



BERGER

COMMERCIAL REALTY

COMMERCIAL BROKERAGE AND PROPERTY MANAGEMENT

2017

MARKET
FORECAST

BCRC 2017 Commercial Real Estate Market Forecast

We are pleased to provide you with this copy of Berger Commercial Realty Corp.'s 2017 forecast for the South Florida and U.S. commercial real estate markets. To help you prepare for your involvement with commercial real estate, we address several key areas: investments, new development, the economy, lending, and, of course, the major property sectors that we service, office, industrial, and retail. We rely on multiple sources for our forecast, all listed at the end of the report. We hope this information is informative and useful. If you have any questions, please contact our brokers and we will be happy to assist you.

Real Estate Investment

The investment market should continue to be robust in 2017, as foreign investors seek U.S. assets even as REIT's are selling. Cap rates and yields should stay low in most sectors, and it will be difficult to find value add properties, or core investments, at a reasonable return. Strict lending practices and higher interest rates will slow investment somewhat. Given the low-yield, higher-interest rate environment that many predict, we believe you will see the following trends this year:

- Investors will turn to skilled property management and leasing firms to lower costs, and increase income from their properties.
- Both large (institutional, REIT) investors and small (individual, family funds) will have difficulty locating well priced properties to purchase, leading large investors to hold cash, and small investors to hold their existing portfolio longer than they'd like, unable to complete 1031 exchanges.
- Foreign investors will continue to invest in U.S. assets, slowed somewhat by the strengthening dollar. South American investors will shift their focus in South Florida from residential to commercial, in search of higher returns.
- Investors from the northeastern U.S. will sell assets in their home states and look for assets in South Florida, and elsewhere in the country, seeking higher returns. If the dollar weakens, which the new presidential administration has signaled they prefer, this will favor foreign investors.
- Primary markets and central business districts will fall out of favor with some investors, who will look to secondary and suburban markets for higher yield and value-add properties.
- Investors may seek higher returns in alternative sectors, such as student housing, senior living, and self-storage – areas where most investors are not yet very active.
- Investors who can make quick decisions, and close fast, will find more opportunities than others.

New Development

New development will vary by sector. It will be hampered to some extent as banks tighten up lending, particularly construction loans, where they fear potential over-building. Stricter federal lending standards will exacerbate the issue, preventing some projects from ever going beyond the planning stages. We expect the following trends in 2017:

- New construction will slow down, as some fear we may be coming to the end of the current real estate cycle. In South Florida, this is mainly going to be felt in multifamily/rental apartments, where most of the construction activity has been.
- In the central business districts, there will be more of a focus on “live-work-play” development, as more employees choose to live close to work, and demand for amenities will increase.
- Expect to see smaller, more efficient office spaces, as technology changes the way we work. Firms will need less space now than they did in the past, and millennials will function better in “communal” workspace.
- The Internet of Things (IoT) will bring technological advances and increased efficiency to commercial properties, improving experiences for employees and building owners.
- Tightening lending standards will stifle new construction, keeping supply low and rents high.
- Retail spaces will be repurposed, as more big-box retailers close, leaving large vacancies in retail properties. Owners will need to find alternative uses or risk losing the properties. Think: Macy’s, K-Mart, and Sears, closing hundreds of locations.
- New industrial development will continue, with some constraints due to the lack of available development sites, as online retail sales grow and more distribution space will be needed to keep up with e-commerce.

The Economy

Are we headed for recession this year? It seems unlikely, unless there is some outside event that disrupts the economy. The four phases of the real estate cycle are 1) Recovery, 2) Expansion, 3) Oversupply, and 4) Recession. Regarding those phases, we make the following observations:

- We have been in the Recovery phase since coming out of the Great Recession, and in some sectors (multifamily and now industrial) we have been firmly in the Expansion phase and may be coming to Oversupply (multifamily).
- Other sectors, office in particular, remain in the recovery phase and we are not likely to see much oversupply in 2017.
- Tight lending standards, particularly construction lending, has forced discipline on most developers, preventing the rush to development and ensuing oversupply that we have seen in past cycles. This may allow for a “soft landing” when we do come to the end of this cycle.

