

Palm Beach County



Market Facts

27.8 MSF

Total office inventory in the Palm Beach County office market

863,857 SF

Direct net absorption for 2016

13.84%

Overall Vacancy

\$38.05 PSF

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

Solid Leasing and Investment Activity throughout the County is Indicative of Overall Market Health

The Palm Beach office market remains on track for continued growth as indicated by continued leasing and investment activity. Throughout the year, over \$800 million in total volume traded hands, including the sale of Esperanté Corporate Center in West Palm Beach for \$126 million. Additionally, major developments such as One West Palm will drive activity in the office and residential markets. The 84 luxury condominiums in development are fueled, at least in part, by rising home sales. Over the year, home prices in South Florida grew 6.7% which is 120 bps higher than the national average.

Economic fundamentals also remain healthy. Over the past 12 months ending November 2016, the local unemployment rate was 4.9%. Although this represents a 20 bps increase from the prior year, employment grew

by 12,240 jobs which could suggest employer confidence in future economic activity.

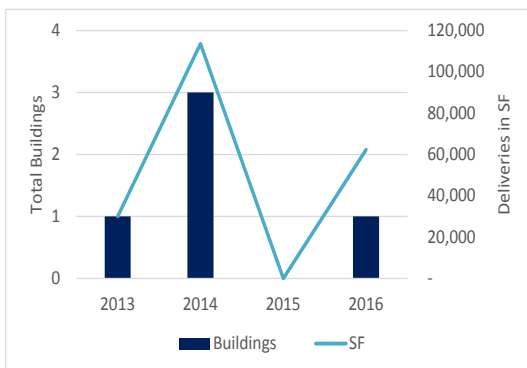
Boca Raton Remains the Leader in Net Absorption

Palm Beach's office market was relatively vigorous in 2016, and market fundamentals remain strong as demonstrated by a continued decline in vacancy rates and positive net absorption in every submarket. The Boca Raton submarket was the strongest performer of this past year, accounting for several of the largest lease deals and over forty percent of the market's total net absorption.

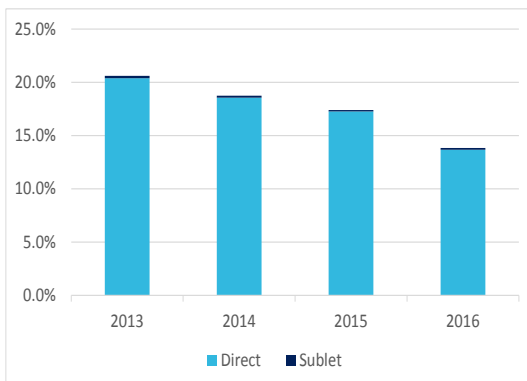
The most notable lease that occurred during the year was Health Care District of Palm Beach County's lease of 43,000 sf of space at Flagler Waterview in the West Palm Beach CBD. The 7.5-year deal

Demand for office space remains vigorous with strong net absorption, tightening vacancies, and rental rates continuing to show consistent gains.

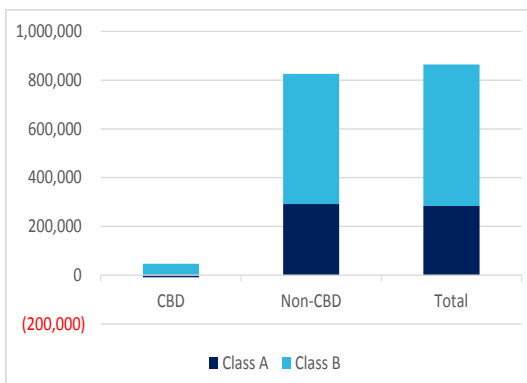
Total Deliveries



Vacancy Rate



YTD Net Absorption (SF)



was the second largest office lease of the year in Palm Beach County, second only to Ocwen Loan Servicing, which renewed 52,000 sf of space at Centrepark West in December of 2016.

Other key leasing deals during 2016 included AMN Healthcare’s lease to occupy 30,367 sf in Lynn Financial Center, and PGA of America’s 30,000-sf renewal in PGA National Office Center.

