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3Q23

# Broward Office Market Overview



**NEWMARK**

# Market Observations

## Economy

- The market's unemployment rate ticked up by three basis points year over year to 2.6% but remained below the national average of 3.8%.
- Job growth pace has slowed compared with recent highs to 1.9% year over year, a result of recent national economic headwinds.
- More employment sectors reported negative year-over-year growth compared with the second quarter of 2023, although sectors with the biggest market share of employment all grew, with financial activities for instance, reporting year-over-year growth of 3.4%.
- Office-using jobs increased 3.3% to an all-time high of 272,000 employees at the end of August 2023.

## Major Transactions

- UKG, Inc. signed the largest deal of the quarter at 97,178 SF, renewing its full-building lease at Weston Pointe III in the Southwest Broward submarket.
- UKG, Inc. also renewed its 43,421-SF space at Weston Pointe III, and signed an additional 14,072-SF expansion space at Weston Pointe I for a total of 57,493 SF. Combined the two deals total 154,671 SF in the Southwest Broward submarket.
- Two of the largest five deals signed in the third quarter of 2023 were straight renewals by UKG and Vohra Wound Physician Management, while two included expansions by UKG and Grant Thornton.

## Leasing Market Fundamentals

- Annual full-service asking rental rates increased to a new historical high of \$37.05/SF, a 4.7% increase year over year.
- Vacancy remained flat, unchanged at 16.4% from the previous quarter and decreasing by 60 basis points year over year.
- Under-construction activity picked up moderately, ending the third quarter of 2023 at 434,399 SF in progress, a 3.7% increase quarter over quarter.
- While total leasing activity declined 61.0% quarter over quarter to end at 508,876 SF, year-to-date leasing is 2.8 MSF, which is 13.5% higher than the third-quarter year-to-date average of 2.4 MSF since 2007.

## Outlook

- The Broward County office market will likely see muted growth this year, driven by national economic headwinds as reflected in the unemployment rate. Office investment activity will remain low in the near term due to a steeper cost of debt.
- Rents will continue to increase, but the pace of rent growth is likely to continue moderating.
- The closing rent spread between Class A and Class B assets will likely push more tenants to shed unused space and lease smaller footprints in higher-quality assets.
- Demand is expected to remain in balance with supply, keeping vacancy rates stable.

