Palm Beach County Office Market Report

First Quarter 2019

Palm Beach County's Office Market Surges with New Development to Meet Tenant Demand for High-Quality Class A Space

Palm Beach County's office market maintained healthy growth during the first quarter of 2019 as population growth and the county's dedication to attracting new businesses continue to drive the market. Leasing activity remained brisk during the first quarter despite overall net absorption dipping into negative territory at -28,468 sf. This drop in net absorption is due to The Geo Group vacating 107,004 sf in One Park Place in Boca Raton and relocating into its newly constructed global headquarters building at 4955 Technology Way in Boca Raton.

Limited supply of class A office space has sparked a wave of development in Downtown West Palm Beach as well as in Palm Beach Gardens and Delray Beach. During the first quarter, the highly anticipated 30-story office tower, One West Palm broke ground in Downtown West Palm Beach. The development will feature 200,000 sf of class A office space in the top 15 stories and 201 hotel rooms in the bottom 15 stories of the tower. Upon completion, One West Palm will be the first class A office building to deliver in downtown since the CityPlace South Tower in 2008. Major mixed-use projects are also underway in Delray Beach and Boynton Beach as both cities are undergoing a period of revitalization. The overall average asking rate inched upward over the quarter to $35.13 per sf (+$0.70) as tight office supply remains favorable for landlords. New development deliveries on the horizon in 2019 may cause upward pressure on vacancy rates, but space is likely to be leased quickly due to demand for larger blocks of space.

524,251 SF

of new office development is currently under construction in Palm Beach County

Office Market Snapshot

- The largest lease of the first quarter was FlexShopper's 21,622-sf lease for its new space at The Park at Broken Sound in Boca Raton. The financial technology firm will be consolidating its operations from its three offices located in Boca Raton and Oakland Park. This transaction adds to the list of technology and healthcare companies flocking to the North Boca Raton submarket.
- Office investment sales activity cooled in Palm Beach County with sales volume totaling $373 million over the trailing 12 months ending March 2019, shrinking by 53% from the same period last year. This decline in sales volume is inflated, however, due to the massive sale of the Boca Raton Innovation Campus and the Office Depot Headquarters, which both traded for a combined $311.4 million one year prior. Investment interest remains strong in Palm Beach County as key trophy assets such as North 40 and the Wells Fargo Plaza traded hands this quarter.
- The four-story mixed-use development 4th & 5th Delray, delivered during the first quarter of 2019 in Delray Beach. The project, which houses an iPic movie theatre on the ground floor, also comprises 42,633 sf of class A office space. iPic's new global headquarters will occupy the entire top floor of the development.
- The Divosta Towers, a 223,943-sf class A office development in Palm Beach Gardens, is nearing delivery. The first tower totaling 111,972 sf will deliver in June of this year and will be the first office building delivered in Palm Beach Gardens in over a decade. The availability of 10,000-sf floor plates is satisfying pent up demand and has attracted firms such as Comiter, Singer, Baseman & Braun. The south tower is already 75% pre-leased and the north tower will begin leasing after the south tower's grand opening.
- The Federal Reserve announced in late March that it would not continue to raise interest rates during 2019, and that it would instead hold interest rates steady at the target range between 2.25 and 2.5 percent, which was set in December. The decision was made on the basis that the economy's growth is slowing somewhat more than previously expected.

26.8 MSF	(28,468) SF	12.01%	$44.93/SF/FS
Total office inventory in the Palm Beach County market	Direct Y-T-D net absorption as of 1Q-2019	Overall Vacancy	Average rental rate for class A space

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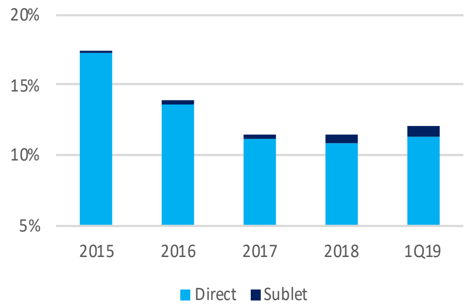
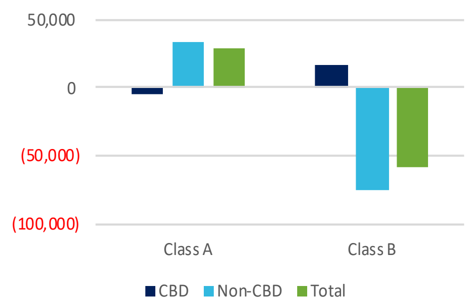
Statistical Snapshot

