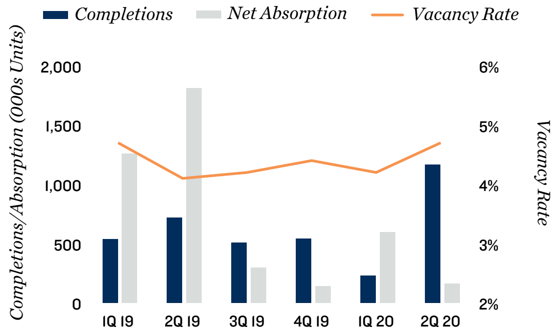


2020 Unemployment Rate Trends

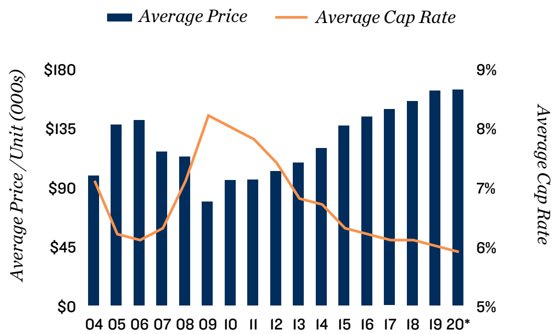


Source: BLS

Apartment Completions and Absorption



Apartment Price and Cap Rate Trends



** Through second quarter*

Sources: Real Page Inc.; CoStar Group, Inc.; Real Capital Analytics

APARTMENT

Wave of New Supply Poses Short-Term Challenges; Future Household Demand Provides Positive Outlook

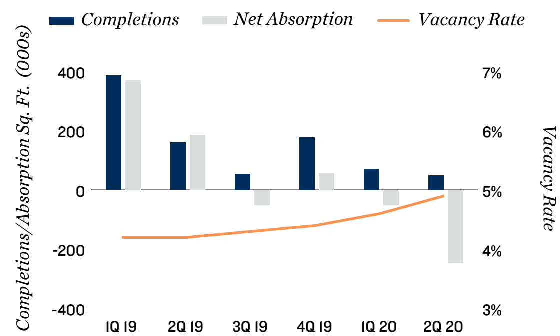
- Developers finalized 1,160 units in the second quarter, the strongest quarter of supply growth since the start of 2015. Fort Lauderdale proper was home to the majority of new apartments in the same quarter, with an increase of 945 units.
- The vacancy rate rose 50 basis points in the second quarter to 4.7 percent with net absorption totaling only 163 units. Class C vacancy held stable at a tight 2.8 percent, while Class A vacancy increased 50 basis points to 5.9 percent.
- The average effective rent declined 1.5 percent to $1,626 per month in the second quarter. Tight operations at Class C complexes lifted rents 1.9 percent to $1,264 per month, while Class A units recorded a 2.5 percent decline to $1,976 per month.
- Apartments traded over the 12 months ended in June registered an average price of $163,700 per unit, up moderately from the previous yearlong period. The average cap rate was in the upper-5 percent territory, a 10-basis-point decline.
- More than 67,000 households will be added to Broward County over the next five years, and will be met with a shortage of new single-family construction, driving demand for multifamily rentals and sustaining investor sentiment. The high cost of homeownership will continue to funel residents to the rental market as well.

RETAIL

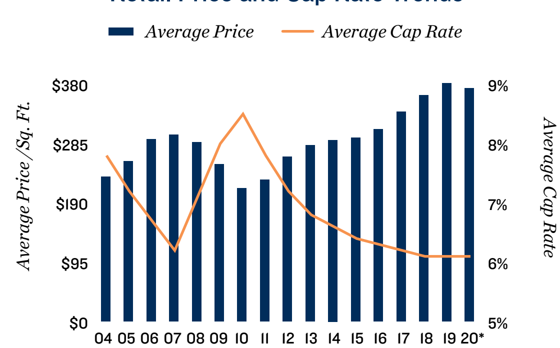
Broward County Retail Operations Still Tight, Though Softening Demand to Weigh on Metrics

- Just over 49,000 square feet was completed in the second quarter, the lowest quarterly increase in Broward County since the start of 2016. Finalized in October, the Publix-anchored Monarch Town Center in Miramar is the largest delivery at more than 159,000 square feet.
- The vacancy rate rose 30 basis points in the second quarter to 4.9 percent as net absorption fell to negative 244,800 square feet. One year earlier, the vacancy rate sat at 4.2 percent.
- Softening tenant demand during the spring led to a 1.7 percent reduction in the average asking rent, ending midyear at $23.61 per square foot. Multi-tenant asking rent averaged $22.42 per square foot and single-tenant space was marketed at an average of $24.17 per square foot in the second quarter.
- Recently transacted properties recorded an average price of $374 per square foot and an average cap rate that has held steady in the low-6 percent territory. Single-tenant properties achieved an average price of $440 per square foot.
- Investors were active in downtown Fort Lauderdale, where development has revitalized the city and young professionals seek a live/work/play environment.

