

SOUTH FLORIDA: MIAMI | FORT LAUDERDALE | PALM BEACH RESEARCH REPORT



South Florida

South Florida Overview



Two years ago to the day, we wrote the following in our Q1 2009 market research report: “The first quarter of 2009 has only confirmed what many have feared about the market continuing to extend the bottom of this decade’s most prolific economic down cycle. Accelerating job losses, shuttered national retailers, failing banks and multi-decade lows in consumer confidence plague newspaper headlines.”

Then, this time last year, we wrote the following in our Q1 2010 market research report: “The South Florida market continues to be a source of headline filler as participants from across the globe start to step back into the market in search of opportunity. Whether in the form of a distressed asset sale, a lease renegotiation or a strategic partnership, the market is starting to ripen and will bear fruit soon.”

Today, we look back at the first quarter of 2011 with more optimism about the transition in the market. The market has seen a definitive change over the last two years from market contraction to market stabilization. Signs are pointing to continued improvement as charts of some important metrics show an obvious “V” pattern. REIT’s are securing more capital, CMBS issuances are on the rise and recovery rates on commercial loans are improving. Unemployment rates have leveled off, vacancy rates have plateaued and net absorption across almost every property type is turning positive.

Overall the market appears to have taken a turn for the better. Although one can still read headlines about distress and losses, there is more good news than this time last year. There will always be issues of concern. Local and state level political matters and stagnant job creation remain clouds over the economy. Still, the news about bank branch expansion, corporate profits, large scale local developments and positive economic growth point to better times. Consumption is increasing in spite of rising commodity prices, foreign demand for local real estate remains strong, and year-over-year increases in lease and investment sales volume are also signs that the market is improving.

From here the light at the end of the tunnel appears to be getting brighter with the prospect of a smoother road ahead.

MARKET INDICATORS

	Rent	Vacancy
MIAMI DADE OFFICE	—	—
BROWARD OFFICE	—	—
PALM BEACH OFFICE	—	—
MIAMI DADE INDUSTRIAL	↓	—
BROWARD INDUSTRIAL	↓	—
PALM BEACH INDUSTRIAL	↓	—
MIAMI DADE RETAIL	—	↓
BROWARD RETAIL	—	—
PALM BEACH RETAIL	↓	—

Issue Highlights

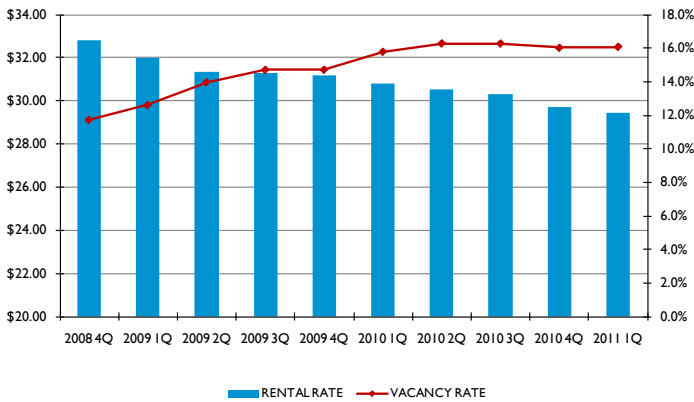
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Miami-Dade County Office

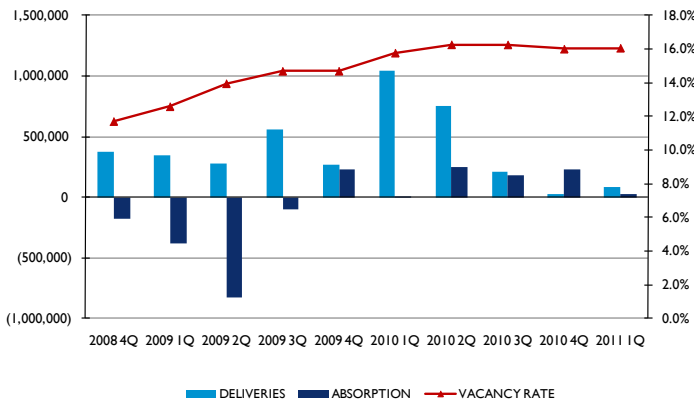
The office market performance in Miami-Dade County remains flat at the start of 2011. While we closed out 2010 with the relief that the worst was behind us, there is no real signal to when the market will begin to recover. Vacancy rates remain flat at 16% at the county level. After jumping at the end of 2009, vacancy has remained consistent for the last five quarters. Rental rates have broken the trend and dropped slightly from year end 2010. After peaking near \$30 per square foot for the last year and a half, average asking rental rates fell to just above \$29 per square foot gross. These changes are due to the fundamentals of Class B and C office space. Conditions are deteriorating in both classes, represented by these noticeable declines in rental rates and increases in vacancy. Class A space, on the other hand, appears to have stabilized, at least for now. The market is pending the delivery of the partially pre-leased Brickell World Center in Miami's CBD, after which macro level metrics will likely worsen. Net absorption tells a similar story, only marginally positive in spite of having almost no new spec construction inventory delivered to the market since summer 2010.

- There have been several notable lease transactions during the first quarter. Berger & Singerman signed a 26,000-square-foot lease at 1450 Brickell for roughly \$45 per square foot and a 25,000-square-foot tenant signed at 7900 NW 154th Street.
- There have been no notable investment sales transactions during the first quarter of 2011. This stands in contrast to numerous foreclosure and deed-in-lieu transfers, including Ocean Bank taking possession of 3850 Bird Road, the fractured office condo also known as Merrick Pointe in Coral Gables.
- Construction activity remains stable with the same three projects still underway: Brickell World Plaza (615,000 square feet), the UM Life Sciences Park (252,000 square feet) and 396 Alhambra Circle (170,000 square feet). Combined, the three properties are only 19% occupied.

