

## Developers Respond to Growing Tenant Demand With Several Class A Office Projects Planned for the CBD

A positive business environment and strong economic fundamentals continue to fuel Palm Beach County's office market. Over the trailing 12-month period ending November of 2018, the county added 19,700 jobs to the market with the largest increase of 11% occurring in the financial activities sector. Additionally, the overall unemployment rate continued its consistent decline to 3.0% as of November 2018, an 80-basis point (bps) decrease from the previous year. The growth in office-using employment has created consistent demand in the market as vacancy rates have experienced a significant decline over the last five years. The overall vacancy rate began to stabilize during 2018 and remained relatively flat at 11.41% during the fourth quarter. Developers have responded to increasing tenant demand with an uptick in planned developments throughout Palm Beach County. Currently, there is 1.17 million sf of planned office space scheduled to break ground during the first quarter of 2019, 65% of which is located within Downtown West Palm Beach, including major class A projects such as One West Palm and 360 Rosemary. Palm Beach Gardens will also see 111,972 sf of class A space delivered in April of 2019, with the delivery of the first tower of the 223,943-sf Divosta Towers development. Considerable leasing activity took place in Boca Raton during the fourth quarter of 2018, with the most significant being Modernizing Medicine's 94,000-sf lease for its new headquarters location at the Boca Raton Innovation Campus. The lease was an expansion on an existing deal signed in 2017. The company now leases 155,000 sf in the business park and will occupy the 94,000 sf over the next two years. Palm Beach County's office market is expected to see further growth in 2019 as market fundamentals and employment continue their upward trajectory.



**1.17 MM**  
square feet of  
office space  
currently  
scheduled to break  
ground in 1Q19

### Office Market Snapshot

- One of the largest leases signed during the fourth quarter was TherapeuticsMD's 56,212-sf lease for its new headquarters location at 951 Yamato Road in Boca Raton. The recently renovated building is now 89% leased.
- During the fourth quarter, Related Companies broke ground on its \$40 million plan to revitalize CityPlace, Downtown West Palm Beach's primary shopping and entertainment center. The renovation, as well as the two major class A office towers scheduled to break ground in early 2019 (360 Rosemary and One West Palm), are representative of the city's push to create a vibrant and urban downtown.
- Office investment activity remained solid throughout 2018 with total transaction volume for the year of \$676.7 million, a slight 2.7% decrease over 2017's volume. Some investors have become hesitant as they contend with a volatile financial market and growing concern over rising interest rates. Investment in Palm Beach County is expected to be positive in 2019 as new business continues to flock to the area.
- The largest investment sale of the fourth quarter was the \$33 million sale of the former Office Depot Campus in Delray Beach. The campus which currently totals 541,693 sf of office space, is the site of a planned major mixed-use community. The project would include 759 homes, 70,000 sf of office, and 100,000 sf of retail. As a result of Delray Beach taking a proactive initiative to rezone and reimagine the Congress Avenue corridor, the project is a prime example of how the redevelopment of former office headquarters locations can transform overlooked areas into vibrant live-work-play concepts.
- A slow development pipeline over the last few years has kept supply in check and allowed landlords to push rents, with the overall asking rent reaching \$34.43 per sf at the end of 2018, a 3% increase over the previous year. Although the pace of rent growth slowed during 2018, average asking rates have still risen almost 10% over the last three-year period.