Retail Completions and Absorption



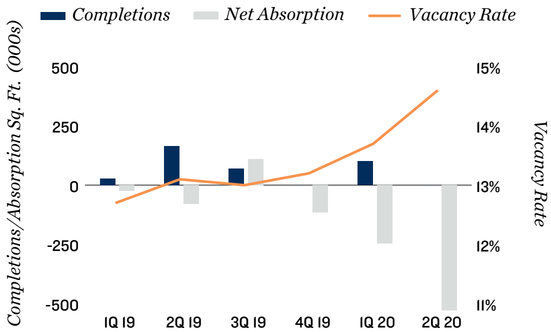
Retail Price and Cap Rate Trends



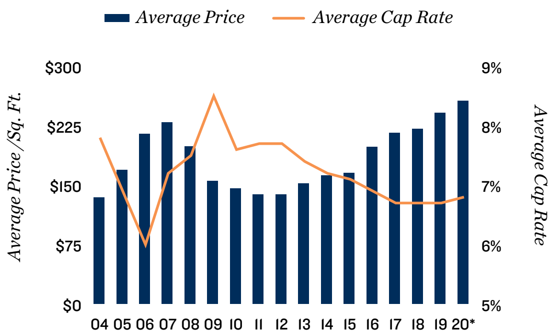
** Through second quarter*

Sources: CoStar Group, Inc.; Real Capital Analytics

Office Completions and Absorption



Office Price and Cap Rate Trends



* Through second quarter

Sources: CoStar Group, Inc.; Real Capital Analytics

OFFICE

Growing Appetite for Suburban Office Space Likely to Bolster Operations Once Workers Return to the Office

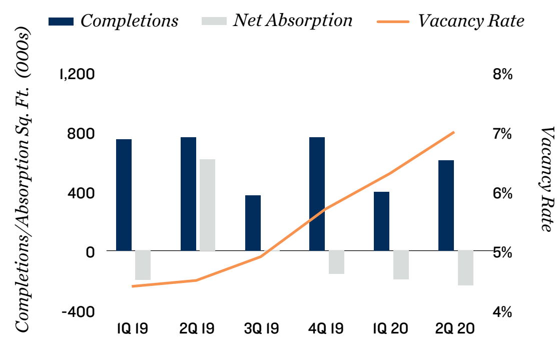
- Construction slowed in the first half of 2020 as inventory rose by 170,000 square feet over the year ended in June, down from the 532,000 square feet added previously. Approximately 1.9 million square feet is in the pipeline, primarily in suburban areas including Hallandale Beach, Pompano Beach and Sunrise.
- Absorption turned negative for several quarters leading up to midyear, raising the vacancy rate 90 basis points in the second quarter to 14.6 percent. Office tenants have increasingly focused on subruban properties to locate near households and top talent, though leasing will slow over the coming quarters to lift vacancy.
- The average asking rent reached $29.85 per square foot in the second quarter, a 2.1 percent increase. With more supply coming on the market, rental rates will soften.
- Office properties registered an average price of $256 per square foot over the four-quarter period ended at midyear, while initial yields averaged in the upper-6 percent range, a 10-basis-point increase from the previous period.
- Suburban markets of Southwest Broward, Sawgrass Park and Cypress Creek accounted for a considerable amount of trades and will continue to be attractive to investors and tenants as they shift their view outside of dense downtown corridors.

INDUSTRIAL

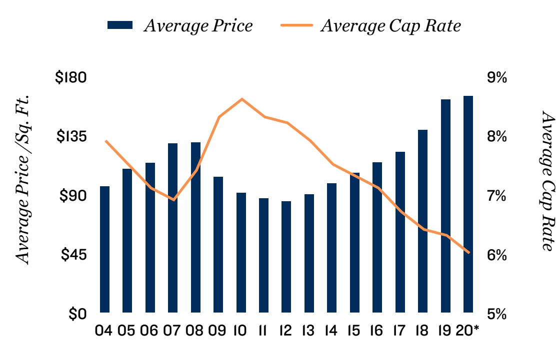
Industrial Sector More Insulated, Though Rise in Speculative Space Creates Uncertainties

- Developers completed 608,000 square feet in the second quarter, pushing the yearlong total past 2.1 million square feet, a moderate increase from the prior period. Roughly 2.8 million square feet are underway across Broward County.
- Absorption has been negative for the past four quarters ended at midyear, pushing the vacancy rate up 70 basis points in the second quarter to 7 percent. Vacant stock has increased by more than 2.7 million square feet from the middle of 2019, when vacancy rested at 4.5 percent.
- The average asking rent was relatively unchanged from the first quarter at $9.63 per square foot at midyear, marking a 5.2 percent gain from one year earlier. Elevated vacancy and strong supply growth will weigh on rental rates moving forward.
- Industrial assets transacted at an average price of $164 per square foot over the past year and recorded an average cap rate in the low-6 percent territory.
- Broward County has been an attractive market for large portfolio deals as investors were drawn to strong population and job growth before the pandemic. With uncertainty remaining and more speculative space coming to market, transaction velocity will likely remain slow as buyers await greater clarity.

