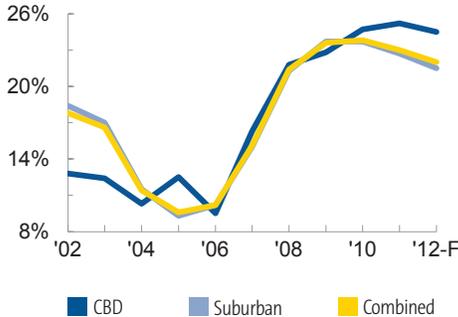


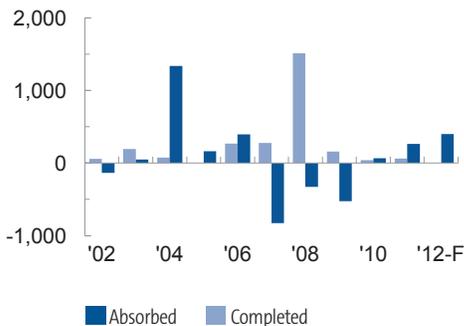
**Vacancy Rate**



# Timid Growth Spurs Stabilized Conditions

2011 began with optimism of continued growth from 2010, but summer came along and caution took over as economic growth appeared to have slowed while talks of a possible double-dip recession began to show. The downgrade of the United States credit rating, concerns over the spreading debt crisis in the European Union, along with the grueling national budget debate, slowed job-growth significantly as companies retreated to a cautious approach with hiring due to looming uncertainty. At the start of the third quarter, reports of increased consumer demand began to ease worries of another economic slowdown. This spurred gains in confidence as 1.4 million jobs were created during the second half of 2011.

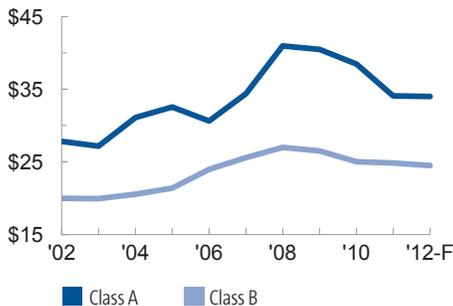
**Completions vs. Absorption**  
(in Thousands of SF)



According to the Bureau of Labor Statistics, Palm Beach saw unemployment drop to 10.1 percent at the end of 2011. This is a 150 basis points decrease from unemployment rate recorded at the end of 2010. The county regained 10.4 percent of the jobs lost during the recession, placing Palm Beach county at 64th out of the top 80 metropolitan markets in the nation for employment recovery. The county's strong ties to the residential real estate market continued to hinder employment growth as improvements to the housing sector were delayed by the foreclosure "robo-signing" scandal. Financial institutions suspended their foreclosure processes for the majority of 2011 in order to resolve the problematic issues. Housing sales did improve, but not at the levels needed for businesses to expand operations. These factors translated into a year of stable conditions with lethargic growth in the commercial arenas.

(CONTINUED ON PAGE 2)

**Asking Rental Rates**  
(\$/SF/Yr. Full Service)



**KEY TRANSACTIONS FOR 2011**

<p><b>KBS REIT II, INC</b> purchased 297,652 SF at Cityplace Tower West Palm Beach, FL the Related Companies</p>	<p><b>Keystone Property Group</b> purchased 137,021 SF at 1200 Corporate Place Boca Raton, FL The Equity Group</p>	<p><b>Client First</b> leased 49,720 SF at Stonegate Bank Plaza Boca Raton, FL Stoltz Realty</p>	<p><b>Shoes for Crews</b> leased 37,000 SF at One Clearlake Centre West Palm Beach, FL WG Compass</p>
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**OFFICE MARKET REVIEW AND FORECAST**

	<b>2010</b>	<b>2011</b>	<b>2012 Forecast</b>
Vacancy Rate	23.8%	23.0%	22.0%
Class A Rental Rate <sup>1</sup>	\$38.47	\$34.10	\$34.00
Class B Rental Rate <sup>1</sup>	\$25.03	\$24.85	\$24.50
Net Absorption	65,171	264,533	400,000
Space Completed	40,000	63,000	-

*1. Asking rate per square foot per year full service*

(CONTINUED FROM PAGE 1)

**2011 REVIEW**

The Palm Beach county’s office market experienced a slight slowdown during fourth quarter as negative absorption was recorded for the first time in over a year. Fortunately, it was not significant enough to negate the positive absorption seen in the first three quarters, allowing demand to outpace supply for positive year-to-date absorption of over 264,000 square feet. This helped overall vacancy decrease slightly by 80 basis points from the 13.8 percent rate recorded at the end of 2010. The recent uptick in local employment did not translate into significant impacts to the office market as vacancies hovered around 23 percent.

