

Restrained Development Bolsters Class A Leasing Activity

The Palm Beach County economy remains strong as employment continues to rise and the office market expands. As of February 2018, the local unemployment rate in Palm Beach County was 3.7% - a significant 100-basis point (bps) decline over the trailing 12-month period. Additionally, employment growth persists as the county added 12,500 jobs in the same time period. These robust economic factors have led conditions in the Palm Beach County office market to tighten as rental rates rise and the availability of quality space continues to decline. In addition, development activity remains restrained with just 111,000 sf under construction.

Investment sales activity is also on the rise as demonstrated by the Palm Beach County's \$242.2 million in total office volume in the first quarter. The largest and most significant contribution to this activity was the sale of the former IBM campus, Boca Raton Innovation Campus, for \$179.3 million. This sale is another demonstration of investors pursuing redevelopment opportunity in centrally-located areas such as Boca Raton. Avison Young anticipates activity like this to continue to occur as tenants forego downtown districts in favor of suburban offices.



**Year-over-year
office investment
sales volume grew
by 90.2%**

Office Market Snapshot

- Land constraints in high-density areas of Palm Beach County are limiting development opportunity. In response, rental rates have risen as quality space becomes rarer.
- The Federal Reserve voted to raise short-term interest rates by a quarter of a percent, citing a strong economy, and signaling additional increases are on the horizon. This will likely raise cap rates and could go on to negatively affect pricing.
- Office development is beginning to pick up as DiVosta Investments breaks ground on the South Tower of Gardens Corporate Center. The 111,000-sf tower is located in the Jupiter submarket and will be the first, class A product the county will witness since 2014. Additionally, The Related Companies has revealed plans for a 295,000-sf mixed-use property in Downtown West Palm Beach.
- The completion of the Brightline's West Palm Beach station is opening new employment opportunity for those who live in Broward or Miami-Dade County.
- Palm Beach County's aging demographic is reshaping the area's office requirements. In addition to increased demand for medical-office space, tenants involved in financial services represent a strong percentage of new leases.
- Office campuses such as the recently traded Boca Raton Innovation Campus, could become hubs for mixed-use development. The 125-acre office park currently contains 1.7 million sf of office space but is well positioned for multifamily, hospitality, and retail product as well.

27.6 MSF

Total office inventory in the Palm Beach County market

90,566 SF

Direct Y-T-D net absorption as of 1Q-2018

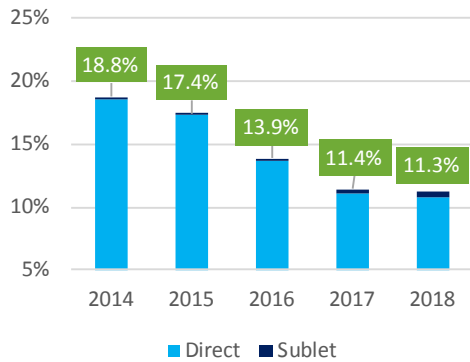
11.28%

Overall Vacancy

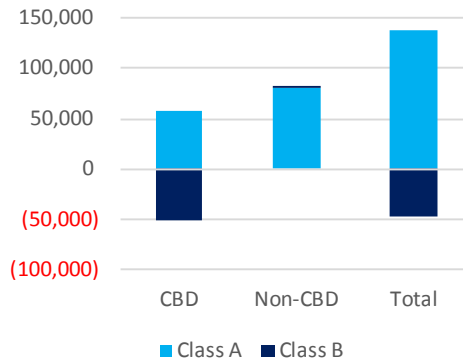
\$33.33/SF/FS

Average rental rate for class A space

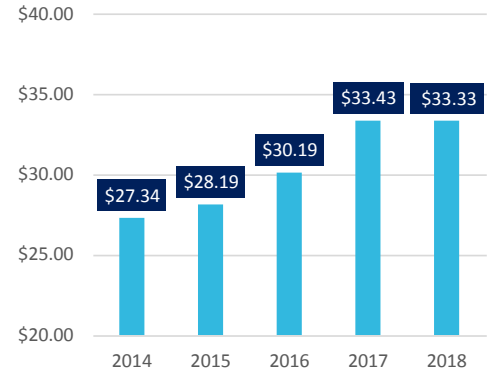
Vacancy Rate



YTD Net Absorption (SF)



