MID-YEAR 2012

PALM BEACH OFFICE REPORT

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Commercial Florida Realty Services is pleased to announce its mid-year 2012 Office Market Reports for the Broward and Palm Beach County markets.

During the mid 90's, Commercial Florida differentiated itself from its competition by providing proprietary and sophisticated market research information and analysis. These market reports were sought after and well regarded by developers, tenants, and private and institutional owners of office properties. While times have changed with the arrival of Co-Star and other online property information sources, the need for intuitive interpretation of market information to determine both current conditions and trends has not.

Commercial Florida's primary objective is real estate value creation through quality real estate services and property solutions with the highest level of professionalism, personal service and commitment to assist our clients in making the best possible real estate decisions in this competitive and volatile business environment.

We look forward to your comments and suggestions and hope that you will not only find these reports useful, but that you will turn to Commercial Florida for all your South Florida office property needs.

Commercial Florida remains encouraged with the increase in transaction velocity in the first half of the year. However, we remain cautiously optimistic that it will sustain itself long enough to have a meaningful impact on occupancy, rental rates and ultimately values.

George Sacks
Principal

Peter Reed
Principal

Recovery Falters After Two Years of Gains

The Palm Beach County office market lost some momentum during 2012 as net absorption swung negative in the first half. The loss of a net 30,193 square feet is not extremely significant by itself; however, this does represent a changing trend from the prior two years. Overall vacancy moved up slightly to 22.95% in the first half of the year while lease rates actually moved up by seven cents on average to $17.90. This flattening indicates the prior recovery has stalled, but we do not believe this is yet indicative of a major trend reversal or start of a new downturn. Landlords should brace themselves for fierce competition for tenants as buildings all over South Florida deal with struggling growth in demand.

Interestingly, net losses in occupied space were only seen in two submarkets, Boynton Beach with a loss of 117,877 as a flurry of exits plagued the market and Boca Raton with a loss of 40,568. The rest remained essentially flat or saw very modest gains. The largest gain was seen in relatively small northern submarket of Jupiter at 64,067. West Palm Beach also fared well with a gain of 33,693. It is also noteworthy to mention that within all submarkets, the losses were predominantly from Class A buildings while Class B actually gained in all markets except Boynton Beach. This is likely due to the expiration of relatively expensive pre-bubble leases, not due to a new downturn. We expect the market to remain essentially flat for the balance of 2012.

The largest leasing transactions noted in the first half of the year included Child and Family Connections leasing 50,000 square feet in 4100 Okeechobee Blvd and the U.S. government leasing 31,487 square feet in Courthouse Commons, both in the West Palm Beach submarket. The largest sale transaction also took place in West Palm Beach with Breakers Capital Partners buying the 113,953 square foot building at 1700 Palm Beach Lakes Blvd from DRA Advisors for $18,462,500 or $162.02 per square foot. An equally large distress transaction occurred in the Boca Raton submarket with Capmark Bank selling the 184,575 square foot Fountains at Camino building for $16,000,000; which represents quite a bargain at just $86.69 per square foot. Deals are closing at prices significantly below replacement costs in Palm Beach County, buyers should not wait if looking for assets.

Direct Vacancy Rates		
1H12	YE12	1H11
22.58%	22.40%	21.76%
Sublet Vacancy		
1H12	YE12	1H11
0.36%	0.46%	0.46%
Overall Vacancy		
1H12	YE12	1H11
22.95%	22.86%	22.22%
Weighted Average Direct Lease Rate		
1H12	YE12	1H11
$ 17.90	$ 17.83	$ 17.70

"Landlords should brace themselves for fierce competition for tenants.."

