

PALM BEACH OFFICE REPORT

YEAR-END 2013

**COMMERCIAL
FLORIDA** 
REALTY SERVICES, LLC

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Commercial Florida Realty Services is pleased to present its year-end 2013 Office Market Reports for the Broward and Palm Beach County, Florida markets.

These reports represent the second full year of their re-introduction after a long hiatus. The comments and feedback we have been receiving indicate that our reports are providing intuitive insight into the current market conditions in a rapidly changing marketplace, while also serving as a predictor of future trends. Many have recalled that in the mid 1990's, Commercial Florida differentiated itself from its competition by providing proprietary and sophisticated market research information and analysis. While Co-Star has become the industry custodian of property, tenant, and comparable sales information, there is still a need for interpretation of statistical data based upon local market knowledge.

Commercial Florida's primary objective is not only real estate value creation to our Landlord clients and partners, but also strategic advice to our corporate, local, and national tenant clients, coupled with the highest level of professionalism, personal service and commitment to enable the best possible real estate decisions as we move from a long cycle of market recovery to sustainable local economic growth.

Mid-year 2013, we indicated that we were encouraged by the increase in transaction velocity. As we transition into 2014, encouragement is replaced by enthusiastic optimism as we look forward to validating all indicators are indeed true and will confidently report that the office market has recovered!

We continue to look forward to your comments and feedback and hope that you will find the information contained in these reports useful, and that you will turn to Commercial Florida for all of your South Florida tenant and property requirements.



George Sacks
Principal



Peter Reed
Principal

Direct Vacancy Rates		
YE13	1H13	YE12
19.67%	21.01%	21.30%
Sublet Vacancy		
YE13	1H13	YE12
0.22%	0.33%	0.38%
Overall Vacancy		
YE13	1H13	YE12
19.88%	21.34%	21.68%
Weighted Average Direct Lease Rate		
YE13	1H13	YE12
\$ 18.57	\$ 18.18	\$ 17.86

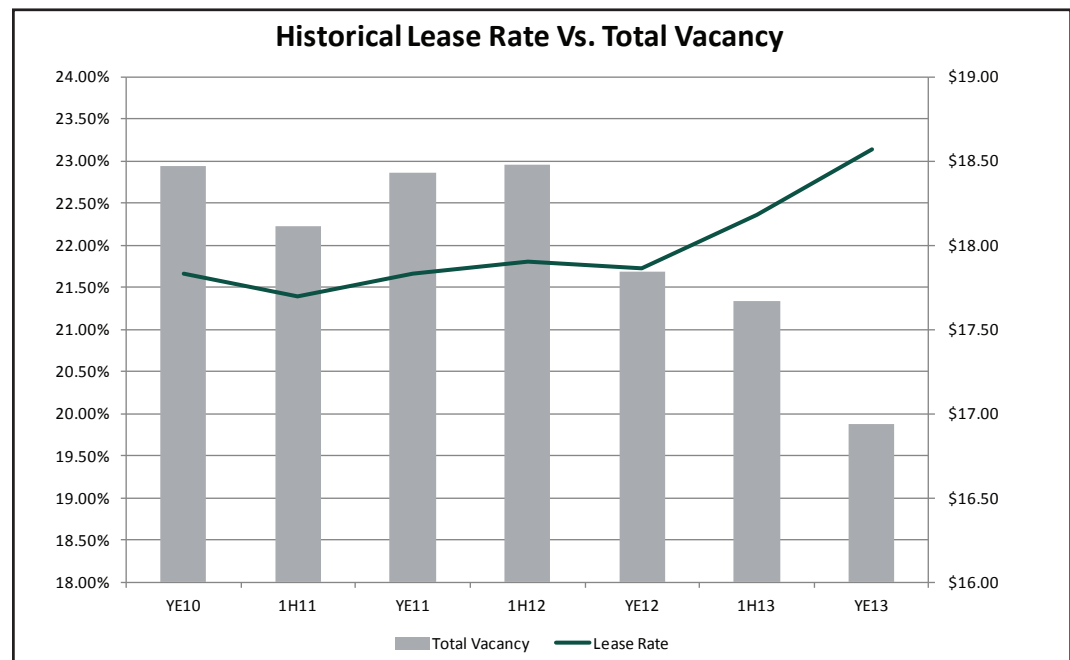
“Given the dramatic improvement in local employment, Palm Beach County is poised to see significant gains in the office market moving forward if conditions persist.”

