



Strong Fundamentals Fuel Leasing Activity While Several Office Projects Take Shape

A positive employment outlook, friendly business environment, and steady population growth continue to drive Palm Beach County's office market forward. While net absorption ended the first quarter in negative territory, strong leasing activity and robust tenant demand translated into steady gains in net absorption during the second quarter of 2019. The overall vacancy rate experienced a 50-basis point (bps) increase over the trailing 12-month period ending June 2019, however, the vacancy rate is down 34 bps over the first quarter as tenants took advantage of the limited large blocks of space available in the market. The largest lease of the quarter, and the second largest non-renewal deal in South Florida this year, was a 127,000-sf deal that was signed by a New York-based enterprise solutions company at the Boca Raton Innovation Campus. The deal now puts the 1.68-million-sf office park at 85% leased.

Pent-up demand for large blocks of class A office space within the urban core has sparked an influx of new office development projects in Downtown West Palm Beach. While the highly anticipated 200,000-sf One West Palm and 297,000-sf 360 Rosemary office tower projects are currently underway, both with estimated 2021 completions, other major office developments are in the planning stages including The Related Companies' revived 25-story One Flagler office tower and Cohen Brothers Realty's 490,000-sf class A office tower. Encouraged by tightening vacancy rates, the overall average asking rental rate grew at a brisk pace of 5.5% year-over-year, with the class A rate growing at a slightly faster pace of 5.8%. As new speculative construction delivers in the second half of 2019 with the completion of the Divosta Towers in Palm Beach Gardens, vacancy rates should see a slight increase.



1.3 Million SF
of total class
A office space
planned or under
development in
Downtown West
Palm Beach

Office Market Snapshot

- The Related Companies' highly anticipated 360 Rosemary office project broke ground during the second quarter of 2019. The 297,000-sf development marks the second major class A office project in the pipeline for West Palm Beach's urban core, joining Jeff Greene's 200,000-sf One West Palm office tower, which began construction earlier this year. Both deliveries will help satisfy intense demand for large-block class A office space in the urban core, evidenced by 360 Rosemary's pre-leasing of 25,799 sf to Comvest Partners, an investment firm with \$3.2 billion of assets under management.
- Investment activity cooled during the second quarter, with office investment sales totaling \$425.1 million for the trailing 12-month period ending June 2019, a 44% decrease from the year prior. As investors are increasingly more wary of an eventual economic slowdown, buyers have been more cautious and selective during the sales process, sometimes opting out of a deal if any issue arises during the underwriting process. Nevertheless, major trades continue to occur including Northbridge Center's \$98 million sale to a partnership between C-III Capital Partners and Vanderbilt Office Properties, and Emerald View's \$40 million sale to Vanderbilt Office Properties and Barron Collier Cos.
- Since the city's planned mobility zoning change at the Park at Broken Sound in Boca Raton almost ten years ago, nearly 2,500 multifamily units have been developed or are planned, as well as new retail options, at the prominent business park. The Park at Broken Sound continues to be transformed into a vibrant "live, work, play" community as an increasing amount of people seek to avoid traffic congestion and live closer to the workplace. The most recent proposed multifamily projects at the park include Mainstreet Capital Partner's 284-unit apartment project, which will be added to its North 40 office complex, and The Related Group's 297-unit apartment project, The Manor, which would replace the 99,219-sf existing office building at 5400 Broken Sound Blvd.
- In June, the Federal Reserve announced that interest rates remain unchanged at the benchmark target range of 2.25% and 2.5%, but at the same time expressed concerns over economic uncertainty and slowing global growth, suggesting that an interest rate cut may be in the works by the end of the summer. It would be the first time the Federal Reserve cut the benchmark short-term rate since 2008.

