

YEAR END 2011

PALM BEACH OFFICE REPORT



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Commercial Florida Realty Services is proud to re-introduce the first of its bi-annual market reports on the South Florida Office Market.

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.

As we take a look back on 2011, our best wishes for a prosperous and successful 2012 as we emerge from one of the most challenging real estate and economic cycles of our time.



George Sacks
Principal



Peter Reed
Principal

Holding on as the storm passes

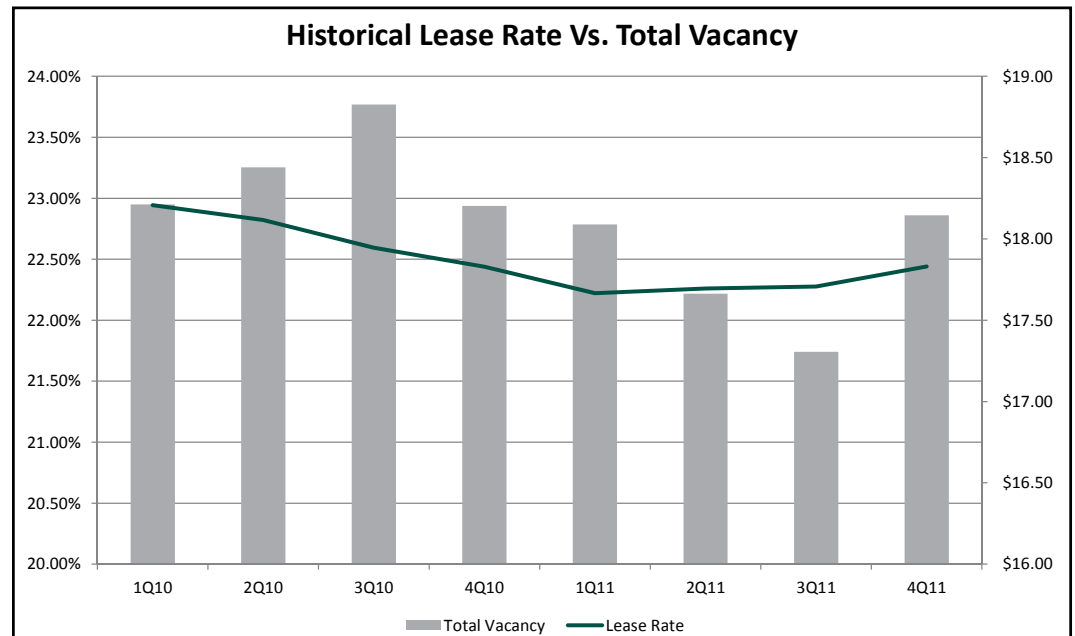
Palm Beach county has experienced the full brunt of the economic storm that hit the United States beginning in late 2007. As we look back upon 2011, it is clear Palm Beach was able to hold on and not loose ground. Stabilization of office market fundamentals began in late 2010; thus many predicted 2011 would be a year of recovery and improvement. This could have been the case if volatility in the global financial markets had not reemerged with a vengeance by end of the second quarter of 2011. Talks of a Eurozone collapse and even a potential for a U.S. debt crisis (even if mainly due to political theatrics) left many companies unable to execute expansion plans as they could not fully comprehend the risks. Looking forward to 2012, it is hard to say exactly where the economy is headed both nationally and locally. Regardless, it is clear that more activity will occur, even if the exact shape and nature of such is not clear.

There is no exaggeration in stating that Palm Beach held its position during 2011. Overall vacancy started at 22.94% at the end of 4Q10 and ended at 22.86% for 4Q11. Asking rental rates remained flat at \$17.83 per sq. ft. These readings are not the result of a lack of activity; in fact, 2011 saw many leasing and sales transactions at a pace not seen in years. In short, space demanded by new tenants entering the market nearly met the amount vacated by those leaving or downsizing. The transaction market came alive with trophy assets, such as the CityPlace Tower in West Palm Beach, trading at very high rates, \$427 per sq. ft. in this case. There was also a great deal of train wreck transactions where lenders cut loose problem assets that were over financed during the boom. An example of a train wreck deal includes the \$7 million sale of 750 Park of Commerce Drive to Brookside Realty Corp by Miami based special servicer LNR. This transaction sold for a mere \$51 per sq. ft., dramatically below replacement cost.