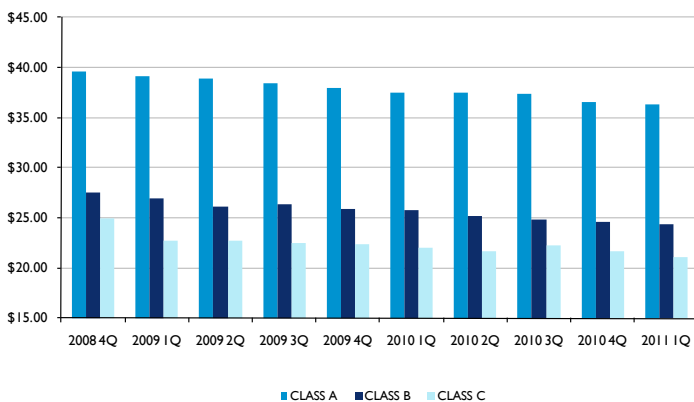
RENTAL RATE VS. VACANCY RATE



ABSORPTION / DELIVERIES / VACANCY RATE



AVERAGE RENTAL RATES, \$ / SF FULL SERVICE

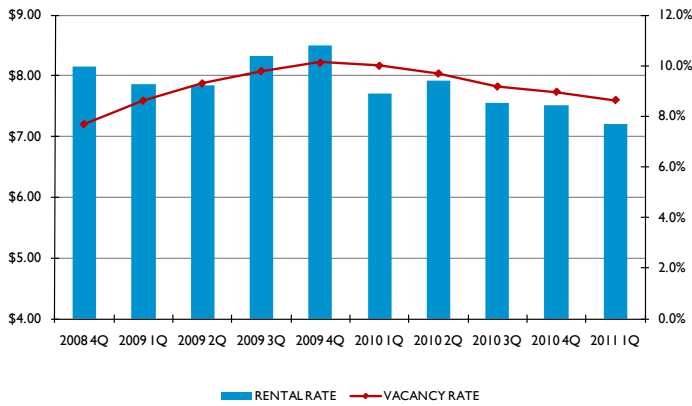


When this data is analyzed at the corporate level, what we define as buildings 25,000 SF and up that are non owner occupied, metrics appear to be worse when compared to the overall market. Vacancy rates are higher for this subset of the market at roughly 25%. Although flat since the start of 2010, this trend in vacancy reflects on the challenges faced by corporate property owners relative to smaller and mid-sized owners. The majority of the space under construction falls into this corporate category (+1M square feet). Average asking rates closed the first quarter at roughly \$30 PSF, in-line with overall county rates.

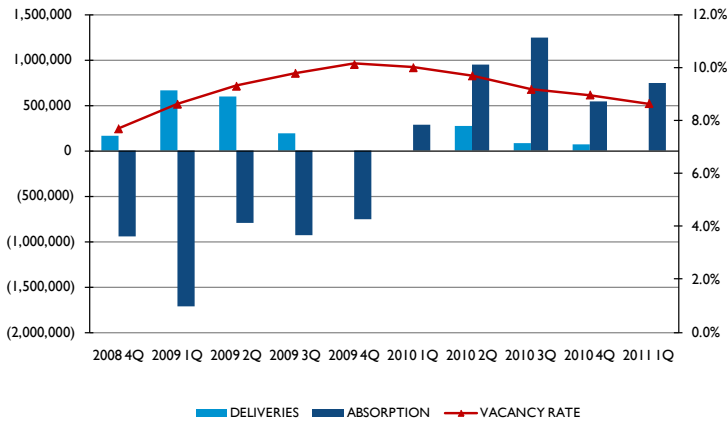
Miami-Dade County Industrial

Industrial product, at the macro level, has gotten off to a good start in 2011. Vacancy rates continue to level off, now just under 9%. In fact, vacancy has trended within a hundred basis point range near 9% for the last year. This is down from a high of 10% seen during the end of 2009. Rental rates, on the other hand, continue to slide. Average asking rates have fallen to just above \$7 per square foot, dropping more than one dollar per square foot since the same peak of Q4 2009. Overall, average rental rates have dropped 13% from the high seen during the end of 2009. Almost all of this decline is attributable to warehouse inventory, which has seen a continual decline in rental rates from \$8 per square foot to \$6.50 per square foot. There continues to be a complete lack of construction activity for the property type county-wide. Interestingly, although leasing activity has fallen off from the previous quarter, net absorption was positive 750,000 square feet. This may be an indication that existing tenants are staying put and renegotiating terms rather than vacating and taking their chances with a new landlord.

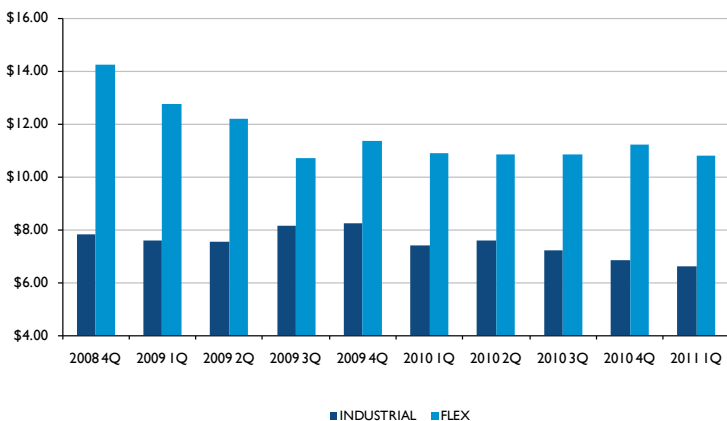
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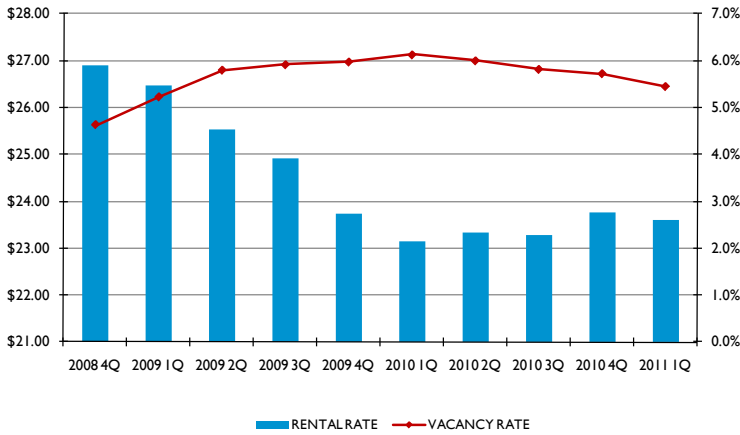
- The largest investment sale transaction of the quarter was purchased by TA Associates Realty, an institutional investment manager, at 6100 NW 74th Avenue, Miami. The 180,000-square-foot small bay warehouse was purchased for \$10.35 million or \$57 per square foot. Based on actual, in-place NOI this amounts to a sub-six percent going-in cap rate. This is a strong reflection of the demand for quality investment grade product within the sector.
- The largest lease transaction of the quarter was signed for 177,000 square feet at Blue Lagoon Business Park (6703 NW 7th Street) in the Miami Airport East submarket. The next largest lease was signed by an undisclosed tenant at 1777 NW 72nd Avenue for 85,000 SF.
- Much of the leasing activity of the first quarter of the year has occurred within the Miami Airport submarket, where four of the largest ten lease deals were signed.

