

PALM BEACH

The second quarter of 2019 saw another uptick in vacancy after another quarter of supply just outpacing demand, as the office sectors struggled during the first half of the year with more than 53,500 square feet of negative absorption. Vacancy rose 40 basis points from the previous quarter to 11.7% but was still below the 11.9% rate recorded at this time last year. The Class A segment saw a balance between supply and demand, recording only 373 square feet of negative absorption, while Class B posted more than 87,300 square feet of supply returned to the market, pushing vacancy up 110 basis points from the prior quarter to 11.1%. In a rare occurrence, the Class C segment led during the first half of 2019, as year-to-date absorption was positive with more than 34,400 square feet. Overall asking rents ticked upward over the past year with a \$1.15/SF increase from second-quarter 2018, with the Class A segment reaching \$40.85/SF, a 10.2% increase from the previous peak of \$37.07/SF recorded 11 years ago. Class A rent gains in the West Palm Beach CBD and Boca Raton submarkets have slowed over the past 12 months but could continue if demand continues to lose momentum over the next 12 months. The Class B weighted average increased to \$29.20/SF from \$28.68/SF one year ago. Lower-tier Class C space saw the strongest year-over-year improvement, as the average asking rate increased \$2.29/SF from last year to \$19.44/SF. Construction activity remained limited, with one completion, a build-to-suit for GeoGroup's new headquarters, totaling more than 106,000 square feet. One building with more than 111,000 square feet of Class A speculative space remained under construction in the North Palm Beach/Palm Beach Gardens submarket and will likely be completed in the second half of 2019.

LEASING AND DEMAND

Leasing activity consisted of 174 transactions totaling 448,980 square feet during second-quarter 2019, bringing totals to 799,000 square feet year to date. Class A office space comprised 329,500 square feet, while Class B held onto the lead in deal activity with 460,000 square feet so far in 2019. Lower-end Class C space continued to lag, with only 9,000 square feet of deal activity during the first half of the year. Palm Beach County saw only 12 midsize lease deals so far this year, with the largest at just 21,622 square feet, signed by FlexShopper, giving the financial sector the lead in lease deals so far this year with more than 83,400 square feet. The professional and business services segment followed suit with 32,700 square feet, while the 20,000 square-foot lease deal by Levatas put the real estate sector in third place. Most deals continued to come from tenants already in the market and in the form of renewals and lateral relocations. Palm Beach's strong ties to the residential sector and healthcare industries have not translated into significant increased demand for office needs and will likely remain that way.

INVESTMENT SALES

Four sales totaling approximately 190,000 square feet closed in second-quarter 2019. This was in stark contrast to the 2.0 million square feet that sold in second-quarter 2018, bringing the combined total to 614,696 square feet that sold for \$108.4 million. All of the properties trading hands remained second-tier Class B and Class C buildings. As a result, the average sales price dropped from \$214/SF to \$176/SF. Owners held on to Class A properties, with no high-end building sales taking place in the first half of 2019. The shortage of Class A properties for sale did not translate into increased sale activity for the lower-tier segments as investment sales remained limited throughout the county.

CURRENT CONDITIONS

Four out of the last six quarters have seen supply outpace demand as negative net absorption pushed vacancy upward in the first half of 2019.

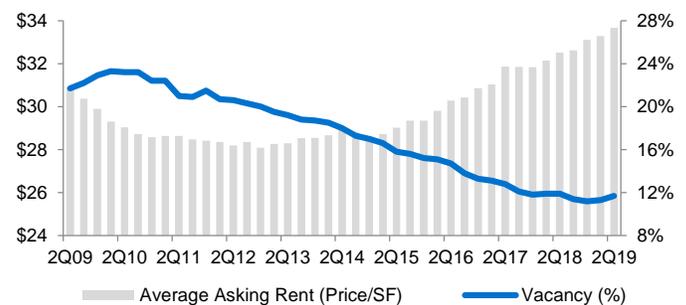
Higher rents and a lack of available space in Class A space have not yet translated into increased demand for lower-tier segments, as Class B space led the market in returned office supply.

The Delray Beach Submarket took the lead in demand with the strongest recorded absorption, while Boca Raton and West Palm Beach's CBD posted modest negative absorption for the first half of the year.

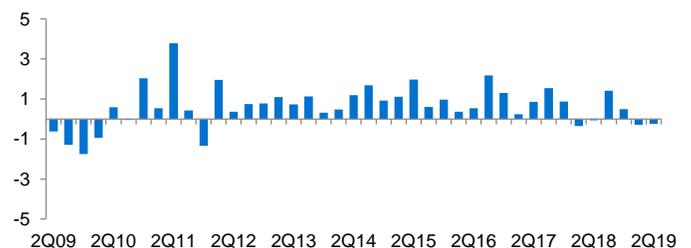
Investment activity was limited in the first half of 2019, as sale opportunities remained scarce throughout the county.

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	25.5 MSF	25.5 MSF	25.1 MSF	↑
Vacancy Rate	11.7%	11.3%	11.9%	↑
Quarterly Net Absorption	(53,526)	(29,399)	(6,858)	↔
Average Asking Rent	\$33.66	\$32.28	\$32.51	↑
Under Construction	111,972	265,162	265,162	↔
Deliveries	106,957	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	2,359,181	0	8.3 %	-43,650	-24,200	\$56.80	\$25.77	\$49.12
Boca Raton	11,928,836	0	13.1 %	-31,669	-47,917	\$37.84	\$28.51	\$34.05
Boynton/Lantana	712,398	0	15.3 %	23,898	19,098	N/A	\$23.53	\$20.20
Delray Beach	1,244,922	0	11.4 %	29,698	24,926	N/A	\$30.84	\$29.48
Jupiter	596,224	0	7.7 %	-7,947	-13,846	N/A	\$27.86	\$27.86
N Palm Bch/Palm Bch Gardens	3,597,494	111,972	6.9 %	-20,609	-11,827	\$38.39	\$24.94	\$28.55
Palm Beach	822,706	0	15.3 %	10,152	5,549	N/A	\$56.43	\$56.43
Palm Springs/Lake Worth	238,131	0	11.3 %	445	-9,133	N/A	\$23.65	\$23.65
Royal Palm Bch/Wellington	304,640	0	2.0 %	1,319	-1,140	N/A	\$28.46	\$28.46
W Palm Beach Suburban	3,704,117	0	14.3 %	14,236	4,964	\$38.02	\$27.00	\$29.55
Suburban Total	23,149,468	111,972	12.1 %	19,523	-29,326	\$37.92	\$29.31	\$32.11
Totals	25,508,649	111,972	11.7 %	-24,127	-53,526	\$40.85	\$29.20	\$33.66

PALM BEACH LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Levatas	Offices @ Cityplace - 477 Rosemary	W Palm Beach CBD	Direct	20,000
Raymond James & Associates	One Town Ctr-1 Town Center Rd	Boca Raton	Direct	19,292
Ameriprise Financial	Tower I - 5200 Town Ctr Cir	Boca Raton	Direct	16,899

SELECT SALE TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
Northbridge Ctr-515 N Flagler Dr	West Palm Beach CBD	\$68,240,000	\$233	293,000
Congress Corp Plaza-902 Clint Moore Portfolio	Boca Raton	\$21,200,000	\$199	106,449
Commerce Pt Gold-1800 S Australian	W Palm Beach Suburban	\$8,500,000	\$196	43,336