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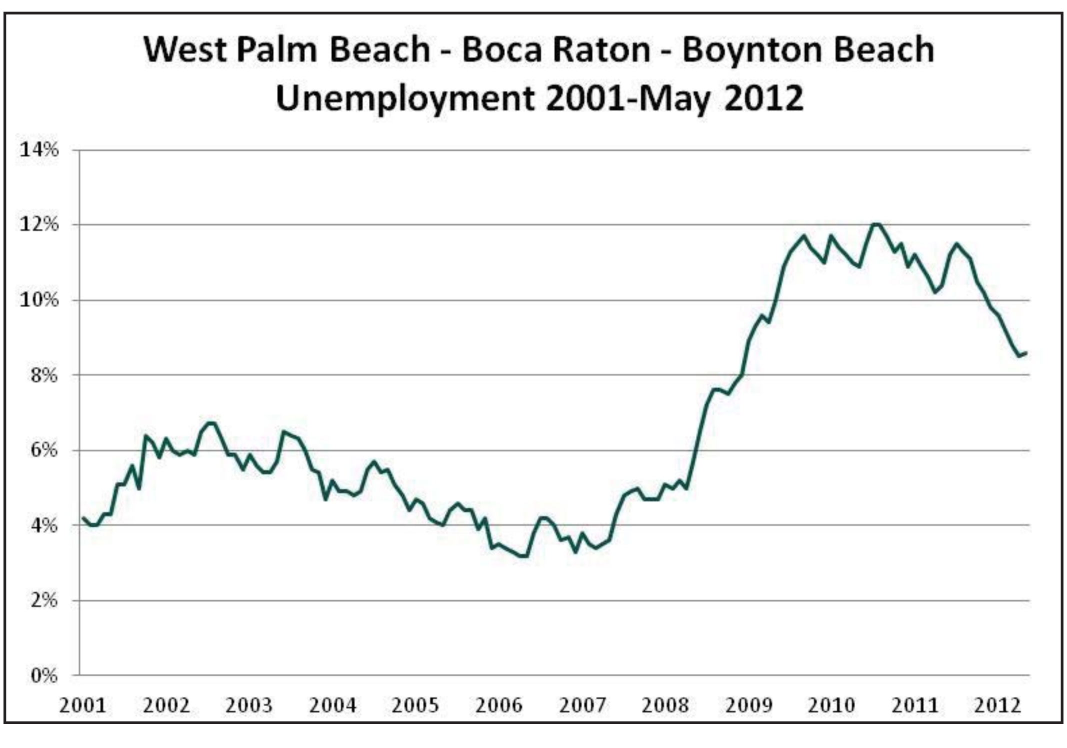
Palm Beach Economic Focus

Palm Beach County saw decent job creation in the first half of 2012 as the unemployment rate fell from 9.8% in December of 2011 to 8.6% in May of 2012 according to the Bureau of Labor Statistics. Unfortunately for the Palm Beach office market, key office using employment sectors, information technology and financial services remained flat for 2012. However, business and professional services did see gains that have now averaged a 6.6% annual growth rate. The largest employment drag on the county remains leisure and hospitality which lost jobs at negative 6.7% annual rate according to the latest data.

Palm Beach is likely suffering from the overall slowdown of the recovery being experienced nationwide. Business leaders have been stating the need to be cautious about expansion plans given the overall level of macro uncertainty. As Palm Beach is a predominantly suburban county, it is likely that growth will be more impacted until stronger overall growth trends take hold. Thus, we cannot expect there to be much in the way of news (negative or positive) for Palm Beach for the remainder of the year. One bright sector that continues to show strong growth is education and health services, currently growing employment at an 3.7% annual rate. Palm Beach is well positioned for growth in this sector as medical spending increases as is forecast to do nationwide.

There are unique statewide and regional projects under consideration that could have strong positive effects on Palm Beach and its real estate markets in particular. One specific project is the plan to build a privately funded, tourist centric railroad to connect Orlando to Miami and eventually Tampa and Jacksonville with a stop in West Palm Beach. This plan, called "All Aboard Florida", is a project of Florida East Coast Industries and will make use of existing tracks that can allow service to begin as early as 2014. If this occurs, we believe Palm Beach could see a great inflow of European and Central/South American tourists visiting Miami or Orlando who would otherwise bypass Palm Beach County. This could do wonders to improve overall employment and economic health.