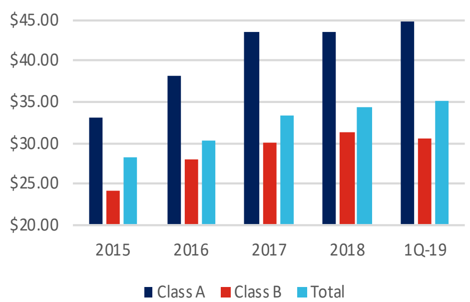
Vacancy Rate



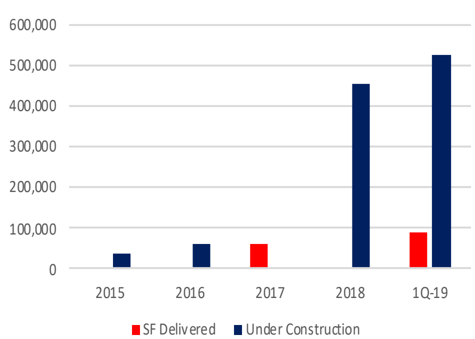
YTD Net Absorption (SF)



Average Asking Rent Rate ($/SF/FS)



Construction Pipeline



Palm Beach County Office Market At A Glance

Demographics & Economy

126.1 million visitors to Florida during 2018, up 6% from the record set in 2017

High net worth individuals are relocating to South Florida from high-tax states like New York

3.7% FEB-2018 → **3.4%** FEB-2019

change in the Palm Beach County unemployment rate

11,300 increase in total non-farm employment since 1Q-2018

Development

30-Story Class A Tower

One West Palm broke ground during 1Q-19. The development will add 200,000 sf of class A space and will deliver in 2021

AltaWest Project
$100 Million Mixed-Use
development planned in Delray Beach

$250 Million

mixed-use redevelopment project named Town Square underway in Boynton Beach through a public private partnership (P3).

Market Influencers

$373 MILLION

in total office sales volume during the T-12 months ending 1Q-19

Rising construction costs and shortage of skilled labor is increasing the cost of office build-outs and tenant improvements

Tri-Rail Downtown Link

The Tri-Rail connection to the MiamiCentral station in downtown is scheduled to be completed by the end of 2019

Palm Beach County's professional and business services sector has grown by 3.9% since 1Q-18

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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	8,321,670	969,087	103,827	$44.93	88.35%	11.65%	1.25%	12.89%	524,251	29,582
Class B	18,513,200	2,069,724	81,197	$30.54	88.82%	11.18%	0.44%	11.62%	0	(58,050)
Total	26,834,870	3,038,811	185,024	$35.13	88.68%	11.32%	0.69%	12.01%	524,251	(28,468)

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	1,698,934	142,321	0	$62.68	91.62%	8.38%	0.00%	8.38%	200,000	(4,765)
Class B	1,633,948	223,011	29,069	$37.03	86.35%	13.65%	1.78%	15.43%	0	16,862
Total	3,332,882	365,332	29,069	$47.02	89.04%	10.96%	0.87%	11.83%	200,000	12,097

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	6,622,736	826,766	103,827	$41.87	87.52%	12.48%	1.57%	14.05%	324,251	34,347
Class B	16,879,252	1,846,713	52,128	$29.76	89.06%	10.94%	0.31%	11.25%	0	(74,912)
Total	23,501,988	2,673,479	155,955	$33.50	88.62%	11.38%	0.66%	12.04%	324,251	(40,565)

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	4,450,714	575,819	75,155	$42.17	87.06%	12.94%	1.69%	14.63%	0	9,089
Class B	7,309,020	882,515	6,773	$29.89	87.93%	12.07%	0.09%	12.17%	0	(74,384)
Total	11,759,734	1,458,334	81,928	$34.74	87.60%	12.40%	0.70%	13.10%	0	(65,295)

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	280,593	6,395	1,148	$29.98	97.72%	2.28%	0.41%	2.69%	0	0
Class B	604,841	85,012	7,969	$23.20	85.94%	14.06%	1.32%	15.37%	0	12,630
Total	885,434	91,407	9,117	$23.67	89.68%	10.32%	1.03%	11.35%	0	12,630

