

Strong Economic and Office Fundamentals Create the Impetus for New Speculative Office Development

Steady employment gains and population growth continue to bolster Palm Beach County's office market. As of August 2018, the overall unemployment rate decreased by 50 basis points bps to 3.9% year-over-year. Additionally, the county's nonfarm employment increased by 6,100 jobs over the trailing 12-month period, with the financial services sector displaying a gain of 5.7%. Population growth remains a steady driver behind Palm Beach County's economy as a younger demographic continues to migrate to the area in search of new job opportunities.

Palm Beach County's overall net absorption increased to 136,139 sf for the year-to-date. Leasing activity was strong during the third quarter with significant absorption gains occurring in the Boca Raton and North Palm Beach/Palm Beach Gardens submarkets. Within the CBD, net absorption dipped into negative territory due to downsizing and smaller tenant move-outs as companies continue to efficiently utilize their office space. Additionally, the overall asking rental rate increased to \$33.95 per sf on a full-service basis, a 3.3% increase year-over-year since the third quarter of 2017. The average rental rate for class A space within the CBD has reached as high as \$58.11 per sf, pushing some tenants to seek more affordable space in suburban submarkets. Demand for high quality class A space remains strong in Palm Beach County, as evidenced by the development of the Gardens Corporate Center office project currently under construction in the North Palm Beach/Palm Beach Gardens submarket. The first tower of the 223,943-sf office project is set for delivery in early 2019 and is expected to attract tenants searching for high-quality large blocks of office space.



10%
Y-O-Y increase in
class A average
asking rental rate
as of 3Q-2018

Office Market Snapshot

- The largest lease transaction of the third quarter was Intech's 25,678-sf lease to relocate its headquarters from CityPlace Tower to the top two floors at the One Clearlake Centre building in Downtown West Palm Beach. Intech will be consolidating its operations and freeing up 50,000 sf of class A space at CityPlace Tower.
- In August, the West Palm Beach City Commission approved the upzoning of the controversial Okeechobee Business District after its initial rejection in September of 2017. The new approval allows for the Related Group to build their 25-story class A office tower in Downtown West Palm Beach which is scheduled for completion by the end of 2020.
- Office investment activity remained solid during the third quarter of 2018 with \$676.4 million in transaction volume, accounting for 4.0 million sf. Although this sales volume was a 17% decrease from the same time period in 2017, economic factors including

the increase in cap rates due to rising interest rates and increased construction costs due to trade relations could be delaying investment decisions with some developers as they take a "wait and see" approach.

- Brightline, the passenger train service connecting Miami to West Palm Beach, recently expressed interest in building additional train stations within the Treasure Coast region. If the plans move forward, the new stations would not only bring a new source of workforce talent to the area, but also new development opportunity and investor interest in the Treasure Coast region.
- The 4th & 5th Delray mixed-use development currently underway in Delray Beach will be delivering the first new class A office building to the area in January of 2019. The 4-story project includes 46,233 sf of class A office space and is currently 50% preleased with iPic's new global headquarters taking a full floor.