Major Development Coming to West Palm Beach

As market conditions continue to tighten, new construction remains nearly non-existent in South Florida’s northern most county. The 63,500-sf Gardens Innovation Center is currently the only office product currently under construction and is located in North Palm Beach/Palm Beach Gardens. However, Palm Beach County’s relative scarcity of new development may soon change with the recent approval of One West Palm, a \$250 million office, condo and hotel project located in West Palm Beach CBD.

One West Palm is anticipated to begin construction in July 2017, and the project will consist of two 30-story towers stacked like blocks and rising from a podium whose surfaces are lined with vegetation. The first tower will contain 340,000 sf of office space adjacent to a slightly shorter condominium and a hotel sister building. This planned project is the largest of over \$1 billion in new commercial development coming to West Palm Beach to support future demand fueled at least in part by All Aboard Florida’s new station that will draw 30+ trains per day.

The Federal Reserve’s Impact on the Local Labor Market

The Federal Reserve recently raised key interest rates by 25-bps in December of 2016. While this may only mark the second increase for short-term interest rates in the last ten years, many economists, including Federal Reserve chairwoman Janet Yellen, are optimistic in regard to the national economy’s performance.

Florida’s economy has experienced tremendous growth since the last recession and is projected to expand at an average annualized rate of 2.7% through 2019 in terms of gross domestic product, according to the University of Central Florida’s Institute for Economic Competitiveness. The economic strength of the state has already been demonstrated in the South Florida markets, specifically in Palm Beach County. For the trailing 12 months ending November 2016, Palm Beach County experienced an increase in non-agricultural employment by 12,230 jobs, representing a 1.8% increase.

Looking Ahead

Palm Beach County experienced much positive growth in 2016, which is projected to continue into the new year. The Business Development Board of Palm Beach County is bullish about the county’s future and expects a healthy pace of companies interested in relocation and expansion into South Florida’s northernmost market. With a lack of quality product available, many are hopeful of future construction opportunity and a continued decline in overall vacancy.

PALM BEACH COUNTY MSA TOTAL

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rent PSF	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	YTD Absorption
Class A	7,578,371	866,048	18,012	\$38.05	88.57%	11.43%	0.24%	11.67%	0	283,436
Class B	20,261,630	2,939,114	30,829	\$27.87	85.49%	14.51%	0.15%	14.66%	63,500	580,421
Palm Beach MSA Total	27,840,001	3,805,162	48,841	\$30.19	86.33%	13.67%	0.18%	13.84%	63,500	863,857

Downtown / CBD

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rent PSF	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	YTD Absorption
Class A	1,640,967	142,534	0	\$49.16	91.31%	8.69%	0.00%	8.69%	0	(8,701)
Class B	1,746,912	337,920	0	\$32.57	80.66%	19.34%	0.00%	19.34%	0	46,852
Downtown / CBD Total	3,387,879	480,454	0	\$37.49	85.82%	14.18%	0.00%	14.18%	0	38,151

Suburban / Non-CBD

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rent PSF	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	YTD Absorption
Class A	5,937,404	723,514	18,012	\$35.87	87.81%	12.19%	0.30%	12.49%	0	292,137
Class B	18,514,718	2,601,194	30,829	\$27.26	85.95%	14.05%	0.17%	14.22%	63,500	533,569
Suburban / Non-CBD Total	24,452,122	3,324,708	48,841	\$29.14	86.40%	13.60%	0.20%	13.80%	63,500	825,706

Boca Raton

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rent PSF	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	YTD Absorption
Class A	5,050,636	621,475	18,012	\$37.03	87.70%	12.30%	0.36%	12.66%	0	194,989
Class B	7,433,326	1,258,393	7,858	\$26.20	83.07%	16.93%	0.11%	17.03%	0	181,388
Submarket Total	12,483,962	1,879,868	25,870	\$29.78	84.94%	15.06%	0.21%	15.27%	0	376,377

Boynton / Lantana

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rent PSF	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	YTD Absorption
Class A	250,490	38,597	0	\$20.49	84.59%	15.41%	0.00%	15.41%	0	70,728
Class B	639,355	165,249	0	\$21.01	74.15%	25.85%	0.00%	25.85%	0	(18,286)
Submarket Total	889,845	203,846	0	\$20.91	77.09%	22.91%	0.00%	22.91%	0	52,442

Delray Beach

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rent PSF	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	YTD Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	1,014,847	100,979	4,462	\$27.49	90.05%	9.95%	0.44%	10.39%	0	45,484
Submarket Total	1,014,847	100,979	4,462	\$27.49	90.05%	9.95%	0.44%	10.39%	0	45,484