Moving forward, we expect Palm Beach to benefit from growth in several sectors including education, health care, trade, and tourism. Being at the north end of the tri-county area that defines South Florida, Palm Beach will benefit from growing international business activity being directed through Miami. This process may take time to spill over and ultimately improve demand for office space.

Direct Vacancy Rates		
4Q11	3Q11	4Q10
22.40%	21.30%	22.37%
Sublet Vacancy		
4Q11	3Q11	4Q10
0.46%	0.45%	0.57%
Overall Vacancy		
4Q11	3Q11	4Q10
22.86%	21.74%	22.94%
Weighted Average Direct Lease Rate		
4Q11	3Q11	4Q10
\$ 17.83	\$ 17.71	\$ 17.83

“space demanded by new tenants entering the market nearly met the amount vacated by those leaving..”

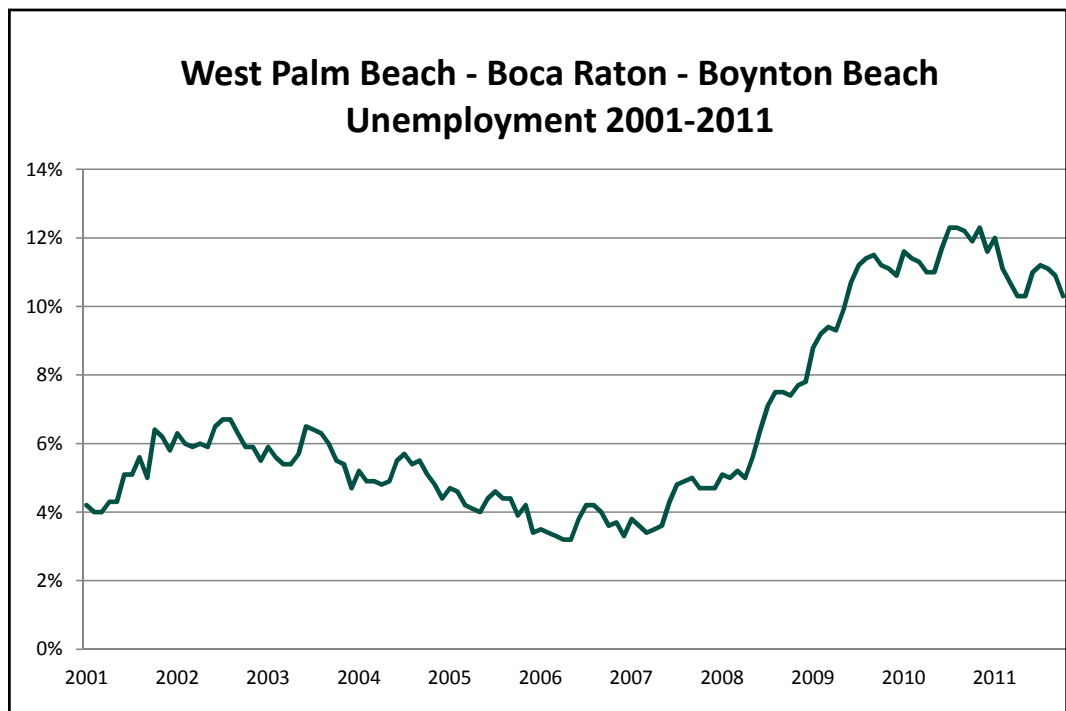


Palm Beach Economic Focus

Palm Beach county has a very diverse mix of economic bases and thus behaves more like a collection of submarkets than a coordinated metropolitan area with a central business district and distinct suburban satellites. Therefore, it is important to understand that the entire South Florida economy will impact Palm Beach and different submarkets will experience growth at different rates at different times. Overall Palm Beach has added approximately 10,000 jobs since the end of 2010 representing about 1.8% growth, according to the Bureau of Labor Statistics.