27.6 MSF

Total office inventory in the Palm Beach County market

136,139 SF

Direct Y-T-D net absorption as of 3Q-2018

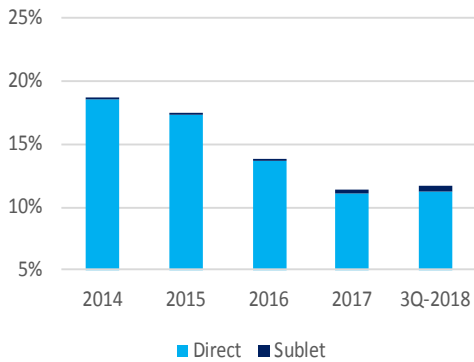
11.76%

Overall Vacancy

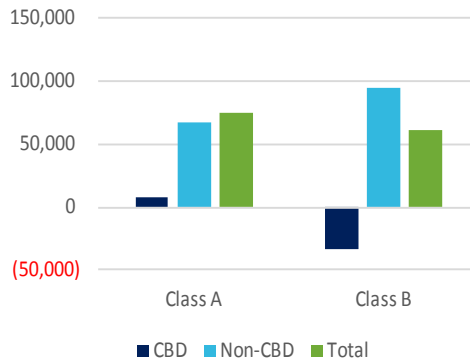
\$44.25/SF/FS

Average rental rate for class A space

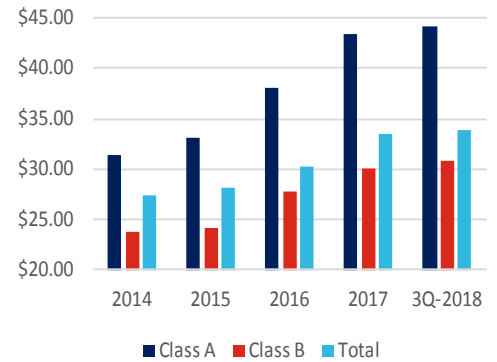
Vacancy Rate



YTD Net Absorption (SF)



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



PALM BEACH COUNTY OFFICE MARKET AT A GLANCE

4.4%
AUG-2017

↓

3.9%
AUG-2018

CHANGE IN PALM BEACH COUNTY
UNEMPLOYMENT RATE

6,100

INCREASE IN TOTAL NONFARM
EMPLOYMENT SINCE 3Q-2017

419,551

SQUARE FEET CURRENTLY UNDER
CONSTRUCTION

\$676.4
million

TOTAL OFFICE INVESTMENT SALES
VOLUME IN THE TRAILING 12 MONTHS
ENDING 3Q-2018

Approved

THE NEW CITY COMMISSION APPROVED THE
OKEECHOBEE BUSINESS DISTRICT

MEDICAL OFFICE DEMAND IS INCREASING
ACROSS THE COUNTY

5.7%

Y-O-Y INCREASE IN THE FINANCIAL
SERVICES JOB SECTOR

COMPANIES ARE INCREASINGLY ALLOCATING
LESS SQUARE FOOTAGE PER EMPLOYEE

A BUSINESS-FRIENDLY TAX ENVIRONMENT IS
ATTRACTING NEW TO MARKET BUSINESSES

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	730,480	48,702	\$44.25	90.36%	9.64%	0.64%	10.28%	373,551	74,564
Class B	20,010,239	2,389,220	76,008	\$30.80	88.06%	11.94%	0.38%	12.32%	46,000	61,575
Total	27,588,610	3,119,700	124,710	\$33.95	88.69%	11.31%	0.45%	11.76%	419,551	136,139

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	148,493	2,843	\$58.11	90.95%	9.05%	0.17%	9.22%	0	7,281
Class B	1,746,912	244,501	812	\$39.35	86.00%	14.00%	0.05%	14.04%	0	(32,940)
Total	3,387,879	392,994	3,655	\$46.43	88.40%	11.60%	0.11%	11.71%	0	(25,659)

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	581,987	45,859	\$40.72	90.20%	9.80%	0.77%	10.57%	373,551	67,283
Class B	18,263,327	2,144,719	75,196	\$29.83	88.26%	11.74%	0.41%	12.16%	46,000	94,515
Total	24,200,731	2,726,706	121,055	\$32.15	88.73%	11.27%	0.50%	11.77%	419,551	161,798

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	546,203	39,046	\$40.91	89.19%	10.81%	0.77%	11.59%	0	17,929
Class B	7,433,326	971,180	34,276	\$29.06	86.93%	13.07%	0.46%	13.53%	0	99,095
Total	12,483,962	1,517,383	73,322	\$33.33	87.85%	12.15%	0.59%	12.74%	0	117,024

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	230	\$0.00	100.00%	0.00%	0.09%	0.09%	0	0
Class B	599,355	130,910	7,969	\$23.27	78.16%	21.84%	1.33%	23.17%	0	25,527
Total	849,845	130,910	8,199	\$23.27	84.60%	15.40%	0.96%	16.37%	0	25,527