1. Economy
2. Leasing Market Fundamentals



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# Economy

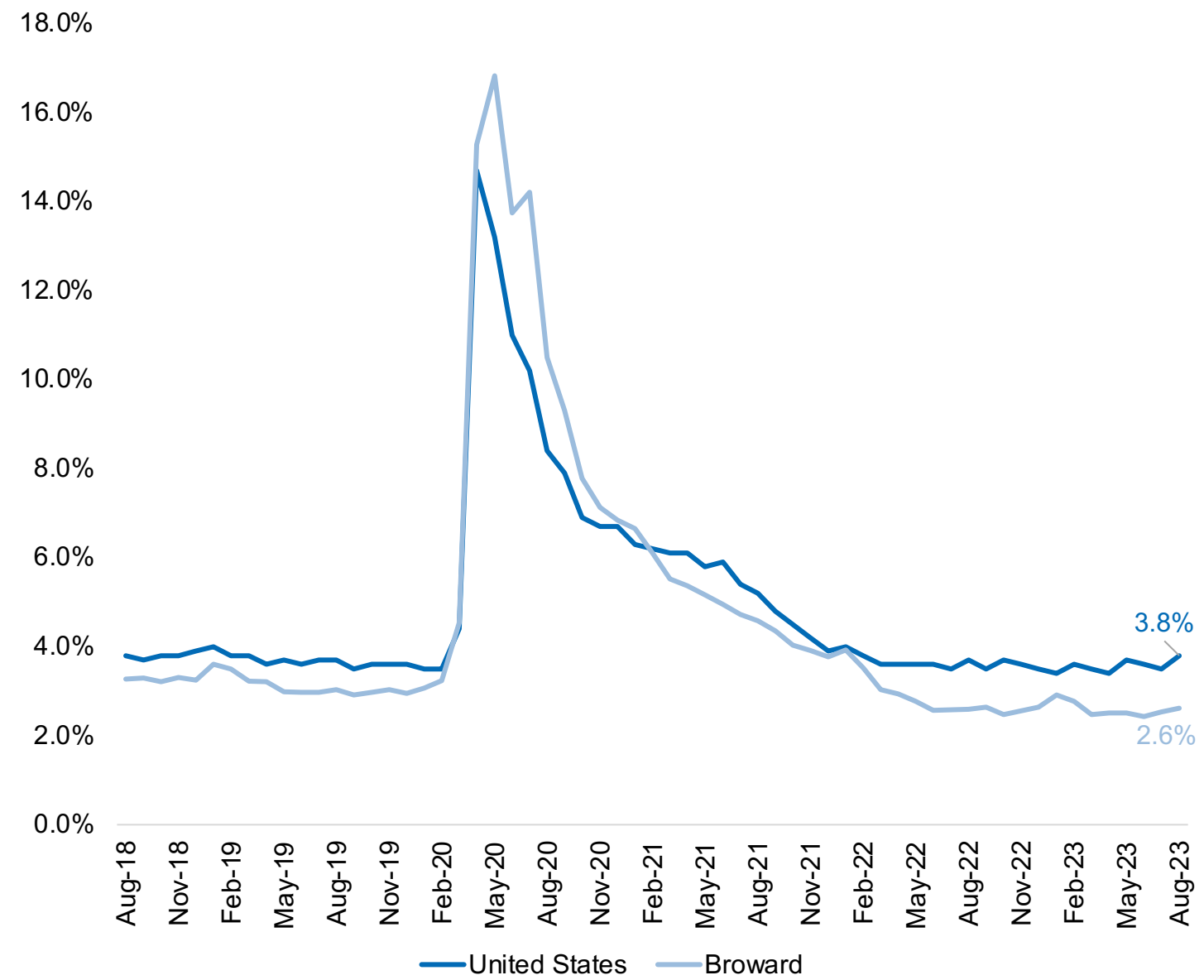




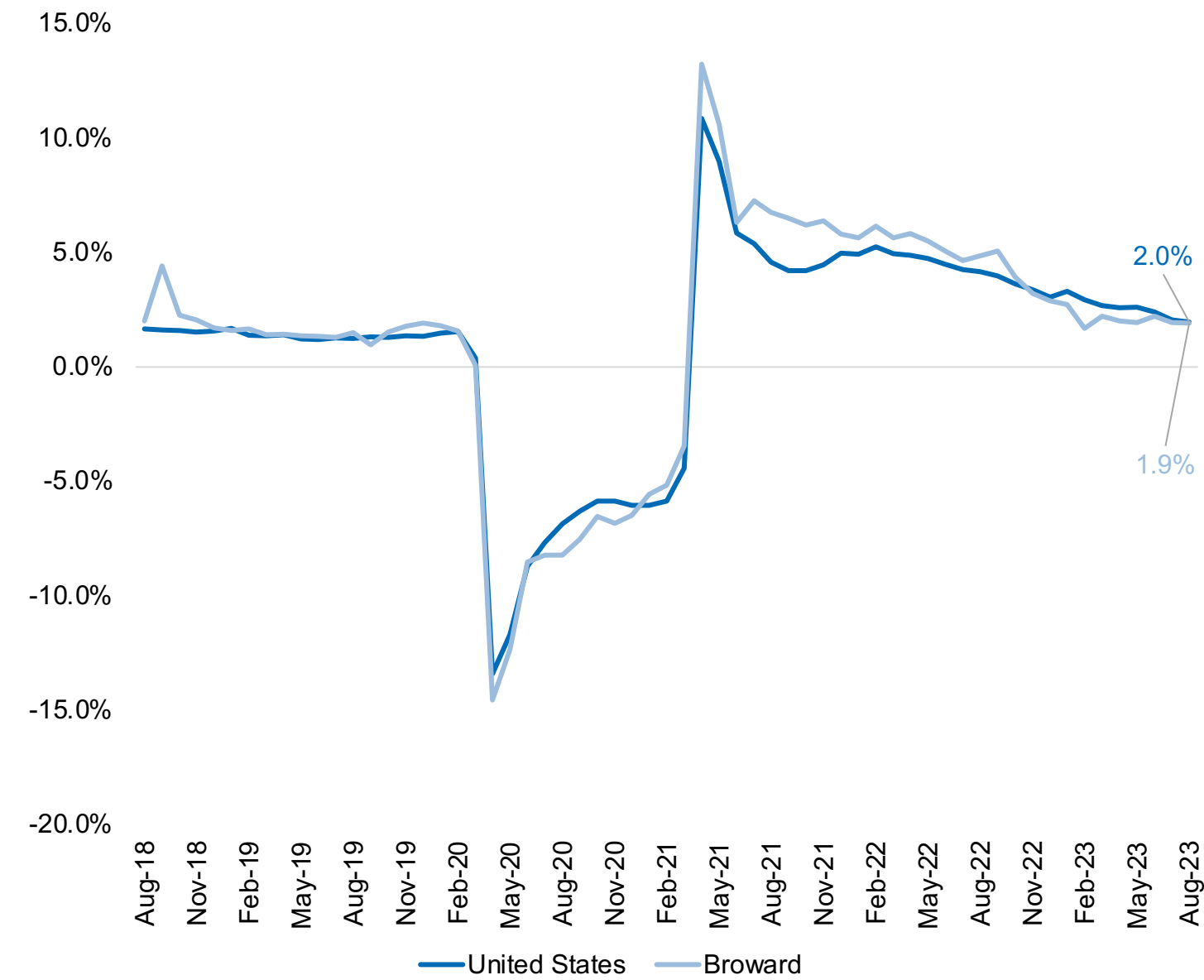
# Recent Metro Employment Trends Signal a Slowing Economy

Except for 2020 and 2021, Broward’s unemployment rate has been consistently below the national average. The region’s unemployment rate increased slightly by 3 three basis points year over year to 2.6%, easing off near all-time historical lows but below the five-year average of 4.6%. Employment continues to grow at a slower pace, reporting a year-over-year gain of 1.9%, a result of recent national economic headwinds.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

