

Palm Beach County Office MarketView

Q2 2014

CBRE Global Research and Consulting



TOTAL VACANCY
23.3%



ASKING RATE
\$17.18 NNN



NET ABSORPTION
80 K sq. ft.



CONSTRUCTION
0



COMPLETIONS
0



UNEMPLOYMENT
5.9%

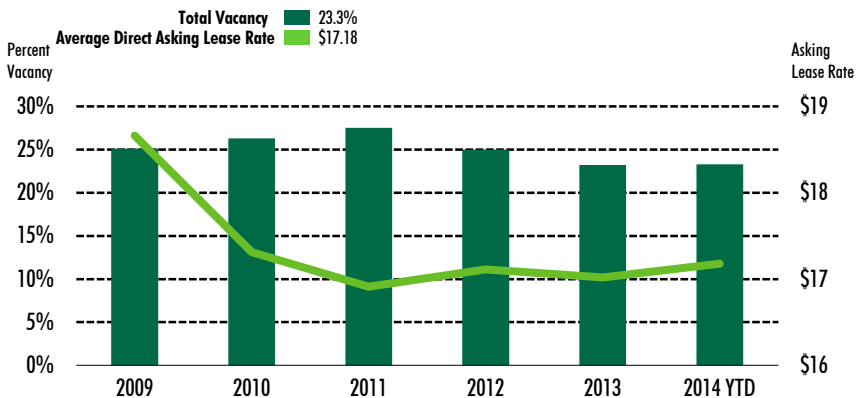
*Arrows indicate change from previous year.

THE PALM BEACH COUNTY OFFICE MARKET IS EXPERIENCING STEADY RECOVERY YEAR OVER YEAR

Hot Topics

- A number of Palm Beach County companies are expanding or making lateral moves within their submarket.
- Asking lease rates held steady while concessions in Class A buildings from landlords have seen some contraction in Q2 2014.
- Value-add office assets continue to be highly sought by private equity investors.
- Downtown East Boca Raton approved projects include six multifamily locations totaling 1,661 units and three hotels totaling 457 rooms, creating vitality in the downtown area that will drive the commercial sector.
- University Village, a planned mixed-use project in Boca Raton, is approved for 126,000 sq. ft. of office space, 252,000 sq. ft. of retail space and 420 residential units.

Figure 1: Total Vacancy -vs- Average Direct Asking Lease Rate (NNN)



Source: CBRE Research, Q2 2014.

Leasing Activity

Activity in the Palm Beach County market has shown steady improvement coming out of the recessionary period. Companies are gradually gaining confidence in the economy and realizing that the market is doing better than anticipated. The most active industries in the office market include financial services, healthcare and technology.

The Palm Beach County office market witnessed a decrease in total vacancy by 80 basis points (bps) between Q2 2013 and Q2 2014, for a current vacancy rate of 23.3%. Class A properties witnessed a decrease of 70 bps from the 20.4% rate quoted in Q2 2013 to the current rate of 19.7%, while Class B properties witnessed a decrease of 90 bps compared to this time last year, for a current rate of 27.8%. Class C space experienced the largest decline, decreasing 100 bps year over year, to the current vacancy rate of 15%.

Office demand in Q2 2014 resulted in 79,639 sq. ft. of positive net absorption, bringing year-to-date positive absorption to 55,489 sq. ft. The majority of absorbed space was in the Boca Raton submarket, which posted 63,437 sq. ft., followed by the Delray Beach submarket, which posted 23,592 sq. ft. These two submarkets accounted for the majority of the positive activity in the market year to date.

Move-ins contributing to the positive net absorption this quarter included:

- RN Networks leased 20,960 sq. ft. at Boca Corporate Center and Campus in Boca Raton.
- Majestic OPCO, LLC leased 19,223 sq. ft. at The Arbors in Delray Beach.
- GMS Group leased 12,021 sq. ft. at Fountain Square in Boca Raton
- Wexford Capital leased 8,000 sq. ft. at Phillips Point in West Palm Beach.

Figure 2: Market Statistics

Submarket	Building sq. ft.	Direct Vacancy (%)	Total Vacancy (%)	2014 Net Absorption	Under Construction	Avg Dir Asking Lse Rate (NNN)
Boca Raton	11,328,882	22.5	22.8	63,437	0	\$17.14
Delray Beach	1,410,872	48.1	48.1	23,592	0	\$12.58
Boynton Beach	448,063	37.2	37.2	(40,424)	0	\$12.85
Lake Worth	396,353	17.6	17.6	(627)	0	\$10.33
West Palm Beach	5,572,311	20.3	20.7	19,338	0	\$18.43
Royal Palm Beach	296,578	6.7	6.7	160	0	\$16.89
Palm Beach	541,306	15.2	16.7	5,112	0	\$40.77
North Palm Beach	2,688,428	19.9	20.0	(9,790)	0	\$18.47
Jupiter	471,338	18.8	18.8	(5,309)	0	\$14.80
Total Palm Beach County	23,154,131	23.0	23.3	55,489	0	\$17.18
Class A	10,244,388	19.2	19.7	10,476	0	\$21.03
Class B	11,242,428	27.6	27.8	45,206	0	\$14.35
Class C	1,667,315	15.0	15.0	(193)	0	\$12.38

Source: CBRE Research, Q2 2014.

