MID-YEAR 2013

PALM BEACH OFFICE REPORT

George Sacks
gsacks@commfla.com

Peter D. Reed
preed@commfla.com

COMMERCIAL FLORIDA
REALTY SERVICES, LLC

561-338-9950

www.commfla.com

4800 N. Federal Highway | Suite D300 | Boca Raton, Florida 33431

Commercial Florida Realty Services is pleased to announce its mid-year 2013 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, as well as 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 2013. 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

Market Flattens Out As 2013 Moves On

Direct Vacancy Rates		
1H13	YE12	1H12
21.01%	21.30%	22.58%
Sublet Vacancy		
1H13	YE12	1H12
0.33%	0.38%	0.36%
Overall Vacancy		
1H13	YE12	1H12
21.34%	21.68%	22.95%
Weighted Average Direct Lease Rate		
1H13	YE12	1H12
$ 18.18	$ 17.86	$ 17.90

After a very strong finish to 2012, the Palm Beach County office market has remained mostly flat for 2013 with only 88,334 square feet in positive absorption. The market still appears to be improving as overall vacancy rates declined modestly to 21.34% from 21.68% at the start of the year. Average lease rates have ticked upward slightly to $18.18 per square foot from $17.90; this is a most significant upward move in lease rates since the recession, indicating increased confidence on the part of landlords moving forward.

Interestingly, you may recall that the first half of 2012 displayed a similar trend (actually a small negative absorption); thus, it is not impossible for the latter half of 2013 to show significant leasing activity. This type of seasonality tends to be more prevalent in secondary/suburban markets such as Palm Beach County. Increasing investment sales activity in the market indicates that confidence is likely improving, not declining amongst investors; once again reaffirming our belief that a long term positive trend for Palm Beach County is likely to persist.

The best performing submarket in the first half of the year was Boca Raton with 61,083 square feet in positive absorption with North Palm Beach/Palm Beach Gardens coming in second at 34,343 square feet positive. All other submarkets were essentially flat with very minor gains or losses. Further, gains seemed fairly split between Class A and Class B buildings with no particular property type holding a clear advantage.

Key transactions included a 39,788 sq. ft. lease signed with the law firm Aldrige,, Connors, LLP at The Arbors Office Park in Delray Beach; Ventex leasing 23,600 sq. ft. at The Point in Jupiter; and several noteworthy leasing deals in Boca Raton including MDVIP, Inc. leasing 28,841 sq. ft. at 1875 NW Corporate Blvd, Stifel, Nicolaus & Co. taking 14,819 sq. ft. at Fountain Square, 2650 N. Military Trail, and Polen Capital Management leasing 12,904 sq. ft. in the Lynn Financial Center. The most notable sale transaction was TJAC Development acquiring the 107,000 sq. ft. Wharfside at Boca Pointe from DRA Advisors for $12,950,000 in the Boca Raton submarket. Several other Class B deals occurred in Boca Raton as this sector continues to heat up

"Increasing investment sales activity... indicates that confidence is likely improving..."