- There is no doubt that this has been an unusually long real estate cycle, and what goes up must come down. We expect the cycle to reach Oversupply and Recession at some point, but it's not likely to happen in all commercial sectors in 2017 given lessons learned from the past. Some believe we may have another two years left in this cycle. Others have already begun putting cash aside, anticipating property values (and purchase prices) dropping once a recession hits.
- Job growth will continue, but there will be some uncertainty and delayed decision making with the incoming Trump administration's new business agenda, as well as rising interest rates. If rates rise too quickly, that could speed up the next recession.
- Energy prices should remain low (barring a major war in the Middle East), and this will keep the cost of operating commercial real estate low. It also will keep more disposable income in the pockets of consumers, shoring up retail spending.

Lending

The list of lenders who were either forced into bankruptcy or were acquired during the Great Recession is quite long. A big factor in these failures was poor lending practices, and banks (with some pressure from the U.S. government) are determined not to repeat the same mistakes.

- Stricter lending requirements will push LTV (loan to value) ratios lower, forcing investors to put up more cash to purchase investment properties.
- Tight federal regulations will make borrowing even more difficult, bringing some unwanted (but possibly necessary) discipline to the market, and keeping investors from creating another real estate "bubble."

Office

In addition to the general trends we are forecasting, above, each sector of the commercial real estate market should see its own, unique set of circumstances that will affect performance in 2017. The office sector is changing. Tenant demand for more efficiency and flexibility in workspaces is forcing changes in how office space is configured. With little new construction, and demand catching up with supply, rents will continue to rise this year.

- Tenants have carried over money-saving habits from the Great Recession and will continue to design their spaces for greater efficiency – trying to fit more people into less square footage, straining building systems and parking.
- In some cases, corporate tenants will forego long term leases for the flexibility of "shared workspaces" such as WeWork. The flexibility in the number of seats leased and lease term will attract growing firms and accommodate the millennial workforce.
- Investment in office properties will slow – the capital required for re-leasing space (commissions, rent abatement, tenant improvements) and improving building common areas and systems takes too long to recover with a recession potentially around the corner in the next two years.

- We expect little or no speculative office construction this year. Lenders are shying away from construction lending, and demand has not risen enough to justify it. Properties can be purchased for below replacement cost, given the high cost of land in most locations.

Industrial

Industrial developers have been active this year, with new construction being absorbed almost immediately, keeping vacancy rates around 5%. Several factors in 2017 will keep this trend going.

- “Last mile” delivery will become increasingly important, as e-commerce sellers struggle to speed up the delivery process. For same-day delivery to become a reality, sellers such as Amazon will need multiple local properties for distribution. These can be served by existing or new construction industrial properties, or by non-traditional warehouse (e.g., repurposed office or retail properties) as deliveries will be done by van, box truck, or even by drone (maybe not this year, but soon). Whatever property type, location near population and business centers will be key.
- Investment will grow as a favored investment type. Re-tenanting is less costly than other property types (i.e., office), and demand is high. Rent growth will contribute to higher yields.
- In South Florida, new development seems to be taking place mostly in Broward County, and this should carry over through 2017.

Retail

Retailers are feeling the competition as online sales grow each year. Big box retailers and department stores are closing multiple locations across the U.S. Macy’s announced it will close 68 stores in the first half of 2017. Sears will be closing 150 Sears and Kmart locations in the first quarter. Retail landlords will have to find a way to backfill these spaces. We expect this to bring many changes to retail properties.

- Property owners (or tenants, if still under lease) will have to find creative uses for the soon-to-be vacant spaces if they cannot be released as retail. Conversion to office, “last mile” delivery distribution (see Industrial, above), or entertainment centers that will attract shoppers, are possible re-uses we may see this year.
- Retailers will provide online portals for internet shopping in the stores, bringing customers in and still capturing sales.
- Retailers and property owners will find ways to enhance the customer experience, in order to draw them to physical stores. Live music, more/better restaurant choices, and anything else that will make shoppers happy, should work.
- Online sales will increase, leading consumers to spend even less time in “brick and mortar” stores. But online retail will not completely do away with physical stores – not in 2017, and not ever.
- Investment in power centers (with big box anchors) and malls (with department store anchors) will slow, until investors feel that store closings are a thing of the past.

Conclusion

2017 should be a good year in commercial real estate, with more transactions, but no froth. Investors will find areas where yields have not been compressed by competition among buyers. New development and lending will both remain muted, helping to ease this real estate cycle to a soft landing when it does come to an end. Investment in the office market should slow down among domestic buyers, but not foreign buyers, while office rents should continue to rise. In the industrial sector, demand will continue to grow among tenants and investors, as this sector should outperform the others. Retail properties are in for a bumpy road, as store closings and online sales bring long term change to the retail landscape.

