MID-YEAR 2014

PALM BEACH OFFICE REPORT

Direct Vacancy Rates		
1H14	YE13	1H13
20.19%	19.67%	21.01%
Sublet Vacancy		
1H14	YE13	1H13
0.28%	0.22%	0.33%
Overall Vacancy		
1H14	YE13	1H13
20.47%	19.88%	21.34%
Weighted Average Direct Lease Rate		
1H14	YE13	1H13
$ 19.01	$ 18.57	$ 18.18

"This market has still yet to experience significant enough declines in vacancy needed to achieve a true state of recovery following the recession."

COMMERCIAL FLORIDA
REALTY SERVICES, LLC

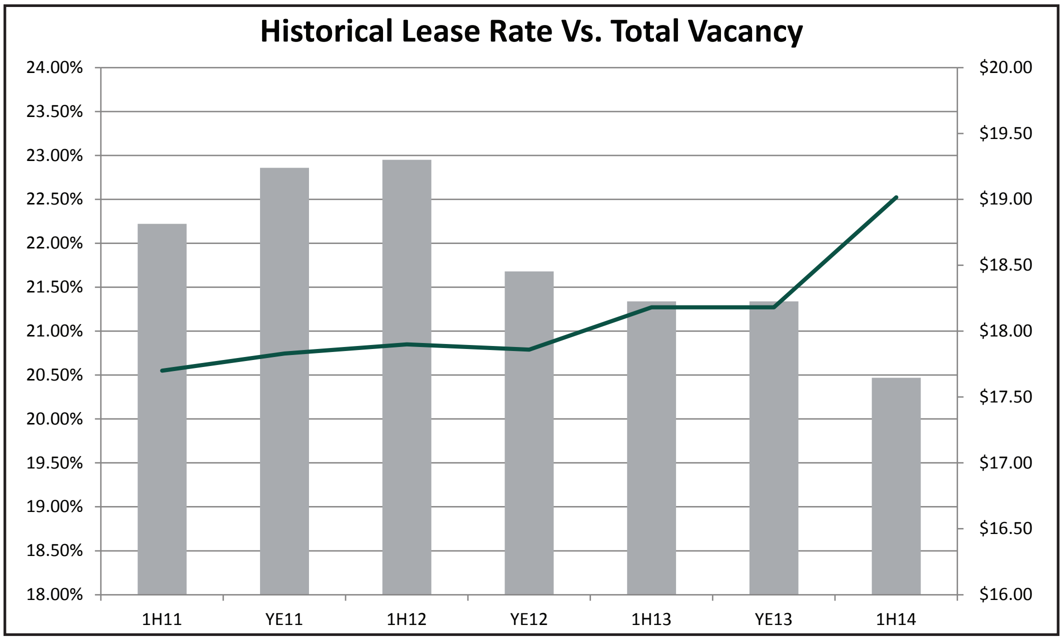
Growth Stalls With Slow Start to 2014

After posting a fairly strong finish in 2013, the Palm Beach County office market lost momentum with a slightly negative 155,502 square foot loss in the first half of 2014. Will the market finish strong this year? Perhaps if history repeats itself, as the office market in Palm Beach County exhibited a trend of slow or negative growth in the first half of year but rebounded enough to finish with decent positive net absorption in both 2012 and 2013. The fact that average direct asking lease rates actually rose just slightly from $18.57 to $19.01 per square foot is a good sign that a late growth surge is possible. These increases indicate that many landlords are holding positive expectations and are not willing to cut rates just to get deals. Nonetheless, this market has still yet to experience significant enough declines in vacancy to achieve a true state of recovery following the recession.

The unemployment rate in Palm Beach County has ticked back up to 6.6% as of July 2014 from 6.0% at the end of 2013 according to the Bureau of Labor Statistics while actual employment has remained essentially flat. The major office user sectors are showing mixed signs of health as Professional and Business Services and Information are growing at annualized rates of 4.0% and 1.1% respectively, but Financial Activities is shrinking at −1.3% annualized. Better growth in these sectors will be needed to increase demand for local office space.

The best performing submarkets in the first half of 2014 were West Palm Beach and Delray Beach with very slight gains of 27,684 and 25,375 square feet respectively. The worst submarkets were Boynton Beach and Boca Raton who only lost a relatively modest negative 109,870 and 84,354 square feet respectively.