Office using employment sectors largely performed well in Palm Beach. From the October 2011 Bureau of Labor Statistics report, education and health services grew the fastest at 5.0%, followed by professional and business services at 2.9%, and financial activities at 1.2%. The office using sectors that lost jobs were government at -2.4% and information services at -3.4% (however this sector is the smallest and only represents 1.55% of total employment). Leisure and hospitality also performed well with 3.7% growth. This story is very similar to that of Miami and Broward County; just enough growth to hold steady, but not enough to see significant positive absorption in the office market.

Future economic expansion that should increase demand for Palm Beach office space may be centered around the health and education sectors. Florida Atlantic University is planning on building an Honors College and additional research space on its Jupiter campus. This area is looking to develop into a biomedical research community to accompany the nearby Scripps Research Institute, who has also announced plans to build a hospital in conjunction with Tenet HealthSystems, according to the South Florida Business Journal. This will likely spur demand for both medical and general office space in the surrounding areas. Beyond the Jupiter expansion, Florida Atlantic University is also growing with a new medical school, new engineering building, and new stadium. These activities should benefit the entire county's economy by increasing jobs over the long term.



Submarket Highlight: Boca Raton

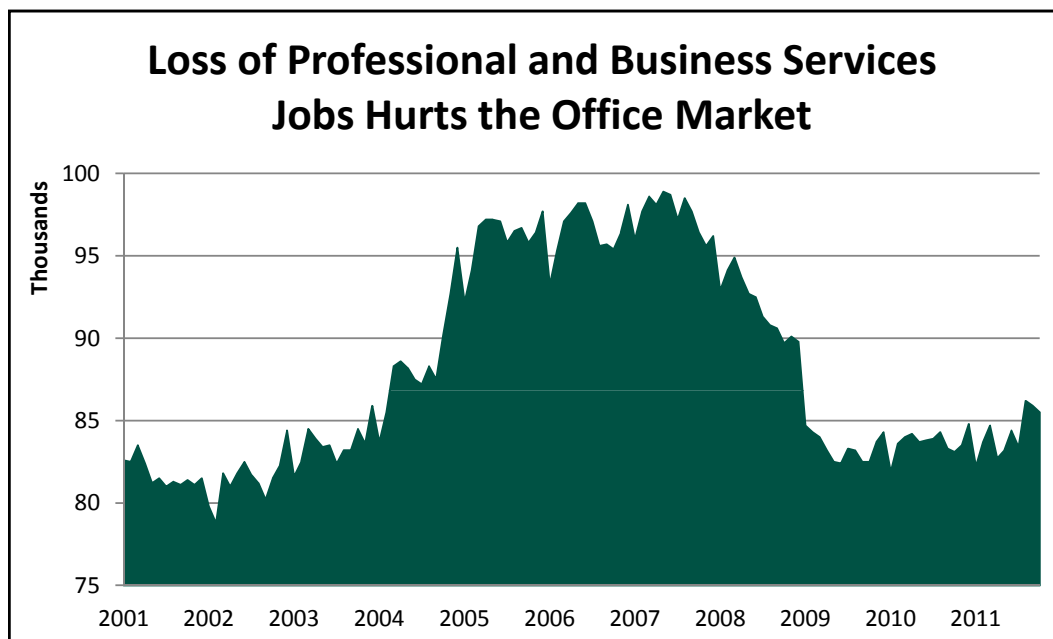
Boca Raton is the largest office submarket in Palm Beach county with over 13.3 million sq. ft., this represents over 45% of the entire county's office space. Currently, Boca Raton has 21.13% vacancy in Class A space and 23.54% vacancy in Class B space; both readings well above long term averages. Lease rates are down from pre-bubble highs to \$19.90 and \$15.50 per sq. ft. for Class A and Class B respectively. Overall, there are still many attractive opportunities to lease space in this market at rates not possible several years ago.

The Boca Raton submarket includes many firms in the professional and business services sector of the economy. According to the Bureau of Labor Statistics, Palm Beach county has lost a large number of jobs in this sector as during the recession (see chart below); this is no doubt a source of pain for the Boca office sector. Fortunately, this sector has already picked up some strength in hiring locally.