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Submarket Highlight: West Palm Beach

The West Palm Beach submarket is the second largest within Palm Beach County representing roughly 25% of total available space. As mentioned previously, the submarket was nearly the best performer in the first half of 2012 with 33,693 square feet of positive net absorption, which although relatively flat is a marked turnaround for a submarket whose negative absorption once topped 250,000 square feet. For now it appears that the majority of activity has been renewals and expansions as existing tenants look to lock in attractive lease rates. TAO Sustainable Power Solutions recently leased 13,505 square feet of space in West Palm Beach and represents a new entrant to the market which will bring at least 50 high paying jobs to the area. The deal was done without any city, county, or state incentives, as TAO was interested in moving quickly into their new space in the Commerce Gold building on Australian Avenue.

Those still on the side lines may feel the pressure to pull the trigger sooner rather than later as landlords have taken notice of the improving economic outlook and are beginning to actually raise rates for highly coveted buildings. Thus, despite a total vacancy rate of 20.18%, West Palm Beach lease rates actually rose $0.45 since the end of 2011.

Following several large transactions in the last half of 2011, sales volume within the Palm Beach market has been somewhat slow. This however did not stop private investment firm, Breakers Capital Partners from purchasing the 1700 Palm Beach Lakes from DRA in what has been the largest sale transaction in the first half of the year. The building was 87% leased at time of sale and was acquired for roughly $18.5 million or $162 per square foot. Additionally, three of the eight largest leasing transactions this quarter took place within the submarket, evidence that the submarket has not lost its luster through the downturn and relative demand within the county remains strong.

Moving forward we believe that further strengthening (and to some degree acceptance) of economic conditions will ignite activity in this highly desirable area. The West Palm Beach area is still close enough to benefit from global traffic through Miami, though enough removed for executives to enjoy the true relaxed South Florida culture. Additionally, both the Clematis Street District and CityPlace provide area residents with an array of first class dining options, key draws for high end office users.

Palm Beach By The Numbers

Boca Raton	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Mid-Year Absorption	Weighted Average Direct Lease Rate
Class A	6,343,712	1,410,334	22.23%	0.16%	22.39%	-92,660	$ 19.58
Class B	7,019,047	1,622,059	23.11%	0.02%	23.13%	52,092	$ 15.58
Boca Raton Total	13,362,759	3,032,393	22.69%	0.08%	22.78%	-40,568	$ 17.48

Boynton Beach	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Mid-Year Absorption	Weighted Average Direct Lease Rate
Class A	446,296	174,084	39.01%	0.00%	39.01%	-61,060	$ 19.93
Class B	850,698	171,589	20.17%	0.00%	20.17%	-56,817	$ 16.71
Boynton Beach Total	1,296,994	345,673	26.65%	0.00%	26.65%	-117,877	$ 18.32

Delray Beach	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Mid-Year Absorption	Weighted Average Direct Lease Rate
Class A & B	2,010,132	914,384	45.49%	0.00%	45.49%	898	$ 13.67
Delray Beach Total	2,010,132	914,384	45.49%	0.00%	45.49%	898	$ 13.67

Jupiter	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Mid-Year Absorption	Weighted Average Direct Lease Rate
Class A & B	1,458,993	166,706	11.43%	0.10%	11.53%	64,067	$ 17.37
Jupiter Total	1,458,993	166,706	11.43%	0.00%	11.43%	64,067	$ 17.37

N. Palm Beach / Palm Beach Gardens	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Mid-Year Absorption	Weighted Average Direct Lease Rate
Class A	1,406,936	311,256	22.12%	0.00%	22.12%	-9,915	$ 20.46
Class B	2,378,377	430,531	18.10%	2.12%	20.22%	23,492	$ 17.52
N. Palm Beach / Palm Beach Gardens Total	3,785,313	741,787	19.60%	1.33%	20.93%	13,577	$ 18.78