Berger Commercial Realty Corp. is here to guide you through the year, whether you are an investment buyer or seller, a landlord or tenant. Our experienced advisors and property managers will help you make sense of the year to come and maximize the return on your investment in real estate. We look forward to working with you this year. Thank you.

Sources:

Deloitte.com, Commercial Real Estate Outlook 2017, December 2017

TheRealDeal.com, Experts Forecast the State of Miami's Real Estate market in 2017: Panels, November 17, 2016

Urban Land Institute and PWC, Emerging Trends in Real Estate 2017, October 2016

Q4 Broward Industrial Shows Positive Outlook For 2017

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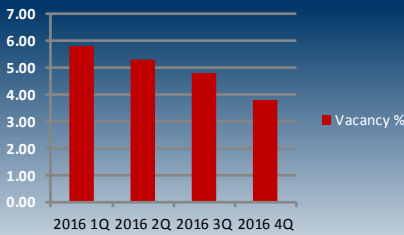
"Additional construction has proven to be needed, as absorption increased 86% over the previous quarter, with more than 1.08 million s.f. in net absorption this quarter alone."

- Lloyd Berger

Period	Total RBA	Vacancy %	Asking Rates	Net Absorption
2016 1Q	108,497,618	5.80	\$ 7.63	298,408
2016 2Q	108,561,872	5.30	\$ 7.93	605,181
2016 3Q	108,591,824	4.80	\$ 8.18	584,436
2016 4Q	108,399,417	3.80	\$ 8.50	1,088,216

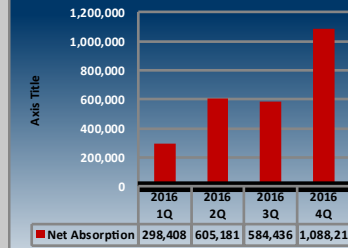
*5,190 Properties

Vacant %



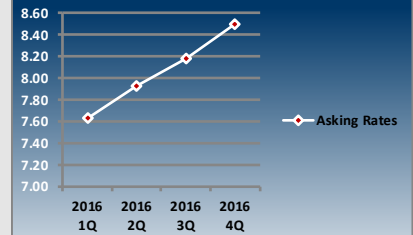
From a survey taken of 5,190 Broward County industrial properties, vacancy dropped to 3.8% - a full 100 basis points over last quarter, and 200 basis points since January 1, 2016. The industrial market is showing no signs of slowing down, with another 976,000 s.f. under construction.

Net Absorption



Among the largest office lease signings in the quarter were Floor & Decor's 82,755 s.f. lease at 2200 W. Sunrise Blvd., Fort Lauderdale, and BF Aerospace's 45,536 s.f. lease at ProLogis' I-595 Center, in Davie, brokered by Berger Commercial Realty's Keith Graves and Greg Milopoulos. Among the largest sales this quarter were Eastgroup's purchase of 1951 N. Commerce Parkway, in Weston. The building is a 134,400 s.f. industrial property, and was reportedly only 29% leased at the time of sale. The purchase price was \$14,313,600, or \$106.50/s.f.

Rental Rates(fs)



Quoted asking rental rates increased by \$0.32/s.f. from the previous quarter to \$8.50/s.f. NNN. With the very high net absorption, rents should increase or stay flat in the coming quarter.

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Q4 Broward Office Shows Positive Outlook For 2017

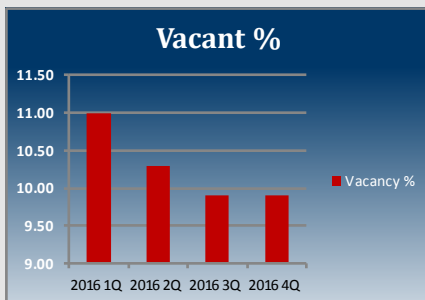
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"The market fundamentals are continuing to improve slowly. Vacancy remains at a healthy rate, while absorption and rental rates are up again."

