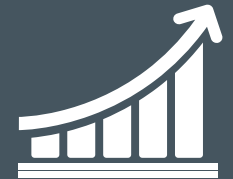


Palm Beach County Breaks Development Hiatus With Several New Office Projects Now Underway

The Palm Beach County economy continues to grow amid steady employment gains and rising office demand. As of May 2018, the overall unemployment rate had dropped 20 bps to 3.3% over year-end 2017, outperforming both the state and the national average of 3.8%. This economic stability has translated into sustained leasing activity throughout the market. During the same time period, countywide net absorption reached 111,060 sf with a majority of the activity concentrated in key suburban areas such as Boca Raton. Recent lease executions such as Mobile Health's 54,000 sf at the Boca Raton Innovation Center and Hair Club's 23,000 sf at Palmetto Place at Boca Raton highlight continued growth.

Developers have responded to tenant demand and healthy office market fundamentals by breaking ground on 352,500 sf of new office product which is scheduled for delivery over the next three years. Key projects include Atlantic Crossing, a two-phase mixed-use project underway in Delray Beach, comprised of 65,308 sf of office space (phase I) and 343 multifamily units (phase II), and 4th & 5th Delray, a mixed-use project with office space situated above ground-floor retail. Additionally, there were a number of large corporate headquarters acquisitions that further substantiated tenants' continued interest in the area. Looking forward, Avison Young anticipates the Palm Beach County office market will remain strong as a result of the area's strong economic foundation and friendly business environment.



Y-O-Y office development volume grew by **352,500 sf** as of 2Q-2018

Office Market Snapshot

- Countywide full-service lease rates grew an average of 1.3% since year-end 2017, and the negative net absorption recorded within class B office space was largely attributable to a large block of space coming available in a single building in Downtown West Palm Beach.
- The largest lease transaction of the second quarter was Mobile Health's 54,000-sf commitment at the Boca Raton Innovation Campus in Palm Beach County's Boca Raton submarket.
- Palm Beach County's prominent financial services sector has grown 3.2% since year-end 2017 and has contributed 3,100 jobs to the economy so far during 2018.
- Office development is beginning to pick up as DiVosta Investments has broken ground on Gardens Corporate Center. The 222,000-sf project is located in the North Palm Beach/Palm Beach Gardens submarket and will be the first new class A product since 2014. Additionally, Edwards Companies has broken ground on the much anticipated Atlantic Crossing mixed-use project in Delray Beach (as covered above).
- One of the primary factors influencing new class A development is the relative lack of quality office space throughout the market. Many areas including the Downtown West Palm Beach and Delray Beach submarkets have little to no availability.
- The largest office sale of the second quarter was PEBB Enterprises and Tortoise Properties' acquisition of ADT's new corporate headquarters in Boca Raton. The 171,314-sf class A property was purchased for \$42.1 million, or \$245 per sf.

27.6 MSF

Total office inventory in the Palm Beach County market

111,060 SF

Direct Y-T-D net absorption as of 2Q-2018

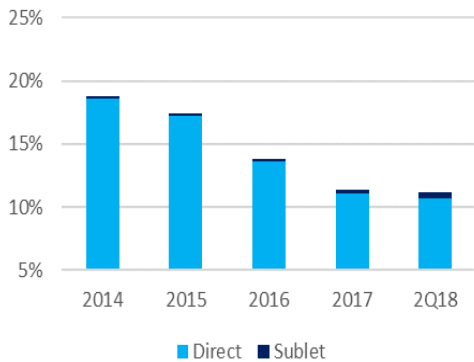
11.17%

Overall Vacancy

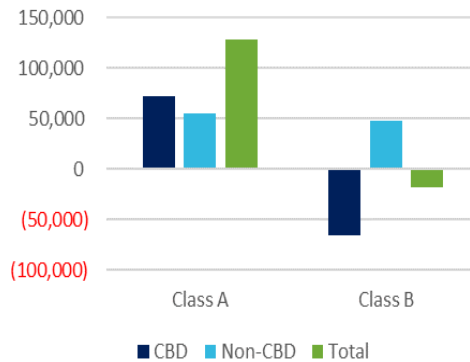
\$43.29/SF/FS

Average rental rate for class A space

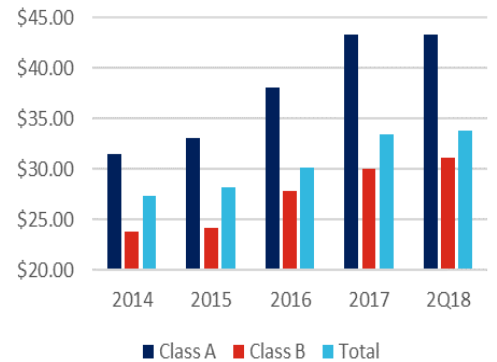
Vacancy Rate



YTD Net Absorption (SF)