26.8 MSF

Total office inventory in the Palm Beach County market

142,883 SF

Direct Y-T-D net absorption as of 2Q-2019

11.67%

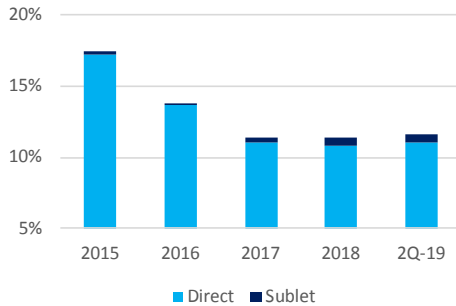
Overall Vacancy

\$45.81/SF/FS

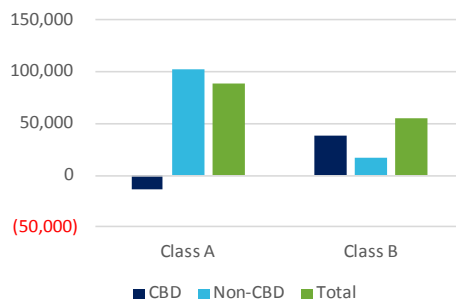
Average rental rate for class A space

Statistical Snapshot

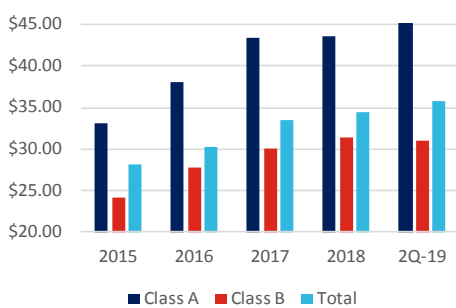
Vacancy Rate



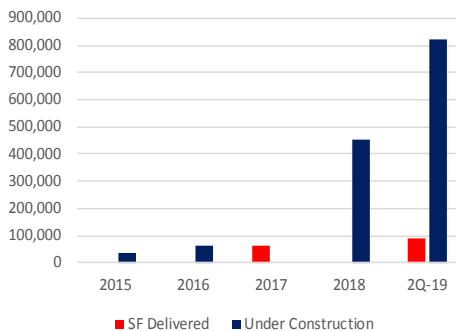
YTD Net Absorption (SF)



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



Construction Pipeline



Palm Beach County Office Market At A Glance

Demographics & Economy

35 million people visited Florida during the first quarter of 2019, a 5.8% increase from 2018

3.3% year-over-year increase in employment in the professional and business services sector

3.3% MAY-2018 **3.1%** MAY-2019
change in the Palm Beach County unemployment rate

14,800 increase in total non-farm employment since 2Q-2018

Development



The Divosta Towers

a 223,943-sf twin tower class A office project will be delivering during the second half of 2019. The first tower is currently 75% pre-leased.



AltaWest Mixed-Use Project

was recently approved by the Delray Beach Community Redevelopment Agency. It will now go before the City Commission.

821 K total square feet of office space under construction in Palm Beach County



2,500 Apartments have been delivered or are planned at the Park of Broken Sound since rezoning

Market Influencers



\$425.1 MILLION

in total office sales volume during the T-12 months ending 2Q-19



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



Virgin Trains USA, formerly known as Brightline, broke ground on a route connecting Miami to Orlando. The project is expected to be complete by 2022.



5.8% increase in class A rents over the trailing 12-months ending 2Q-2019

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	949,607	106,519	\$45.81	88.59%	11.41%	1.28%	12.69%	821,251	88,165
Class B	18,513,200	2,010,196	64,661	\$30.95	89.14%	10.86%	0.35%	11.21%	0	54,718
Total	26,834,870	2,959,803	171,180	\$35.71	88.97%	11.03%	0.64%	11.67%	821,251	142,883

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	183,592	13,940	\$63.15	89.19%	10.81%	0.82%	11.63%	497,000	(14,120)
Class B	1,633,948	197,514	5,187	\$38.01	87.91%	12.09%	0.32%	12.41%	0	38,492
Total	3,332,882	381,106	19,127	\$50.12	88.57%	11.43%	0.57%	12.01%	497,000	24,372

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	6,622,736	766,015	92,579	\$41.65	88.43%	11.57%	1.40%	12.96%	324,251	102,285
Class B	16,879,252	1,812,682	59,474	\$30.18	89.26%	10.74%	0.35%	11.09%	0	16,226
Total	23,501,988	2,578,697	152,053	\$33.59	89.03%	10.97%	0.65%	11.62%	324,251	118,511

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	529,363	76,365	\$41.73	88.11%	11.89%	1.72%	13.61%	0	55,545
Class B	7,309,020	775,741	17,644	\$30.88	89.39%	10.61%	0.24%	10.85%	0	44,074
Total	11,759,734	1,305,104	94,009	\$35.28	88.90%	11.10%	0.80%	11.90%	0	99,619

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	2,616	\$29.98	97.72%	2.28%	0.93%	3.21%	0	0
Class B	604,841	113,539	0	\$23.90	81.23%	18.77%	0.00%	18.77%	0	4,442
Total	885,434	119,934	2,616	\$24.22	86.45%	13.55%	0.30%	13.84%	0	4,442