Miami-Dade County Retail

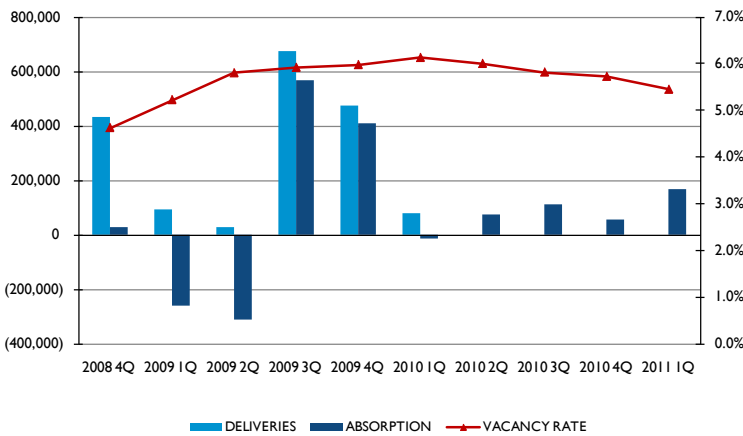
Retail product within the county continues to trend neutral through the first quarter of the year. While vacancy rates remained flat for the majority of 2010 they've started 2011 off on the right foot with a slight decline from the previous quarter. Now at approximately 5.5%, vacancy rates have fallen in line with an increase in positive absorption. The first quarter of 2011 saw a positive absorption of more than 160,000 square feet. This is approximately 40% of the total net absorption recorded over the last 12 months and the largest positive net absorption since 2009. Construction activity has remained flat since mid 2010 with little product in the pipeline. The most notable project under construction is the LA Fitness scheduled for delivery during the second quarter of 2011 in the Hialeah submarket. The 53,000-square-foot center at 630 W 49th street is a former Publix. Single tenant construction is one of the few segments of the market seeing continued activity. There is also a 47,000-square-foot single tenant Publix scheduled for delivery during the start of 2012. Rental rates are near flat at approximately \$23 per square foot at the county level.

- The largest investment sale transaction of the quarter was closed by Acadia Realty Trust, a REIT based out of New York. They purchased the three property, 61,000-square-foot Lincoln Road portfolio for \$52 million or \$842 per square foot.
- This purchase marks the third purchase within the Lincoln Road corridor of Miami Beach within 60 days involving trophy properties purchased by private client and institutional buyers. Within the last 120 days, 701 and 910 Lincoln Road were also purchased, giving a total of approximately \$85.3 million in volume for the three sales.
- One of the largest lease transactions of the quarter was signed in North Miami by Sabor Tropical. They replaced Presidente Supermarkets at Biscayne Plaza Shopping Center at 561 NE 79th Street. The 24,000-square-foot lease was actually one of two deals done at the center this quarter. The other was DD's Discount for 22,000 square feet.