COMMERCIAL FLORIDA
REALTY SERVICES, LLC

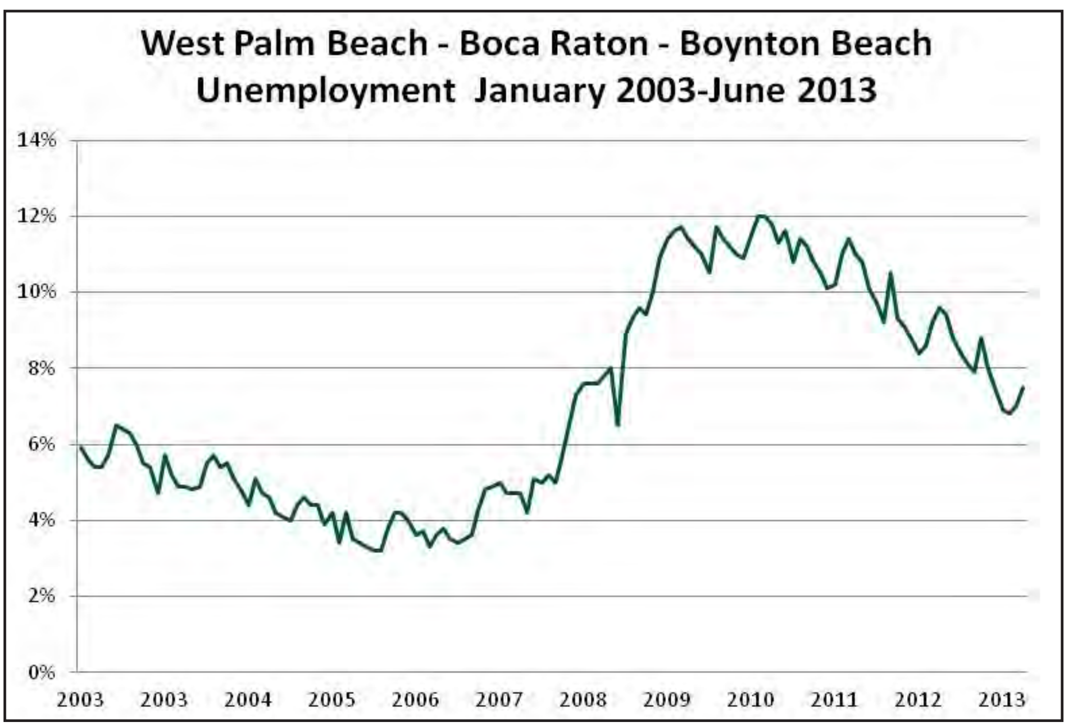
Palm Beach Economic Focus

The economic health of Palm Beach County showed continued recovery as the unemployment rate fell to 7.0% from 8.0% at the start of the year. This rate is now below the national unemployment rate at 7.4%, a fact not observed for many years now. Perhaps more importantly, this improvement came from actual hiring, as almost ten thousand new jobs were created from the start of year; this is opposed to just having people leave the labor force which actually grew over this same time period. This is the type of data that indicates the potential for a long lasting trend in the region.

The fastest growing sector in Palm Beach County is education and health services at a 3.2% annualized rate; this followed by surprisingly strong hiring, 2.8% annualized in government, and 2.7% and 2.6% in the leisure and hospitality and trade, transportation, and utilities sectors respectively. We find great importance in the return of government hiring as this sector had lagged dramatically due to state and local budget woes; no doubt the increase in tourism and the whole Florida economy has improved state cash coffers, a very positive sign for the future.

Sadly, office using sectors did not fair very well in the first half of 2013 as financial activities, information, and professional and business services fell –2.7%, –2.2%, and –0.07% respectively. Given the overall trend, when examining the absolute numbers, we do not believe this is a start of a long term problem but instead, just emblematic of a flat job market recovery in the office using sector. Nonetheless, the slowness in office jobs does correlate well with the slowness in office space absorption seen so far this year.

Palm Beach County still remains very well positioned for future growth but can be negatively effected by slowdowns in the national economy. The rising interest rate environment may impact, amongst other things, the resurgence of residential real estate which has been a growth driver for all of Florida including Palm Beach County. In fact, construction hiring was actually at an annualized negative rate of –1.7% in its most recent reading.



COMMERCIAL FLORIDA
REALTY SERVICES, LLC

Submarket Highlight: West Palm Beach

The West Palm Beach market remained essentially flat during the first half of 2013 with a minor negative net absorption of just 1,888 square feet. What is more interesting is that Class A space lost 21,646 square feet while Class B simultaneously gained 19,758 square feet leading to the net result being so small. Class B still has a higher vacancy rate of 20.97% compared to 19.55% for Class A but appears to gaining strength. Overall asking lease rates for West Palm Beach fell overall to $19.11 from $19.39 at the end of 2012. This leads us to believe the market is very stable and not showing any marked weakness nor growth.

