

# Palm Beach County



## Market Facts

**27.6 MSF**

Total inventory in the  
Palm Beach County office market

**314,867 SF**

Direct net absorption  
for Q1 2017

**12.91%**

Overall Vacancy

**\$39.83 PSF**

Average asking lease rate for  
class A space in Palm Beach  
County on a full-service basis

## Restrained Development Bolsters Demand for Redevelopment Opportunities

### Regional Economic Activity

According to the Bureau of Labor Statistics, Palm Beach County had a non-seasonally adjusted unemployment rate of 4.7% as of February 2017, which is 20 bps higher than the county's rate one year prior. This is representative of a net gain in labor force by 23,877 over the past 12 months.

The strength of the Florida economy has served as a foundation for growth in many of the state's primary metropolitan areas. Palm Beach County is on par with Florida's non-seasonally adjusted unemployment rate of 4.7%, and is one of the top performers in the state as measured by net gain in total employment.

### Tenants Flock to Class B Buildings

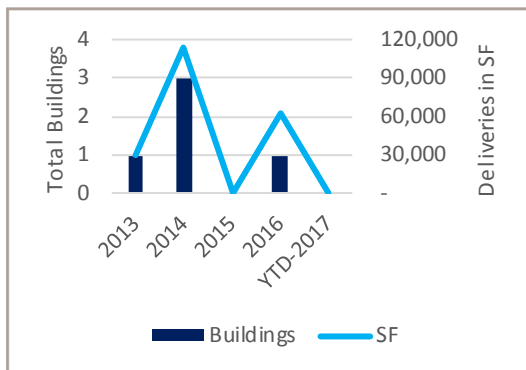
The Palm Beach County office market ended the first quarter of 2017 with an overall vacancy rate of 12.91%, which represents a 93 bps drop when compared

to the prior quarter. Net absorption was strong with over 300,000 sf of class A and B space absorbed, representing 36% of all net absorption reported in 2016. Approximately 84% of this absorption was class B space, far outweighing class A space absorption. This growing trend is primarily driven by tenants seeking more affordable solutions to rising lease rates in class A space, which is reflected as new lease activity as well as in the expansion of existing tenants.

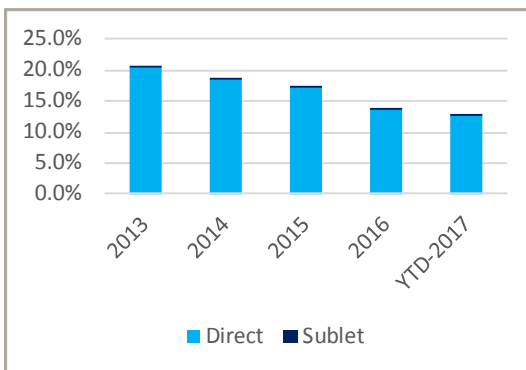
Class A space absorption remains healthy, although its performance to date has been outpaced by the strength of the class B market. This trend is most evident in Boca Raton, where 94% of all net absorption to date has been within class B space. In fact, the 144,662 sf of class B space absorbed in that submarket during the first quarter represents an impressive 80% of Boca Raton's class B absorption for all of 2016, and was led by major leases taking place

A relative lack in new office product has driven investors to seek out alternative investments and value-add opportunity.

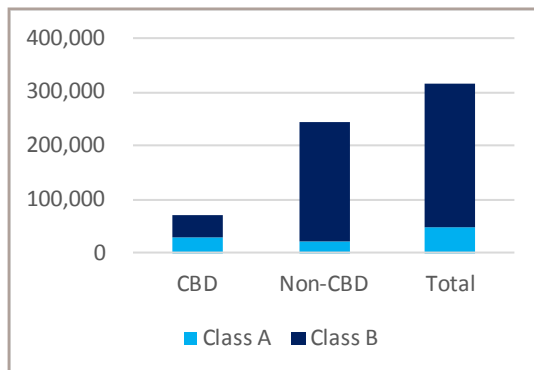
### Total Deliveries



### Vacancy Rate



### YTD Net Absorption (SF)



at the Boca Raton Innovation Campus (BRIC).

### Lack of New Deliveries Fuels Investment Activity

As of the first quarter of 2017, Palm Beach County has only one major office project under construction. Gardens Innovation Center is a 63,500-sf development that will consist of two contemporary office buildings located in PGA National Commerce Park. The development, which is scheduled for delivery in the second quarter of 2017, will incorporate green features and will primarily target life science companies.

However, this relative lack of new office product has not prevented investors from seeking out alternative opportunities. Butters Real Estate recently acquired Arvida Executive Center in Boca Raton for \$21 million, marking this South Florida developer's third acquisition in the Palm Beach County office market in the past year. The complex was acquired with plans to renovate and increase competitiveness with top class B buildings in the area. The local firm also acquired Courtyard at Broken Sound for \$6.1 million and 3010 Military Trail for \$4.6 million during 2016. It appears that investment demand is heating up for office product that can be purchased below replacement cost.