Steady Movement as Market Seeks Traction

Palm Beach County finished the latter half of 2013 with a moderately healthy positive 486,353 square foot net absorption after a relatively slow start to the year. The Palm Beach County market appears to be seeking forward traction as the area rebounds from the prior recession. Overall vacancy remains high at 19.88% but has shown marked improvement from 21.68% at the start of the year. Perhaps most encouragingly, asking direct lease rates moved up throughout the year to finish at \$18.57 per square foot, up from \$17.86 at the start of the year. Given the dramatic improvement in local employment, Palm Beach County is poised to see significant gains in the office market moving forward if conditions persist.

The market leader in 2013 was Boca Raton which posted a positive gain of 272,132 square feet. This was followed by West Palm Beach with a positive 152,193 square foot gain, and Delray Beach with positive 63,302 square foot gain. Other submarkets Boynton Beach, N. Palm Beach/Palm Beach Gardens, Jupiter, and Palm Beach were essentially flat for the year. Interestingly, all submarkets with the lone exception of Jupiter, saw rising asking direct lease rates from the mid year indicating broad optimism and strengthening fundamentals amongst Palm Beach County landlords.

Palm Beach County saw significantly more sales transactions in all property sectors, including office properties, during 2013 highlighting the increased national perception of our regions' prospects. One such noteworthy transaction was the sale of the Esperante Corporate Center in West Palm Beach to Cornerstone Real Estate Advisors from CBRE Global Investors; this 256,151 square foot building sold for \$71 million or \$277.18 per square foot. Noteworthy leasing transactions in the second half of 2013 included Belcan leasing 49,665 square feet in 4750 E Park in North Palm Beach; Akerman Senterfitt, LLC leasing 38,411 square feet in Phillips Point at 777 S Flagler Dr and Steinger, Iscoe, and Greene, P.A. leasing 21,622 square feet in 1645 Palm Beach Lakes Blvd, both in the West Palm Beach market. Several other noteworthy sale and lease transactions occurred in the highly active Boca Raton submarket and will be detailed in the submarket highlight section herein. Overall 2013 was a more active year than 2012, giving good hopes for 2014.



Palm Beach Economic Focus

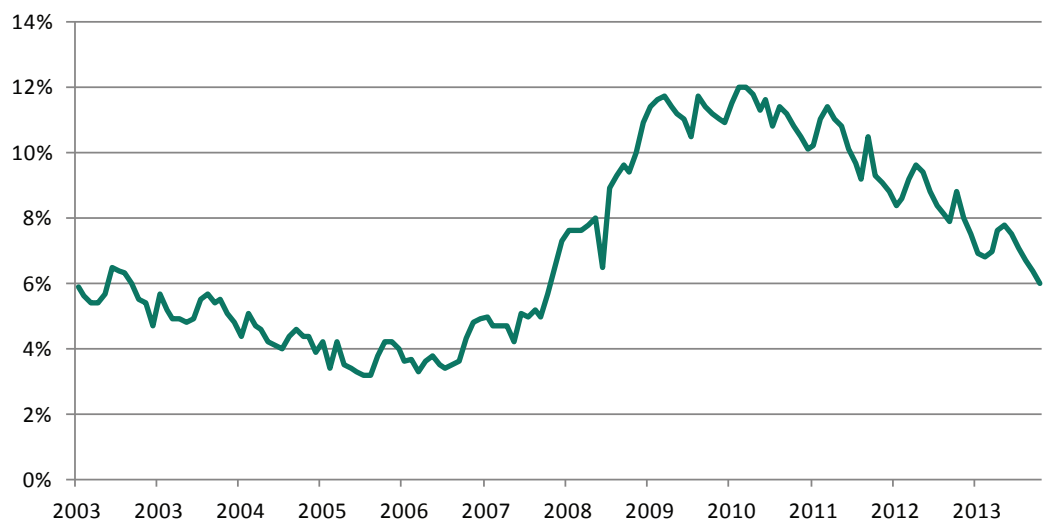
Palm Beach County experienced one of the fastest declines in unemployment in the nation as unemployment fell to 6.0% in December of 2013 according to the U.S. Bureau of Labor Statistics from 8.0% at the start of the year; this marked the first time since the recession that Palm Beach County performed better than the state and the nation!

The largest employment sector in the county, Trade, Transportation, and Utilities saw the largest percentage gain year over year, 5.4%; the second largest sector and a key office using sector, Professional and Business Services, also saw a significant gain of 3.2%; the third largest sector which also helps generate demand for office space, Education and Health Services, saw an even more meaningful gain of 3.6% year over year. Additionally, Government hiring, a sector that has performed relatively poorly in recent years, actually was up 3.1% year over year indicating the broad based nature of the recovery.