**27.6 MSF**

Total office inventory in the Palm Beach County market

**283,329 SF**

Direct Y-T-D net absorption as of 4Q-2018

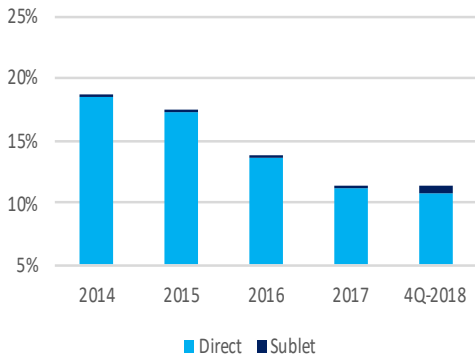
**11.41%**

Overall Vacancy

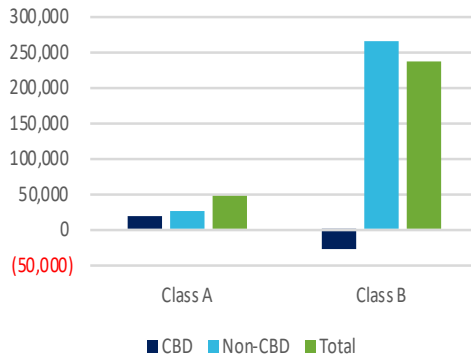
**\$43.56/SF/FS**

Average rental rate for class A space

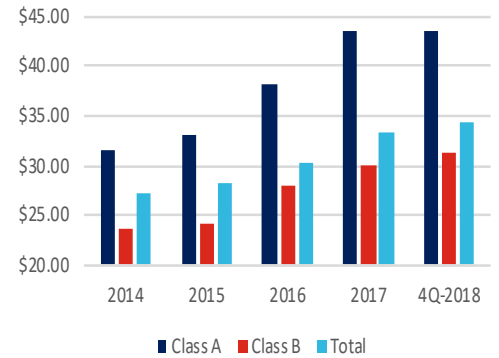
### Vacancy Rate



### YTD Net Absorption (SF)



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



## PALM BEACH COUNTY OFFICE MARKET AT A GLANCE

**3.8%**  
NOV-2017

↓

**3.0%**  
NOV-2018

CHANGE IN PALM BEACH COUNTY  
UNEMPLOYMENT RATE

**19,700**

INCREASE IN TOTAL NONFARM  
EMPLOYMENT SINCE 4Q-2017

**454,551 SF**

SQUARE FEET CURRENTLY UNDER  
CONSTRUCTION

**\$676.7  
MILLION**

TOTAL OFFICE INVESTMENT SALES  
VOLUME DURING 2018



2 MAJOR CLASS A OFFICE TOWERS SCHEDULED  
TO BREAK GROUND IN DOWNTOWN WEST PALM  
BEACH DURING 1Q19

**3.0%**

OVERALL RENTAL RATE  
INCREASE OVER THE  
TRAILING 12-MONTHS  
ENDING 4Q-2018

**6 Million**

IN TAX INCENTIVES WAS AWARD TO  
MODERNIZING MEDICINE TO  
CREATE 838 NEW JOBS

**11.0%**

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

**A BUSINESS-FRIENDLY TAX ENVIRONMENT  
AND ECONOMIC INCENTIVES ARE ATTRACTING  
NEW-TO-MARKET TENANTS**



Palm Beach County's population continues to grow at the fastest pace in South Florida of 1.2%

### Leading Indicators (Y-O-Y 4Q-2017 to 4Q-2018)

Vacancy Rate	Net Absorption	Average Asking Rate (FS)	New Construction	Total Employment
↔	↘	↗	↗	↗
11.41%	283,329 SF	\$34.43	454,551 SF	715 K