Average Asking Rent Rate (\$/SF/FS)



PALM BEACH COUNTY OFFICE MARKET AT A GLANCE

4.7%
FEB-2017

↓

3.7%
FEB-2018

CHANGE IN PALM BEACH COUNTY
UNEMPLOYMENT RATE

1,200

DECREASE IN TOTAL NON-FARM EMPLOYMENT
SINCE YEAR-END 2017

111,000
SF

1Q-2018 TOTAL OFFICE UNDER CONSTRUCTION

\$255.7
MILLION

1Q-2018 TOTAL OFFICE INVESTMENT SALES
VOLUME

VALUE-ADD RENOVATIONS ARE ON THE RISE AS
TENANTS SEEK GREATER AMENITIES



MEDICAL OFFICE DEMAND IS INCREASING
ACROSS THE COUNTY

TENANTS ARE MOVING TO SUBURBAN AREAS OF
THE MARKET IN SEARCH OF MORE AFFORDABLE
RENTAL RATES

8.25%

YEAR-OVER-YEAR INCREASE IN FULL-SERVICE
RENTAL RATES

\$250
MILLION

TOTAL MIXED-USE DEVELOPMENT ACTIVITY IN
PALM BEACH COUNTY

Palm Beach County

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	7,578,371	641,875	57,905	\$44.45	91.53%	8.47%	0.76%	9.23%	111,000	137,894
Class B	20,010,239	2,343,075	67,926	\$30.29	88.29%	11.71%	0.34%	12.05%	0	(47,328)
Total	27,588,610	2,984,950	125,831	\$33.33	89.18%	10.82%	0.46%	11.28%	111,000	90,566

CBD

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	1,640,967	97,736	10,001	\$60.61	94.04%	5.96%	0.61%	6.57%	0	58,038
Class B	1,746,912	262,502	0	\$38.95	84.97%	15.03%	0.00%	15.03%	0	(50,941)
Total	3,387,879	360,238	10,001	\$44.83	89.37%	10.63%	0.30%	10.93%	0	7,097

Non-CBD

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	5,937,404	544,139	47,904	\$41.54	90.84%	9.16%	0.81%	9.97%	111,000	79,856
Class B	18,263,327	2,080,573	67,926	\$29.20	88.61%	11.39%	0.37%	11.76%	0	3,613
Total	24,200,731	2,624,712	115,830	\$31.76	89.15%	10.85%	0.48%	11.32%	111,000	83,469

Boca Raton

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	5,050,636	501,787	29,174	\$41.76	90.06%	9.94%	0.58%	10.51%	0	37,070
Class B	7,433,326	964,048	28,363	\$28.34	87.03%	12.97%	0.38%	13.35%	0	18,193
Total	12,483,962	1,465,835	57,537	\$32.93	88.26%	11.74%	0.46%	12.20%	0	55,263

Boynton / Lantana

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	250,490	0	0	\$0.00	100.00%	0.00%	0.00%	0.00%	0	0
Class B	599,355	115,106	0	\$21.66	80.80%	19.20%	0.00%	19.20%	0	41,331
Total	849,845	115,106	0	\$21.66	86.46%	13.54%	0.00%	13.54%	0	41,331

Delray Beach

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	1,014,847	175,322	1,100	\$26.81	82.72%	17.28%	0.11%	17.38%	0	(50,358)
Total	1,014,847	175,322	1,100	\$26.81	82.72%	17.28%	0.11%	17.38%	0	(50,358)