A bit surprisingly, the Construction sector, which is relatively small in Palm Beach County, actually saw a marked -3.2% decline year over year. Other key office using sectors, Information and Financial Activities, saw minor declines of -1.1% and -0.8% respectively indicating some of the remaining challenges for the region. Still a vast number of land sales and development projects commenced in 2013 in the County as banks and investors became more openly optimistic. In fact the South Florida Business Journal reported that in Palm Beach County, there are at least 23 condo towers being proposed or under construction that will bring 2,100 plus new condo units to market from Boca Raton to Jupiter.

This type of development can only be sustained in a growing environment with banks ready to lend. One welcomed source of additional capital was increased Small Business Administration loans which surged 15% according to the South Florida Business Journal; in fact, Boca Raton based Paradise Bank finished second after Wells Fargo in the South Florida region in terms of SBA lending despite being ranked only 52nd in terms of local deposits.

**West Palm Beach - Boca Raton - Boynton Beach
Unemployment Rate 2003 - 2013**



Submarket Highlight: Boca Raton

Boca Raton, a local hub of corporate headquarters and regional campus styled operations, emerged as the clear winner in the Palm Beach County office space market with a gain of 272,132 square feet in 2013, up from 194,168 square feet in 2012. Further, asking direct lease rates have risen from \$17.47 at the end of 2012, to \$18.44 at mid-year 2013, to \$18.72 per square foot at the end of 2013 indicating the broad strengthening of the market and landlords' willingness to increase rates; of note, most of these rate increases occurred in the Class B product which moved over \$2.00 per square foot higher. This is no surprise as the submarket vacancy rate has fallen from 21.42% at the start of the 2013 to 19.07% at the end.

Investors showed significant interest in Boca Raton office properties as several noteworthy transactions occurred in this submarket in the latter half of 2013. This included SBA Communications Corporation buying the 160,000 square foot Beacon Square from Flagler Real Estate for \$22.65 million or \$141.56 per square foot; 1750 Clint LLC acquiring the 48,999 square foot building at 1750 Clint Moore for \$12,703,200 or \$259.25 per square foot; and at a resounding \$444.06 per square foot, the sale of the 26,106 square foot Northern Trust Bank building by Turbo Investments International to DLD Properties for \$11,616,000. The investment sales activity in Boca Raton, and Palm Beach County in general, is representative of a national trend for investors and owner/users increasing interest in seeking properties outside of the traditional major metro markets such as Miami. This trend is likely to continue throughout 2014.

Boca Raton was also a hotbed for noteworthy leasing transactions in the second half of 2013 which led to its significant improvement in fundamentals. The largest noteworthy transaction was Tyco Integrated Security with a long term presence in the market leasing 72,047 square feet in 4700-4750 T Rex Ave. Other noteworthy leasing transactions include the 50,410 square foot expansion by Newsmax Media in the 137,000 square foot 750 Park of Commerce building at the entrance to the Arvida Park of Commerce. According to the South Florida Business Journal, this expansion will be used for Newsmax's online television channel and administrative functions. Also noteworthy is Verizon Wireless leasing 25,262 square feet at 777 Yamato Road and RN Network leasing 20,966 square feet in 4700-4750 T Rex Ave.

There are reports of a potentially large corporate headquarters relocation being bound for Boca Raton in 2014 if the Business Development Board of Palm Beach County is successful in offering an attractive incentive plan. According to the South Florida Business Journal, an unnamed medical technology and treatment company is looking to move to Boca Raton and create 225 high wage jobs over the next five years. This Midwest based firm may require a 75,000 square foot build to suit facility perhaps targeted for the Research Park at Florida Atlantic University (according to the paper). If this deal is successful, it could be the type to generate multiplier effects which could increase demand for more Boca Raton office space.

Overall, Boca Raton is well positioned in the region and state to be a prime spot for relocations and expansions for the coming years. Easy access to Interstate 95, close proximity to high quality beaches, luxury residential housing projects, and other lifestyle amenities such as fine restaurants and shopping, should make Boca Raton an easy sell. We expect increased positive net absorption and even some potential for more significant growth in lease rates in 2014 and beyond.