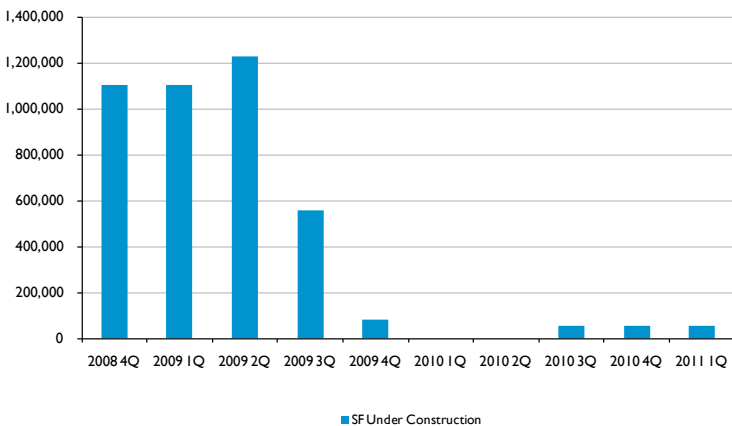
RENTAL RATE VS. VACANCY RATE



ABSORPTION / DELIVERIES / VACANCY RATE



CONSTRUCTION ACTIVITY, SF

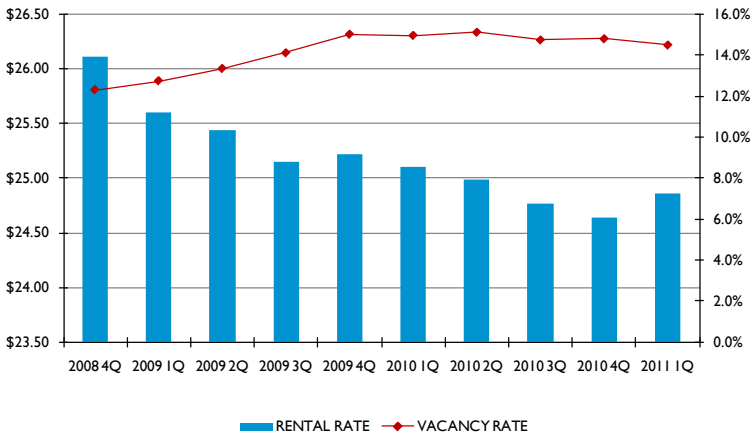


Broward County Office

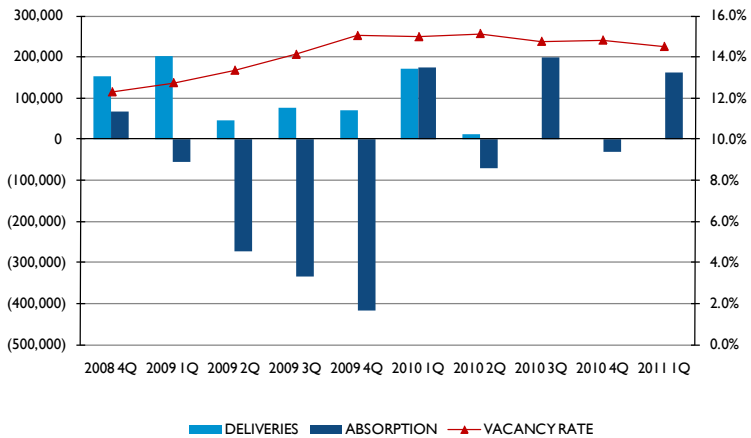
One of the most obvious distinctions between the Broward County office market and Miami-Dade County is the lack of construction activity over the last year. Coming into 2011, this difference remains a factor that will contribute to the county's recovery. Without the delivery of new product, net absorption has, on average, been positive over the last 12 months. Net absorption recorded more than 160,000 square feet to the positive side during the first quarter of 2011. However, the trend has been inconsistent with on again, off again positive absorption over the last year. Leasing activity has been less than the long-term average but still sufficient to reduce vacancy levels, albeit minimally. Vacancy rates fell slightly to 14.5% during first quarter 2011 from 15% this time last year and have continued to trend downward, however small that decline may be. Contrary to the rest of South Florida, average asking rental rates within County have remained relatively flat over the last few years, trending between \$24 and \$25 per square foot. Again, please note this is the asking rate and not the effective rate, which accounts for concessions. What has trended in a positive direction is the amount and asking rate for sublease space. Volume has contracted and asking rates have come closer in line with direct space rates, a sign of a strengthening space market.

- The largest non-portfolio investment sale of the quarter was closed by Mednax at 1500 Sawgrass Parkway. The former Nortel Network building was sold to the only tenant in the building. Mednax occupied 22% of the building at the time of sale. The property sold for \$18.5 million or \$107 per square foot.
- Another notable sale was that of Coral Springs Executive Tower sold to Pimo Capital for \$6.5 million or \$81 per square foot. The 80,000-square-foot office building traded at a 7% cap rate.
- The largest lease of the quarter was signed by Yum! Restaurants at New River Center for 21,113 square feet in Downtown Fort Lauderdale.

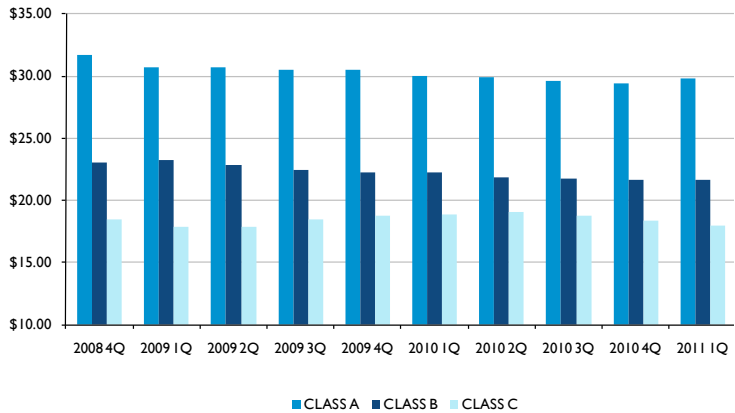
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ABSORPTION / DELIVERIES / VACANCY RATE



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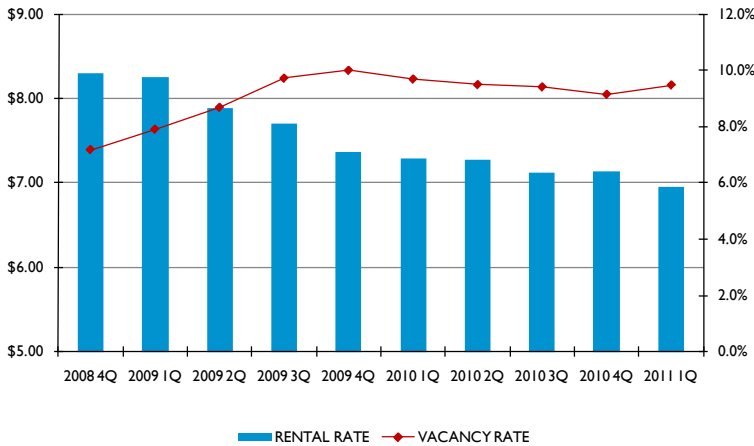
Broward County corporate office product, defined as buildings 25,000 SF and up that are non owner occupied, paints a somewhat different story when compared to Miami-Dade and Palm Beach counties. Lack of construction activity has allowed the market to stabilize faster. Even though vacancy rates have flat-lined, similar to the rest of the South Florida market, near 23%, the rate is still the lowest in the tri-county area. In fact, the county has benefited from positive net absorption in this subset of the market. Almost all of the 67,000 square feet of positive net absorption for the county was attributable to corporate leasing activity. Rental rates by comparison are slightly higher than the county average at roughly \$26 PSF. This is a reflection of the success landlords are having in commanding premiums for higher quality space in spite of the tenant-driven market.