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%	149,608	0
Class B	1,014,847	159,926	0	\$29.39	84.24%	15.76%	0.00%	15.76%	0	(34,962)
Total	1,014,847	159,926	0	\$29.39	84.24%	15.76%	0.00%	15.76%	149,608	(34,962)

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	148,493	2,843	\$58.11	90.95%	9.05%	0.17%	9.22%	0	7,281
Class B	1,746,912	244,501	812	\$39.35	86.00%	14.00%	0.05%	14.04%	0	(32,940)
Total	3,387,879	392,994	3,655	\$46.43	88.40%	11.60%	0.11%	11.71%	0	(25,659)

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	73,136	2,960	\$29.42	94.75%	5.25%	0.21%	5.46%	0	(2,149)
Total	1,393,001	73,136	2,960	\$29.42	94.75%	5.25%	0.21%	5.46%	0	(2,149)

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	35,784	6,583	\$37.75	94.38%	5.62%	1.03%	6.66%	223,943	49,354
Class B	3,185,140	206,456	3,327	\$30.24	93.52%	6.48%	0.10%	6.59%	46,000	17,728
Total	3,821,418	242,240	9,910	\$31.35	93.66%	6.34%	0.26%	6.60%	269,943	67,082

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	104,845	9,293	\$60.46	82.13%	17.87%	1.58%	19.46%	0	10,794
Total	586,568	104,845	9,293	\$60.46	82.13%	17.87%	1.58%	19.46%	0	10,794

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	69,366	10,140	\$24.48	83.69%	16.31%	2.38%	18.70%	0	(22,580)
Total	425,220	69,366	10,140	\$24.48	83.69%	16.31%	2.38%	18.70%	0	(22,580)

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	21,825	3,164	\$27.48	96.23%	3.77%	0.44%	4.21%	0	(8,951)
Total	722,975	21,825	3,164	\$27.48	96.23%	3.77%	0.44%	4.21%	0	(8,951)

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	407,075	4,067	\$26.94	85.98%	14.02%	0.14%	14.16%	0	10,013
Total	2,902,895	407,075	4,067	\$26.94	85.98%	14.02%	0.14%	14.16%	0	10,013

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.

Investor confidence remains strong in Palm Beach County as development for new class A office space continues to break ground in key submarkets.

Leading Indicators (Y-O-Y 3Q-2017 to 3Q-2018)

Vacancy Rate	Net Absorption	Average Asking Rate (FS)	New Construction	Total Employment
				