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	1,130,026	17.81%	0.34%	18.15%	151,367	\$ 20.30
Class B	7,019,047	1,395,499	19.88%	0.01%	19.89%	120,765	\$ 17.24
Boca Raton Total	13,362,759	2,525,525	18.90%	0.17%	19.07%	272,132	\$ 18.72
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	133,042	29.81%	0.42%	30.23%	11,159	\$ 20.12
Class B	850,698	109,274	12.85%	0.22%	13.07%	7,397	\$ 16.06
Boynton Beach Total	1,296,994	242,316	18.68%	0.29%	18.97%	18,556	\$ 18.18
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	816,850	40.64%	0.00%	40.64%	63,302	\$ 13.02
Delray Beach Total	2,010,132	816,850	40.64%	0.00%	40.64%	63,302	\$ 13.02
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	162,710	11.15%	0.00%	11.15%	-7,119	\$ 18.10
Jupiter Total	1,458,993	162,710	11.15%	0.00%	11.15%	-7,119	\$ 18.10
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	279,816	19.89%	0.02%	19.91%	22,537	\$ 21.16
Class B	2,378,377	436,488	18.35%	0.16%	18.52%	-25,822	\$ 18.03
N. Palm Beach / Palm Beach Gardens Total	3,785,313	716,304	18.92%	0.11%	19.03%	-3,285	\$ 19.25
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	120,123	17.24%	1.10%	18.34%	-9,426	\$ 40.85
Palm Beach Total	696,647	120,123	17.24%	1.10%	18.34%	-9,426	\$ 40.85
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	599,379	17.48%	0.76%	18.24%	22,651	\$ 21.40
Class B	3,624,037	650,205	17.94%	0.00%	17.94%	129,542	\$ 17.61
West Palm Beach Total	7,052,539	1,249,584	17.72%	0.37%	18.09%	152,193	\$ 19.50
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	5,833,412	19.67%	0.22%	19.88%	486,353	\$ 18.57

Special Focus: The Future of Palm Beach County—Corporate HQs

Palm Beach County has grown up from being a geographic suburb of the Miami—Ft. Lauderdale metroplex to being its own center of gravity, anchored by large multinational and regional corporate headquarters. This will likely be a major source of the continued growth for the market for the next decade and beyond.

According to a recent article in the Sun Sentinel, there were four corporate headquarter relocations to Palm Beach County since 2011; Ulysse Nardin, Chromalloy, Radical Cosmetics, and Garda World; as well as five expansions of corporate HQs; Shoes for Crews, Image Skin Care, TBC Corp., Office Depot, and SBA Communications. In fact, Palm Beach County has approximately 60 corporate headquarters, although few are Fortune 500 companies for now, but this could change given the pace of the economy.

Nationwide firms are finding ways to reduce costs and move to low tax states is one. Further, Florida is just beginning to be viewed as having a well educated, diverse workforce to support such firms. Thus, we believe we are at the very beginning of this trend. Plus, the harsh winter of 2014 can only help our case.

So, what could Palm Beach County look like in coming years? We think Orange County, California could be a model. The “OC” is its own functioning market with small, regional, and even national firms calling it home base, many for “lifestyle” reasons. Miami is congested and expensive, just like Los Angeles; Palm Beach County is looking more and more like the place to be if you want South Florida, but have no need to mess with the realities of Miami.

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Noteworthy Leasing Transactions

Tenant	Building	Submarket	Leased Sq. Ft.	Tenant Broker	Landlord Broker
Tyco Integrated Security	4700-4750 T Rex Ave	Boca Raton	72,047	CBRE	CBRE
Newsmax Media	750 Park of Commerce	Boca Raton	50,410	Crown Reserve	Butters Realty & Management
Belcan	4750 E Park	North Palm Beach	49,665	Newmark Grubb Knight Frank	John C. Bills Properties
Akerman Senterfitt, LLC	777 S Flagler Dr	West Palm Beach	38,411	Cresa	Taylor & Mathis
Verizon Wireless	777 Yamato Rd	Boca Raton	25,262	CBRE	Liberty Property Trust
Steinger, Iscoe & Greene, P.A.	1645 Palm Beach Lakes Blvd	West Palm Beach	21,622	Newmark Grubb Knight Frank	NAI Merin Hunter Cadman
RN Network	4700-4750 T Rex Ave	Boca Raton	20,966	Newmark Grubb Knight Frank	CBRE

Noteworthy Sales Transactions

Buyer	Seller	Building	Submarket	Total SF	Sales Price / Price per SF
Cornerstone Real Estate Advisors	CBRE Global Investors	Esperante Corporate Center	West Palm Beach	256,151	\$71,000,000 (\$277.18)
SBA Communications Corporation	Flagler Real Estate	Beacon Square	Boca Raton	160,000	\$22,650,000 (\$141.56)
1750 Clint LLC	Rodney Longman	1750 Clint Moore	Boca Raton	48,999	\$12,703,200 (\$259.25)
DLD Properties	Turbo Investments International	Northern Trust Bank	Boca Raton	26,106	\$11,616,000 (\$444.96)