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



PALM BEACH COUNTY OFFICE MARKET AT A GLANCE

3.9%
MAY-2017

↓

3.3%
MAY-2018

CHANGE IN PALM BEACH COUNTY
UNEMPLOYMENT RATE

9,916

INCREASE IN TOTAL EMPLOYMENT SINCE
YEAR-END 2017

352,500

SQUARE FEET CURRENTLY UNDER
CONSTRUCTION

\$126.3
million

2Q-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 DUE TO MORE
AFFORDABLE RENTAL RATES AND THE
SCARCITY OF PARKING DOWNTOWN

7.5%

YEAR-OVER-YEAR INCREASE IN FULL-SERVICE
RENTAL RATES AS OF 2Q-2018

\$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	650,937	27,798	\$43.29	91.41%	8.59%	0.37%	8.96%	263,500	128,832
Class B	20,010,239	2,313,519	89,398	\$31.20	88.44%	11.56%	0.45%	12.01%	89,000	(17,772)
Total	27,588,610	2,964,456	117,196	\$33.85	89.25%	10.75%	0.42%	11.17%	352,500	111,060

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	82,750	0	\$54.66	94.96%	5.04%	0.00%	5.04%	0	73,024
Class B	1,746,912	277,213	812	\$39.59	84.13%	15.87%	0.05%	15.92%	0	(65,652)
Total	3,387,879	359,963	812	\$43.05	89.37%	10.63%	0.02%	10.65%	0	7,372

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	568,187	27,798	\$41.63	90.43%	9.57%	0.47%	10.04%	263,500	55,808
Class B	18,263,327	2,036,306	88,586	\$30.05	88.85%	11.15%	0.49%	11.63%	89,000	47,880
Total	24,200,731	2,604,493	116,384	\$32.58	89.24%	10.76%	0.48%	11.24%	352,500	103,688

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	517,189	8,588	\$41.84	89.76%	10.24%	0.17%	10.41%	0	21,668
Class B	7,433,326	935,525	33,647	\$28.79	87.41%	12.59%	0.45%	13.04%	0	46,716
Total	12,483,962	1,452,714	42,235	\$33.44	88.36%	11.64%	0.34%	11.97%	0	68,384

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	480	\$0.00	100.00%	0.00%	0.19%	0.19%	0	0
Class B	599,355	133,709	7,969	\$22.31	77.69%	22.31%	1.33%	23.64%	0	22,728
Total	849,845	133,709	8,449	\$22.31	84.27%	15.73%	0.99%	16.73%	0	22,728

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%	41,500	0
Class B	1,014,847	167,460	0	\$26.84	83.50%	16.50%	0.00%	16.50%	43,000	(42,496)
Total	1,014,847	167,460	0	\$26.84	83.50%	16.50%	0.00%	16.50%	84,500	(42,496)

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	82,750	0	\$54.66	94.96%	5.04%	0.00%	5.04%	0	73,024
Class B	1,746,912	277,213	812	\$39.59	84.13%	15.87%	0.05%	15.92%	0	(65,652)
Total	3,387,879	359,963	812	\$43.05	89.37%	10.63%	0.02%	10.65%	0	7,372

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%	0	0
Class B	1,393,001	68,054	2,960	\$30.02	95.11%	4.89%	0.21%	5.10%	0	(5,343)
Total	1,393,001	68,054	2,960	\$30.02	95.11%	4.89%	0.21%	5.10%	0	(5,343)

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	50,998	18,730	\$39.52	91.98%	8.02%	2.94%	10.96%	222,000	34,140
Class B	3,185,140	226,935	24,205	\$31.07	92.88%	7.12%	0.76%	7.88%	46,000	(7,044)
Total	3,821,418	277,933	42,935	\$32.62	92.73%	7.27%	1.12%	8.40%	268,000	27,096

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	110,867	9,293	\$64.54	81.10%	18.90%	1.58%	20.49%	0	4,772
Total	586,568	110,867	9,293	\$64.54	81.10%	18.90%	1.58%	20.49%	0	4,772

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	32,616	7,550	\$23.28	92.33%	7.67%	1.78%	9.45%	0	14,170
Total	425,220	32,616	7,550	\$23.28	92.33%	7.67%	1.78%	9.45%	0	14,170

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	23,247	0	\$29.65	96.44%	3.56%	0.00%	3.56%	0	(10,373)
Total	722,975	23,247	0	\$29.65	96.44%	3.56%	0.00%	3.56%	0	(10,373)






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	337,893	2,962	\$26.90	88.36%	11.64%	0.10%	11.74%	0	24,750
Total	2,902,895	337,893	2,962	\$26.90	88.36%	11.64%	0.10%	11.74%	0	24,750

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.

Sustained job growth represents economic stability in the local office market which will support continued leasing activity.