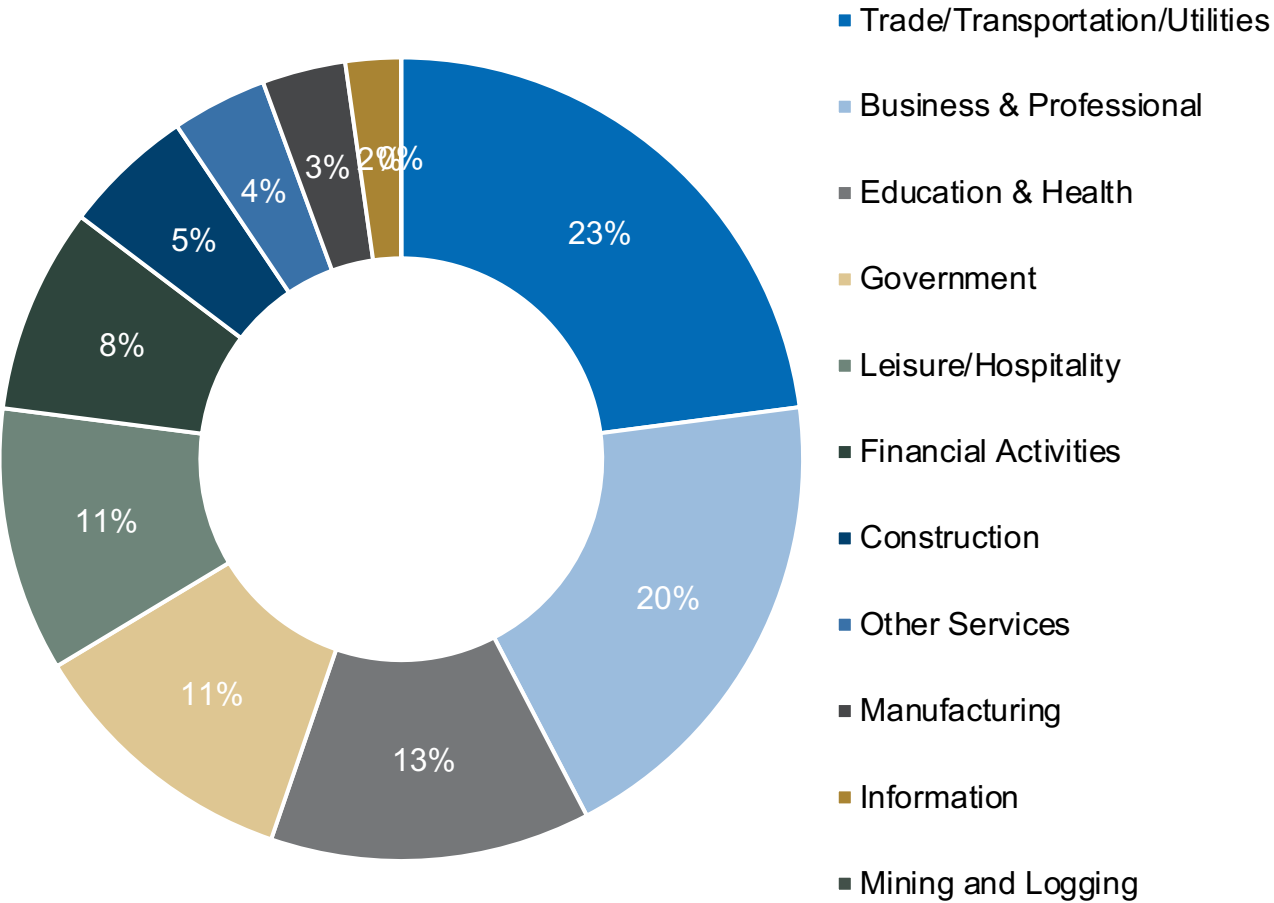


Source: U.S. Bureau of Labor Statistics, Broward County

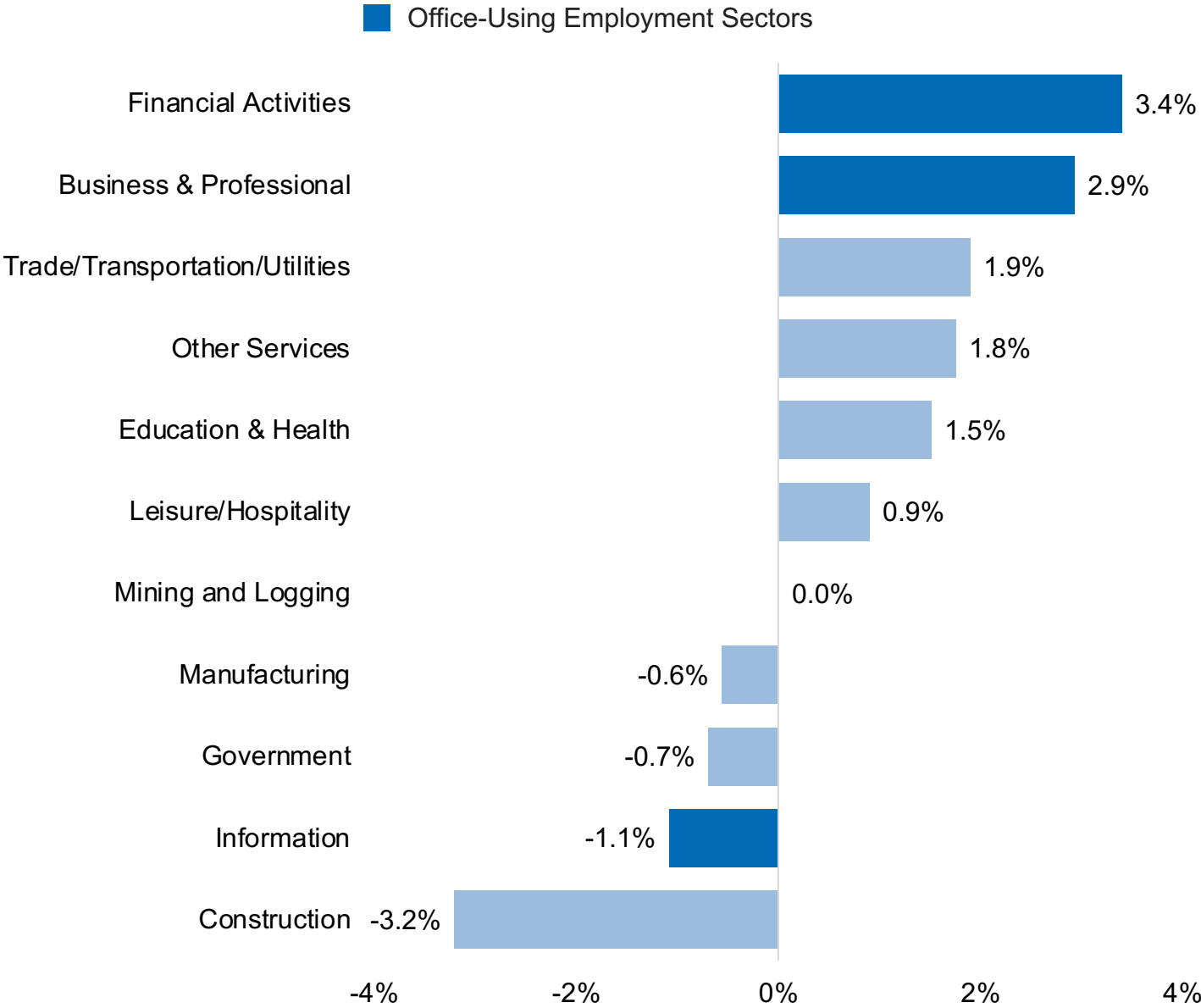
# Employment Growth Slows, but Most Office-Using Industries Still Growing

Broward County’s top-two employment industries account for 42.4% of market share. The office-using business and professional sector is the second biggest industry, at 19.4%. While more sectors reported negative year-over-year growth compared with the second quarter of 2023, those with the biggest market share of employment all grew, with office-using industries reporting year-over-year growth ranging from a decrease of 1.1% to an increase of 3.4%.

Employment by Industry, August 2023



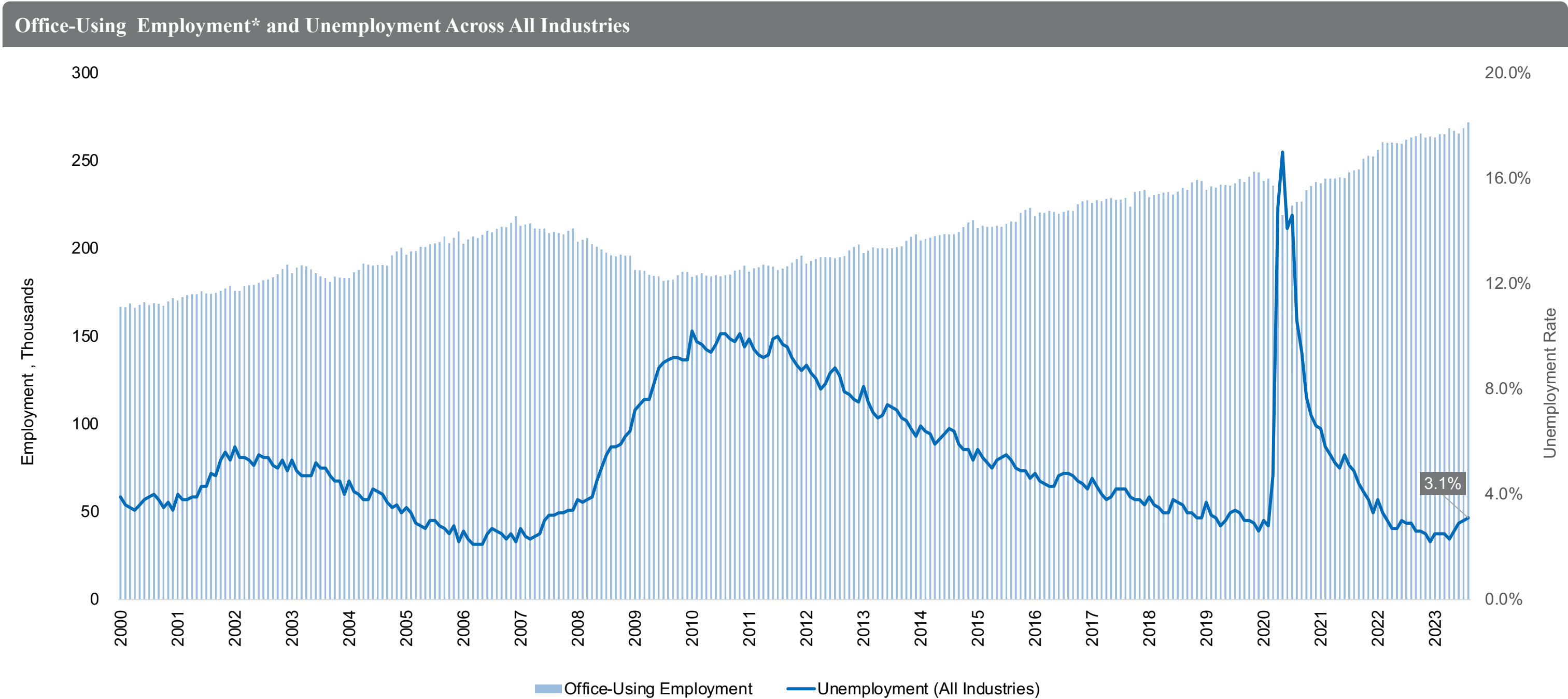
Employment Growth by Industry, 12-Month % Change, August 2023



