

## PALM BEACH COUNTY

Third-quarter 2018 saw an uptick in demand growth after modest corrections occurred in the previous two quarters. , as 76,554 square feet was positive absorption, resulting in vacancy dropping 20 basis points from the previous quarter and one year ago to 13.7%. Market growth has slowed over the last year, as occupancy saw a 10-basis-point dip from the 86.4% low recorded in fourth-quarter 2017. Class B regained the lead in growth during the third quarter with 76,288 square feet of positive absorption, while Class A posted 50,443 square feet of absorbed space. Class C experienced another lackluster quarter, as supply outpaced demand for the fourth consecutive quarter with 50,177 square feet returned to the market. Overall asking rents increased by \$1.02/SF from one year ago, with the Class A segment reaching \$39.67/SF, a 6.7% increase from the previous record level of \$37.18/SF set 10 years ago. Class A rents in the West Palm Beach Central Business District and Boca Raton submarkets have posted the strongest gains in the county but may begin to slow over the next 12 months. The Class B weighted average increased to \$28.04/SF from \$27.70/SF one year ago. In spite of their weakening performance, lower-tier rents have jumped 20.0% over the last year, as landlords trying to take advantage of a peaking economic cycle have pushed the average asking rate up to \$18.78/SF.

### LEASING AND DEMAND

Leasing activity remained consistent with previous quarterly performances, as 152 transactions totaling 357,000 square feet were recorded during third-quarter 2018. This brings total leasing activity to just under 1.3 million square feet year-to-date. Class A office space comprised 513,400 square feet, while Class B led deal activity year-to-date with more than 689,000 square feet. Class C space continued to lag behind with 65,000 square feet of deal activity. Palm Beach County saw an uptick in midsize lease deals during the quarter. The financial services sector took the lead in lease deals with 80,000 square feet so far this year, while the medical industry fell to second place with 77,000 square feet. The retail sector fell to the third spot with 42,500 square feet of deal activity. Most deals continued to come from tenants already in the market and in the form of renewals and small expansions. Palm Beach's strong ties to the residential sector have yet to cause an increase in demand for office space in lower-tier buildings. This will likely remain the case, as home sales appear to be leveling off just as prices have recovered and interest rates continued to rise.

### INVESTMENT SALES

Office sales slowed significantly in the third quarter with one transaction totaling 55,000 square feet during third-quarter 2018, which brought investment sales to 2.6 million square feet year-to-date worth a combined \$371.4 million. Thanks to the sale of the 1.0 million-square-foot Boca Raton Innovation Campus portfolio in the second quarter, sales were still up from the 2.4 million square feet that sold for \$336.3 million one year ago. The average sale price held steady from one year ago to remain at \$214/SF. This can be attributed to the two Class A property sales that occurred in second-quarter 2018. Demand for higher-tier space remained healthy, but with the majority of these buildings trading hands already, the remaining owners do not want to let go of well-leveraged investments while the market holds steady and no major new office projects are underway.

## CURRENT CONDITIONS

Class A space regained the lead for leasing activity in the third quarter but three consecutive quarters of strong leasing activity gave the Class B sector the strongest recorded absorption for third quarter.

Higher rents and a lack of available space in Class A space should continue to aid the surge in lower-tier demand, as tenants may begin to prefer cost over quality.

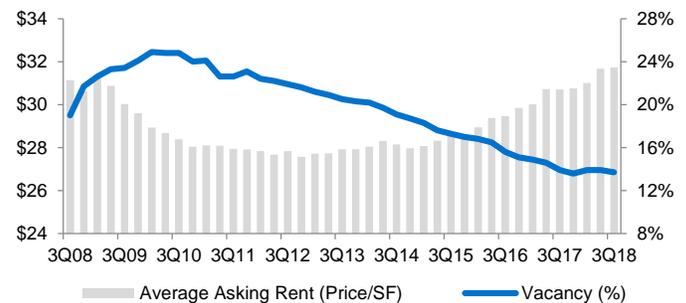
The Boca Raton Submarket dominated in demand with the strongest recorded absorption for the third consecutive quarter.