The occupancy decline has come from many key firms reducing space leased in the submarket. IBM once occupied over 3 million square feet; today they have downsized from 160,000 sq. ft. to just 38,000 sq. ft. in Beacon Centre; a building constructed for IBM following the sale and closure of the main campus. Still, 2011 was an active year for leasing transactions within the submarket. Client First, a debt consolidation firm, doubled its space at 301 Yamato Road to approximately 49,000 sq. ft.; More Direct leased 23,000 sq. ft. at the Yamato Office Center; Peninsula Insurance leased 22,000 sq. ft. at Congress Corporate Center, and AHC/Convergent leased 21,000 sq. ft. in 951 Yamato. Significant renewals occurred as well including Siemens renewing its 88,000 sq. ft. space in the Park of Commerce.

Overall, the activity within Boca Raton reveals a trend of relocation and expansion by existing firms within the submarket. This is part of the recovery cycle that needs to occur to get back to normalized growth. Other shining examples of this trend include Tyco relocating 140,000 sq. ft. from One Town Center Road to 1501 Yamato Road (the former Washington Mutual building). Geo Group expanded its presence by 45,000 sq. ft. to over 100,000 sq. ft. at One Park Place (621 NW 53rd Street) and MD-VIP completed a 25,000 sq. ft. relocation

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Palm Beach By The Numbers

Boca Raton						
	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Weighted Average Direct Lease Rate
Class A	6,343,712	1,317,674	20.77%	0.36%	21.13%	\$ 19.90
Class B	7,019,047	1,651,151	23.52%	0.02%	23.54%	\$ 15.52
Boca Raton Total	13,362,759	2,968,825	22.22%	0.18%	22.40%	\$ 17.50
Boynton Beach						
	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Weighted Average Direct Lease Rate
Class A	446,296	113,024	25.32%	0.00%	25.32%	\$ 19.07
Class B	850,698	114,772	13.49%	0.00%	13.49%	\$ 16.37
Boynton Beach Total	1,296,994	227,796	17.56%	0.00%	17.56%	\$ 17.68
Delray Beach						
	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Weighted Average Direct Lease Rate
Class A & B	2,010,132	915,282	45.53%	0.00%	45.53%	\$ 13.75
Delray Beach Total	2,010,132	915,282	45.53%	0.00%	45.53%	\$ 13.75
Jupiter						
	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Weighted Average Direct Lease Rate
Class A & B	1,458,993	230,773	15.82%	0.24%	16.05%	\$ 18.30
Jupiter Total	1,458,993	230,773	15.82%	0.00%	15.82%	\$ 18.30
N. Palm Beach / Palm Beach Gardens						
	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Weighted Average Direct Lease Rate
Class A	1,406,936	301,341	21.42%	0.70%	22.12%	\$ 20.41
Class B	2,378,377	454,023	19.09%	1.78%	20.87%	\$ 16.89
N. Palm Beach / Palm Beach Gardens Total	3,785,313	755,364	19.96%	1.38%	21.34%	\$ 18.32
Palm Beach						
	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Weighted Average Direct Lease Rate
Class A & B	696,647	122,492	17.58%	1.80%	19.38%	\$ 40.34
Palm Beach Total	696,647	122,492	17.58%	1.80%	19.38%	\$ 40.34
West Palm Beach						
	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Weighted Average Direct Lease Rate
Class A	3,428,502	651,747	19.01%	1.02%	20.03%	\$ 21.82
Class B	3,624,037	773,072	21.33%	0.23%	21.57%	\$ 16.25
West Palm Beach Total	7,052,539	1,424,819	20.20%	0.62%	20.82%	\$ 18.90
Overall Market						
	Total RSF	Direct Vacant	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Weighted Average Direct Lease Rate
Overall Market Total	29,663,377	6,645,351	22.40%	0.46%	22.86%	\$ 17.83

Submarket Highlight: Boca Raton (continued)

and expansion by moving into the recently developed, Class A Lynn Financial Center (they departed Sabre Centre II at 6001 Broken Sound Parkway).