Broward County Industrial

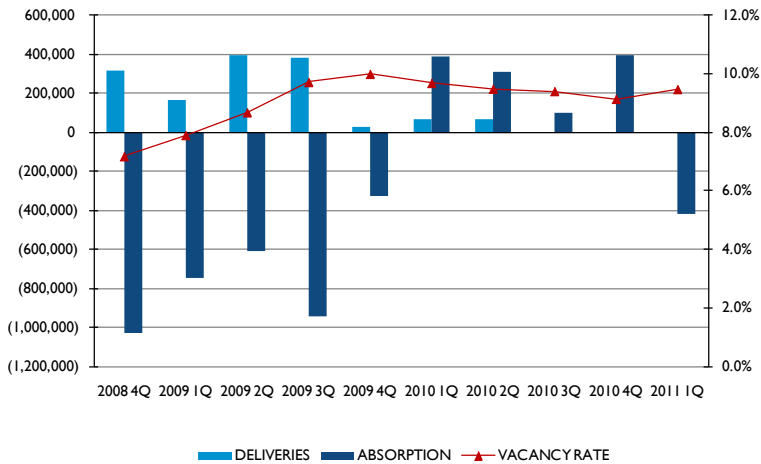
Performance has reversed an otherwise positive trend through the end of the first quarter. Throughout 2010, industrial product appeared to have been moving closer towards recovery. Unfortunately, because of an almost 420,000 square feet worth of negative absorption, vacancy rates have risen for the first time since the end of 2009. The majority of this loss is concentrated in the Pompano Beach submarket where more than 375,000 square feet was shed during the quarter. Still, at 9.5%, vacancy rates are below their recent highs of 10% recorded during late 2009. In fact, vacancy has trended between 9% and 10% for two years. Rental rates have fallen below \$7 per square foot gross at the county level and are off 5% year over year. Construction activity remains isolated to a few notable projects, only one of which is not preleased or a build-to-suit project. Extra Space Storage is nearly done developing its 50,000-square-foot storage facility in the Southeast Broward submarket, accounting for almost 40% of the total construction activity in the county.

- The largest investment sales transaction of the quarter was closed during February. Ivy Realty Services purchased 1900 NW 21st Avenue, a 90,000-square-foot class A distribution facility built during 2008 for \$10.9 million or \$121 per square foot.
- In spite of the negative absorption, leasing activity has been steady throughout the county. Gregg Appliances signed a 66,000-square-foot lease at Seneca Industrial and Challenge Warehousing signed another 66,000 square feet at Port 95 Commerce Park.
- There are several large build-to-suit requirements in Broward in search for sites to build over 200,000 square feet.

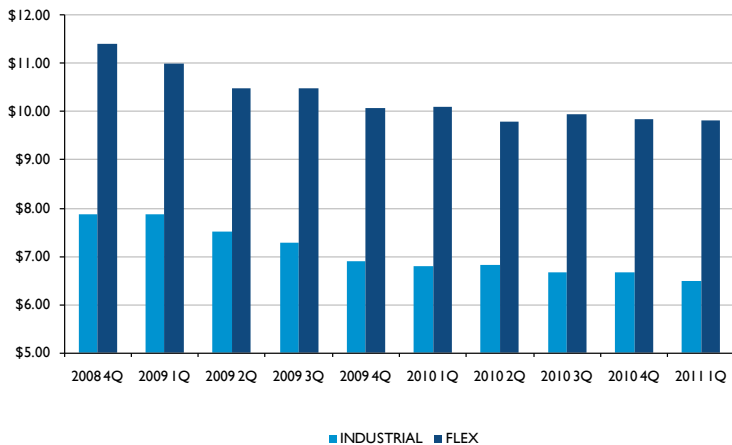
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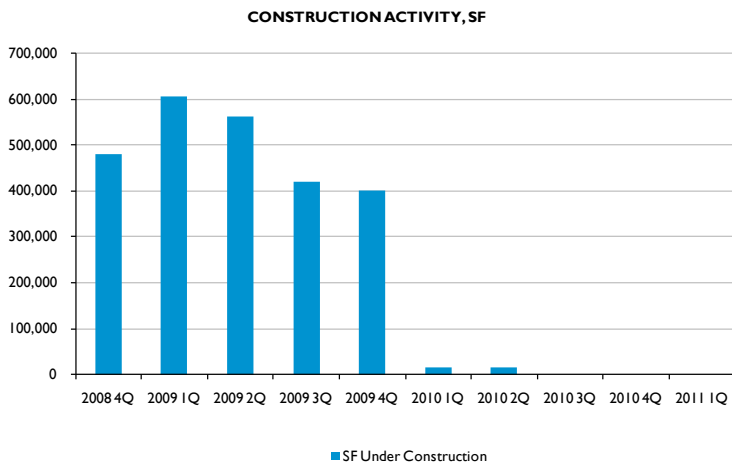
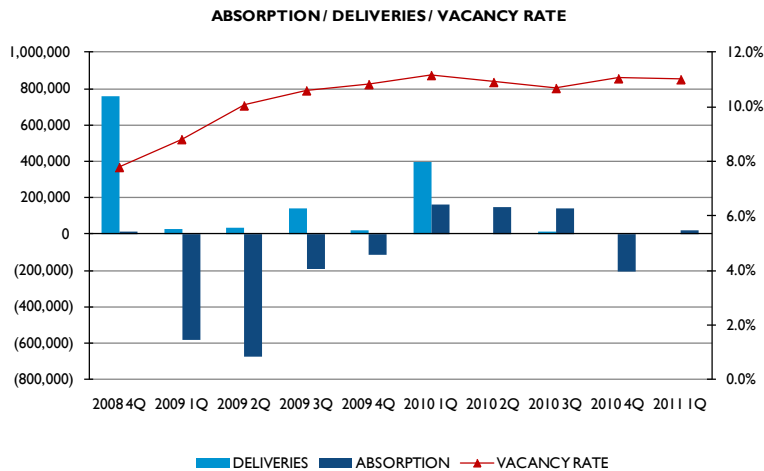
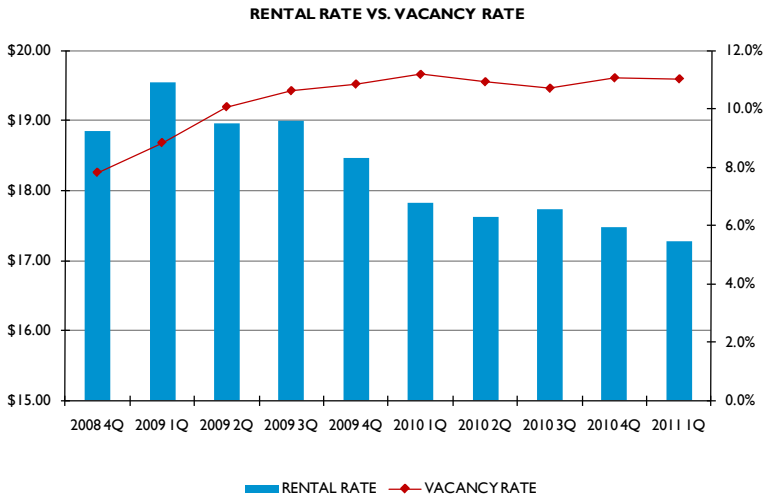