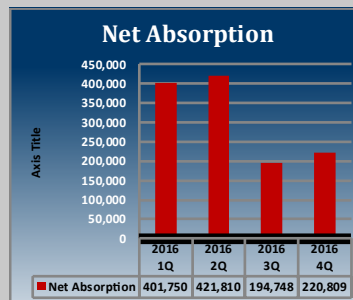
-Lloyd C. Berger

Period	Total RBA	Vacancy %	Asking Rates	Net Absorption
2016 1Q	69,803,346	11.00	25.10	401,750
2016 2Q	69,301,398	10.30	25.50	421,810
2016 3Q	69,040,504	9.90	25.63	194,748
2016 4Q	69,015,238	9.90	26.07	220,809

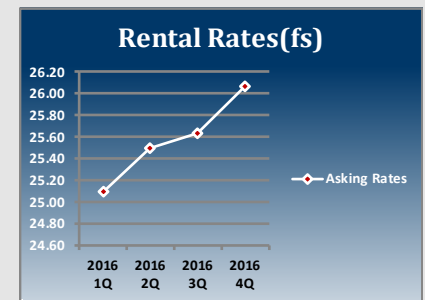
*4,076 Properties



From a survey taken of 4,076 Broward County office properties, vacancy has remained level at 9.9% from last quarter, and is down 110 basis points since the beginning of 2016. Absorption also held steady at 220,809 s.f., similar to the 3rd quarter. If this rate holds below 10%, or continues to drop, we may soon see significant new office construction.



Among the largest office lease signings in the fourth quarter were a renewal of 51,863 s.f. by Convey Health Solutions at the Miramar Park of Commerce, and a new lease of 21,728 s.f. by The Broward Workforce Development Board at 2890 W. Cypress Creek Rd., Fort Lauderdale. The largest sale in the Broward office market this quarter was GenCap's sale of 110 SE 6th St., Fort Lauderdale, a 394,830 s.f. Class A office tower across from the Broward Circuit Courthouse, for \$112,900 (\$285.95/s.f.). The building was purchased by IP Capital Partners, a Boca Raton-based private REIT. In addition, Workspace Property Trust and Safanad Limited purchased 108 properties from Liberty Property Trust, totaling 7.6 million s.f. and 26.7 acres of land, in five markets, for \$969,000,000. Six of those buildings were office properties in Broward County.



Direct asking rental rates increased by \$0.44/SF from the previous quarter to \$26.07/s.f. Rental Rates continue on an upward trend, which may also spur future office development.

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Q4 Broward Retail Shows Positive Outlook For 2017

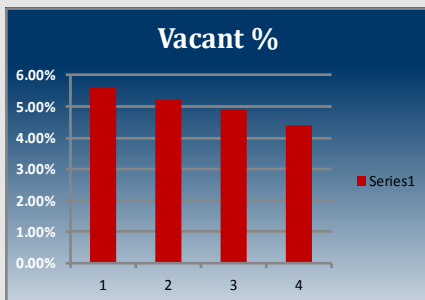
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Vacancy continued its 4-quarter decline, while asking rental rates climbed, signaling a strong and stable outlook for 2017.

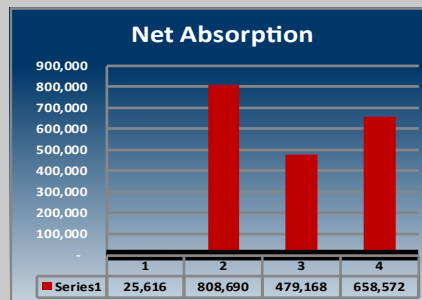
- Lawrence Oxenberg

Period	Total RBA	Vacancy %	Asking Rates	Net Absorption
2016 1Q	104,598,276	5.60%	\$ 19.79	25,616
2016 2Q	104,948,982	5.20%	\$ 20.51	808,690
2016 3Q	105,064,822	4.90%	\$ 20.64	479,168
2016 4Q	105,238,228	4.40%	\$ 20.98	658,572

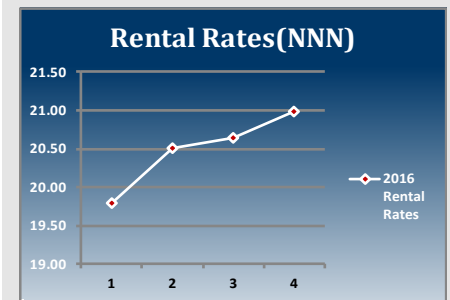
*7,299 Properties



From a survey taken of 7,299 Broward County retail properties, vacancy has continued to decrease and is down 1.2% since 1Q 2016. Fourth quarter vacancy ended at 4.4%, down .50% from the previous quarter.