Sale transaction volume has also been robust in Boca Raton during 2011. Commonwealth REIT acquired the Office Depot HQ from Flagler/TIAA-CREF for \$171 million (\$273.60 per sq. ft.) and ASG Properties Corp acquired the Boca Village Corporate Center for \$32.9 million (\$303.00 per sq. ft.). There was also significant volume of distressed transactions in Boca Raton this year. Keystone Property Group got a great deal on 1200 Corporate Place which was reported to be 40% vacant at the time of sale. An affiliate of Equity Office sold this building for \$15.25 million or \$111.30 per sq. ft.; a price assuredly below replacement cost. The aforementioned “train wreck” of 750 Park of Commerce Dr. discussed in the overview is also located in Boca Raton.

Boca Raton is still a wonderful place to live and work, thus it is very rational to expect continued leasing volume and eventual full recovery of this submarket once an economic recovery is in full force.

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Noteworthy Transactions

Tenant	Building	Submarket	Leased Sq. Ft.	Tenant Broker	Landlord Broker
Tyco	1501 Yamato Rd.	Boca Raton	171,000	-	-
Seimens	5500 Broken Sound Blvd.	Boca Raton	88,624	Newmark Knight Frank	Flagler
GEO Group	One Park Place	Boca Raton	45,000	-	Commercial Florida
Shoes for Crews, LLC	One Clearlake Centre	West Palm Beach	37,449	-	WGCompass Realty Partners, LLC
Renaissance Learning Academy	Pride Integrated Services	West Palm Beach	30,000	Direct Deal	Florida Executive Realty Man
-	Courthouse Commons	West Palm Beach	26,671	-	Stiles Realty
Client First Settlement Funding	Stonegate Bank Plaza	Boca Raton	25,275	-	Stoltz Realty Co.
MDVIP	Lynn Financial Center	Boca Raton	19,516	JLL	Flagler
Florida Public Utilities Company	EcoPlex at Cetrepark West	West Palm Beach	13,924	Webb Realty	Navarro Lowrey Properties
Garda World Security Corp.	Via Mizner Financial Plaza	Boca Raton	12,415	La Playa Real Estate	Penn Florida

Noteworthy Sales Transactions

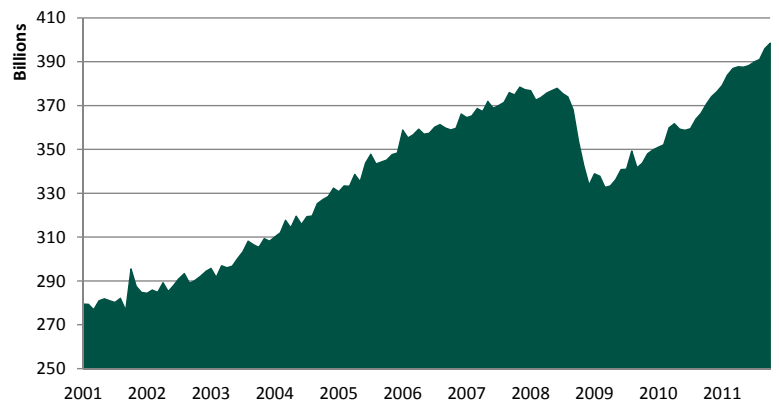
Buyer	Seller	Building	Submarket	Total SF	Sales Price / Price per SF
CommonWealth REIT	Flagler / TIAA-CREF	Office Depot HQ	Boca Raton	625,000	\$171,000,000 (\$273.60)
KBS REIT II	The Related Companies	CityPlace Office Tower	West Palm Beach	408,079	\$126,500,000 (\$427.00)
Investcorp / Flagler	Bathesda Healthcare Systems	10301 Hagen Ranch Road	Boynton Beach	133,348	\$37,000,000 (\$277.00)
ASG Properties Corp.	SRG BV Towers / Boca Village BVC / Falcon WHQ	Boca Village Corporate Center	Boca Raton	108,000	\$32,850,000 (\$303.00)
Keystone Property Group	The Equity Group	1200 Corporate Place	Boca Raton	137,021	\$15,250,000 (\$111.30)
Brookside Realty Corp.	LNR Partners	750 Park of Commerce Dr.	Boca Raton	137,066	\$7,000,000 (\$51.00)