Going forward, we expect positive growth to occur in this market as a result of the recovering employment market. Expansions by existing occupants may be the early catalyst of this growth. Some examples of this type of growth include Oasis Outsourcing, who makes West Palm Beach its headquarters, leasing an additional 8,350 square feet in the Emerald View at Vista Center building giving the firm a total of 49,079 square feet Additionally, the Palm Beach Post is reporting that the Cleveland Clinic, who presently leases 30,000 square feet in CityPlace Tower, is looking to expand to over 60,000 square feet for treatment facilities as well as medical offices. These expansions are made possible by the improving performance of businesses in West Palm Beach, a trend we expect to see continue.

Another industry that is expected to grow and resume hiring, and thus require more office space is legal services. There continues to be a string of announced mergers and expansion plans by leading law firms as their businesses rebound following the recession. One example of such is the opening of a branch by Cozen O'Connor, a Philadelphia based law firm, Cozen just announced the opening of a West Palm Beach office in the Waterfront Clematis Building according to the South Florida Business Journal. Overall economic recovery often creates demand for support services such as law and accounting and the West Palm Beach submarket is very well positioned to house such firms looking to locate or expand in Palm Beach County. The market's close proximity to the international airport and easy access to I-95 make it an easy choice for firms that need to be accessible to clients and have associates who routinely travel.

The long term horizon for West Palm Beach received a boost when The Related Group announced that it would finally start construction on a 400 room Hilton flagged convention hotel next to the Palm Beach County Convention Center in early 2014 according to the South Florida Business Journal. The addition of a large hotel as part of the convention center complex should help the Palm Beach County Convention and Visitors Bureau land larger trade shows and meetings which can foster additional economic activity and tax revenue. The Related Group also has plans to build a 200,000 square foot, 12-story office building adjacent to the convention center called Gateway at CityPlace. This building will not open till 2015 and is being timed to align with the expected recovery in the office space market.

These projects and expansions should help West Palm Beach become more and more of a true metropolitan Central Business District and less of a submarket in the larger South Florida tri-county region. Just looking at growth trends and space constraints, it is clear that Palm Beach County will become more of a stand alone market over time with West Palm Beach acting as the central hub.

Palm Beach By The Numbers

Boca Raton

	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	YTD Absorption	Weighted Average Direct Lease Rate
Class A	6,343,712	1,238,529	19.52%	0.46%	19.98%	42,864	$ 19.86
Class B	7,019,047	1,498,045	21.34%	0.00%	21.34%	18,219	$ 17.11
Boca Raton Total	13,362,759	2,736,574	20.48%	0.22%	20.70%	61,083	$ 18.44

Boynton Beach

	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	YTD Absorption	Weighted Average Direct Lease Rate
Class A	446,296	137,689	30.85%	0.42%	31.27%	6,512	$ 19.10
Class B	850,698	119,364	14.03%	0.00%	14.03%	-2,693	$ 15.52
Boynton Beach Total	1,296,994	257,053	19.82%	0.14%	19.96%	3,819	$ 17.41

Delray Beach

	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	YTD Absorption	Weighted Average Direct Lease Rate
Class A & B	2,010,132	890,639	44.31%	0.00%	44.31%	-10,487	$ 13.52
Delray Beach Total	2,010,132	890,639	44.31%	0.00%	44.31%	-10,487	$ 13.52

Jupiter

	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	YTD Absorption	Weighted Average Direct Lease Rate
Class A & B	1,458,993	156,266	10.71%	0.00%	10.71%	-675	$ 17.30
Jupiter Total	1,458,993	156,266	10.71%	0.00%	10.71%	-675	$ 17.30

N. Palm Beach / Palm Beach Gardens

	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	YTD Absorption	Weighted Average Direct Lease Rate
Class A	1,406,936	287,054	20.40%	1.10%	21.50%	15,299	$ 20.80
Class B	2,378,377	391,622	16.47%	0.76%	17.23%	19,044	$ 16.41
N. Palm Beach / Palm Beach Gardens Total	3,785,313	678,676	17.93%	0.89%	18.82%	34,343	$ 18.27