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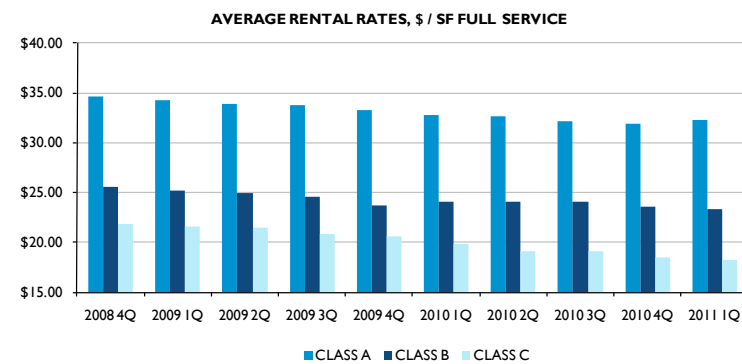
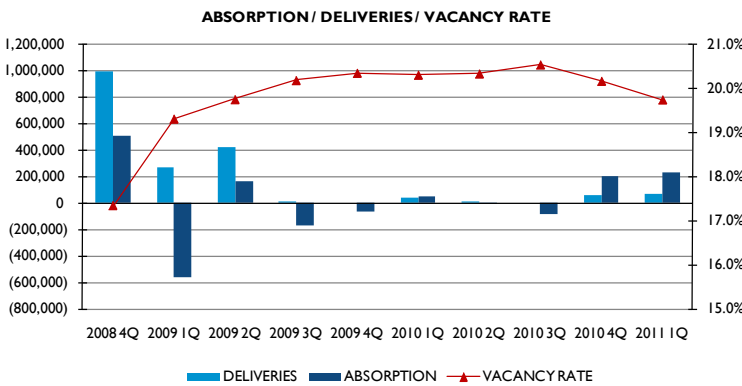
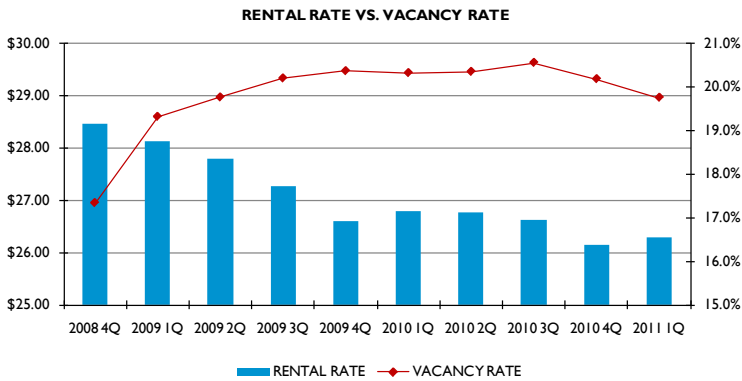
Broward County Retail

Broward County retail continues to trend flat through the start of 2011. Vacancy rates remain near 11%, a level that has been steady since mid 2009. While the summer of 2009 and 2010 provided a temporary relief, vacancy rates have remained nearly unchanged. This is positive news in that, at the macro level, landlords and tenants have weathered the worst of the economic downturn and can look forward to better times. Confirming the trend is absorption, which has been neutral over the last few quarters in spite of a tough close to 2010. For the quarter ending March 2011, net absorption was marginally positive at 20,000 square feet. Leasing activity was in-line with that of this time last year in terms of number of lease transactions and total square feet signed. This comes at a good time with no notable spec projects in the construction pipeline for delivery. While there are a number of single-tenant projects scheduled for delivery over the next 12 months, these additions are not expected to impact macro level performance. Rental rates mirror a similar trend, ranging between \$17 and \$18 per square foot since the start of 2010.



- Several of the single-tenant deliveries scheduled for 2011 include a Publix (Q3 2011 – Fort Lauderdale), AutoZone (Q2 2011 – Fort Lauderdale) and Chase Bank (Q1 2012 – Pompano).
- The largest lease transaction of the quarter was signed by Burlington Coat Factory at Pine Island Ridge Plaza in Plantation. Burlington took up 86,000 square feet of the former Home Depot Expo space of the Equity One owned plaza.
- The largest investment sale of the quarter was closed by Federal Realty Investment Trust with the \$66 million purchase of The Tower Shops, a 372,000-square-foot, 91% leased shopping center in Davie. The deal traded at a 6.45% cap on in-place income.

Palm Beach County Office

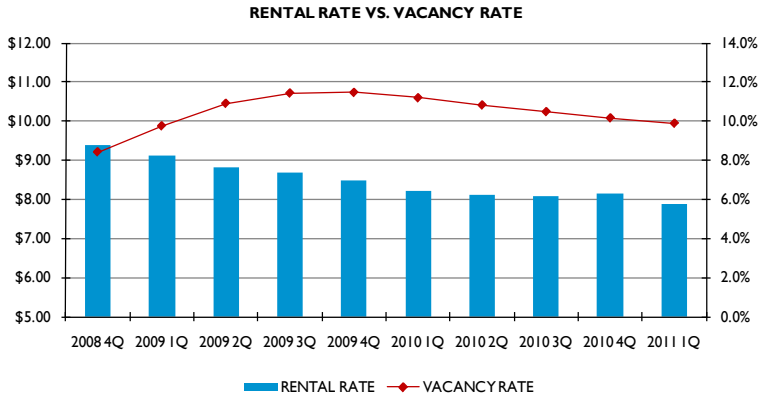


As of the end of the first quarter 2011, vacancy rates appear to be trending downward. Of equal importance is that rates may have fallen below 20% for the first time since early 2009, an important milestone on the road to recovery. Vacancy rates have trended around 20% for the last eight quarters, a level not reached by either Miami-Dade or Broward County at the lowest point of the cycle. Still, this downward trend is a sign of gradual improvement, consistent with a turn around. Net absorption has recorded positive change for two quarters in a row, accumulating almost 500,000 square feet since the end of 2010, more than half of which came during Q1 2011. With the delivery of Nova’s 73,000-square-foot single tenant building earlier this year, there is relatively little product still under construction in the pipeline. Similar to vacancy rates, asking rental rates have remained flat for the last few quarters. Still near \$26 per square foot, landlords have seen minimal relief in terms of pushing along rent growth. In terms of general performance, Jupiter closed the quarter as one of the stronger submarkets while Delray Beach was at the other end of the spectrum. Submarkets for office leasing in the CBD portions in the county have had more relative strength than those of their competitors in the neighborhood communities.