Source: U.S. Bureau of Labor Statistics, Broward County

# Overall Office-Using Employment at Historical High

Despite national economic headwinds, office-using employment in Broward County is at its tightest levels. As of the end of August 2023, office-using employment increased 3.3% year over year to 272,000 employees, an all-time high. As of the end of the quarter, the non-seasonally adjusted unemployment rate was 3.1%, increasing 20 basis points year over year.



Source: U.S. Bureau of Labor Statistics, Broward County  
\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.



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# Leasing Market Fundamentals

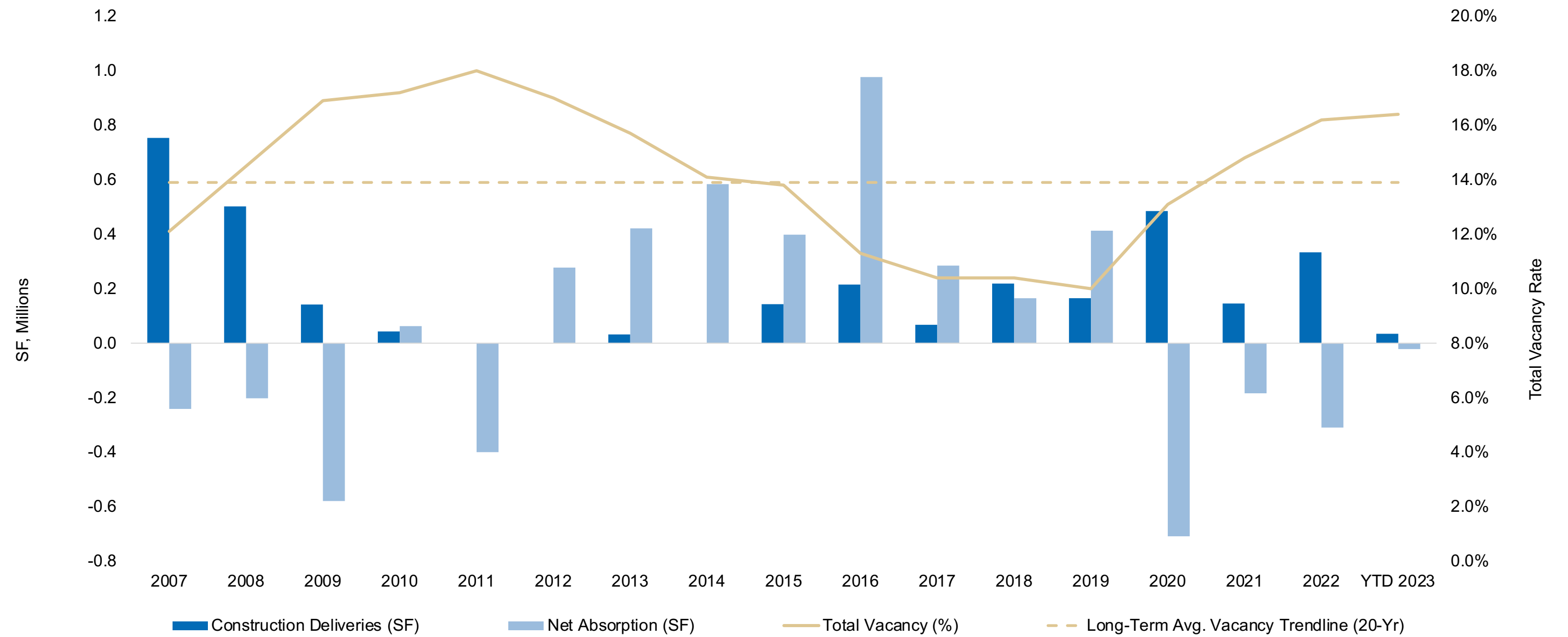




# Supply and Demand Ends the Quarter in Balance

The Broward County’s office vacancy rate increased by 60 basis points year over year to 16.4% in the third quarter of 2023. Net absorption for the third quarter of 2023 was a slightly negative 23,789 SF. Comparing 2023 to 2022, the 2023 year-to-date total is a negative 21,016 SF, compared to the negative 179,231 SF for the first three quarters of 2022, suggesting that recent supply is more in balance with demand.

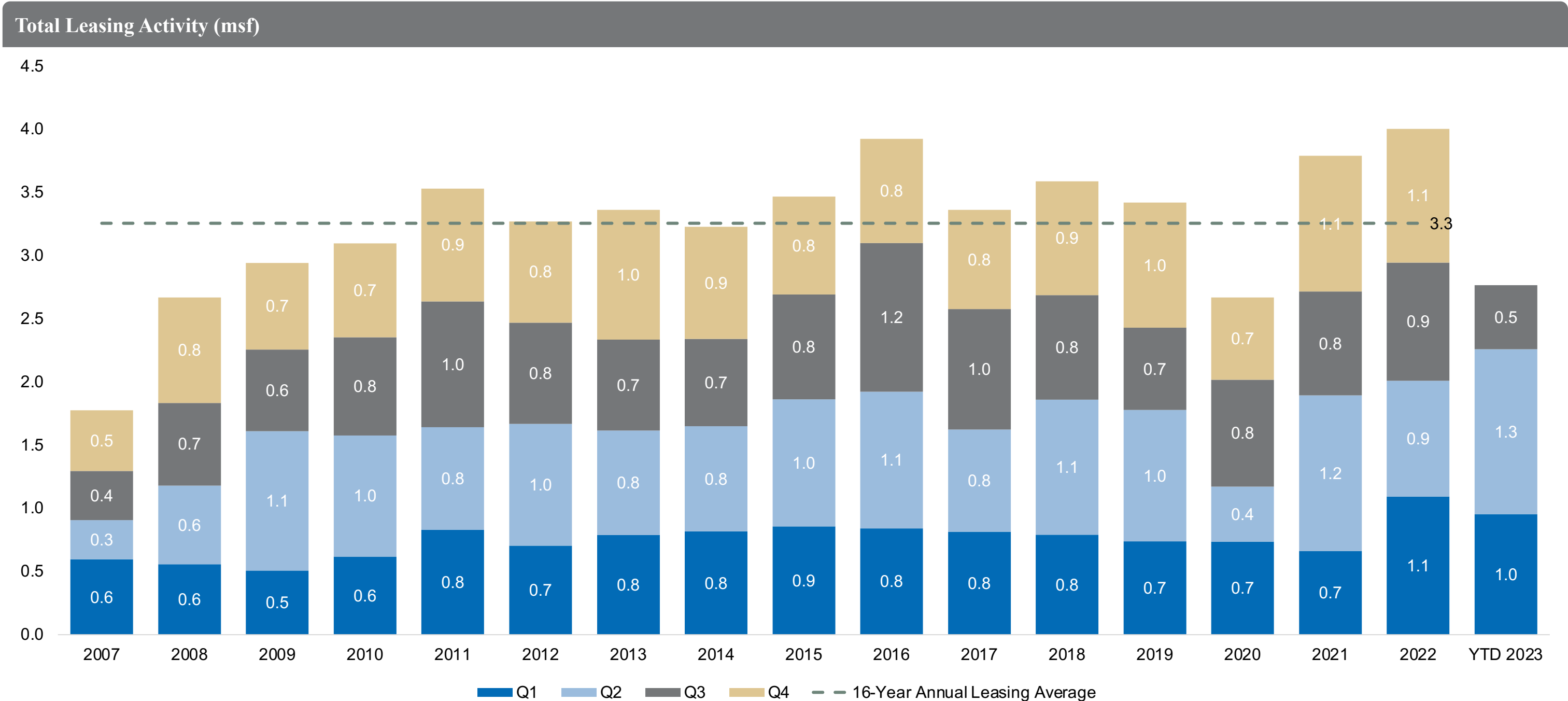
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