Palm Beach

	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	YTD Absorption	Weighted Average Direct Lease Rate
Class A & B	696,647	108,558	15.58%	1.10%	16.68%	2,139	$ 40.07
Palm Beach Total	696,647	108,558	15.58%	1.10%	16.68%	2,139	$ 40.07

West Palm Beach

	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	YTD Absorption	Weighted Average Direct Lease Rate
Class A	3,428,502	643,676	18.77%	0.77%	19.55%	-21,646	$ 21.33
Class B	3,624,037	759,989	20.97%	0.00%	20.97%	19,758	$ 17.08
West Palm Beach Total	7,052,539	1,403,665	19.90%	0.38%	20.28%	-1,888	$ 19.11

Overall Market

	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	YTD Absorption	Weighted Average Direct Lease Rate
Overall Market Total	29,663,377	6,231,431	21.01%	0.33%	21.34%	88,334	$ 18.18

Special Focus: Hedge Funds and Others Seek Safe Harbor in Palm Beach County

Just recently, Edward Lampert, a prominent hedge fund manager/buyout king moved his entire operation as well as his personal residence to South Florida from Connecticut in a move that may become a long term trend by many similar firms.

What could motivate these type of moves? Likely, rising state tax rates as well as the desire to enter business friendly states with great climates. Palm Beach's CEO of the Business Development Board, Kelly Smallridge, launched a small direct mail campaign to sway hedge firms to move to the county and been very busy ever since according to a recent article in Florida Trend. Could the movement of these firms impact the Palm Beach office market? Of course! The article goes on to state that interested private equity firms and hedge funds could each seek up to 10,000 square feet of office space in prime Class A buildings and locations. For example, Kane Advisors just signed a lease at One Town Center in Boca Raton.

What is even more exciting is the multiplier effect that could take hold. Law firms, accountancies, investment banks, wealth managers, and a host of other support firms will likely need to locate or move operations to South Florida as well in order to continue servicing their hedge fund and private equity clients. These firms could also demand a great deal of office space in the county. While this is not likely an overnight phenomena, it could be a huge source of long term demand growth for the office market and overall economy of Palm Beach County.

Noteworthy Leasing Transactions					
Tenant	Building	Submarket	Leased Sq. Ft.	Tenant Broker	Landlord Broker
Aldridge, Connors, LLP	The Arbors Office Park - 1615	Delray Beach	39,788	CBRE	CBRE
MDVIP, Inc.	1875 NW Corporate Blvd.	Boca Raton	28,841	N/A	Avison Young
Ventex	The Pointe	Jupiter	23,660	N/A	CBRE
Stifel, Nicolaus & Co., Inc.	2650 N Military Trail	Boca Raton	14,819	Cushman & Wakefield	NAI/Merin Hunter Codman, Inc.
Polen Capital Management	Lynn Financial Center - Building B, Phase II	Boca Raton	12,904	CBRE	Avison Young
Kayne Real Estate Advisors	1 Town Center Road	Boca Raton	12,637	CBRE	CBRE
EPR-Global	Innovation Centre 6	Boca Raton	12,609	Direct Deal	Avison Young
Crocker Center Associates III, Ltd	Mizner Park Office Tower	Boca Raton	10,616	N/A	Cushman & Wakefield, Inc.