### Federal Reserve Raises Key Interest Rate Amid Concern

The Federal Reserve's Open Market Committee recently voted to increase the benchmark interest rate by 25 bps, raising the federal funds target rate to a range of 0.75 percent to 1.00 percent. The

Federal Reserve also has plans to increase rates twice more in 2017 and has forecasted three more rate hikes in 2018. However, this has not been determined and any additional influence by the Federal Reserve will likely depend on how the national economy responds in the coming months.

Although the average national unemployment rate remains stable at 4.7%, the share of adults between the ages of 25 and 54 who remain unemployed has not fallen below pre-recession levels, let alone levels achieved in the late 1990s. Janet Yellen, chairwoman of the Federal Reserve, has responded to these concerns by stating that waiting too long to raise rates could potentially require a rapid increase down the road, potentially disrupting financial markets.

### Looking Ahead

Amid steady growth across all Palm Beach County submarkets, South Florida's northern most office market is poised for continued growth into the second quarter of the year and throughout 2017. Vacancy has continued to decline and net absorption remains active, especially in competitive submarkets such as Boca Raton and West Palm Beach. Class B absorption continues to outpace the absorption of class A space as asking lease rates begin to approach the maximum rate tenants are willing to pay. This has driven tenants to quality class B space, and has consequently increased appeal to investors. Investment activity is likely to continue within class B product, especially in the Boca Raton area.

**Palm Beach County Total**

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	815,403	30,192	\$39.83	89.24%	10.76%	0.40%	11.16%	0	50,645
Class B	19,979,044	2,674,892	37,481	\$28.03	86.61%	13.39%	0.19%	13.58%	63,500	264,222
<b>Total</b>	<b>27,557,415</b>	<b>3,490,295</b>	<b>67,673</b>	<b>\$30.79</b>	<b>87.33%</b>	<b>12.67%</b>	<b>0.25%</b>	<b>12.91%</b>	<b>63,500</b>	<b>314,867</b>

**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	113,973	205	\$52.39	93.05%	6.95%	0.01%	6.96%	0	28,561
Class B	1,746,912	294,231	0	\$33.08	83.16%	16.84%	0.00%	16.84%	0	43,689
<b>Total</b>	<b>3,387,879</b>	<b>408,204</b>	<b>205</b>	<b>\$38.47</b>	<b>87.95%</b>	<b>12.05%</b>	<b>0.01%</b>	<b>12.06%</b>	<b>0</b>	<b>72,250</b>

**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	701,430	29,987	\$37.79	88.19%	11.81%	0.51%	12.32%	0	22,084
Class B	18,232,132	2,380,661	37,481	\$27.41	86.94%	13.06%	0.21%	13.26%	63,500	220,533
<b>Total</b>	<b>24,169,536</b>	<b>3,082,091</b>	<b>67,468</b>	<b>\$29.77</b>	<b>87.25%</b>	<b>12.75%</b>	<b>0.28%</b>	<b>13.03%</b>	<b>63,500</b>	<b>242,617</b>

**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	612,448	29,987	\$38.27	87.87%	12.13%	0.59%	12.72%	0	9,027
Class B	7,433,326	1,113,731	14,217	\$26.30	85.02%	14.98%	0.19%	15.17%	0	144,662
<b>Total</b>	<b>12,483,962</b>	<b>1,726,179</b>	<b>44,204</b>	<b>\$30.55</b>	<b>86.17%</b>	<b>13.83%</b>	<b>0.35%</b>	<b>14.18%</b>	<b>0</b>	<b>153,689</b>

**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	31,882	0	\$26.93	87.27%	12.73%	0.00%	12.73%	0	6,715
Class B	599,355	161,457	0	\$20.12	73.06%	26.94%	0.00%	26.94%	0	3,792
<b>Total</b>	<b>849,845</b>	<b>193,339</b>	<b>0</b>	<b>\$21.25</b>	<b>77.25%</b>	<b>22.75%</b>	<b>0.00%</b>	<b>22.75%</b>	<b>0</b>	<b>10,507</b>

**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%	0	0
Class B	1,014,847	94,841	4,462	\$25.34	90.65%	9.35%	0.44%	9.79%	0	6,138
<b>Total</b>	<b>1,014,847</b>	<b>94,841</b>	<b>4,462</b>	<b>\$25.34</b>	<b>90.65%</b>	<b>9.35%</b>	<b>0.44%</b>	<b>9.79%</b>	<b>0</b>	<b>6,138</b>

**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	90,916	6,368	\$27.40	93.47%	6.53%	0.46%	6.98%	0	9,845
<b>Total</b>	<b>1,393,001</b>	<b>90,916</b>	<b>6,368</b>	<b>\$27.40</b>	<b>93.47%</b>	<b>6.53%</b>	<b>0.46%</b>	<b>6.98%</b>	<b>0</b>	<b>9,845</b>