11.76%	136,139 SF	\$33.95	419,551 SF	694 K

Significant Third Quarter 2018 Lease Transactions - Sorted by SF

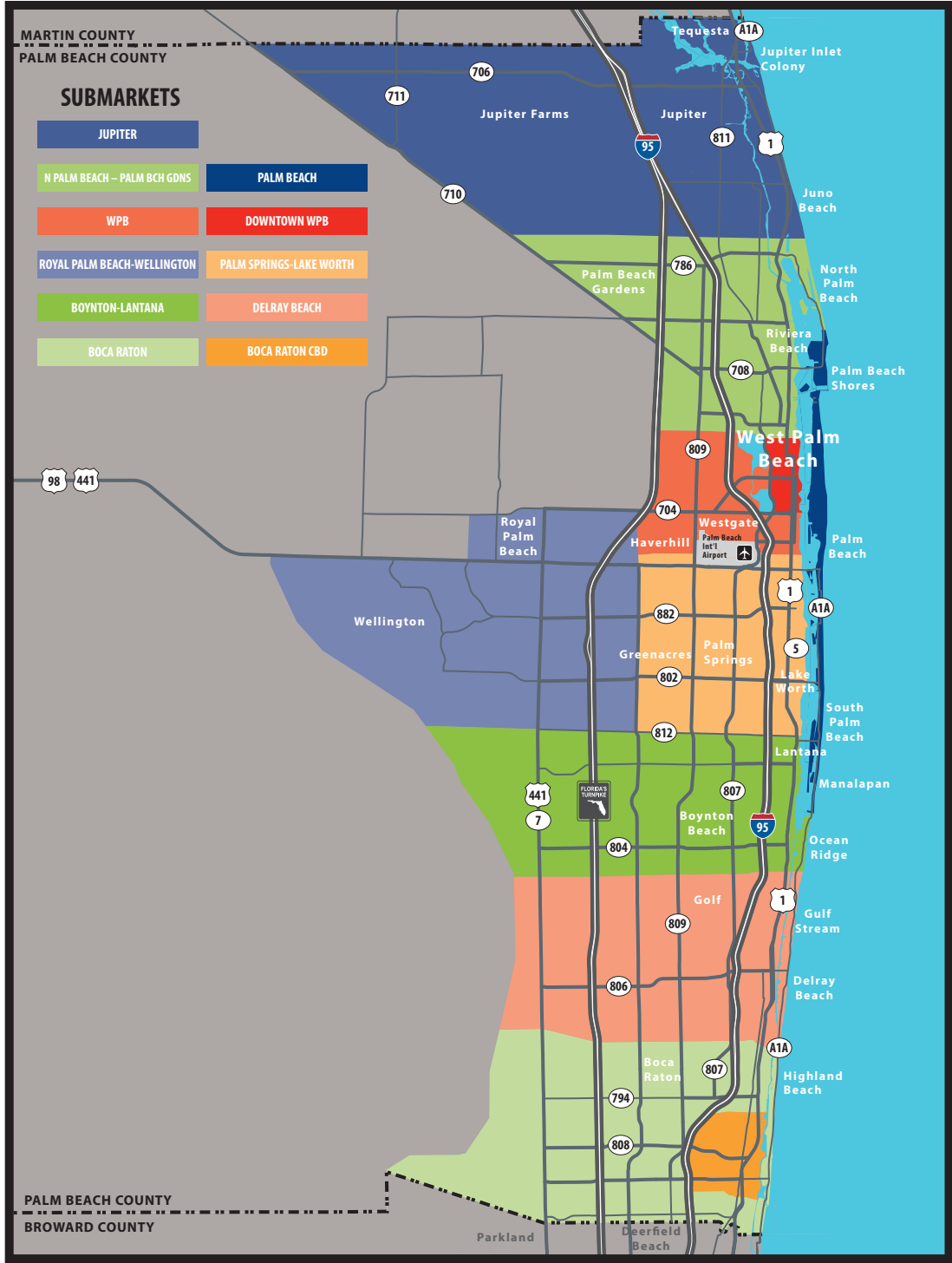
Tenant	Property	Type	SF	Submarket
Intech	One Clearlake Centre	New	25,678	Downtown West Palm Beach
PNC Bank	Fairway Office Center	New	21,778	North Palm Beach / Palm Beach Gardens
Merrill Lynch	Atlantic Crossing	New	21,769	Delray Beach
Gift of Life Bone Marrow Registry	Sabre Centre I	New	17,465	Boca Raton
LexisNexis	Boca Colonnade	Expansion	16,875	Boca Raton
Royal Investments	Palmetto Park City Center	New	14,196	Boca Raton
Keter US, Inc.*	North 40 Building	New	12,637	Boca Raton
Orbcomm	Fountain Square	New	11,681	Boca Raton

* Avison Young handled this transaction

Significant Third Quarter 2018 Sales Transactions - Sorted by Sale Price

Property	SF	Sale Price	Price/SF	Buyer	Submarket
2410 Metrocentre Blvd E	65,770	\$22,300,000	\$339	ICP Capital Partners	West Palm Beach
Congress Park	52,000	\$11,400,000	\$219	TMT Properties	Delray Beach
400 North Congress Ave	73,137	\$5,600,000	\$77	Calidus Holdings	West Palm Beach





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