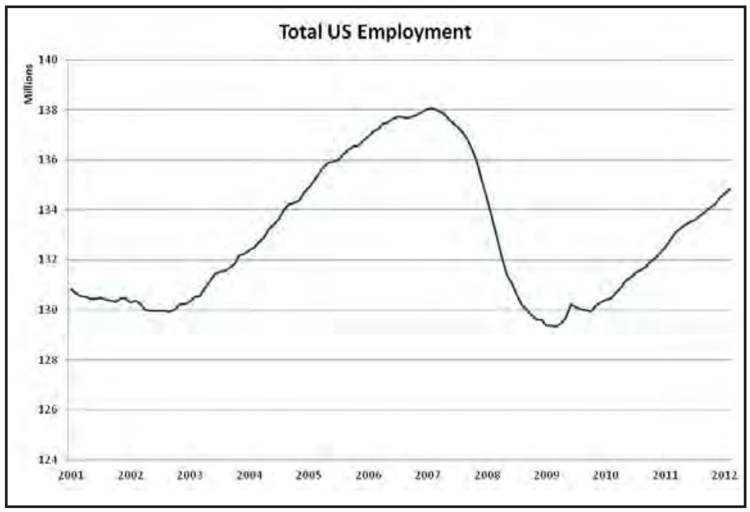
Noteworthy Sales Transactions					
Buyer	Seller	Building	Submarket	Total SF	Sales Price / Price per SF
TJAC Development	DRA Advisors	Wharfside at Boca Pointe	Boca Raton	107,000	$12,950,000 ($121.03)
IMC Property Management & Maintenance	Wells Fargo Bank	The Wellington Reserve Office Park	Royal Palm Beach	97,841	$11,200,000 ($114.47)

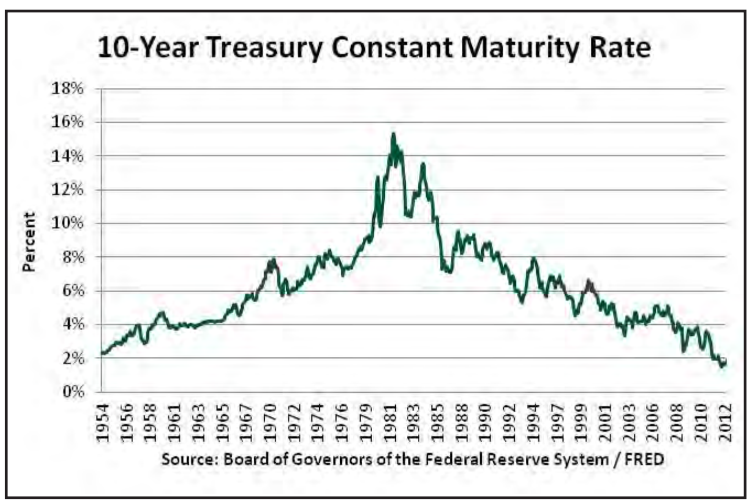
National Economic Overview

The biggest headline issue facing the national economy today is the reality of rising interest rates. The ten year treasury as already moved from sub-two percent to steadily trading above 2.5%. These rates are still well below historic norms, but the rapid rise has caused mortgage and other lending rates to spike just enough to cause some pain and a lot of fear in the economy. Where will rates go? This is hard to predict but it is becoming clearer that the Fed will reduce bond buying at some point in the not too distant future.

This has brought about the scary question, is the economy strong enough to survive this pullback of stimulus? Data on corporate profits, personal income, and the all important retails sales have been suggesting that the economy may be in fact strong enough to endure the resulting rise in interest rates. However, when rates did move up in May, retail sales recorded a monthly decline (albeit small), not a good sign overall. Further, gross domestic product growth has remained sluggish, yet positive.

Thus, we find ourselves in a similar position. Lot's of positive news and data points but major risks and potential road blocks in the future. Will the Fed "taper" and when? What will the real impact of "sequestration" be? How will the 2014 implementation of Obamacare impact consumers, businesses, and government finances? While each seems daunting and confusing, we cannot help but comment how minor they seem in comparison to the issues we have faced and survived in the past few years.





