

PALM BEACH

The first quarter of 2019 marked the Palm Beach office market's weakest performance start of the year since the beginning of 2010, when the Great Recession was in full swing. Supply surpassed demand for the second consecutive quarter with more than 58,000 square feet of negative absorption. Notably, the removal of Congress Corporate Park, Office Depot's former 530,000-square-foot headquarters, for residential redevelopment helped shrink vacancy 160 basis points to settle at 11.7% from the previous quarter. In spite of slowing market conditions, this pushed vacancy to its lowest level in 12 years. Class A space saw more of a balance between supply and demand with 2,886 square feet of negative absorption, while Class B posted the largest correction, as 63,561 square feet of supply was returned to the market. For the first time since 2008, Class C space was the only segment to post growth with 7,821 square feet of positive net absorption. Despite slowing conditions, asking rents inched upward from one year ago in all three segments. Class A rents climbed to \$41.01/SF during first-quarter 2019, 11.0% higher than their peak of \$36.92/SF recorded during the previous economic cycle. The Class B weighted average increased to \$29.17/SF from its peak of \$27.87/SF peak one decade ago. Lower-tier Class C space rose to \$19.61/SF but remained below the \$20.94/SF high recorded in third-quarter 2007.

LEASING AND DEMAND

Leasing activity consisting of 151 transactions totaling more than 363,000 square feet was reported during first-quarter 2019. This was down from recent quarterly performances, as Class B office space totaled 203,000 square feet, while Class A tailed behind with more than 155,000 square feet, the lowest quarterly performance since the Great Recession. Lower-end Class C space continued to lag, with only 4,800 square feet of deal activity during the first quarter. Palm Beach County saw only three midsize lease deals during the quarter, with the largest coming in at 10,391 square feet by a financial firm. The professional and business services sector signed two lease deals totaling just over 13,400 square feet. Most deals continued to come from tenants already in the market, in the form of renewals or relocations. Palm Beach's strong ties to the residential sector and healthcare industries have not translated into significant increased demand for office needs.

INVESTMENT SALES

Four sales totaling modest 344,000 square feet valued at \$59.7 million occurred in the first quarter of 2019. This was on par with the 313,000 square feet sold for \$55.2 million one year ago. No high-end sales compared to last year's first-quarter keynote sale of 400 Royal Palm Way for more than \$500/SF. As a result, the average sales price dropped from \$221/SF to \$174/SF. Owners held onto Class A properties, with only two sales taking place during the first quarter. The shortage of Class A properties for sale did not translate into increased sales activity for the Class B segment, with only two sales, totaling over 99,000 square feet changing hands during the quarter. Demand for lower-tier space surged over the past two years but slowed at the start of 2019. Slowing market conditions coupled with concerns of a possible economic downturn and higher interest rates could hinder investor interest in office sales.

CURRENT CONDITIONS

Class B space held the lead in leasing activity for the second consecutive quarter but mostly in the form of renewals, unable to impact demand growth for the first quarter.

Higher rents and a lack of available space in Class A space could boost demand in lower-tier segments, as tenants may begin to prefer cost over quality.

West Palm Beach's CBD Submarket took the lead in demand with the strongest recorded absorption for the first quarter as Boca Raton posted modest negative absorption for the first time since the recovery began.

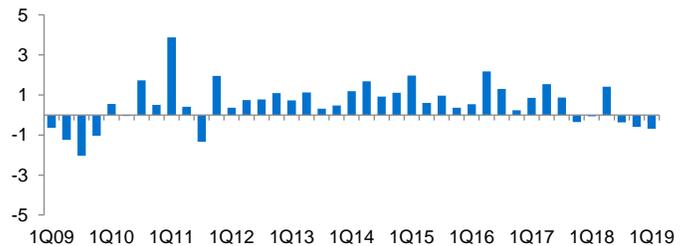
Investment activity fell from the previous quarter with limited properties exchanging hands.

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	25.5MSF	25.8MSF	25.8MSF	↑
Vacancy Rate	11.7%	13.4%	13.6%	↔
Quarterly Net Absorption	(58,626)	(37,605)	(35,597)	↔
Average Asking Rent	\$33.29	\$32.21	\$31.03	↑
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)
W Palm Beach CBD	2,424,181	0	8.5 %	19,450	19,450	\$55.21	\$26.07	\$47.14
Boca Raton	11,821,879	0	12.7 %	-32,244	-32,244	\$38.33	\$28.50	\$33.73
Boynton/Lantana	712,398	0	22.7 %	-4,800	-4,800	N/A	\$23.88	\$19.95
Delray Beach	1,198,689	84,300	11.1 %	-11,600	-11,600	N/A	\$27.94	\$26.74
Jupiter	596,224	0	6.3 %	-5,899	-5,899	N/A	\$29.37	\$29.37
N Palm Bch/Palm Bch Gardens	3,597,494	111,972	6.5 %	2,379	2,379	\$39.79	\$23.58	\$27.96
Palm Beach	822,706	0	16.5 %	-4,603	-4,603	N/A	\$55.66	\$55.11
Palm Springs/Lake Worth	238,131	0	11.5 %	-9,578	-9,578	N/A	\$23.38	\$23.38
Royal Palm Bch/Wellington	304,640	0	2.5 %	-2,459	-2,459	N/A	\$29.75	\$29.75
W Palm Beach Suburban	3,743,117	0	14.5 %	-9,272	-9,272	\$37.35	\$27.13	\$29.27
Suburban Total	23,035,278	196,272	12.1 %	-78,076	-78,076	\$38.36	\$29.28	\$31.96
Totals	25,459,459	196,272	11.7 %	-58,626	-58,626	\$41.01	\$29.17	\$33.29

PALM BEACH LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
FlexShopper LLC	North40- 901 Yamato Rd	Boca Raton	Direct	21,622
Saxena White PA	Boca Corp Ctr-777 Glades Rd	Boca Raton	Direct	12,798
Sutton Park Capital	One Boca Place-2255 Glades Rd	Boca Raton	Direct	10,391

SELECT SALE TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
Boca Colonnade-777 Yamato	Boca Raton	\$12,880,000	\$83	155,608
Wells Fargo Plaza-925 S Federal Hwy	Boca Raton	\$27,226,280	\$308	88,509
205 Datura	W Palm Beach CBD	\$14,215,000	\$199	71,285