Downtown West Palm Beach

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	1,640,967	97,736	10,001	\$60.61	94.04%	5.96%	0.61%	6.57%	0	58,038
Class B	1,746,912	262,502	0	\$38.95	84.97%	15.03%	0.00%	15.03%	0	(50,941)
Total	3,387,879	360,238	10,001	\$44.83	89.37%	10.63%	0.30%	10.93%	0	7,097

Jupiter

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	111,000	0
Class B	1,393,001	78,112	4,114	\$29.44	94.39%	5.61%	0.30%	5.90%	0	(15,401)
Total	1,393,001	78,112	4,114	\$29.44	94.39%	5.61%	0.30%	5.90%	111,000	(15,401)

North Palm Beach / Palm Beach Gardens

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	636,278	42,352	18,730	\$38.99	93.34%	6.66%	2.94%	9.60%	0	42,786
Class B	3,185,140	237,528	26,614	\$29.96	92.54%	7.46%	0.84%	8.29%	0	(17,637)
Total	3,821,418	279,880	45,344	\$31.33	92.68%	7.32%	1.19%	8.51%	0	25,149

Palm Beach

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	586,568	92,573	1,113	\$65.27	84.22%	15.78%	0.19%	15.97%	0	23,066
Total	586,568	92,573	1,113	\$65.27	84.22%	15.78%	0.19%	15.97%	0	23,066

Palm Springs / Lake Worth

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	425,220	37,998	5,100	\$23.06	91.06%	8.94%	1.20%	10.14%	0	8,788
Total	425,220	37,998	5,100	\$23.06	91.06%	8.94%	1.20%	10.14%	0	8,788

Royal Palm Beach / Wellington

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	722,975	35,612	0	\$25.61	94.75%	5.25%	0.00%	5.25%	0	(22,738)
Total	722,975	35,612	0	\$25.61	94.75%	5.25%	0.00%	5.25%	0	(22,738)


West Palm Beach

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	2,902,895	344,274	1,522	\$26.11	88.14%	11.86%	0.05%	11.91%	0	18,369
Total	2,902,895	344,274	1,522	\$26.11	88.14%	11.86%	0.05%	11.91%	0	18,369

Reporting Methodology: This report includes all class 'A' and 'B' office buildings and parks 20,000 SF and greater in Palm Beach County that are not owner occupied, office medical, or government owned. All rents are reported on a full-service gross basis and are direct weighted averages calculated on total available space. The information in this report has been collected by the Avison Young research team via sources that are deemed reliable but is not guaranteed.

Class A office space in Boca Raton remains in high demand for tenants seeking a mixed-use environment.

Leading Indicators (Y-O-Y 1Q-2017 to 1Q-2018)

Vacancy Rate	Net Absorption	Average Asking Rate (FS)	New Construction	Total Employment
 11.28%	 90,566 SF	 \$33.33	 111,000 SF	 704,189