Palm Beach	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Mid-Year Absorption	Weighted Average Direct Lease Rate
Class A & B	696,647	106,475	15.28%	1.80%	17.08%	16,017	$ 40.51
Palm Beach Total	696,647	106,475	15.28%	1.80%	17.08%	16,017	$ 40.51

West Palm Beach	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Mid-Year Absorption	Weighted Average Direct Lease Rate
Class A	3,428,502	666,625	19.44%	0.94%	20.39%	-14,878	$ 21.63
Class B	3,624,037	724,501	19.99%	0.00%	19.99%	48,571	$ 17.11
West Palm Beach Total	7,052,539	1,391,126	19.73%	0.46%	20.18%	33,693	$ 19.35

Overall Market	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Mid-Year Absorption	Weighted Average Direct Lease Rate
Overall Market Total	29,663,377	6,698,544	22.58%	0.36%	22.95%	-30,193	$ 17.90

Special Focus: The Impact of Distress

Summer in South Florida brings not only our world famous heat and humidity, but also hurricane season. Landlords and tenants should remember this reality of living in the Sunshine State and be prepared for all eventualities. First, if acquiring or leasing, consider the buildings structural condition with regards to wind resistance. Newer buildings with hurricane rated windows have been shown to perform much better than older buildings built under prior building codes; plus, these newer properties or similarly retrofitted ones benefit from much cheaper property insurance rates. If a storm hits any where in Florida or even the U.S., wind insurance rates will likely rise very fast and having a newer, or upgraded building will allow for keeping the lowest rates and having the largest choice of potential insurers.

Second, both landlords and individual tenants should have hurricane plans well defined and ready to implement. The first part of this plan should address what happens if a warning and/or evacuation order is issued. Remember that even if a building is outside of an evacuation zone, employees may reside in one and thus are equally effected. The second part of the plan should address how to best recover in the event of damage. It is best to know what service providers can be relied upon to make emergency repairs if needed. The final part of the plan is for business continuity should the property be unusable for a protracted period of time. This may or may not have anything to do with the physical condition of the building; loss of power, running water, and road accessibility can equally shut business down for extended periods.

Noteworthy Transactions

Tenant	Building	Submarket	Leased Sq. Ft.	Tenant Broker	Landlord Broker
Child and Family Connections	4100 Okeechobee Blvd.	West Palm Beach	50,000	WGCompass Realty Partners	In-Rel Properties
United States of America - DEA	Courthouse Commons	West Palm Beach	31,487	-	Stiles
G4S Government Solutions	Fairway Office Center - Phase 1	N. Palm Beach	28,692	NAI/Merin Hunter Codman, Inc.	NAI/Merin Hunter Codman, Inc.
State Farm	Emerald View	West Palm Beach	24,329	Blackacre Advisors, LLC	Jones Lang LaSalle
Philips Emergin	Beacon Square	Boca Raton	21,117	Jones Lang LaSalle	Flagler
Modernizing Medicine	Innovation Centre - 3600 Building	Boca Raton	15,385	N/A	Flagler
TAO Sustainable Power Solutions	Commerce Pointe Gold	West Palm Beach	13,505	Business Real Estate	NAI/Merin Hunter Codman, Inc.
AmeriHealth	11601 Kew Gardens Ave	N. Palm Beach	13,444	WGCompass Realty Partners	CBRE