# Year-to-Date Leasing Activity above Historical Averages

Leasing activity in the market slowed in the third quarter of 2023 to 508,876 SF, a 61.0% decline quarter over quarter and likely due to a slowing national economy. However, year-to-date leasing activity ended at 2.8 MSF, which is 13.5% higher than the third-quarter year-to-date average of 2.4 MSF since 2007. The trend of smaller deal sizes continue, with the third quarter of 2023 averaging 2,751 SF, a 16.6% year-over-year decline, when the average deal size was 3,298 SF.

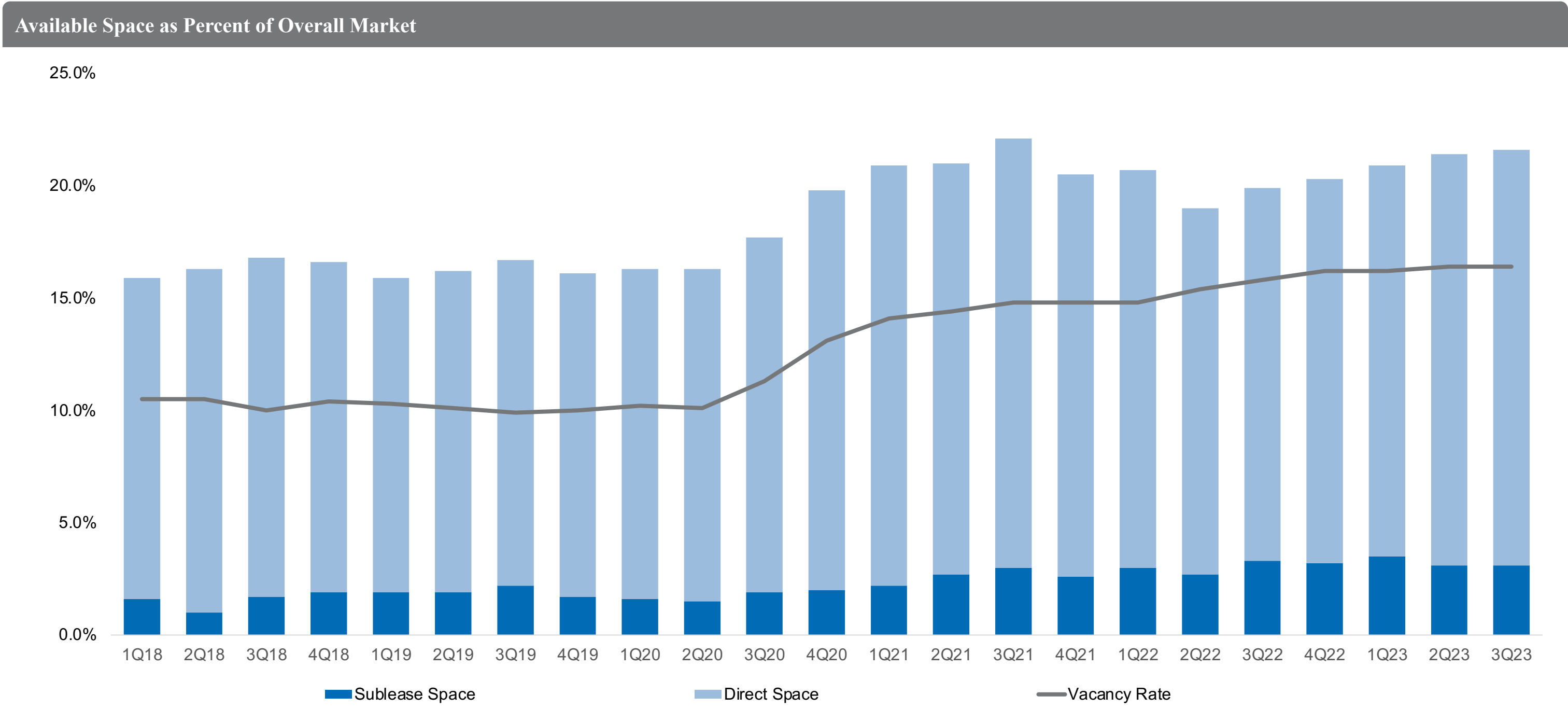


Source: Newmark Research, CoStar



# Direct Availability Increases Slightly While Sublets Stay Flat

Broward’s direct availabilities have increased since the pandemic but have decreased from the recent high of 19.1% reported in the third quarter of 2021, with the third quarter of 2023 ending at 18.5%, a 20-basis-point increase over the previous quarter. Sublease availabilities remained flat quarter over quarter at 3.1%, which was also true for vacancy, which was 16.4% for both quarters.

