

Economic Perspectives

Office vacancies surge August 22, 2009

Q2 Office Space Available for Sub Lease

Market	Sq Ft
WPB Boca	480,666
Ft. Lauderdale	574,481
Orlando	990,184

SOURCE: CoStar

Q2 Absorption

Market	Sq Ft
WPB Boca	(98,520)
Ft. Lauderdale	(538,676)
Orlando	(78,902)

SOURCE: CoStar

Q2 Average Cap Rate

Market	Rate
WPB Boca	9.44%
Ft. Lauderdale	8.15%
Orlando	8.75%

SOURCE: CBRE, CoStar

Office vacancy rates are rising in nearly all metropolitan areas across the country. Increases have been most pronounced in Florida and other sunbelt states that had the greatest run up during the housing boom years and which are now experiencing the most severe corrections. Office vacancies rose in 66 of the nation's 79 primary metros. At the same time effective rents declined in 72 of those 79 areas as a result of extensive concessions. Of the ten metros with the largest vacancy increase, six are in California and four are in Florida.

Huge office job growth in housing, construction and allied industries together with easy credit fuelled an extraordinary amount of office development, especially in suburban locations, between 2003 and 2007. When the speculative housing bubble burst, office employment soon followed and the demand for office space declined dramatically. In addition, aggressive corporate cost cutting contributed to diminished demand for office space. Most companies are not expanding and many are cutting back bringing large amounts of sub lease space to market.

The West Palm Beach | Boca Raton metro has the highest office vacancy in the nation at 25.3%. That is according to a recent report by CBRE. The metro saw extraordinary employment growth between 2003 and 2005 together with an extraordinary amount of new office development. The metro has now lost 3.7% of its office jobs in the last two years. The office job loss actually began in 2005 and has been steady and steep since then. Today nearly 500,000 square feet of space is available for sub-lease and is likely to be on the market for 6-12 months and command about 15 - 20% less than the original lease amount.

Metro Ft. Lauderdale has a 16.7% office vacancy rate and has lost 7.1% of its office jobs in the last two years. It has nearly 600,000 square feet available for sub lease.

Metro Orlando has a 17.2% vacancy and has lost 3.3% of its office jobs over the last two years. Space available for sublease is approaching 1.0 million square feet — nearly double the South Florida availability.

All Florida metros in Seacoast served areas experienced negative net absorption meaning that new space started several years ago is still in the lease-up stage plus additional space is coming back to market for sublease.

Looking forward, local office markets will get worse before they get better. We expect unemployment to continue to rise well into 2010. That will soften demand for office space even more. The current economic environment has curtailed new office construction and is weighing heavily on rents. Given the breadth of the recession, office markets locally will continue to struggle for the next few years. New development is not likely to be economically feasible until 2012.

Office Vacancy Rates in Large Florida Metropolitan Areas

Metro	Q2 2007	Q2 2008	Q2 2009	Chg Office Jobs 2007-2009
West Palm Bch Boca Raton	11.3	18.1	25.3	-3.7
Ft. Lauderdale	7.2	12.6	16.7	-7.1
Miami	7.2	9.2	12.4	-6.4
Orlando	9.0	12.1	17.2	-3.3
Tampa St Pete Clearwater	12.3	15.0	20.7	-7.4
Jacksonville	14.3	22.7	19.9	-7.4

SOURCES: Global Insight, Reis, CoStar, CBRE. Seacoast served metros are highlighted in red