Noteworthy Sales Transactions

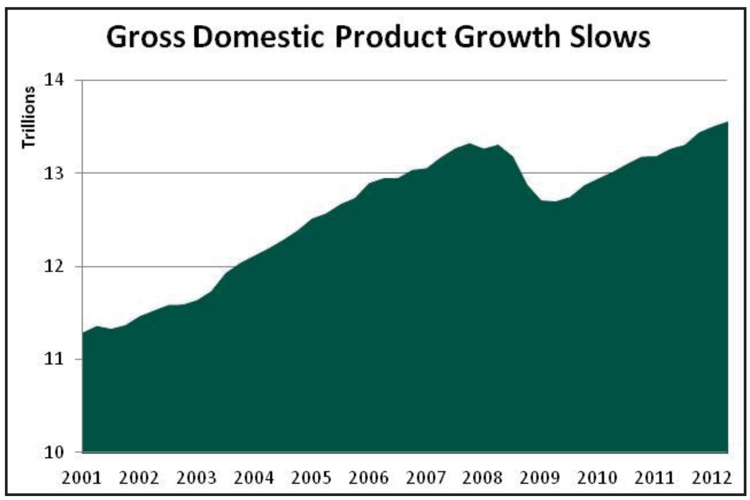
Buyer	Seller	Building	Submarket	Total SF	Sales Price / Price per SF
Breakers Capital Partners	DRA Advisors LLC	1700 Palm Beach Lakes Blvd	West Palm Beach	113,953	$18,462,500 ($162.02)
Boca Medical Plaza, LLC	Capmark Bank	Fountains at Camino	Boca Raton	184,575	$16,000,000 ($86.69)
Aetna, Inc.	Easton & Associates	3301 Quantum Blvd	Boynton Beach	100,000	$10,107,658 ($101.08)
G&C Congress Investors	ATC Realty One	Congress Office Park	Delray	53,843	$4,250,000 ($79.00)

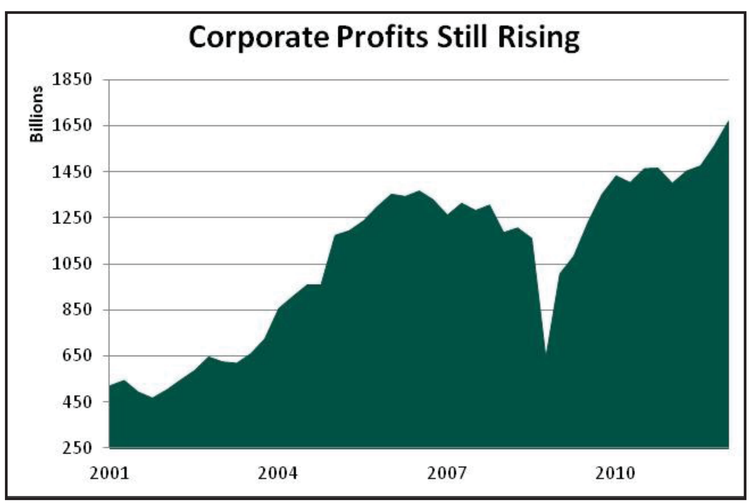
National Economic Overview

The economic recovery the United States had been enjoying, even if too slow for most tastes, slowed down to a crawl by the end of the first half of 2012. Gross Domestic Product as reported by the Bureau of Economic Analysis grew at just 1.5% annualized in the second quarter of 2012, down from 2.0% in the first quarter. Job growth has come in at equally disappointing rates as fear and uncertainty once again have made a summer reappearance.

While the news does not sound great, the economy is still technically growing and we have yet to enter any form of a new recession, however the risk of such is notably higher than last year. Key measures such as retail sales and corporate profits are still at very high levels but the pace of growth has leveled and even shown very slight declines. We believe this will result in many consumers and business leaders taking a "wait and see" approach to major expenditures and investment decisions. The net result will likely be very slow employment growth that may cause the unemployment rate to rise slightly for the rest of the year.

Having some certainty about the tax code for 2013 will help greatly as many transactions, such as real estate acquisitions, are being delayed due to tax code risk. Regardless of what the President (whoever that may be) and Congress decides, having real numbers will make planning much easier. This will allow people and businesses to spend more confidently. Sadly, do not expect growth to resume until such occurs which may take until December given the political environment.