Among the largest retail lease signings in the third quarter was Homegoods at 2421 N Federal Hwy Pompano Beach, FL (Pompano Pointe Shopping Center) 33064, 20,280sf. among the largest sales in the Broward retail market this quarter was the LNR Partners, LLC sale of Stirling Town Center (8637 Stirling Rd., Cooper City, FL 33328) for \$13,500,000 (\$250.66/sf).



Quoted asking rental rates increased \$.34/SF from the previous quarter to \$20.98/SF NNN. Rental Rates continue on an upward trend, as vacancy rates remain low.

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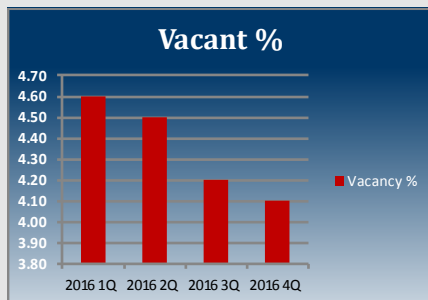
Q4 West Palm Beach Industrial Shows Positive Outlook For 2017

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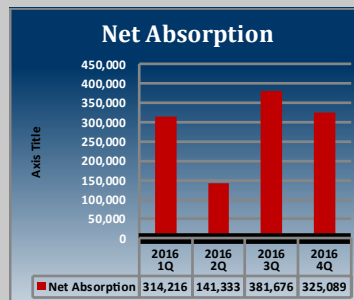
"Industrial rents have spiked to a level not justified by the vacancy rate or the net absorption we are seeing. This may need a correction, or may accurately reflect future demand. The next 2 quarters will be telling." - Michael Feuerman

Period	Total RBA	Vacancy %	Asking Rates	Net Absorption
2016 1Q	48,349,470	4.60	8.14	314,216
2016 2Q	48,454,021	4.50	8.26	141,333
2016 3Q	48,686,672	4.20	8.35	381,676
2016 4Q	49,120,151	4.10	8.92	325,089

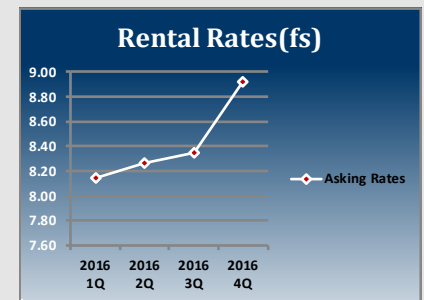
*2,642 Properties



From a survey taken of 2,642 Palm Beach County industrial properties, vacancy decreased slightly to 4.1%, and is down 50 basis points since the beginning of 2016. Fourth quarter vacancy ended at 4.1%, down 10 basis points from the previous quarter. With 426,446 s.f. under construction (slightly more than the average net absorption over the last 2 quarters), we expect vacancy to remain at this level this quarter.



Among the largest office lease signings in the fourth quarter were the 50,000 s.f. lease to You and Me Moving and Storage, at 3300 Electronics Way, West Palm Beach, and the 13,727 s.f. lease to Stoneline, at Britannia Business Center, in Riviera Beach. Among the largest sales this quarter were the Estate of Fred Keller portfolio sale, consisting of 38 industrial and flex properties (916,000 s.f. in total) in Palm Beach County, which was purchased by The Silverman Group, Short Hills, NJ, for \$50,070,000 (\$54.66/s.f.). The sale was done at a reported 6% cap rate.



Quoted asking rental rates increased by \$0.57/s.f. from the previous quarter to \$8.92/SF NNN. This was a large jump relative to the small decrease in the vacancy rate, and we expect this to level off or come down slightly, barring any unforeseen spike in demand.

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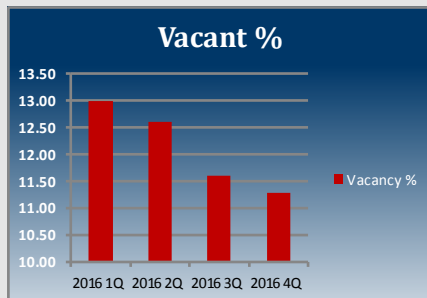
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"Portfolio sales dominated the capital markets this quarter, with two portfolio sales accounting for over 800,000 s.f. and 9 Palm Beach County office buildings sold by institutional fund managers and REITs."