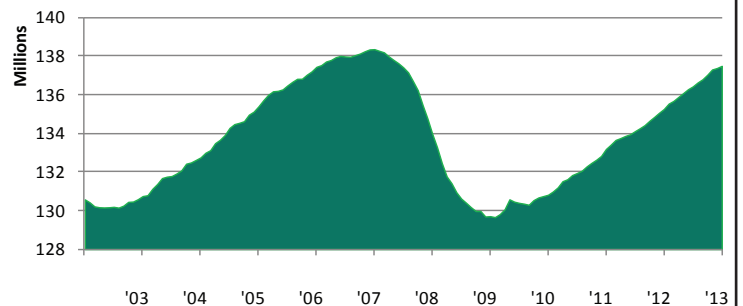
National Economic Overview

The U.S. economy ended 2013 with a bang with Gross Domestic Product growing at over 3% on an annualized basis, a rate that if sustained should put us back on solid growth for the long term. The larger headline was the growth in employment which saw substantial gains that moved us almost to where we were pre-recession, however much more hiring is still needed to reach full employment. Office using employment, the main driver for demand of office space, also grew significantly in 2013 according to the Bureau of Labor Statistics pointing to high probability of increased office net absorption nationwide.

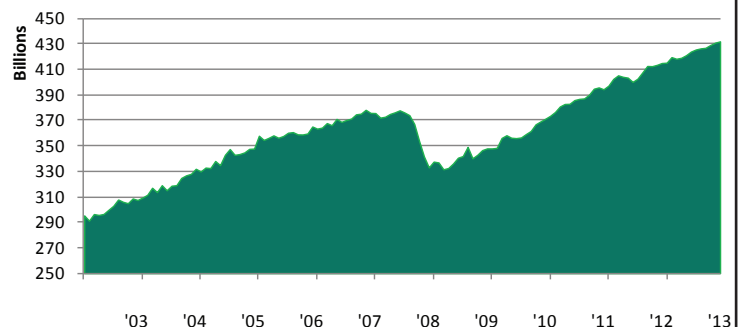
Further, we see the level of certain key economic variables to be very promising. Most notably is retail sales which continues to set new all-time record highs month after month according to the U.S. Census Bureau. If people are able to spend, they must have both the money and perceive their own future to be optimistic enough to let it go. Thus, we expect many more businesses to be willing to risk investment to expand and grow in 2014.

The final major story of the economy worth discussing is the start of the Federal Reserve “tapering” their bond buying programs. We see this as a positive indicator of the health of the economy and more likely than not to improve office fundamentals. Of course, the devil is always in the details!

U.S. Total Employment



U.S. Total Retail Sales



Closing Thoughts and Future Expectations

Perhaps the biggest news story of the second half of 2013 was the rollout and implementation of the Affordable Care Act, aka Obamacare. While it remains to be seen how successful or unsuccessful this particular policy will be, it is clear that health care will be a major driver for years to come. One sub-topic that has emerged from this discussion is the development of “Healthy Communities” which aims to incorporate health care facilities, as well as overall health oriented initiatives at real estate developments and city planning programs. In fact, the Urban Land Institute has made this a central theme via its “ULI Building Healthy Places Initiative” and plans to promote the topic for years to come.

Locally, the South Florida Business Journal hosted a conference called “MedUTech” in Boca Raton to discuss this exact topic. South Florida, and Palm Beach County in particular, are well suited to develop “healthy communities” as we have the natural climate and resources that promote walkability, green tech, and other elements of such initiatives. Large hospitals systems, colleges, and other medical firms including insurers all seem intent on putting money behind these commitments, thus we should expect a local impact.

What could this mean to the office market of Palm Beach County? Individuals and tenants may be lured, perhaps even incentivized with tax or other government programs, to build and occupy developments that have features that meet these new standards. Ideas to make new and existing office properties work in connection with “healthy community” standards include additions of fitness centers, smoking bans, green technology enhancements, connections to public transit, and improvements that promote walkability. Expect tenants to demand or desire such features as this has clearly become a new “trend.” Moreover, the shifting of economic resources to healthcare expenditures, as desired by the new healthcare law, is likely to force the development of new medical offices, treatment facilities, and even hospital campuses. Adapting to new trends such as these can be painful and difficult, but may pay off for those who think creatively. Palm Beach County has always been a “lifestyle” leader, perhaps it can be a “healthy community” leader as well in the coming decade.

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