Noteworthy leasing transactions in the first half of 2014 included Cole, Scott, & Kissane leasing 53,668 square feet in the Esperante building and Greenberg Traurig LLP renewing 30,254 square feet in Phillips Point, both in West Palm Beach. Additionally, RN Network leased 21,000 square feet in the Boca Corporate Center and Unified Physician Management leasing 20,954 square feet in 1501 Yamato Road both in Boca Raton. Noteworthy sale transactions included Crocker Partners buying One Boca Place in Boca Raton from Invesco Realty Advisors for $76.4 million or $275 per square for the 277,473 square foot building.



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	1,135,939	17.91%	0.54%	18.45%	-5,913	$ 20.74
Class B	7,019,047	1,473,940	21.00%	0.03%	21.03%	-78,441	$ 16.92
Boca Raton Total	13,362,759	2,609,879	19.53%	0.27%	19.81%	-84,354	$ 18.71

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	184,758	41.40%	0.42%	41.82%	-51,716	$ 19.35
Class B	850,698	167,428	19.68%	0.22%	19.90%	-58,154	$ 16.35
Boynton Beach Total	1,296,994	352,186	27.15%	0.29%	27.45%	-109,870	$ 17.97

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	791,475	39.37%	0.00%	39.37%	25,375	$ 13.33
Delray Beach Total	2,010,132	791,475	39.37%	0.00%	39.37%	25,375	$ 13.33

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	186,390	12.78%	0.08%	12.85%	-23,680	$ 20.62
Jupiter Total	1,458,993	186,390	12.78%	0.00%	12.78%	-23,680	$ 20.62

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	254,819	18.11%	0.17%	18.28%	24,997	$ 21.82
Class B	2,378,377	448,548	18.86%	0.16%	19.02%	-12,060	$ 18.62
N. Palm Beach / Palm Beach Gardens Total	3,785,313	703,367	18.58%	0.17%	18.75%	12,937	$ 19.79

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	123,717	17.76%	1.10%	18.86%	-3,594	$ 42.65
Palm Beach Total	696,647	123,717	17.76%	1.10%	18.86%	-3,594	$ 42.65

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	599,714	17.49%	0.76%	18.25%	-335	$ 21.95
Class B	3,624,037	622,186	17.17%	0.04%	17.20%	28,019	$ 19.11
West Palm Beach Total	7,052,539	1,221,900	17.33%	0.39%	17.71%	27,684	$ 20.56

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	5,988,914	20.19%	0.28%	20.47%	-155,502	$ 19.01

Special Focus: Land Deals In Palm Beach County - What does it mean?

The first half of 2014 saw many headlines of land deals, some of prior distressed projects, being acquired in Palm Beach County by entrepreneurial investors. These include local Palm Beach billionaire Jeff Green acquiring a 21.5 acre apartment site off Palm Beach Lakes Blvd for $6.76 million, a 3.3 acre downtown West Palm Beach condo development site for $15 million, and for $5.5 million for a 2.2 acre condo site of Flagler Ave. combined with a 1.6 acre office site on Poinsettia Avenue; all in West Palm Beach. Additionally, Lennar Homes acquired a 20.5 acre site for potential new home construction in Lake Worth. Many of these were reported by the South Florida Business Journal to have been sold by lenders at steep discounts to the prior mortgage balances.

The real question to ponder is, what does this mean to Palm Beach County and potentially its office market? First, it is clear many are ready and willing to go "at risk" to develop and thus must hold positive future expectations. Second, prices must still be a relative "bargain" as much of this activity appears very spec-ulative in nature. Finally, it means that there is opportunity to grow. In fact, the Sun Sentinel states that over 3,000 new condo units are planned for the county, most near or on the coast. This is significantly less than the 27,000 condo units planned or underway in Miami-Dade County.

Thus, if these new developments continue as planned, icreases in demand for all goods and services, including those provided by users of office space should grow. It just may take some time for its realization.