The largest new-to-market lease in Q2 2014 was signed by Cancer Treatment Centers of America (CTCA). The company leased 77,340 sq. ft. at Broken Sound Plaza in Boca Raton. CTCA also leased 6,500 sq. ft. of temporary space at Broken Sound Plaza. The company is moving its headquarters from Illinois with plans to create 225 new jobs in Boca Raton.

Other recent transactions include:

- The law firm of Cole, Scott & Kissane leased 48,821 sq. ft. at Esperante Corporate Center in West Palm Beach
- Unified Physician Management subleased 21,000 sq. ft. from Tyco at 1501 Yamato Road in Boca Raton.
- Weiss Research leased 18,500 sq. ft. at Corporate Center at the Gardens in Palm Beach Gardens.
- JDA Software Group Inc. renewed their 17,247-sq.-ft. lease at The Arbors in Delray Beach.

The overall current average asking direct lease rate rose 1% year over year coming in at \$17.18 per sq. ft. Average asking lease rates for available Class A properties experienced an increase of 1.7% from the \$20.68-per-sq.-ft. rate quoted in Q2 2013 to a current rate of \$21.03 per sq. ft. Class B properties

witnessed an increase of 1% from Q2 2013 with a current asking rate of \$14.35 per sq. ft. Class C space witnessed an increase of 1.4% over last year's rate during the same period to a current rate of \$12.38 per sq. ft. Lease rates are likely to remain steady in 2014, with negotiated lease rates holding close to asking rents. Landlord concessions are expected to decline, but not significantly.

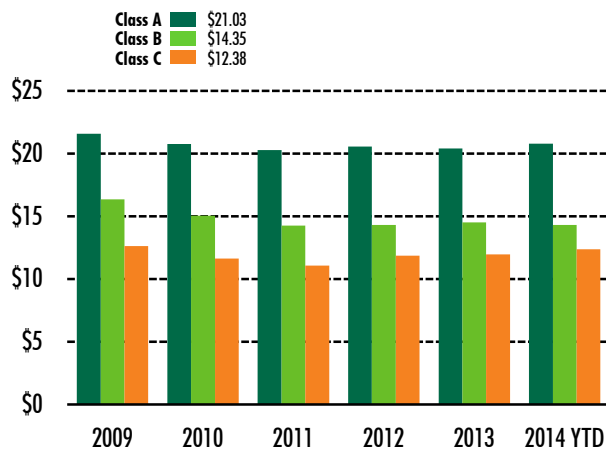
Economic Influence

The jobs report for May 2014 shows that 8.7 million U.S. jobs lost during the Great Recession have been recovered. The service industry supports Palm Beach County's businesses and residents. There are approximately 50,800 companies in Palm Beach County that supply services and products, of which over 17,880 companies provide financial and business services.

Palm Beach County's current unemployment rate is 5.9%, a 140 bps decrease from the May 2013 rate of 7.3%, according to the Bureau of Labor Statistics. The state's non-seasonally adjusted unemployment rate for May 2014 is 6.1% and the national rate is 6.1%.

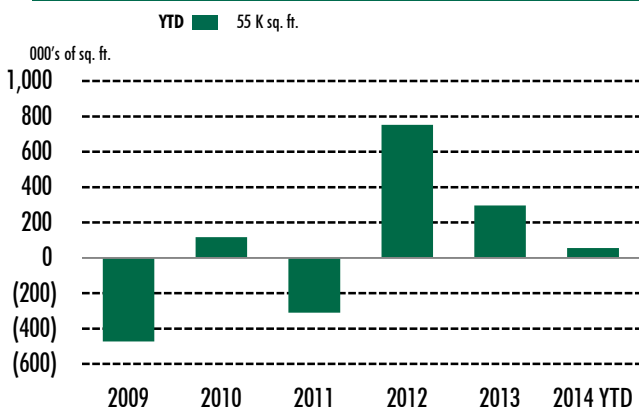
In May 2014, Palm Beach County experienced growth in the following industries: professional/business services added 4,400 jobs; education/health services added 2,900 jobs; construction added 2,500 jobs;

Figure 3: Average Dir Asking Lease Rates (NNN)