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	88,280	32,926	0	$54.95	92.42%	7.58%	0.00%	7.58%	65,308	20,537
Class B	941,093	128,673	14,438	$28.05	86.33%	13.67%	1.53%	15.21%	0	(440)
Total	1,029,373	161,599	14,438	$33.53	86.85%	13.15%	1.40%	14.55%	65,308	20,097

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	1,698,934	142,321	0	$62.68	91.62%	8.38%	0.00%	8.38%	200,000	(4,765)
Class B	1,633,948	223,011	29,069	$37.03	86.35%	13.65%	1.78%	15.43%	0	16,862
Total	3,332,882	365,332	29,069	$47.02	89.04%	10.96%	0.87%	11.83%	200,000	12,097

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	135,033	4,624	0	$38.56	96.58%	3.42%	0.00%	3.42%	0	7,638
Class B	1,282,316	67,179	876	$29.39	94.76%	5.24%	0.07%	5.31%	0	(19,284)
Total	1,417,349	71,803	876	$29.98	94.93%	5.07%	0.06%	5.13%	0	(11,646)

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	634,263	43,361	16,231	$37.69	93.16%	6.84%	2.56%	9.40%	223,943	(6,302)
Class B	3,276,822	298,242	4,497	$30.71	90.90%	9.10%	0.14%	9.24%	0	8,362
Total	3,911,085	341,603	20,728	$31.59	91.27%	8.73%	0.53%	9.26%	223,943	2,060

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	146,133	50,391	9,293	$59.91	65.52%	34.48%	6.36%	40.84%	0	(6,099)
Class B	411,182	53,367	0	$60.99	87.02%	12.98%	0.00%	12.98%	0	3,726
Total	557,315	103,758	9,293	$60.47	81.38%	18.62%	1.67%	20.28%	0	(2,373)

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	414,045	66,514	1,500	$23.42	83.94%	16.06%	0.36%	16.43%	0	(7,279)
Total	414,045	66,514	1,500	$23.42	83.94%	16.06%	0.36%	16.43%	0	(7,279)

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%	35,000	0
Class B	726,337	11,951	168	$30.68	98.35%	1.65%	0.02%	1.67%	0	8,729
Total	726,337	11,951	168	$30.68	98.35%	1.65%	0.02%	1.67%	35,000	8,729

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	887,720	113,250	2,000	$30.94	87.24%	12.76%	0.23%	12.98%	0	9,484
Class B	1,913,596	253,260	15,907	$26.37	86.77%	13.23%	0.83%	14.07%	0	(6,972)
Total	2,801,316	366,510	17,907	$27.78	86.92%	13.08%	0.64%	13.72%	0	2,512

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.

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The overall average asking rate in Palm Beach County rose by 5.4% over the trailing 12-month period ending March 2019.

Leading Indicators (Y-O-Y 1Q-2018 to 1Q-2019)

Vacancy Rate	Net Absorption	Average Asking Rate (FS)	New Construction	Total Employment
↗	↘	↗	↗	↗
12.01%	(28,468) SF	$35.13	524,251 SF	713 K

Significant First Quarter 2019 Lease Transactions - Sorted by SF

Tenant	Property	Type	SF	Submarket
FlexShopper*	901 Yamato Road	New	21,622	Boca Raton
Confidential Tenant	Gardens Innovation Center	New	17,181	North Palm Beach / Palm Beach Gardens
Confidential Tenant	625 N Flagler Drive	New	16,313	Downtown West Palm Beach
Grander Distribution	Boca Village Corporate Center	Sublease	15,716	Boca Raton
Saxena White PA	Boca Corporate Center	New	12,798	Boca Raton
Sutton Park Capital	One Boca Place	Expansion	10,577	Boca Raton
Anchor Commercial Bank	4500 PGA Blvd	New	8,383	North Palm Beach / Palm Beach Gardens
SpringBig	One Park Place	Renewal / Expansion	7,837	Boca Raton