National Economic Overview

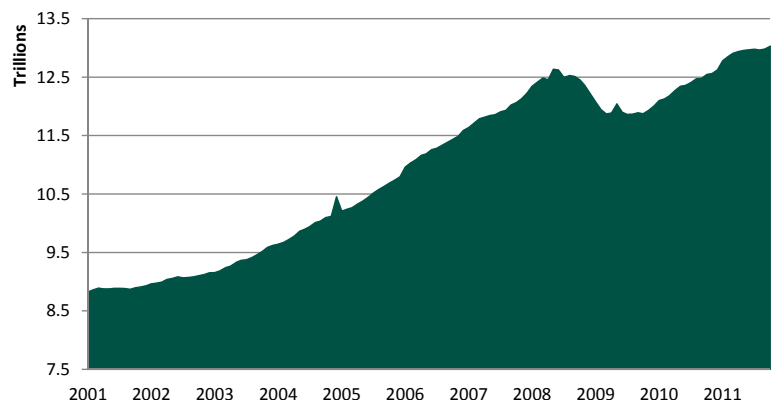
As 2011 comes to a close, there is an intense debate on what is the current state of the national economy. Conventional wisdom says the economy is doing poorly, primarily due to the lack of noticeable job creation. There is strong truth in this, the unemployment rate sits 8.6% today and improved mainly due to people leaving the workforce rather than finding new jobs. The volatility in the stock market has also been severe; this indicates that even professional investors and money managers can't agree on the direction of the economy. Despite the above facts, Gross Domestic Product has been growing, albeit slowly, for over two years now.

However, looking at total retail sales from the Census Bureau and total personal income from the Bureau of Economic Analysis reveals something very interesting. Both measures are higher than ever, revealing a clear recovery and even a growth trend. A similar trend is seen in corporate profits and many other sets of economic data as well. Thus, we question whether the economy is as bad as everyone says. Clearly, a recovery in hiring and lowering of the unemployment rate are needed items to foster strong growth, but this may occur sooner than later if these other trends continue. As people earn and spend more, they will demand more. This in turns forces firms to hire more employees and, yes, ultimately lease more real estate including office space. We dare not predict when this will occur exactly, but sooner rather than later is plausible.

Retail Sales Higher Than Ever



Personal Income Higher Than Ever



Closing Thoughts and Future Expectations

2011 saw more robust sales of distressed assets by lenders, a trend many hopeful bargain hunters had been wanting for some time. LNR Property Corp, based in Miami, conducted an online auction to dispose of nearly \$2 billion in distressed real estate across the Southeast, according to the South Florida Business Journal. In West Palm Beach, Boca based Pebb Enterprises acquired the Sabadell United and adjoining Horizon building for a reported \$14.96 million (approximately \$80 per sq. ft.) via this competitive auction. Palm Court Plaza at 11911 U.S. Highway 1 sold for \$3.3 million by Iberiabank after foreclosing on the property; this building had sold for \$7.65 million in 2007. We suspect there will be more of these transactions in 2012 as lenders become more open to disposing of distressed assets at low prices.

Even with distress sales underway, prime locations are still commanding prime prices. Royal Palm Way in Palm Beach is still amongst the priciest office districts in the country according to the South Florida Business Journal. When property is well located and supply is short, tenants will step up and pay for it. Our data states that the Palm Beach submarket's average asking rental rate is \$40.34, that's nearly double any other submarket in the county (of course its approx. 700K sq. ft. is small compared to the total market of 29.7 million sq. ft.). Interestingly, this market still has a 19.38% vacancy rate, just slightly better than the overall market.

Although, it may feel like things are hardly moving, the numbers tell us that we are slowly gaining traction. In fact, one could make strong arguments that characteristics such as no state income tax, fantastic climate, and favorable pricing within both the asset and space markets represent a unique entry point. With little to no new supply in the pipeline, conditions are likely to improve for those who are well capitalized and have successfully weathered the storm.

For more information
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