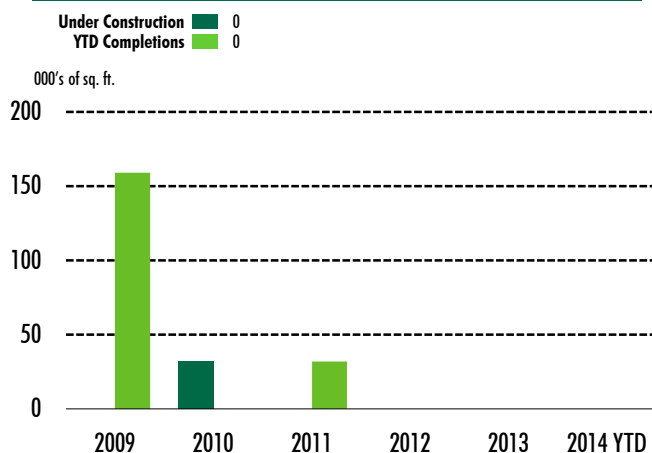
Source: CBRE Research, Q2 2014.

Figure 4: Net Absorption



Source: CBRE Research, Q2 2014.

Figure 5: Under Construction and Completions



Source: CBRE Research, Q2 2014.

leisure/hospitality added 2,000 jobs; government added 1,300 jobs; trade/transportation/utilities added 600 jobs; and information technology added 100 jobs.

Development

Currently, there are no new 100% office projects underway in the Palm Beach County market. Atlantic Crossing, a notable planned mixed-use project located on Atlantic Avenue in Delray Beach, will consist of 83,000 sq. ft. of Class A office space, 76,000 sq. ft. of retail space and 343 residential units.

Investment Sales Activity

Five investment sales closed year to date, accounting for a total of 286,560 sq. ft. with a dollar volume of \$32.8 million. The average price per sq. ft. came in at \$137.32. Value-add office assets continue to be highly sought by private equity investors.

Notable transactions in Q2 2014 include:

- Numed Holdings, LLC purchased Zenith Professional Center in Boca Raton from Brenner Real Estate Group for \$4.03 million with the price per sq. ft. at \$110. The 36,464-sq.-ft. building was vacant at the time of sale. The property was acquired as a value-add opportunity.
- Grover Corlew, LLC, purchased Brandywine Centre I in West Palm Beach from BCI Associates for \$7 million with the price per sq. ft. at \$100. The 69,715-sq.-ft. property included a 9,100-sq.-ft. restaurant outparcel and was 69% leased at the time of sale. Tenants included Divine Blalock Martin & SLLR, Denholtz Associates and Babor Cosmetics America.
- RMS Properties purchased Sopra Centre in Delray Beach for \$8.5 million with the price per sq. ft. at \$202. The 42,047-sq.-ft. property included street level retail space that was recently leased to Rocco's Tacos.

Outlook

Many indicators are trending in a positive direction, leading to continued improvement in 2014. Job growth is expected to continue for the remainder of the year, which will lead to additional positive absorption. Lease rates are likely to remain stable, with concessions continuing in the forms of free rent and tenant improvement allowances. Landlords and investors are optimistic as the office market continues to improve steadily. Investors continue to seek quality core assets and riskier value-add opportunities in Palm Beach County.

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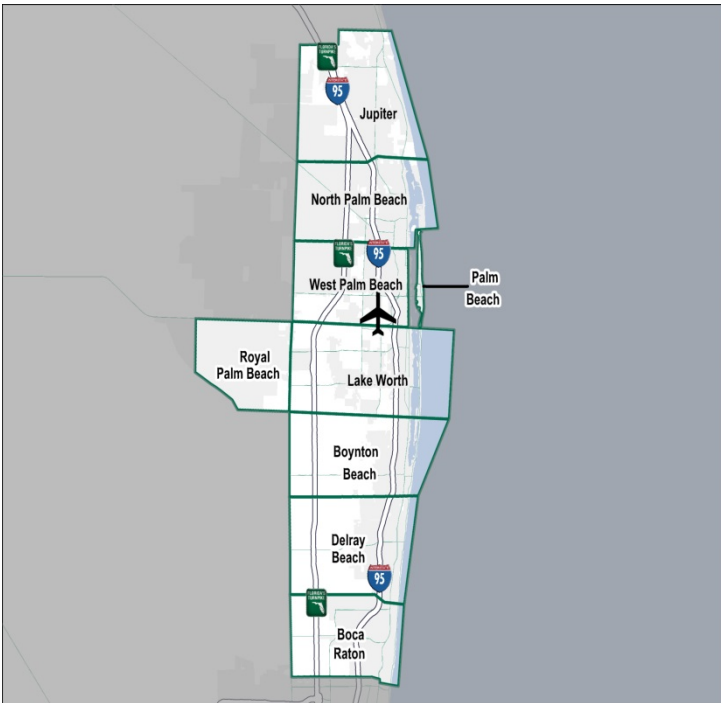
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Market Coverage: Includes multi-tenant office buildings 30,000 sq. ft. and greater in size. Excludes Office Condo, Medical and Gov't Bldgs.

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