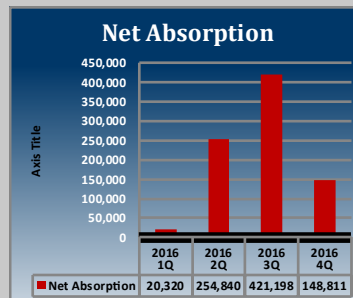
-Michael Feuerman

Period	Total RBA	Vacancy %	Asking Rates	Net Absorption
2016 1Q	54,752,166	13.00	27.23	20,320
2016 2Q	54,742,711	12.60	27.65	254,840
2016 3Q	55,075,150	11.60	27.49	421,198
2016 4Q	55,087,053	11.30	27.67	148,811

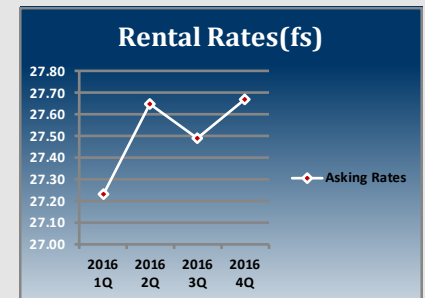
*2,802 Properties



From a survey taken of 2,082 Palm Beach County office properties, vacancy has continued to decrease and is down 170 basis points since the beginning of 2016. Fourth quarter vacancy ended at 11.3%, down just 30 basis points from the previous quarter. Net absorption was lower than the last quarter, but still substantial and still positive, with more space being leased than coming available.



Among the largest office lease signings in the fourth quarter were Olympus at, Inc.'s 10,760 s.f. lease at The Offices at City Place North, and Magic Jack's lease of 8,405 s.f. at 560 Village Blvd., both in West Palm Beach. In November, Colonnade Properties, a privately held investment/ownership firm, purchased the five-building, 479,482 s.f. office park at Centrepark East and West, West Palm Beach, from JP Morgan for \$72,000,000 (\$150.16/s.f.). In addition, Workspace Property Trust and Safanad Limited purchased 108 properties from Liberty Property Trust, totaling 7.6 million s.f. and 26.7 acres of land, in five markets, for \$969,000,000. Three of those buildings were office properties in Palm Beach County. Berger Commercial Realty Corp. represented the purchaser of the 31,000 s.f. office building at 3020 N. Military Trail, Boca Raton, for \$7,200,000.



Quoted asking rental rates reversed direction and increased by \$0.18/SF from the previous quarter to \$27.67/s.f. The general trend of rising rents, dropping vacancy, and positive absorption should continue for the next quarter, although drastic moves in any of these measures is not expected.

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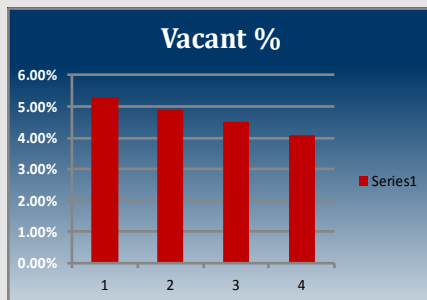
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Q4 saw an increase in asking rental rates, and demand for well-located spaces should remain active in 2017.

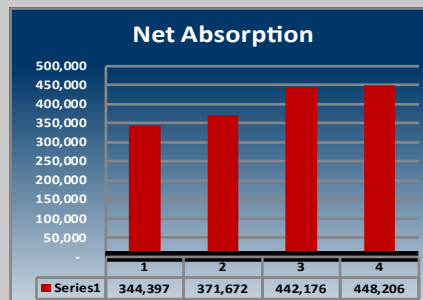
- Lawrence Oxenberg

Period	Total RBA	Vacancy %	Asking Rates	Net Absorption
2016 1Q	78,896,333	5.30%	\$ 20.00	344,397
2016 2Q	78,943,478	4.90%	\$ 19.98	371,672
2016 3Q	79,138,187	4.50%	\$ 19.85	442,176
2016 4Q	79,226,108	4.10%	\$ 19.95	448,206

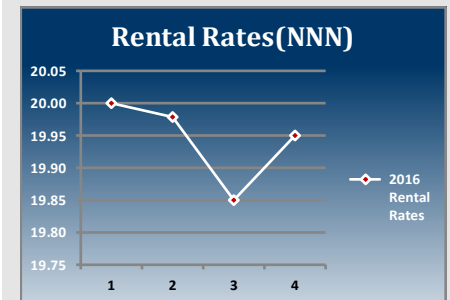
*5,010 Properties



From a survey taken of 5,010 Palm Beach County retail properties, fourth quarter vacancy ended at 4.1%, continuing to decrease, down .40% from the previous quarter, and down 1.20% compared to 1Q 2016.