**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	57,100	0	\$38.76	91.03%	8.97%	0.00%	8.97%	0	6,342
Class B	3,121,640	255,396	156	\$28.29	91.82%	8.18%	0.00%	8.19%	63,500	2,717
<b>Total</b>	<b>3,757,918</b>	<b>312,496</b>	<b>156</b>	<b>\$30.20</b>	<b>91.68%</b>	<b>8.32%</b>	<b>0.00%</b>	<b>8.32%</b>	<b>63,500</b>	<b>9,059</b>

**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	89,907	3,165	\$62.43	84.67%	15.33%	0.54%	15.87%	0	2,754
<b>Total</b>	<b>586,568</b>	<b>89,907</b>	<b>3,165</b>	<b>\$62.43</b>	<b>84.67%</b>	<b>15.33%</b>	<b>0.54%</b>	<b>15.87%</b>	<b>0</b>	<b>2,754</b>

**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	487,525	37,764	0	\$17.89	92.25%	7.75%	0.00%	7.75%	0	8,568
<b>Total</b>	<b>487,525</b>	<b>37,764</b>	<b>0</b>	<b>\$17.89</b>	<b>92.25%</b>	<b>7.75%</b>	<b>0.00%</b>	<b>7.75%</b>	<b>0</b>	<b>8,568</b>

**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	692,975	48,371	0	\$22.50	93.02%	6.98%	0.00%	6.98%	0	15,537
<b>Total</b>	<b>692,975</b>	<b>48,371</b>	<b>0</b>	<b>\$22.50</b>	<b>93.02%</b>	<b>6.98%</b>	<b>0.00%</b>	<b>6.98%</b>	<b>0</b>	<b>15,537</b>

**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	488,278	9,113	\$27.05	83.18%	16.82%	0.31%	17.13%	0	26,520
<b>Total</b>	<b>2,902,895</b>	<b>488,278</b>	<b>9,113</b>	<b>\$27.05</b>	<b>83.18%</b>	<b>16.82%</b>	<b>0.31%</b>	<b>17.13%</b>	<b>0</b>	<b>26,520</b>

**West Palm Beach CBD**

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
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<b>Total</b>	<b>3,387,879</b>	<b>408,204</b>	<b>205</b>	<b>\$38.47</b>	<b>87.95%</b>	<b>12.05%</b>	<b>0.01%</b>	<b>12.06%</b>	<b>0</b>	<b>72,250</b>

Reporting Methodology: This report includes all class 'A' and 'B' office buildings and parks 20,000 SF and greater in the Palm Beach MSA that are not owner occupied, office medical, or government owned. All rents are reported on a full-service gross basis. The information in this report has been collected by the Avison Young research team via sources that are deemed reliable but is not guaranteed.

Class A space absorption remains healthy, although its performance to date has been outpaced by the strength of the class B market.

Leading Indicators (Y-O-Y 1Q-2016 to 1Q-2017)

Vacancy Rate	Net Absorption	Average Asking Rate (FS)	New Construction	South Florida Labor Force
↓	↑	↑	→	↑
12.91%	314,867 SF	\$30.79	63,500 SF	3.11 MM

Significant First Quarter 2017 Lease Transactions - Sorted by SF

Tenant	Property	Type	SF	Submarket
Confidential	Boca Raton Innovation Campus	New Lease	40,286	Boca Raton
Confidential	Boca Raton Innovation Campus	New Lease	34,780	Boca Raton
Twin Labs	Boca Raton Innovation Campus	New Lease	15,111	Boca Raton
Mas Tec	The Park at Broken Sound	Renewal	9,795	Boca Raton
Specialized Healthcare Partners	Old School Square	Sublease	9,621	Delray Beach
Launch Potato	111 E Atlantic Ave	New Lease	7,000	Delray Beach
American Commercial Warranty *	North 40	Expansion	6,992	Boca Raton
MRS	6401 Congress Ave	New Lease	6,941	Boca Raton

\* Indicates Avison Young was involved in this transaction.

Significant First Quarter 2017 Sales Transactions - Sorted by Sale Price

Property	SF	Sale Price	Price/SF	Buyer	Submarket
Arvida Executive Center	120,000	\$21,000,000	\$175	Butters Real Estate	Boca Raton
4400 PGA Blvd	80,323	\$18,525,000	\$231	Summit CRE Group	NPB / PBG
Northlake Corporate Park	75,056	\$10,600,000	\$141	City National Bank	NPB / PBG
Reflections In The Park *	35,719	\$7,516,214	\$211	Wigder Investment Group	Boca Raton

\* Indicates Avison Young was involved in this transaction.

Contact Information

Jonathan R. Satter, RPA, SIOR  
Principal and Managing Director  
312 Clematis St, Suite 500  
West Palm Beach, FL 33401  
561.721.7031  
jonathan.satter@avisonyoung.com

Keith O'Donnell  
Principal  
1875 NW Corporate Blvd, Suite 280  
Boca Raton, FL 33431  
561.893.7011  
jonathan.satter@avisonyoung.com

Ryan Sharpe  
Research Analyst  
500 W Cypress Creek Rd, Suite 350  
Fort Lauderdale, FL 33309  
954.903.3705  
ryan.sharpe@avisonyoung.com