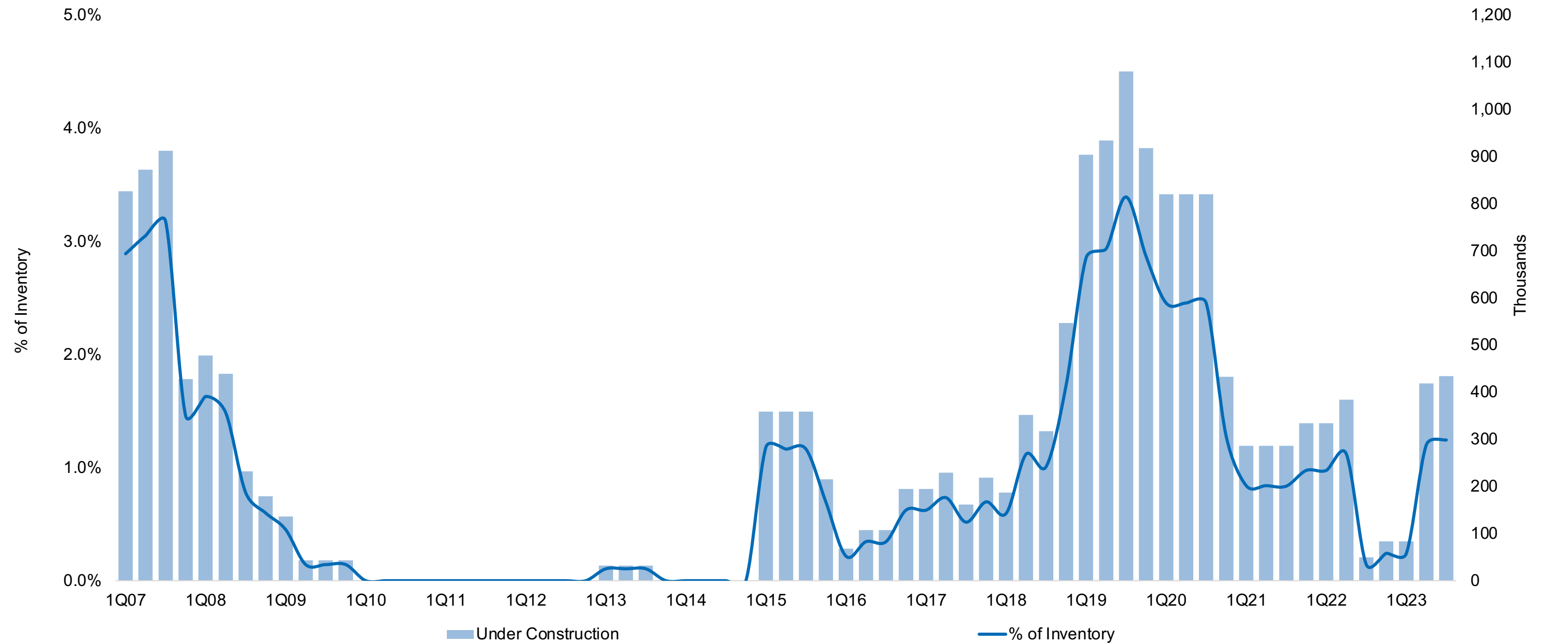


Source: Newmark Research, CoStar

# Construction Activity Picks up Moderately

Construction activity remained elevated between the first quarter of 2018 and the start of the pandemic. Although the pipeline has decreased since those highs, the third quarter of 2023 ended at 434,399 SF under construction, a slight 3.7% increase quarter over quarter.