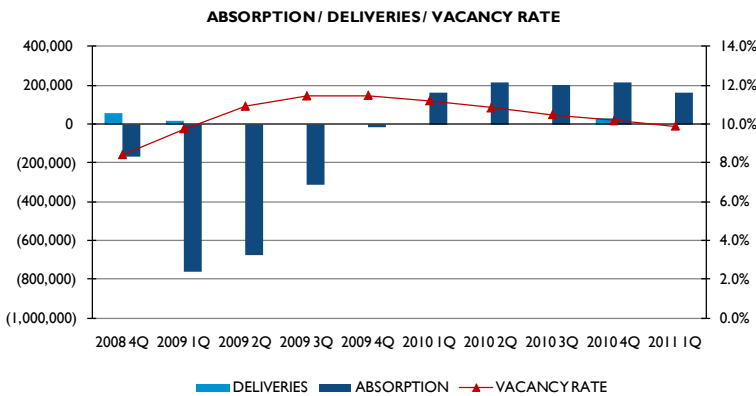
- The largest lease transaction of the quarter was signed at the Northcorp Center building in North Palm Beach County. The 23,000-square-foot lease was signed by an undisclosed tenant. Second in line for the quarter was inked by eNeighborhoods at Yamato Office Center for 18,000 square feet.
- The largest investment sale of the quarter was closed by CommonWealth REIT. They purchased the headquarters of Office Depot, a recently developed, single-tenant 635,000-square-foot class A office building from TIAA-CREF for \$171 million or \$269 per square foot.

The corporate office market, defined as buildings 25,000 SF and up that are non owner occupied, has underperformed relative to the rest of the market and by the largest margin when compared to the rest of the tri-county area. Vacancy rates are near 27% at the close of the quarter, a full 7% above the overall county average. Net absorption has been positive for the last three quarters with a cumulative total of 280,000 square feet since Q3 2010, half of which occurred during the first quarter of 2011. Similar to Broward County, an empty construction pipeline has helped the market recover. Asking lease rates are equal to the overall market at roughly \$26.50 per square foot.

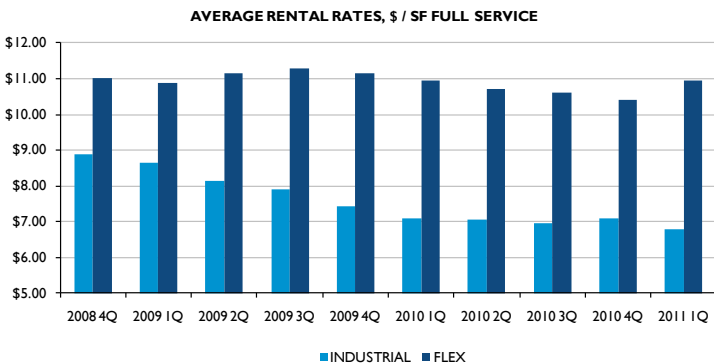
Palm Beach County Industrial



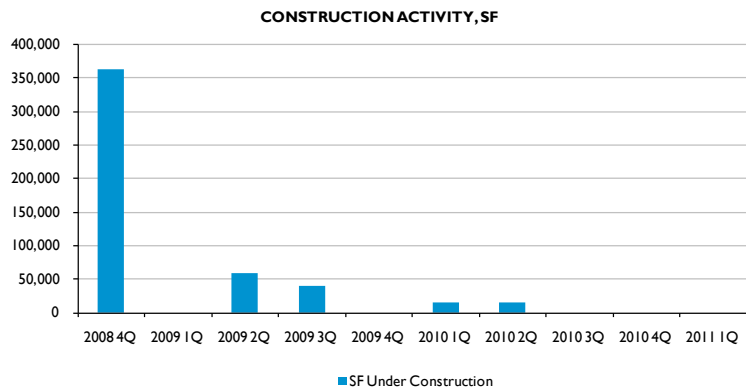
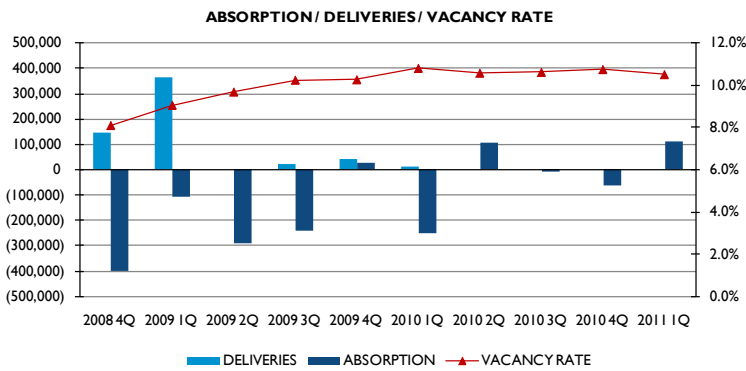
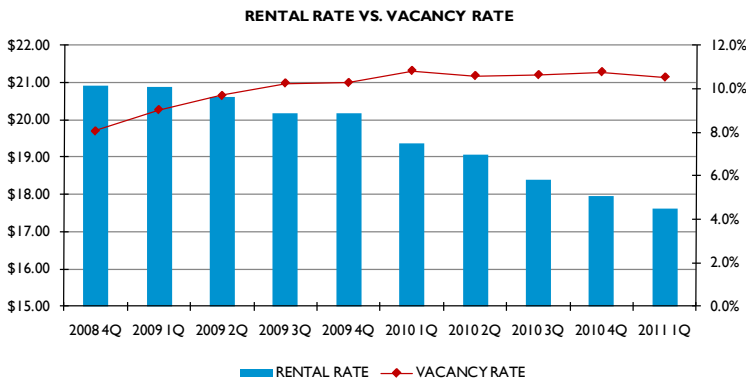
On the heels of a fifth consecutive quarter with positive net absorption, vacancy rates have continued to trend downward, now near 10%, from above 11% this time last year. In fact, vacancy rates have fallen 150 basis points over the last 18 months. This is due in part to a slow construction pipeline and strong positive absorption. The county has seen almost 1 million square feet of net absorption since the start of 2010, including more than 150,000 square feet this quarter. The majority of the positive absorption from the quarter is attributable to sublease space across each of the major submarkets. There are several projects under construction and scheduled for delivery over the next 12 months, all but one of which are single-tenant projects. Building B at the Commerce Center at Abacoa, a 24,000- square-foot asset, is the only speculative project which is scheduled for completion by the second quarter of 2011. Rental rates have continued to slide in line with market demand. Average asking rates are now roughly \$7.90 per square foot. This is the first quarter with a recorded rate below \$8.00 per square foot in over three years.