Investment activity plummeted to only one small sale during third-quarter of 2018.

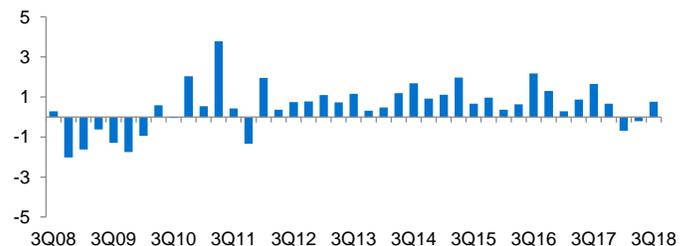
Palm Beach was the only market to see the average sale price hold steady.

## MARKET ANALYSIS

### Asking Rent and Availability



### Net Absorption (SF, 100,000)



## MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	25.8MSF	25.8MSF	25.8MSF	↔
Vacancy Rate	13.7%	13.9%	13.9%	↔
Quarterly Net Absorption	76,554	(20,294)	164,059	↔
Average Asking Rent	\$31.73	\$31.67	\$30.71	↑
Under Construction	196,272	196,272	84,300	↔
Deliveries	0	0	0	↑

## PALM BEACH MARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
<b>W Palm Beach CBD</b>	<b>2,424,181</b>	<b>0</b>	<b>8.7 %</b>	<b>5,908</b>	<b>7,299</b>	<b>\$51.12</b>	<b>\$26.79</b>	<b>\$44.46</b>
Boca Raton	11,597,879	0	12.7 %	72,525	103,593	\$37.44	\$29.04	\$33.33
Boynton/Lantana	712,398	0	26.1 %	-51,913	-66,093	N/A	\$25.20	\$19.70
Delray Beach	1,750,549	84,300	38.9 %	7,239	-40,752	N/A	\$23.49	\$23.17
Jupiter	596,224	0	6.5 %	1,304	-6,890	N/A	\$26.91	\$26.91
N Palm Bch/Palm Bch Gardens	3,594,654	111,972	6.4 %	25,200	44,384	\$40.95	\$22.90	\$29.14
Palm Beach	822,706	0	15.6 %	6,382	3,688	N/A	\$56.39	\$55.76
Palm Springs/Lake Worth	238,131	0	5.7 %	7,593	-8,798	N/A	\$22.85	\$22.85
Royal Palm Bch/Wellington	304,640	0	3.9 %	2,311	-1,090	N/A	\$31.55	\$28.50
W Palm Beach Suburban	3,743,117	0	14.9 %	5	-47,083	\$36.98	\$25.93	\$28.60
<b>Suburban Total</b>	<b>23,360,298</b>	<b>196,272</b>	<b>14.2 %</b>	<b>70,646</b>	<b>-19,041</b>	<b>\$37.69</b>	<b>\$28.07</b>	<b>\$30.69</b>
<b>Totals</b>	<b>25,784,479</b>	<b>196,272</b>	<b>13.7 %</b>	<b>76,554</b>	<b>-11,742</b>	<b>\$39.67</b>	<b>\$28.04</b>	<b>\$31.73</b>

## PALM BEACH LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
PNC Bank	Fairway Office Ctr-7121 Fairway Dr	N Palm Bch/Palm Bch Gardens	Direct	21,778
Gift of Life Marrow Registry	Sabre Ctr I-5901 Broken Sound Pky	Boca Raton	Direct	17,465
Royal Investments	Palmetto Pk City Ctr-120 Palmetto Pk Rd	Boca Raton	Direct	14,196

## SELECT SALE TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
220 Congress Building-220 Congress PK	Delray Beach	\$11,400,000	\$208	54,805