Industrial Completions and Absorption



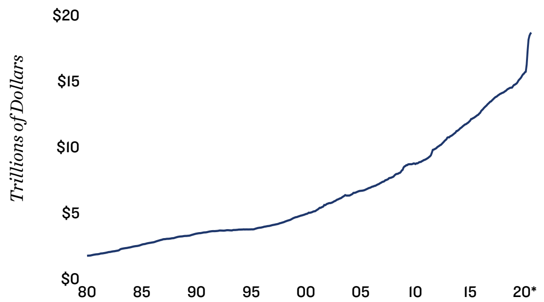
Industrial Price and Cap Rate Trends



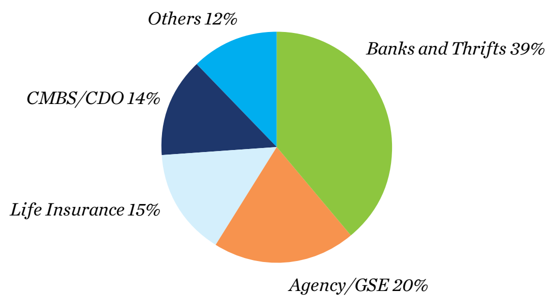
* Through second quarter

Sources: CoStar Group, Inc.; Real Capital Analytics

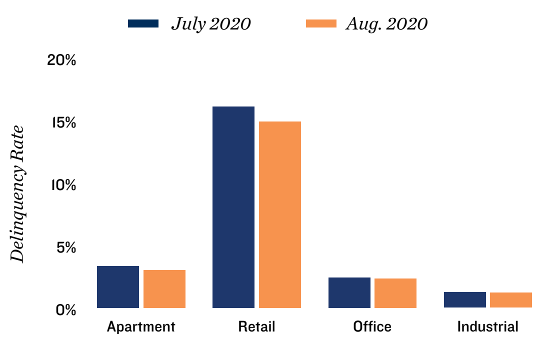
Fed Sharply Increases Money Supply During Health Crisis



Total Outstanding Mortgage Debt**



30+ Day CMBS Delinquency Rate



* Through August

** As of second quarter

Sources: Federal Reserve; Mortgage Bankers Association; Trepp

CAPITAL MARKETS

By TONY SOLOMON, Senior Vice President, Marcus & Millichap Capital Corporation

- **The capital markets are thawing relative to the height of the crisis.** Most lenders have adapted to dispersed working, and more information on the economic damage of the pandemic is affording buyers, sellers, and lenders risk and price clarity for large swaths of the commercial real estate sector. Both property performance and location can impact financing as some areas of the country outperform and the pace of recovery remains in doubt for others. Capital is readily available for assets that perform on or near par with pre-crisis levels, especially industrial assets, which buyers and lenders see as a safe part of their portfolios. Single-tenant retail with national credit tenants are also heavily favored by lenders, followed by grocery-anchored multi-tenant properties. Apartment rent rolls are more heavily examined, though financing remains available from the agencies and banks. Loans are more readily accessible for suburban office, while core buildings are more difficult to leverage. Some lenders continue to operate in the hospitality space, but obtaining financing is challenging.
- **Loan-to-value ratios were already declining prior to the pandemic and average 60 percent.** Freddie Mac is offering rates in the high-2 percent to high-3 percent range for seven-year terms. Debt service coverage is approximately 1.35 times. Life insurance companies will finance below 3 percent for apartments in some cases, and peak at 4 percent for retail. CMBS loans are available, though strict criteria makes deals more difficult to find. Rates bottom in the low-3 percent range for apartment and industrial and rise to 4 percent for office.

Prepared and edited by

Michael Murphy

Research Analyst | Research Services

For information on national commercial real estate trends, contact:

John Chang

Senior Vice President, National Director | Research Services Division

Tel: (602) 707-9700 | john.chang@marcusmillichap.com

National Multi Housing Group

John Sebree

Senior Vice President, National Director | National Multi Housing Group

Tel: (312) 327-5417 | john.sebree@marcusmillichap.com

National Retail Division

Daniel Taub

Senior Vice President, National Director | Retail Division

Tel: (212) 430-5100 | daniel.taub@marcusmillichap.com

Office and Industrial Properties Division

Alan L. Pontius

Senior Vice President, National Director | Office and Industrial Properties Division

Tel: (415) 963-3000 | al.pontius@marcusmillichap.com

Fort Lauderdale Office:

Ryan Nee

First Vice President/District Manager

Tel: (954) 245-3400 | ryan.nee@marcusmillichap.com

5900 N. Andrews Ave.

Suite 100

Fort Lauderdale, FL 33309

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Federal Reserve; Mortgage Bankers Association; Real Capital Analytics; RealPage, Inc.; Trepp

Price: $250