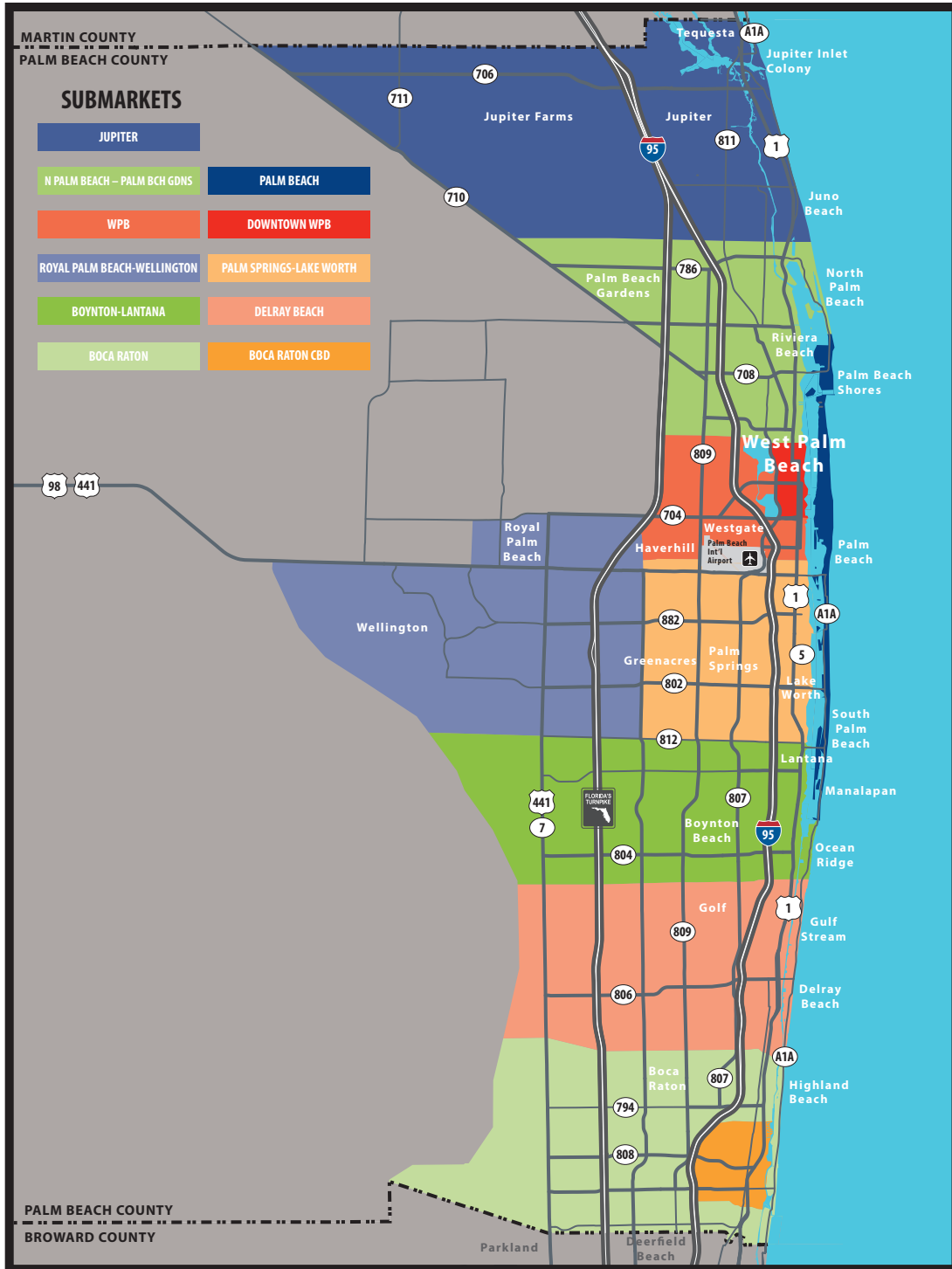
Significant First Quarter 2018 Lease Transactions - Sorted by SF

Tenant	Property	Type	SF	Submarket
Johnson Controls	BRIC	Sublease	72,047	Boca Raton
BB&T	Palmetto Park City Center	New	14,196	Boca Raton
Nicklaus Companies	Financial Center at the Gardens	Sublease	13,000	West Palm Beach / Palm Beach Gardens
Fusion Learning	BRIC	New	12,281	Boca Raton
Duane Morris *	Lynn Financial Center	New	11,730	Boca Raton
Cendyne Spaces	980 N Federal Hwy	New	9,000	Boca Raton
Crown Castle	Emerald View	New	8,494	West Palm Beach
APT	430 South Congress Avenue	New	6,041	Delray Beach

* Avison Young handled this transaction

Significant First Quarter 2018 Sales Transactions - Sorted by Sale Price

Property	SF	Sale Price	Price/SF	Buyer	Submarket
Boca Raton Innovation Campus	1,686,790	\$179,346,744	\$106	Crocker Partners	Boca Raton
The Forum	184,220	\$22,500,000	\$122	Triarch Capital Group	West Palm Beach
400 Royal Palm Way	28,629	\$14,750,000	\$515	Thomas Quick	Palm Beach



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