### Significant Fourth Quarter 2018 Lease Transactions - Sorted by SF

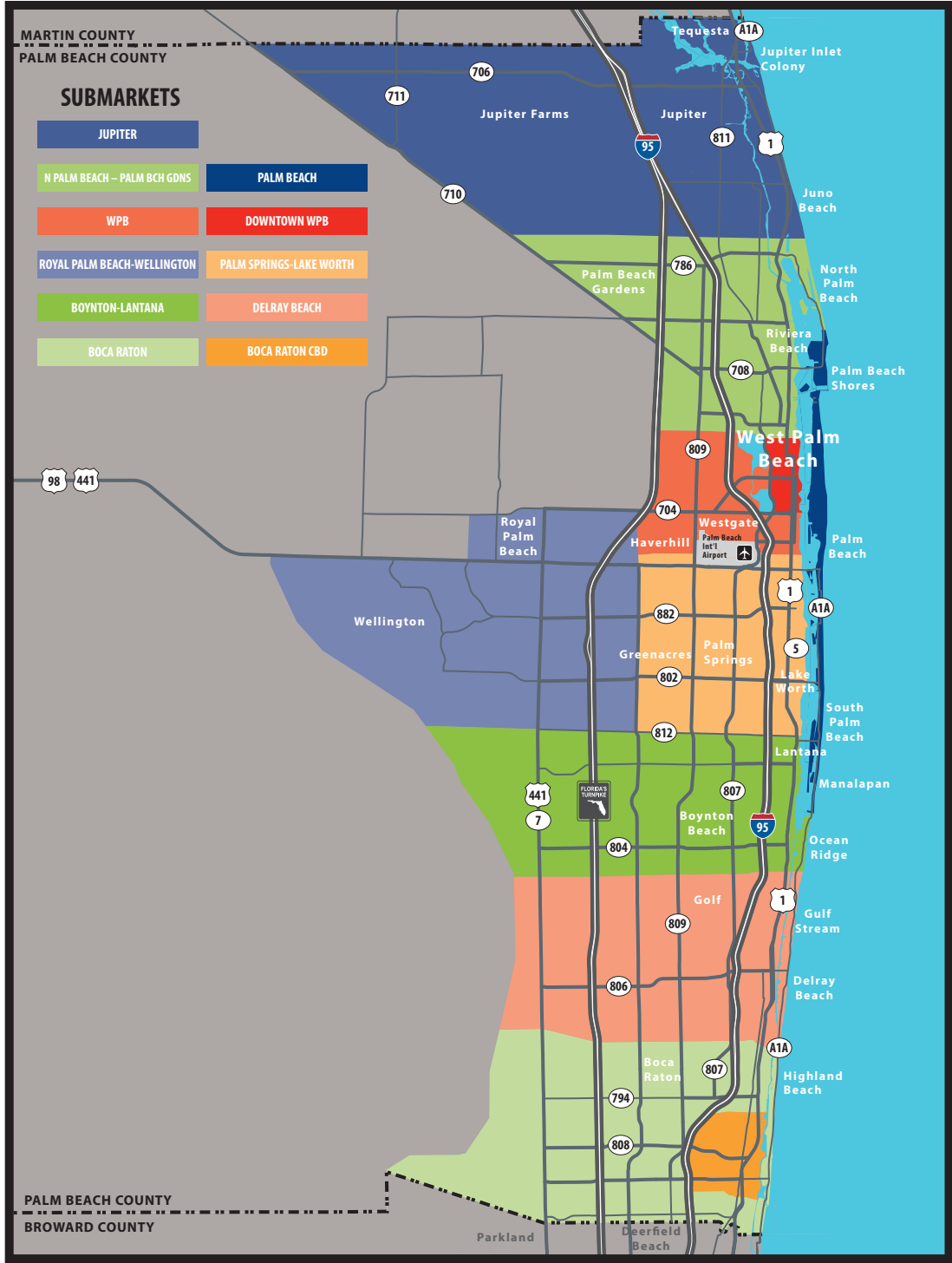
Tenant	Property	Type	SF	Submarket
Modernizing Medicine	Boca Raton Innovation Campus	Expansion	94,000	Boca Raton
TherapeuticsMD	951 Yamato Rd	New	56,212	Boca Raton
Vitacost	Boca Raton Innovation Campus	New	35,000	Boca Raton
National Holdings Corp.	Boca Raton Innovation Campus	New	18,479	Boca Raton
J.G. Wentworth Home Lending	951 Yamato Rd	New	10,661	Boca Raton
First Republic Bank	Boca Center Tower II	New	10,369	Boca Raton
Confidential Government Entity	One Clearlake Centre	New	9,000	Downtown West Palm Beach

### Significant Fourth Quarter 2018 Sales Transactions - Sorted by Sale Price

Property	SF	Sale Price	Price/SF	Buyer	Submarket
Former Office Depot Campus*	541,693	\$33,090,100	\$61	13th Floor Investments / Key International / CDS International Realty / Wexford Capital	Delray Beach
ONE 10 Plaza	47,718	\$31,000,000	\$660	Menin Development	Delray Beach
First National Centre	67,500	\$25,100,000	\$372	Galium Capital / Ownes Realty Services	North Palm Beach / Palm Bach Gardens
The Atrium at Broken Sound	93,260	\$22,400,000	\$240	Breakers Capital Partners / ABR Partners	Boca Raton

\* Avison Young handled this transaction





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