Office Under Construction and % of Inventory



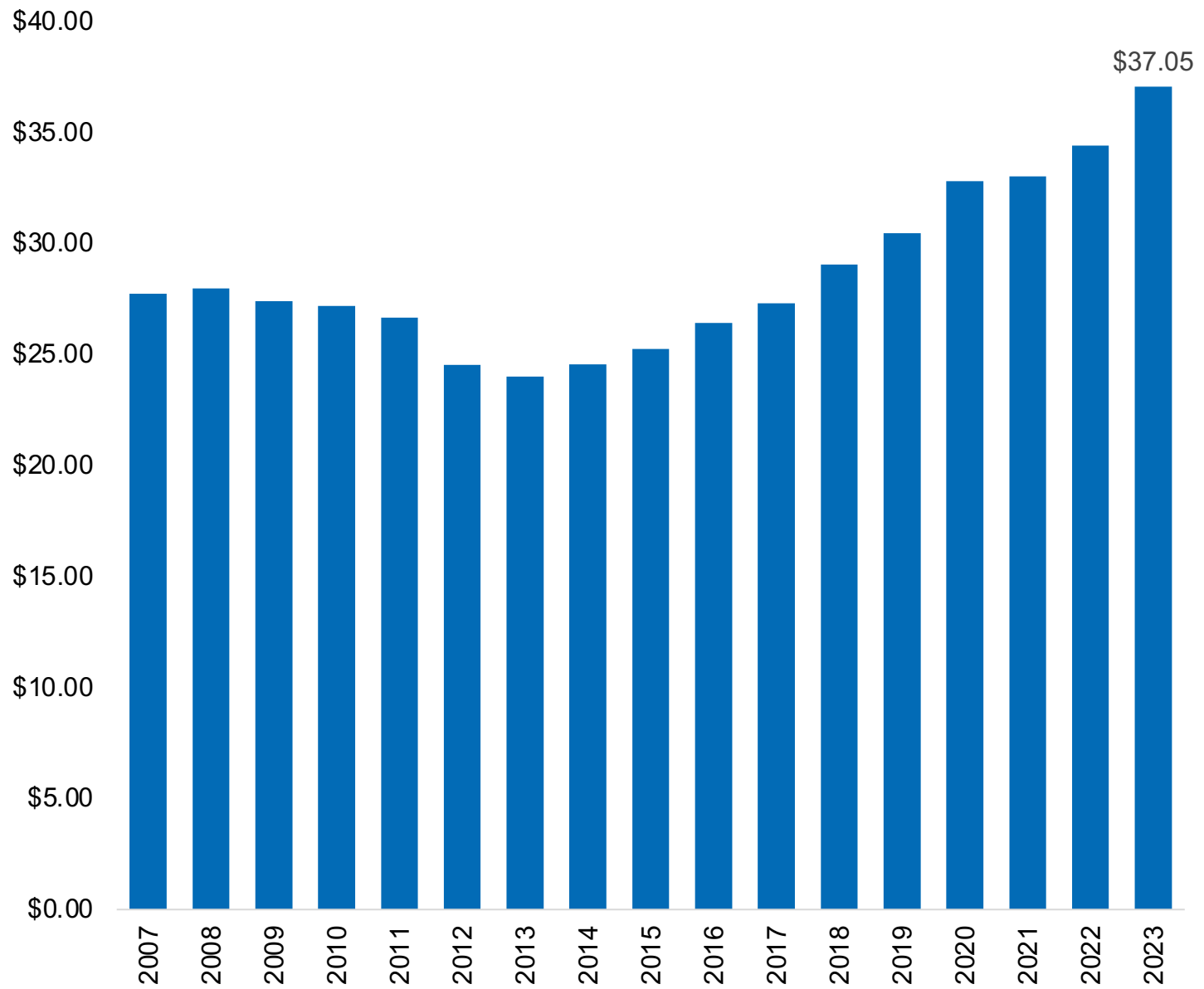
Source: Newmark Research, CoStar



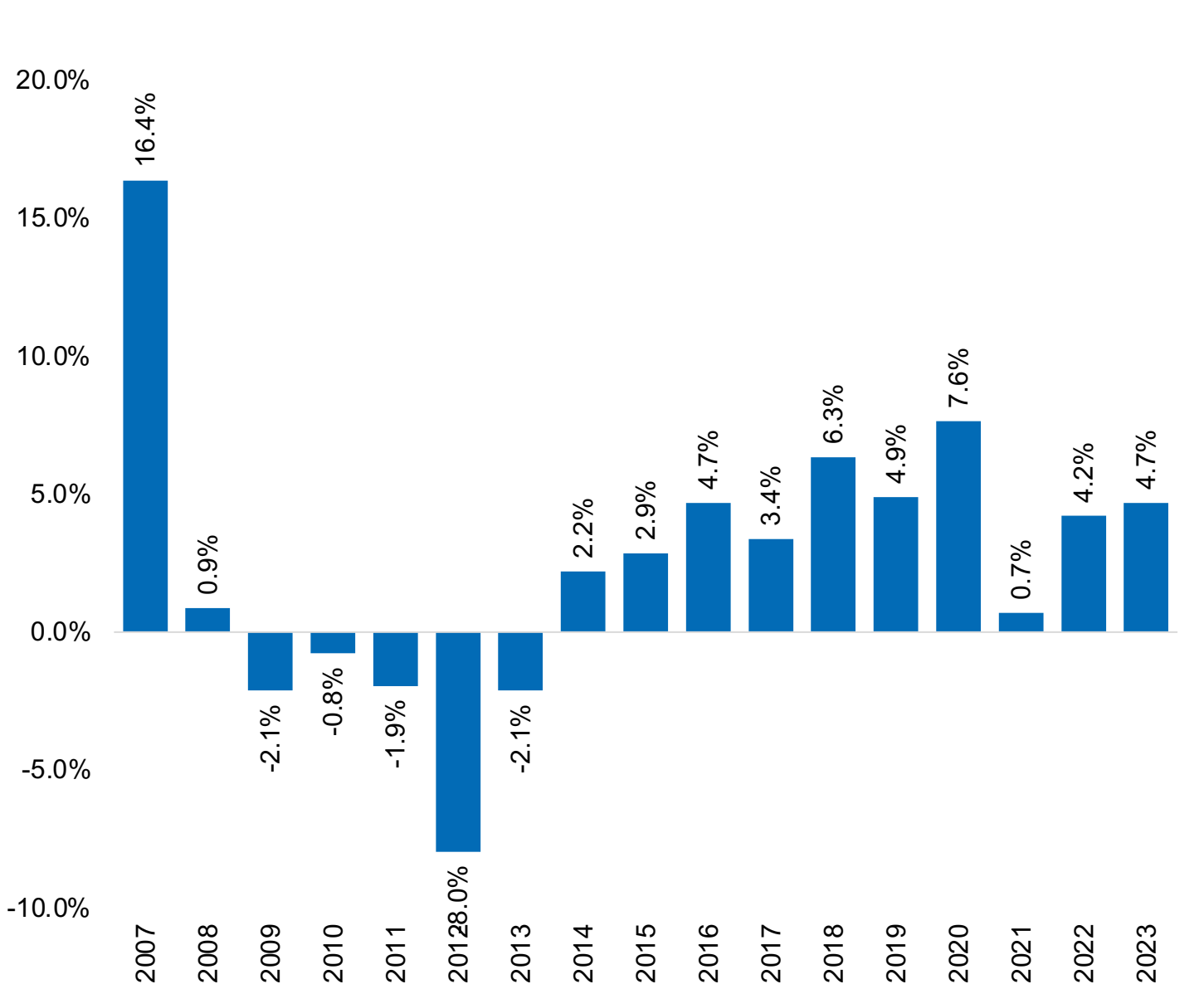
# Rents at Historical High

Rents reached an all-time high of \$37.05/SF in the third quarter of 2023, a 6.7% increase over the previous quarter. Rent growth declined by 150 basis points year over year and has moderated since the 7.6% peak in 2020. Asking rents are likely to remain elevated in the market as impacted by inflation and increasing operating costs.