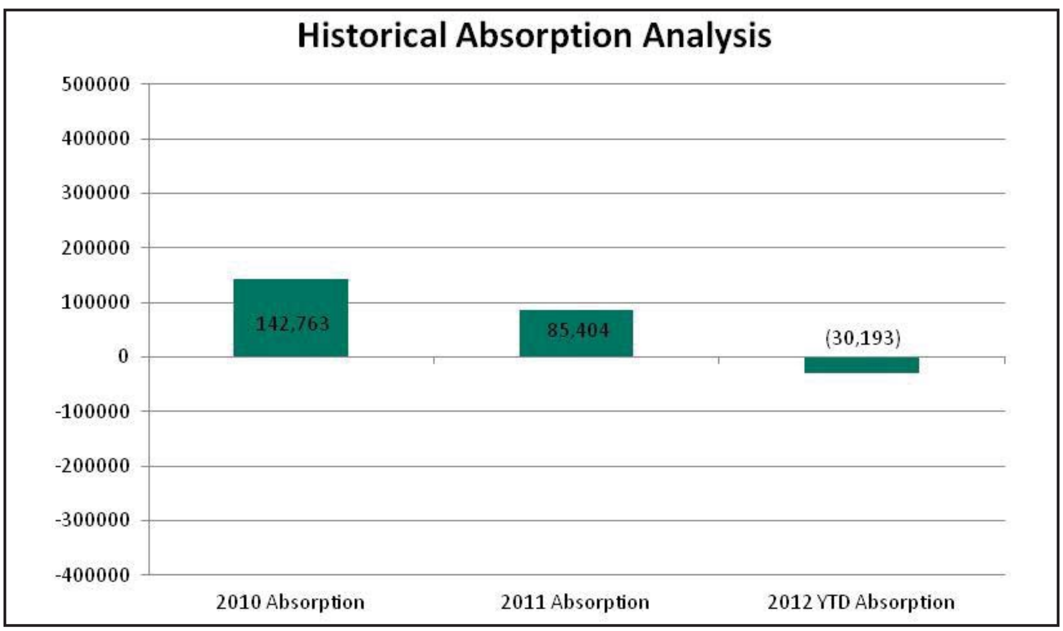


Closing Thoughts and Future Expectations

One of the largest news stories of the first half of 2012 was the U.S. Supreme Court's ruling that the Affordable Care Act, aka "Obamacare", was largely constitutional. While it is far beyond our scope to say what will happen legislatively with regards to healthcare in the future, it is more certain than ever that health care spending will rise for the foreseeable future. As more people obtain health insurance there is likely to be more office visits than ER visits and increased use of specialists and follow-up care and testing. This points to an obvious need for additional medical facilities and medical offices. Additionally, a multiplier type effect will likely occur increasing the need for additional space to house the non-clinical support staff of hospitals, insurance companies, drug and equipment providers, and even government regulators. Thus we believe medical and medical-related ventures will likely be a dominant user of additional office space both nationwide and in Palm Beach County in both the near and long term.

What does this mean for landlords and prospective purchasers today? Buildings with proximity to hospitals may be able to command lease rate premiums as medical and related users like to keep in close proximity to care facilities. More space that was not originally designed for medical use will be converted to such use as needed. This will extend beyond office space and likely include certain retail and even industrial facilities. There is already a growing trend of opening out patient medical care facilities in retail centers and malls with high vacancies across the country. Landlords may be smart to consider repurposing some spaces and buildings to medical use to fill current vacancies.

The other implication of the law's upholding is the imposition of the 3.8% surtax on investment income for high income individuals and families. This will affect interest, dividends, rents, and capital gains. Thus, real estate investors will be affected directly. This could potentially hurt prices and sales of investment grade real estate as the tax reduces the net cash flows available. Investors should consult with qualified tax professionals on how to best minimize these potential impacts.



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