Abundant space opportunities kept pressure on landlords from raising quoted rental rates. The direct average weighted asking rate continued its downward climb with a \$0.17 drop from the \$28.07 per square foot full service gross rate quoted last year at the close of 2010. This minor decrease showed that asking rates may have stabilized but are not likely to inch upward anytime soon.

Grubb and Ellis tracked 1.9 million square feet of leasing activity in the Palm Beach office market throughout 2011. This was slightly down from the 2.2 million square feet recorded the year prior. Tenants continued their focus on cost containment as Class B space outperformed higher-end Class A space. Class B space dominated transaction activity with over 1.0 million square feet of leased space while Class A followed suit with 796,000 square feet. Class C space came in a distant third with 96,000 square feet of deals recorded. The majority of lease agreements which took place in the market were renewals and relocations. TYCO relocated their headquarters to the 171,000 square foot facility at

(CONTINUED ON PAGE 3)

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1501 Yamato Road. The electronic securities firm downsized by 30,000 square feet when they relocated out of One Town Center Road. Attorneys Health Care (AHC) relocated into 22,000 square feet at 951 Yamato. This deal took place as a result of Client First needing to expand by 25,000 square feet and doubling their occupancy into the space that AHC was occupying at Stonegate Bank Plaza. In the West Palm Beach suburban submarket, Paychex relocated from 250 South Australian into 16,120 square feet at One Lakeside at Centrepark. The market has seen a “musical-chair” type trend as tenants take advantage of concessions being offered from landlords.

Over one million square feet of investment sales activity took place in Palm Beach County in 2011, totaling over \$208 million dollars spent on office property. This is a noticeable improvement from the 655,000 square feet of sales, totaling over \$69 million dollars, that took place in 2010. Strong interest in well-leveraged trophy Class A properties remained popular with investors as the sale of Cityplace Tower exceeded all other sales in South Florida. The 297,000 square foot building sold for \$126.5 million dollars. KBS REIT II bought the 88 percent occupied building for \$425.00 per square foot from the Related Companies. This is a stark contrast from the sale price of lower-tier troubled asset buildings in the market. 1200 Corporate Place, a 137,000 square foot troubled asset in Boca Raton, sold for \$15.3 million dollars. Keystone Property Group purchased the 71 percent lower end Class A facility that was in delinquency for \$111.30 per square foot, a significant difference from the \$215.30 per square foot price the building sold for in 2006.

## 2012 FORECAST

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Palm Beach County’s commercial markets will continue to move forward as similar conditions are expected for 2012. The office sector tends to trail economic signals at least up to six months; the market may not see growth during a year where unknown variables can impact the economy. Political uncertainty with the upcoming presidential election, coupled with the possible recession in Europe, may be two wild cards for upcoming economic conditions.

The result will likely be slow growth over the next year as companies remain careful in expanding. Stable demand will remain as the majority of leasing activity is expected to come from tenants already in the market. Renewals and relocations will continue to dominate deal activity and vacancy rates should experience minor decreases over the next year. Quoted rents will remain flat while landlords continue to use free rent and tenant improvement dollars as enticements during lease negotiations. More office inventory is projected to exchange hands as a rise in defaults could occur when commercial-backed loans mature in 2012. Lower-tier office buildings should lead these sales as private owners tend to be more at risk than larger investment funds. Investors remain on the sidelines waiting to take advantage of premium asset opportunities and discounted sales.

