

## PALM BEACH COUNTY

The Palm Beach office market was closer to a balance between demand and supply at the close of 2018, which marked its eight consecutive year of growth but its weakest annual performance since the recovery began. Only 20,312 square feet of positive absorption occurred during the year, holding vacancy level from last year at 13.6%. Three of the four quarters of 2018 saw slight corrections, but they were not enough to negate the year's strong third-quarter performance. Class B inventory took the lead within the market, as 92,750 square feet of positive absorption pushed vacancy down 60 basis points to 16.2%. Class C space trailed with negative absorption, the result of 20,972 square feet returned to the market, which increased vacancy to 9.2%. Class A space experienced 40,686 square feet of negative absorption, as vacancy ticked up 40 basis points to 11.0% from one year ago. Despite the slowing growth, asking rents increased from one year ago, with the Class A segment surpassing the \$40.00/SF mark and landing at \$40.21/SF at the close of fourth-quarter 2018. High-end space peaked at \$36.55/SF during the previous economic cycle, and asking rents to have well surpassed that during this growth period. The Class B weighted average increased to \$27.94/SF from \$27.22/SF one year ago, a less significant change. This could be a sign of things to come, as escalating rents in Class A properties push tenants to consider cost over quality. Discipline on the parts of developers has held, with no construction completions taking place since the first half of 2011. Only two buildings were under construction, totaling over 196,000 square feet and due to hit the market in 2019. These will likely have somewhat of an impact to the market, but nowhere near the levels seen during the previous downturn.

### LEASING AND DEMAND

Leasing activity increased from the previous quarter, as 143 transactions totaling 452,000 square feet closed during fourth-quarter 2018, bringing totals to more than 1.8 million square feet year-to-date. This was also a slight increase from the 1.7 million square feet of deal activity seen one year ago. Class B office space took the lead for the first time since the economic recovery began with 1.1 million square feet, while Class A space fell to the number two spot with 656,000 square feet in 2018. Class C space continued to lag, with only 76,385 square feet of deal activity. Palm Beach County saw an improvement in midsize and large lease deals during the quarter, which helped raise the market to the number two spot with 626,000 square feet, while medical-related agencies took the lead to close out 2018 with 203,000 square feet of lease deals. Financial companies took second place with 127,000 square feet, and the retail sector came in third with 77,000 square feet of transaction activity. Palm Beach's strong ties to the residential sector have begun to pick up demand for office space in lower tier buildings.

### INVESTMENT SALES

Six sale transactions totaling only 319,000 square feet occurred during fourth-quarter 2018, bringing year-to-date investment sales to 2.9 million square feet worth a combined \$445.7 million, a significant improvement from the 1.4 million square feet that sold for \$239.9 million sold one year ago. The average sales price increased from \$191/SF one year ago to \$215/SF. This can be attributed to the increase in price per square foot in second-tier Class B property sales that occurred in 2018.

## CURRENT CONDITIONS

Class B space regained the lead for leasing activity in the fourth quarter giving the lower-tier office segment the strongest recorded absorption for 2018.

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.

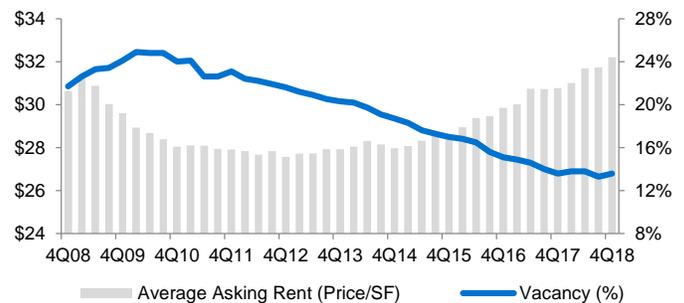
The Boca Raton Submarket dominated in demand with the strongest recorded absorption for the year.

Investment activity rose from the previous quarter but still remained limited as owners hold onto their properties.

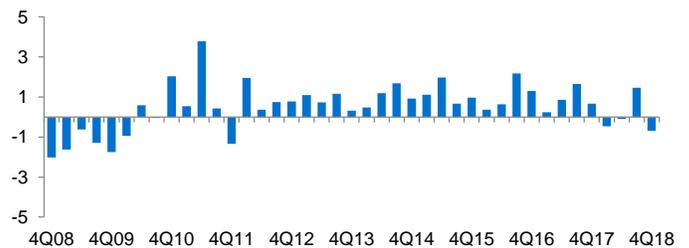
Palm Beach was the only market to see the average sale price rise.

## 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	13.6%	13.3%	13.6%	↔
Quarterly Net Absorption	(68,127)	146,153	66,989	↔
Average Asking Rent	\$32.20	\$31.73	\$30.76	↑
Under Construction	196,272	196,272	196,272	↔
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>	2,424,181	0	9.3 %	-9,310	-7,898	\$53.94	\$27.09	\$46.29
Boca Raton	11,597,879	0	12.7 %	-28,581	114,063	\$37.58	\$28.93	\$33.78
Boynton/Lantana	712,398	0	23.0 %	-28,351	-44,444	N/A	\$23.41	\$19.74
Delray Beach	1,750,549	84,300	37.8 %	8,152	-21,767	N/A	\$23.33	\$22.98
Jupiter	596,224	0	5.3 %	7,007	117	N/A	\$29.97	\$29.97
N Palm Bch/Palm Bch Gardens	3,594,654	111,972	6.6 %	-14,434	36,134	\$41.31	\$23.61	\$29.25
Palm Beach	822,706	0	16.0 %	-2,931	757	N/A	\$55.06	\$54.50
Palm Springs/Lake Worth	238,131	0	7.5 %	-4,132	-12,930	N/A	\$23.82	\$23.82
Royal Palm Bch/Wellington	304,640	0	1.7 %	6,808	5,718	N/A	\$32.42	\$27.43
W Palm Beach Suburban	3,743,117	0	14.9 %	-2,355	-49,438	\$36.46	\$26.01	\$28.54
<b>Suburban Total</b>	<b>23,360,298</b>	<b>196,272</b>	<b>14.0 %</b>	<b>-58,817</b>	<b>28,210</b>	<b>\$37.83</b>	<b>\$27.97</b>	<b>\$30.97</b>
<b>Totals</b>	<b>25,784,479</b>	<b>196,272</b>	<b>13.6 %</b>	<b>-68,127</b>	<b>20,312</b>	<b>\$40.21</b>	<b>\$27.94</b>	<b>\$32.20</b>

### PALM BEACH LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Modern Medicine	Boca Raton Innovation Campus-4700 Exchange Ct	Boca Raton	Direct	94,000
TherapeuticsMD	The Park @ Broken Sound-951 Yamator Rd	Boca Raton	Direct	55,164
VitaCost	The Park @ Broken Sound-951 Yamator Rd	Boca Raton	Direct	35,000

### SELECT SALE TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
The Park @ Broken Sound-6111 Broken Sound Pkwy	Boca Raton	\$21,400,000	\$229	93,500
Seacoast National Ctr-3001 PGA Blvd	N Palm Bch/Palm Bch Gardens	\$24,500,000	\$363	67,500
The Siena @ Broken Sound-1095 Broken Sound Pkwy	Boca Raton	\$10,000,000	\$174	57,408