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	29,117	0	\$59.48	96.73%	3.27%	0.00%	3.27%	65,308	24,346
Class B	941,093	112,601	14,918	\$27.53	88.04%	11.96%	1.59%	13.55%	0	19,343
Total	1,029,373	141,718	14,918	\$34.09	88.78%	11.22%	1.45%	12.67%	65,308	43,689

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	183,592	13,940	\$63.15	89.19%	10.81%	0.82%	11.63%	497,000	(14,120)
Class B	1,633,948	197,514	5,187	\$38.01	87.91%	12.09%	0.32%	12.41%	0	38,492
Total	3,332,882	381,106	19,127	\$50.12	88.57%	11.43%	0.57%	12.01%	497,000	24,372

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	135,033	5,918	0	\$38.56	95.62%	4.38%	0.00%	4.38%	0	6,344
Class B	1,282,316	83,082	4,760	\$30.02	93.52%	6.48%	0.37%	6.85%	0	(35,187)
Total	1,417,349	89,000	4,760	\$30.59	93.72%	6.28%	0.34%	6.62%	0	(28,843)

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	43,439	12,836	\$37.83	93.15%	6.85%	2.02%	8.87%	223,943	1,320
Class B	3,276,822	323,500	4,497	\$29.57	90.13%	9.87%	0.14%	10.01%	0	(16,896)
Total	3,911,085	366,939	17,333	\$30.55	90.62%	9.38%	0.44%	9.83%	223,943	(15,576)

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	45,560	0	\$60.67	68.82%	31.18%	0.00%	31.18%	0	(1,268)
Class B	411,182	61,452	0	\$64.90	85.05%	14.95%	0.00%	14.95%	0	(4,359)
Total	557,315	107,012	0	\$63.10	80.80%	19.20%	0.00%	19.20%	0	(5,627)

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	59,878	4,235	\$23.26	85.54%	14.46%	1.02%	15.48%	0	(643)
Total	414,045	59,878	4,235	\$23.26	85.54%	14.46%	1.02%	15.48%	0	(643)

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	18,854	0	\$29.93	97.40%	2.60%	0.00%	2.60%	0	1,826
Total	726,337	18,854	0	\$29.93	97.40%	2.60%	0.00%	2.60%	35,000	1,826






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	106,223	762	\$30.62	88.03%	11.97%	0.09%	12.05%	0	15,998
Class B	1,913,596	264,035	13,420	\$26.24	86.20%	13.80%	0.70%	14.50%	0	3,626
Total	2,801,316	370,258	14,182	\$27.49	86.78%	13.22%	0.51%	13.72%	0	19,624

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.

Institutional investors accounted for 61.3% of the total office investment sales record for the year-to-date in Palm Beach County, demonstrating investor confidence in the office market.

Leading Indicators (Y-O-Y 2Q-2018 to 2Q-2019)

Vacancy Rate	Net Absorption	Average Asking Rate (FS)	New Construction	Total Employment
 11.67%	 142,883 SF	 \$35.71	 821,851 SF	 717 K

Significant Second Quarter 2019 Lease Transactions - Sorted by SF

Tenant	Property	Type	SF	Submarket
Confidential Enterprise Solutions Company	Boca Raton Innovation Campus	New	127,000	Boca Raton
Confidential Tenant	Marisol Town Center - Building D	New	29,334	North Palm Beach/ Palm Beach Gardens
Comvest Partners	360 Rosemary	New	25,799	Downtown West Palm Beach
Prestige Health Choice*	Professional Centre at the Gardens	Renewal	22,994	North Palm Beach/ Palm Beach Gardens
Gift of Life Marrow Registry	Sabre Centre I	Renewal/Expansion	21,807	Boca Raton
Polen Capital Management*	Lynn Financial Center	Renewal/Expansion	21,657	Boca Raton
Levatas	477 S Rosemary Ave	New	20,000	Downtown West Palm Beach
Raymond James & Associates	One Town Center	New	19,292	Boca Raton
Ameriprise Financial	Boca Center Tower I	New	16,899	Boca Raton