- The largest direct lease transaction of the quarter was signed by Chromalloy at 3999 RCA Blvd for 30,000 square feet.
- The largest investment sale of the quarter was closed by Ceramic Matrix. They purchased a four property, 49,000-square-foot industrial portfolio for \$3.725 million or \$76 per square foot.



Palm Beach County Retail



Unlike the progress seen across other property types, retail product is still struggling within Palm Beach County. Vacancy rates remain nearly unchanged over the last two years, still near 10.50%. While sublease space has started to account for a smaller portion of the total vacant space, direct vacancies have increased to offset the difference. Although net absorption was positive this quarter at 110,000 square feet, cumulative net absorption remains negative since this time last year. Additionally, there has been no discernable pattern with ebbs and flows of leasing activity over the last 18 months. Overall, net absorption has been negative over the last 15 months with only two quarters of positive net absorption. The longer term illustrates a similar pattern with an overall negative absorption of -700,000 since the start of 2009. The construction pipeline remains quiet with no new multitenant retail space scheduled for delivery over the short-term. This is good news though as landlords look to shore up performance. Average asking rental rates have continued to slide, shedding 10% since this time last year, down to roughly \$17.50 per square foot.

- The largest investment sale of the quarter was closed by Morguard Investments, a Canadian REIT. They purchased Boynton Town Center, a 409,000-square-foot Super Target shadow anchored power center. The center was 92% leased with a strong mix of national credit tenants.
- The largest lease of the quarter was signed by an undisclosed tenant for 18,000 square feet at 4354 Okeechobee Blvd. Another notable transaction was Anna's Linens, which closed an 11,000-square-foot lease at The Plaza at Delray.

Colliers International South Florida Team

PRINCIPALS

Donna Abood
Chief Executive Officer -
Founding Partner
donna.abood@colliers.com

Michael T. Fay
President - Founding Partner
michael.fay@colliers.com

Thomas D. Wood, Jr.
Chief Operating Officer -
Founding Partner
thomas.wood@colliers.com

PARTNERS

Randy Olen
Executive Vice President -
Partner
randy.olen@colliers.com

Carol Ellis-Cutler
Senior Vice President - Partner
carol.ellis-cutler@colliers.com

Jay A. Ziv, CCIM, SIOR
Senior Vice President - Partner
jay.ziv@colliers.com

John K. Crotty
Senior Vice President - Partner
john.crotty@colliers.com

David C. Metalonis, CCIM
Senior Vice President -Partner
david.metalonis@colliers.com

BROKER TEAM

Stephen Nostrand
Managing Director
stephen.nostrand@colliers.com

Kevin McCarthy
Senior Vice President
kevin.mccarthy@colliers.com

Mia Stierheim
Senior Vice President
mia.stierheim@colliers.com

Joe Abood
Office Leasing Consultant
joe.abood@colliers.com

Peyton Moore
Commercial Associate
peyton.moore@colliers.com

Lawrence H. Stockton
Senior Vice President
larry.stockton@colliers.com

Matthew Anderson
Office Leasing Consultant
matthew.anderson@colliers.com

Ronald W. Osborne
Vice President
ron.osborne@colliers.com

Kris Wagner
Senior Commercial Associate
kris.wagner@colliers.com

Sal Bonsignore, CCIM
Senior Commercial Associate
sal.bonsignore@colliers.com

Alison Pages
Senior Vice President
alison.pages@colliers.com

Lee Wheeler
Senior Vice President
lee.wheeler@colliers.com

Clinton M. Casey
Senior Commercial Associate
clinton.casey@colliers.com

Ricardo Perez
Commercial Associate
ricardo.perez@colliers.com

Achikam Yogev
Senior Vice President
achikam.yogev@colliers.com

Xavier Cossard
Commercial Associate
xavier.cossard@colliers.com

Jeff Resnick
Commercial Associate
jeff.resnick@colliers.com

PROPERTY MANAGEMENT & RECEIVERSHIP

Bill Cutler, CPM, RPA
Senior Vice President
william.cutler@colliers.com

Rosemarie Rivera
Commercial Associate
rosemarie.rivera@colliers.com

Bruce Kassman
Executive VP - Receiver
bruce.kassman@colliers.com

Claire Holash
Senior Commercial Associate
claire.holash@colliers.com

Pani Roshani
Commercial Associate
pani.roshani@colliers.com

Joseph Robinson
Director - Property Management
joseph.robinson@colliers.com

Robert R. Listokin, SIOR
Senior Vice President
robert.listokin@colliers.com

Alan Sperling
Commercial Associate
alan.sperling@colliers.com

512 offices
61 countries

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- \$1.5 billion in annual revenue
- 978.6 million square feet under management
- \$59.6 billion in transaction value

Colliers International South Florida
Commercial Real Estate Services
95 Merrick Way, Suite 380
Miami, FL 33129
TEL +1 305 446 0011
FAX +1 305 446 1907

Research: Alex Morcate
+1 305 476 7134
alex.morcate@colliers.com

Contact: Crystal Proenza
+1 305 476 7138
crystal.proenza@colliers.com

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