Noteworthy Leasing Transactions

TENANT	BUILDING	SUBMARKET	LEASED SQ. FT.	TENANT BROKER	LANDLORD BROKER
Cole, Scott, & Kissane	Esperante	West Palm Beach	53,668	NGKF	Cushman & Wakefield
Greenberg Trauig, LLP	Phillips Point	West Palm Beach	30,254	NGKF	Taylor & Mathis
RN Network	Boca Corporate Center	Boca Raton	21,000	Cresa Partners	CBRE
Unified Physician Management	1501 Yamato Road	Boca Raton	20,954	JLL	
Kaufman, Rossin & Co.	One Town Center Road	Boca Raton	12,227	Olschansky Group	CBRE
GMS Group	Fountain Square	Boca Raton	12,021	Studley	NAI Merin Hunter Codman

Noteworthy Sales Transactions

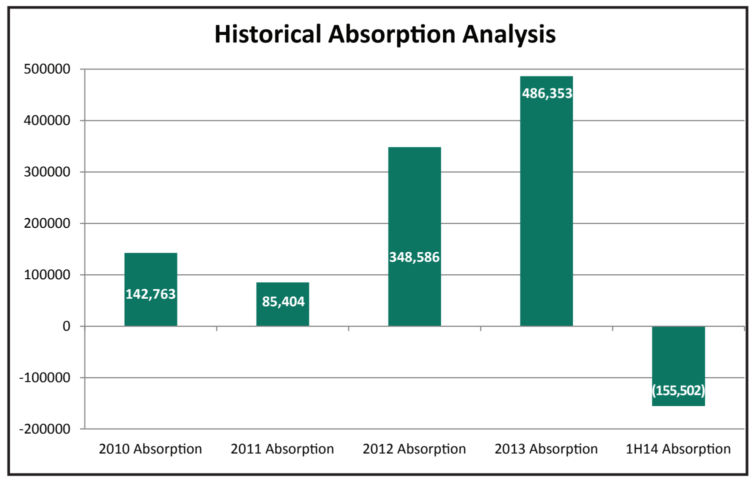
Buyer	Seller	Building	Submarket	Total SF	Sales Price / Price per SF
Crocker Partners	Invesco Realty Advisors	One Boca Place	Boca Raton	277,473	$76,350,000 ($275.16)
Mainstreet Capital Partners	TIAA-CREF	901 W. Yamato Road	Boca Raton	160,817	$14,740,000 ($91.66)
G&C Brandywine Investors, LLC	BCI Associates, LLC	Brandywine Centre I	West Palm Beach	69,715	$7,000,000 ($100.40)

National & Local Economic Overview

The national economy opened the first quarter of the year with a surprisingly slow, in fact, negative annualized growth of –2.1% of GDP. This seems to have been largely driven by a harsh winter as the second quarter result was a positive 4.2% annualized growth of GDP. Perhaps more importantly, total employment crossed its pre-recession highs in May marking a point of full peak through trough recovery in the employment sector. Now all that is needed is for real job growth to occur!

According to the 2013 statistics recently released by the Bureau of Economic Analysis, Florida is actually outperforming the nation on average in terms of GDP growth (2.2% versus 1.8%). Perhaps most interesting is that the largest industry in terms of GDP in Florida in 2013 was not tourism but in fact real estate and leasing activity. This is not surprising given the number of new projects underway locally and across the state. In fact, according to the Bureau of Labor Statistics, the fastest growing employment sector in Palm Beach County was construction which grew at an an-nualized rate of 11.7% in July 2014.

The best news is that construction tends to serve as a leading indicator for all other employment sectors as buildings must be built before residents and businesses can occupy them. Overall, Palm Beach County's job growth rate is 3.3% which is actually quite strong and indicative of a growing overall economy.



Final Thoughts and Expectations

When observing Palm Beach County relative to its sister markets to the south, Broward and Miami-Dade counties, one could be left asking if Palm Beach County is lagging in terms of growth and expansion? Without question, Miami with its broad international ties took an early lead in the post-recession recovery but may in fact be getting "too hot" according to various media reports. Palm Beach County by contrast is still getting up to speed and seems like a better deal pricewise than other regional markets. Users of real estate will discover this for both housing and even office space. Here is an interesting news byte, according to Forbes, West Palm Beach was the best ranked market in South Florida, ahead of Miami and Ft. Lauderdale, in terms of "Places for Business and Careers in the U.S." While one can only speculate to the accuracy or true meaning of such rankings, it is worthy to realize the relative advantages Palm Beach County can offer and that others can see it too!

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