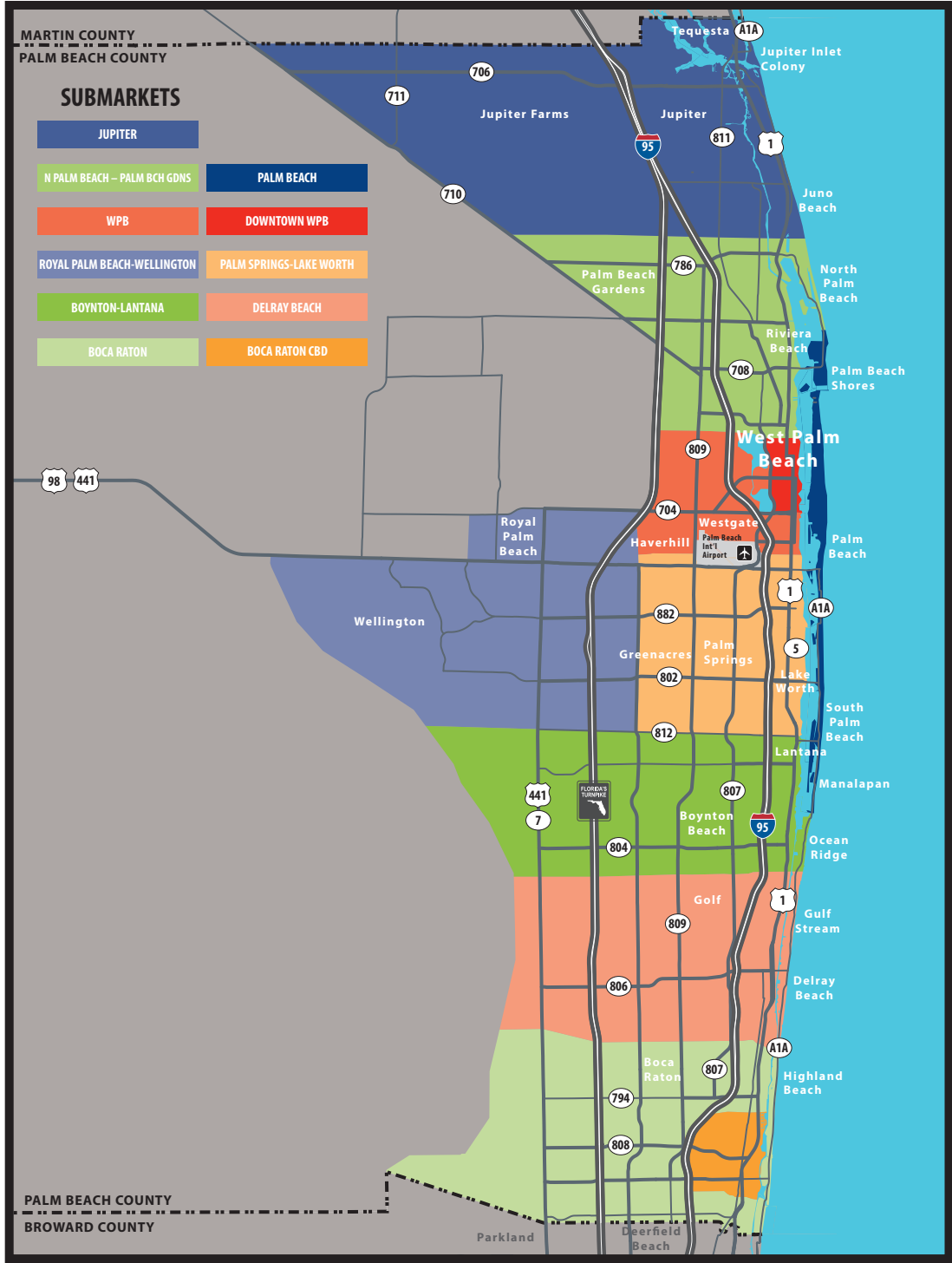
* Avison Young handled this transaction

Significant Second Quarter 2019 Sales Transactions - Sorted by Sale Price

Property	SF	Sale Price	Price/SF	Buyer	Submarket
Northbridge Centre	293,004	\$98,000,000	\$334	C-III Capital Partners / Vanderbilt Office Properties	Downtown West Palm Beach
Emerald View at Vista Center	139,471	\$40,000,000	\$287	Vanderbilt Officer Properties / Barron Collier Cos.	West Palm Beach
Commerce Pointe Gold	43,336	\$8,500,000	\$196	National Business Parks	West Palm Beach

Palm Beach County Office Market Report

Second Quarter 2019



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