Jupiter

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rent PSF	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	YTD Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	1,393,001	100,761	4,060	\$28.45	92.77%	7.23%	0.29%	7.52%	0	70,398
Submarket Total	1,393,001	100,761	4,060	\$28.45	92.77%	7.23%	0.29%	7.52%	0	70,398

North Palm Beach / Palm Beach Gardens

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rent PSF	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	YTD Absorption
Class A	636,278	63,442	0	\$33.78	90.03%	9.97%	0.00%	9.97%	0	26,420
Class B	3,326,952	258,113	963	\$26.43	92.24%	7.76%	0.03%	7.79%	63,500	103,500
Submarket Total	3,963,230	321,555	963	\$27.88	91.89%	8.11%	0.02%	8.14%	63,500	129,920

Palm Beach

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rent PSF	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	YTD Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	586,568	92,661	3,773	\$62.93	84.20%	15.80%	0.64%	16.44%	0	27,502
Submarket Total	586,568	92,661	3,773	\$62.93	84.20%	15.80%	0.64%	16.44%	0	27,502

Palm Springs / Lake Worth

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rent PSF	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	YTD Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	352,570	16,443	0	\$26.40	95.34%	4.66%	0.00%	4.66%	0	79,282
Submarket Total	352,570	16,443	0	\$26.40	95.34%	4.66%	0.00%	4.66%	0	79,282

Royal Palm Beach / Wellington

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rent PSF	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	YTD Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	692,975	63,908	0	\$25.86	90.78%	9.22%	0.00%	9.22%	0	27,572
Submarket Total	692,975	63,908	0	\$25.86	90.78%	9.22%	0.00%	9.22%	0	27,572

West Palm Beach

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rent PSF	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	YTD Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	3,075,124	544,687	9,713	\$25.89	82.29%	17.71%	0.32%	18.03%	0	16,729
Submarket Total	3,075,124	544,687	9,713	\$25.89	82.29%	17.71%	0.32%	18.03%	0	16,729

West Palm Beach CBD

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rent PSF	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	YTD Absorption
Class A	1,640,967	142,534	0	\$49.16	91.31%	8.69%	0.00%	8.69%	0	(8,701)
Class B	1,746,912	337,920	0	\$32.57	80.66%	19.34%	0.00%	19.34%	0	46,852
Submarket Total	3,387,879	480,454	0	\$37.49	85.82%	14.18%	0.00%	14.18%	0	38,151

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.

Florida's economy has experienced tremendous growth since the last recession and is projected to expand at an average annualized rate of 2.7% through 2019 in terms of gross domestic product.

Leading Indicators

Vacancy Rate	Net Absorption	Average Asking Rate (FS)	New Construction	South FL Job Growth
↔	↔	↘	↔	↗
13.84%	863,857 SF	\$30.19/SF	63,500	2.93 MM

Florida's Economic Outlook Through 2019

A report recently released by the University of Central Florida's Institute for Economic Competitiveness concluded that over the period between 2016 and 2019, average growth in Real Gross State Product is expected to expand at an average annual rate of 2.7%, which will be 0.7 percentage points faster than the forecasted average growth for U.S. Real Gross Domestic Product over the same period. Payroll growth is expected to remain strong and should continue to outpace national job growth. The sectors expected to have the strongest job growth over the next three years are construction (4.9%), professional and business services (3.7%), leisure and hospitality(2.0%), education and health services (2.0%), and trade, transportation and utilities (1.8%). Housing starts should increase moving forward but not at a fast enough pace to meet the near-term demand for single-family housing.