Leading Indicators (Y-O-Y 2Q-2017 to 2Q-2018)

Vacancy Rate	Net Absorption	Average Asking Rate (FS)	New Construction	Total Employment
 11.17%	 111,060 SF	 \$33.85	 352,500 SF	 703 K

Significant Second Quarter 2018 Lease Transactions - Sorted by SF

Tenant	Property	Type	SF	Submarket
Mobile Health	Boca Raton Innovation Campus	New	54,000	Boca Raton
City of Boynton Beach*	3301 Quantum Blvd	New	25,000	Boynton / Lantana
Hair Club for Men	Palmetto Place at Boca Raton	New	23,130	Boca Raton
Merchant Lynx	Gardens Innovation Center	New	18,287	North Palm Beach / Palm Beach Gardens
Cogent Communications	Boca Raton Innovation Campus	New	14,750	Boca Raton
Hair Club	Delray Central	New	5,372	Delray Beach

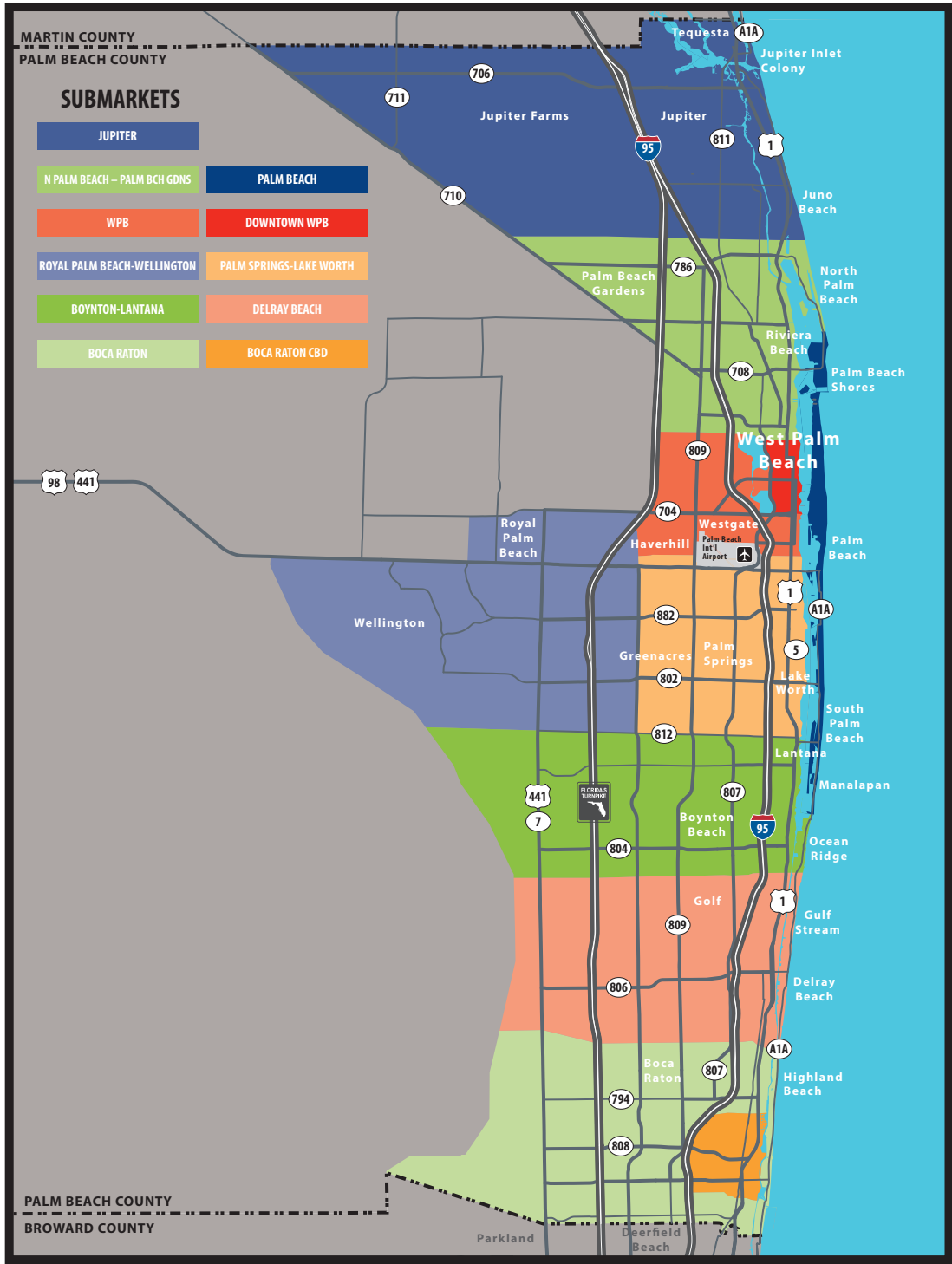
*Avison Young handled this transaction

Significant Second Quarter 2018 Sales Transactions - Sorted by Sale Price

Property	SF	Sale Price	Price/SF	Buyer	Submarket
ADT Headquarters	171,314	\$42,050,000	\$245	Pebb Enterprise / Tortoise Properties	Boca Raton
900 Broken Sound	117,397	\$23,675,000	\$202	C-III Investment Management	Boca Raton
Courthouse Commons	85,668	\$22,750,000	\$266	Foxrock Properties	Downtown West Palm Beach
StateTrust Group	49,000	\$13,000,000	\$265	StateTrust Wealth Management	Boca Raton
The Atrium*	37,392	\$7,500,000	\$201	Fla. Zaragon Inc.	North Palm Beach / Palm Beach Gardens

*Avison Young handled this transaction





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