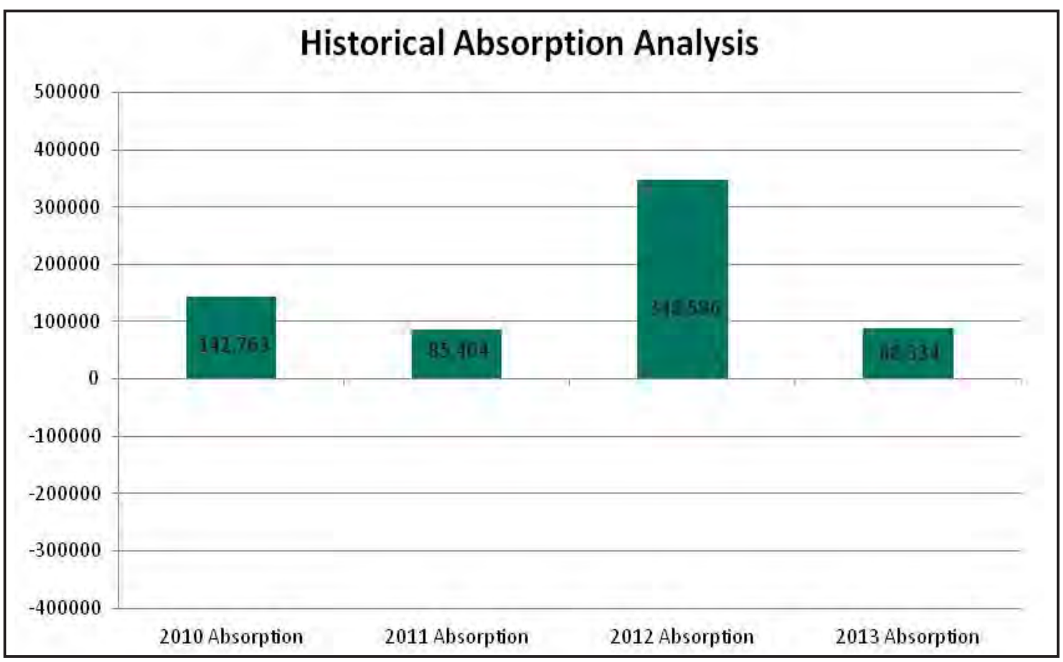
Closing Thoughts and Future Expectations

As noted in the national economic overview, we may likely be entering a period of rising interest rates as the Fed mulls tapering their long established bond buying program known as "quantitative easing." How could this impact the office market, specifically in Palm Beach County? The first concern one may have is the effect on debt rates and thus capitalization rates of income producing assets, including office buildings. It is likely that we will not see much cap rate compression and rates may even rise on some of the Class A assets that have been trading across the nation and in South Florida. On a relative basis, Class B assets may improve in attractiveness in terms of income returns to investors.

Class B transactions have kicked up across the nation and locally (several in Boca Raton this year) and will likely continue especially as debt markets become more and more receptive to lending on these assets. The investment story for Class B office during recoveries such as the one we are experiencing now is quite compelling. First, the lack of new supply in prior years will meet up with increasing demand as the economy recovers. Prime Class A spaces will get leased first and quickly result in a short supply; this will make many of the remaining vacancies more attractive. Those potential tenants could then seek the relatively less expensive Class B spaces and lease more of it. The end result will be rising occupancies and thus rental rates across the Class B spectrum. This of course can drive higher asset values and thus better returns to investors.

What is key to understand about the above scenario is that it occurs after the similar story occurs in the Class A market. Meaning, that it this is likely a very good time to acquire Class B assets. A similar story can be made about secondary versus primary markets for similar reasons. Thus, we expect secondary, suburban markets such as many in Palm Beach County to perform relatively well as we go forth.

Rising interests rates will occur and will cause some pain for some. Being smart about acquisitions today may lead to great results tomorrow.



For more information and for all your leasing and brokerage needs please contact:

George Sacks
gsacks@commfla.com

Peter D. Reed
preed@commfla.com

COMMERCIAL FLORIDA
REALTY SERVICES, LLC

561-338-9950 | www.commfla.com

4800 N. Federal Highway | Suite D300 | Boca Raton, Florida 33431