** Avison Young handled this transaction*

Significant First Quarter 2019 Sales Transactions - Sorted by Sale Price

Property	SF	Sale Price	Price/SF	Buyer	Submarket
North 40	382,595	$68,350,000	$194	Mainstreet Capital Partners	Boca Raton
Wells Fargo Plaza	102,309	$34,600,000	$338	GEM Realty	Boca Raton
205 Datura Street	71,285	$14,215,000	$199	Morning Calm Management	Downtown West Palm Beach
1005 Lake Avenue	27,989	$5,350,000	$191	Yasmin Real Estate	Palm Springs / Lake Worth

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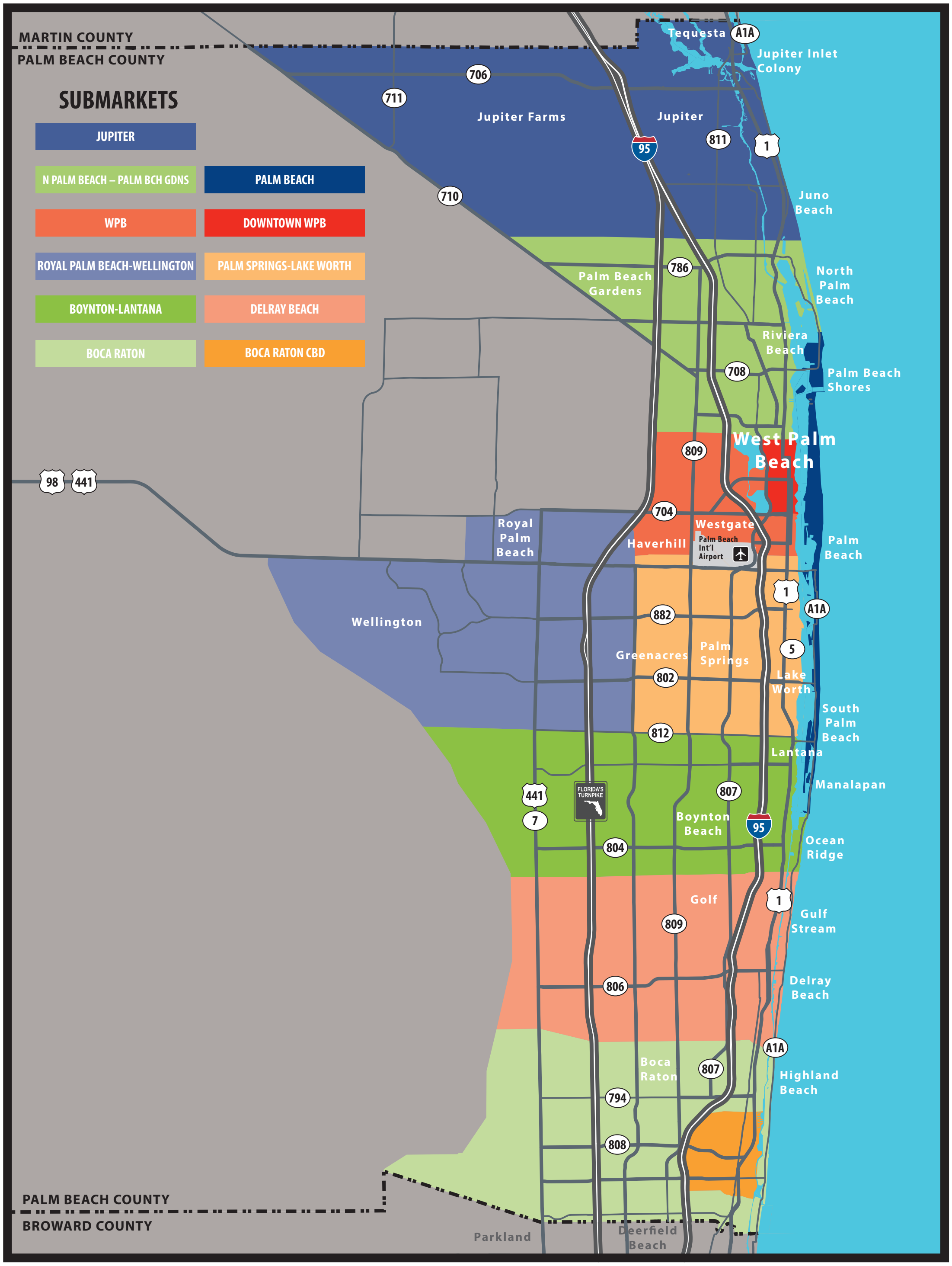

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