Significant 2016 Lease Transactions - Sorted by SF

Tenant	Property	Type	SF	Qtr Leased	Submarket
Ocwen Loan Servicing, LLC	Centrepark West	Renewal	51,546	4Q16	West Palm Beach
Health Care District of Palm Beach County	Flagler Waterview	New Lease	42,386	4Q16	West Palm Beach CBD
AMN Healthcare*	Lynn Financial Center	New Lease	30,367	1Q16	Boca Raton
PGA of America*	PGA National Office Center	Renewal	30,000	1Q16	North Palm Beach/ Palm Beach Gardens
State Fire Marshall Division	400 N Congress Ave	New Lease	28,792	1Q16	West Palm Beach
Comcast	Northpoint Corporate Park	New Lease	28,186	2Q16	West Palm Beach
LexisNexis	Boca Colonnade	New Lease	25,262	1Q16	Boca Raton
Undisclosed Tenant	Northpoint Corporate Park	Sublease	23,700	3Q16	West Palm Beach
Global Tower, LLC*	Boca Colonnade	Renewal	22,412	1Q16	Boca Raton
Undisclosed Tenant	Northcorp Center	New Lease	22,130	2Q16	North Palm Beach/ Palm Beach Gardens
Tech Services	4855 Technology Way	New Lease	15,716	2Q16	Boca Raton
Resmac	5400 Broken Sound Blvd NW	New Lease	14,886	1Q16	Boca Raton
National Dentex Corporation*	11601 Kew Gardens Ave	New Lease	14,701	2Q16	North Palm Beach/ Palm Beach Gardens

* Avison Young handled this transaction

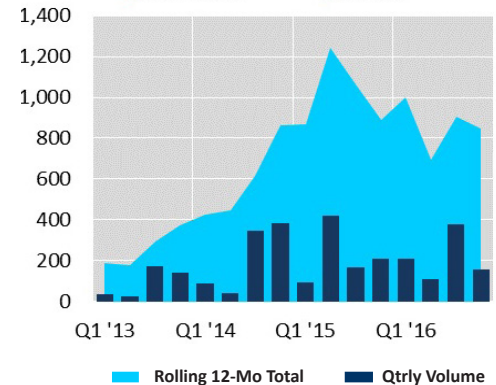


Key Investment Activity Led by the \$126 MM Sale of Esperanté Corporate Center

Investment sales throughout the year have been comprised principally of private and cross-border investors accounting for 71% of the capital flow, followed by institutional capital accounting for 24% of the total and users accounting for 5% of the total. Over the year, nearly \$840 million in total volume traded for \$211 per sf on average. This represents a 36% increase in total volume and a 15% increase in the average price per square foot compared to the prior year.

The most significant investment transaction of the year was RedSky Capital's purchase of Esperanté Corporate Center in West Palm Beach which closed for \$126 million, or \$513 per sf. The 245,354-sf, 20 story class A tower last sold for \$71 million in 2013, resulting in a 77% gain in just three years. Other notable transactions for the year include the sale of Northbridge Center for \$68,245,000 (\$237 per sf), Fairway Office Center for \$52,500,000 (\$233 per sf) and Bank of America Building for \$37,550,000 (\$283 per sf).

Sales by Total \$ Volume (in millions)



Significant 2016 Sales Transactions - Sorted by Sale Price

Property	SF	Sale Price	Price/SF	Cap Rate	Buyer	Qtr Sold	Submarket
Esperanté Corporate Center	245,354	\$125,750,000	\$513	N/A	RedSky Capital / JZ Capital Partners Limited	3Q16	West Palm Beach CBD
Northbridge Center	288,233	\$68,245,000	\$237	N/A	Greenfield Partners / Crocker Partners	1Q16	West Palm Beach CBD
Fairway Office Center	225,674	\$52,500,000	\$233	N/A	C-III Investment Management	3Q16	North Palm Beach / Palm Beach Gardens
Boca Colonnade I & II	250,939	\$49,882,279	\$199	N/A	Workspace Property Trust / Safanad / Square Mile Capital	3Q16	Boca Raton
Bank of America Building	132,685	\$37,550,000	\$283	N/A	TJAC	3Q16	Boca Raton
Corporate Center at the Gardens	113,565	\$30,062,500	\$265	4.9%	ABR Partners / Alchemy Properties / Breakers Capital	1Q16	North Palm Beach / Palm Beach Gardens
Centurion Tower	143,966	\$26,000,000	\$181	N/A	C-III Investment Management	4Q16	West Palm Beach
Bank of America Center	110,000	\$23,000,000	\$209	N/A	FRI Investors, Inc.	4Q16	West Palm Beach CBD
230-240 Royal Palm Way	29,538	\$21,450,000	\$726	6.8%	O'Connor Capital Partners	1Q16	Palm Beach
The Forum Business Center	276,937	\$20,500,000	\$74	N/A	Crimson Peak	1Q16	West Palm Beach

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