Among the largest retail lease signings in the third quarter was Burlington Coat Factory at 20851 State Road 7 (Boca Glades Shopping Center) for 42,602 SF. Among the largest sales transactions in the Palm Beach retail market this quarter was Principal Real Estate Investors LLC sale of Lantana Square, (6196 Jog Rd Lake Worth, FL 33467) for \$31,000,000 (\$269.80/sf).



Quoted asking rental rates slightly increased \$.10/SF from the previous quarter to \$19.95/SF NNN.

While information is believed true, no guaranty is made of accuracy. Data is subject to revision.

Berger Commercial Realty, founded in 1998, is a full service commercial real estate firm. As a local, independent and privately owned firm, we can customize our services and quickly adapt to our clients' needs as well as the continually changing real estate markets. We invite you to experience the power of market knowledge.

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Q4 Miami-Dade Retail Shows Mixed Outlook For 2017

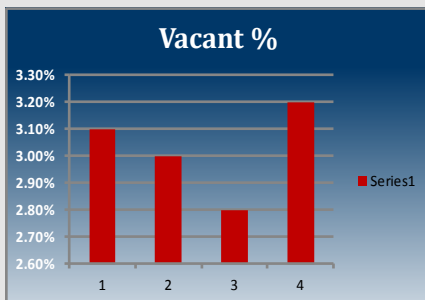
Berger Commercial Realty is dedicated to the consistent delivery and execution of commercial real estate services while continually embracing the clients' individual business goals. We are rewarded by powerful and enduring relationships due directly to the level of service and benefits we offer to each client.

Asking rental rates remain quite strong, and Miami-Dade remains highly sought after for retail expansion.

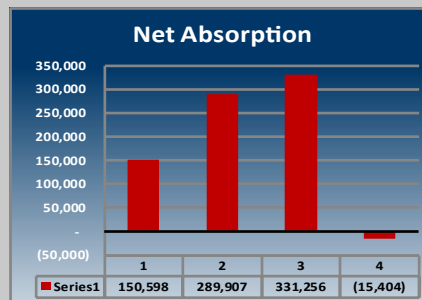
- Lawrence Oxenberg

Period	Total RBA	Vacancy %	Asking Rates	Net Absorption
2016 1Q	127,405,772	3.10%	\$ 32.00	150,598
2016 2Q	127,553,518	3.00%	\$ 31.79	289,907
2016 3Q	127,668,556	2.80%	\$ 34.04	331,256
2016 4Q	128,236,456	3.20%	\$ 36.06	(15,404)

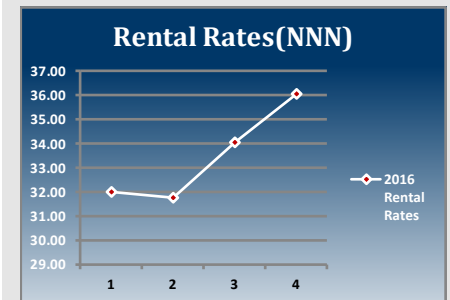
*10,236 Properties



From a survey taken of 10,236 Miami-Dade County retail properties, fourth quarter vacancy increased slightly, .10% compared to 1Q 2016. Fourth quarter vacancy ended at 3.2%, up .40% from the previous quarter.



Among the largest retail leases signed in the third quarter was 24 Hour Fitness at Crystal Lakes Plaza (SW 147th Avenue Homestead, FL 33033), 23,800sf. Among the largest sales transactions in the Miami-Dade retail market this quarter was Cole REIT Advisors, II, LLC's purchase of an LA Fitness single tenant/net leased property (8310 Bird Road Miami, FL 33155) for \$12,935,000 (\$287.44/sf). This single tenant property transaction had a reported 6.18% actual cap rate.



Quoted asking rental rates increased \$2.02/SF from the previous quarter to \$36.06/SF NNN. Rental Rates continue on an upward trend.

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