Office Average Asking Rent, \$/SF, FS



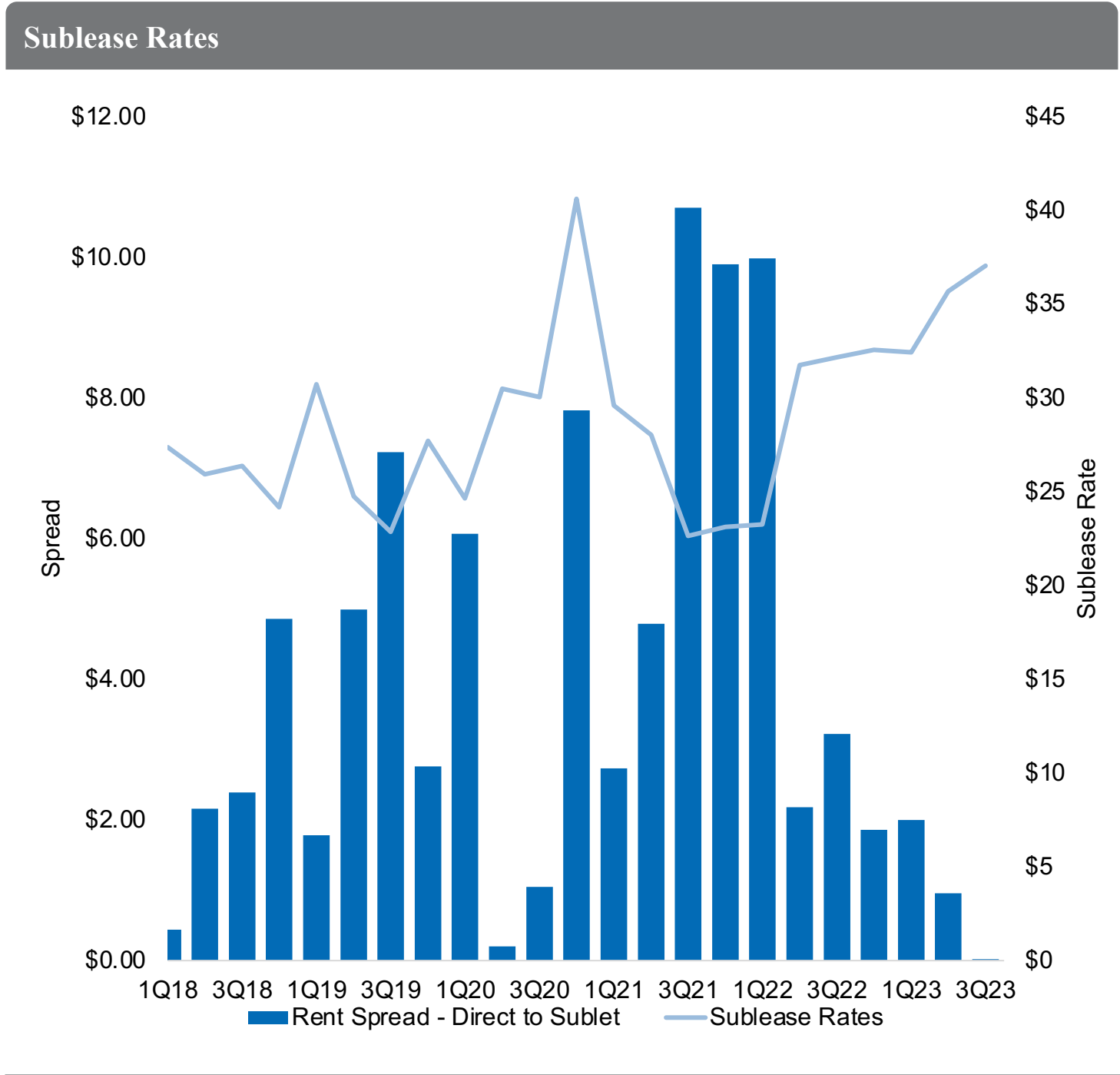
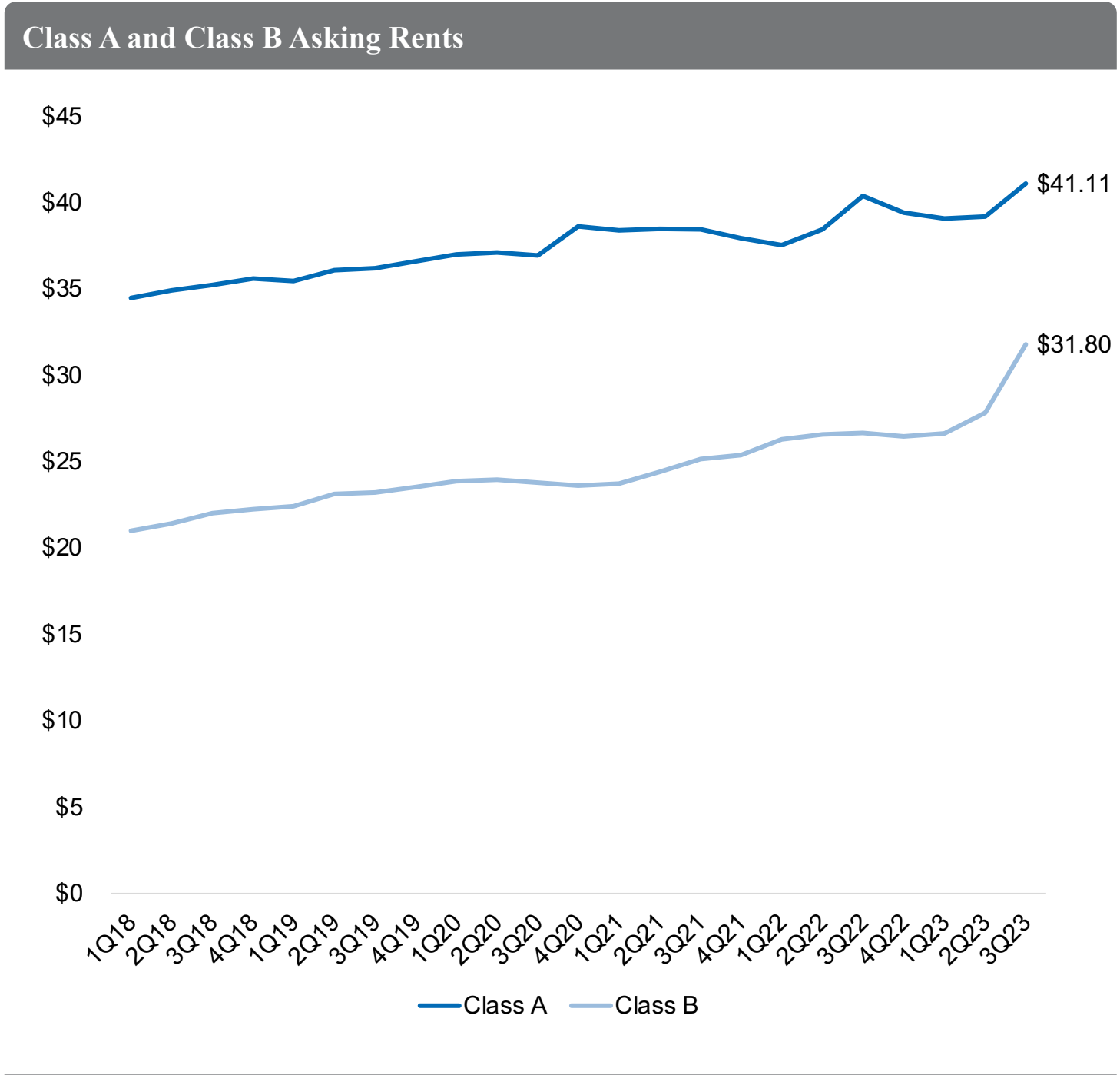
Year-over-Year Asking Rent Growth Rate



Source: Newmark Research, CoStar

# Decreasing Rent Spread on Class A Assets

As of the end of the third quarter of 2023, Class A rents ended at \$41.11/SF, while Class B reported \$31.80/SF. Rent difference between the two assets are at \$9.31/SF, a 28.3% spread decrease since 2019. The closing rent spread between Class A and Class B assets will likely push more tenants to shed unused space and lease smaller footprints in higher-quality assets. Sublease rates increased 6.6% quarter over quarter to \$37.03 /SF, to end nearly at par with overall rates.



Source: Newmark Research, CoStar



# Biggest Leases Still Mainly Class A; Average Deal Size Continues to Decrease

As of the end of the third quarter of 2023, Class A space accounted for 55.7% of the market’s leasing activity by SF, but only 35.1% of the market’s deal volume. Average leases signed in Class A space were 4,362 SF and continue to remain larger than the average market deal size, at 2,751 SF.

## Notable 3Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
UKG, Inc.	Weston Pointe III (2250 N Commerce Pkwy)	Southwest Broward	Renewal	97,178
UGK renewed their full-building lease. Ultimate Software Group, which had been the existing tenant, merged with Kronos Inc. in 2020 to form UKG.				
UKG, Inc.	Weston Pointe I (2400 N Commerce Pkwy)	Southwest Broward	Renewal/Expansion	57,493
UKG renewed their 43,421 SF lease and signed an additional 14,072 SF expansion.				
Grant Thornton	Lake Shore Plaza (1301 International Pkwy)	Sawgrass Park	Renewal/Expansion	27,670
The professional services firm renewed their original 23,682 SF space and then also added an additional 3,988 SF.				
National Beverage Corp.	Crossroads IV (8050 SW 10 <sup>th</sup> St)	Plantation	Direct New	25,033
Owner of brands such as La Croix and Everfresh, the company is making a move from Crossroads III, one building over and on the same Crossroads campus.				
Vohra Wound Physician Management	6451 N Federal Highway	Southwest Broward	Renewal	23,883
A physician’s practice group supporting wound care at skilled nursing facilities, renewed their corporate office space.				

Source: Newmark Research, CoStar

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## Broward Office Submarket Overview (Page 1 of 2)



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## Broward Office Submarket Overview (Page 2 of 2)



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## Broward Office Submarket Map



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