# Office Trends Report—Fourth Quarter 2011

## Palm Beach County, Florida

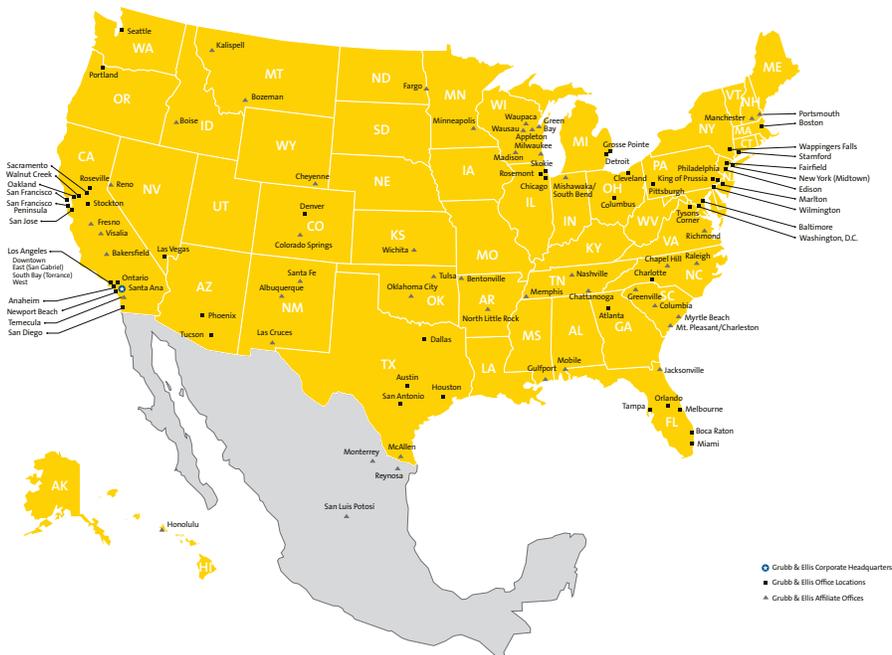


By Submarket	Total SF	Vacant SF	Vacant %	Available %	NET ABSORPTION		Under Construction SF	ASKING RENT	
					Current	Year To Date		Class A	Class B
West Palm Beach CBD	2,424,181	609,945	25.2%	26.1%	(31,855)	(12,267)	-	\$40.62	\$24.26
<b>CBD Total</b>	<b>2,424,181</b>	<b>60,9945</b>	<b>25.2%</b>	<b>26.1%</b>	<b>(31,855)</b>	<b>(12,267)</b>	-	<b>\$40.62</b>	<b>\$24.26</b>
Boca Raton	11,640,223	2,668,365	22.9%	26.9%	(82,097)	169,692	-	\$33.33	\$26.10
Boynton/Lantana	785,398	136,085	17.3%	17.9%	(9,816)	16,712	-	\$21.33	
Delray Beach	1,851,549	812,508	43.9%	47.5%	(8,145)	(1,268)	-	\$22.26	
Jupiter	778,900	135,760	17.4%	19.7%	699	74,680	-	\$23.68	
N. Palm Bch/Palm Bch Gardens	3,946,554	792,827	20.1%	25.2%	(344)	(48,166)	-	\$29.12	\$22.45
Palm Beach	857,706	104,916	12.2%	18.2%	6,139	4,492	-	\$60.81	\$58.54
Palm Springs/Lake Worth	238,131	49,858	20.9%	25.3%	(5,445)	(13,161)	-	\$19.11	
Royal Palm Bch/Wellington	358,318	32,309	9.0%	9.1%	(115)	4,203	-	\$30.65	
W. Palm Beach Suburban	4,011,002	831,504	20.7%	22.8%	(22,952)	69,616	-	\$30.19	\$22.82
<b>Suburban Total</b>	<b>26,891,962</b>	<b>5,564,132</b>	<b>22.7%</b>	<b>26.4%</b>	<b>(122,076)</b>	<b>276,800</b>	-	<b>\$32.69</b>	<b>\$24.88</b>
<b>Totals</b>	<b>26,891,962</b>	<b>6,174,077</b>	<b>23.0%</b>	<b>26.4%</b>	<b>(153,931)</b>	<b>264,533</b>	-	<b>\$33.95</b>	<b>\$24.85</b>

By Class	Total SF	Vacant SF	Vacant %	Available %	Current	Year To Date	Under Construction SF	AVAILABLE FOR SUBLEASE	
								CBD	Suburban
Class A	11,094,053	2,217,483	20.0%	24.2%	(62,269)	162,002	-	38,659	176,858
Class B	14,083,141	3,777,370	26.8%	30.0%	(73,570)	111,684	-	-	155,411
Class C	1,714,768	179,224	10.5%	11.5%	(18,092)	(9,153)	-	-	1,485
<b>Totals</b>	<b>26,891,962</b>	<b>6,174,077</b>	<b>23.0%</b>	<b>26.4%</b>	<b>(153,931)</b>	<b>264,533</b>	-	<b>38,659</b>	<b>333,754</b>

### Grubb & Ellis Office Locations

as of 4th Quarter 2011



## OFFICE TERMS AND DEFINITIONS

**Total SF:** Office inventory includes all multi-tenant and single tenant buildings at least 20,000 square feet. Owner-occupied, government and medical buildings are not included.

**Office Building Classifications:** Grubb & Ellis adheres to the BOMA guidelines. Class A properties are the most prestigious buildings competing for premier office users with rents above average for the area. Class B properties compete for a wide range of users with rents in the average range for the area. Class C buildings compete for tenants requiring functional space at rents below the area average.

**Vacancy and Availability:** The vacancy rate is the amount of physically vacant space divided by the inventory and includes direct and sublease vacant. The availability rate is the amount of space available for lease divided by the inventory.

**Net Absorption:** The net change in physically occupied space over a period of time.

**Asking Rent:** The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country and dollars per square foot per month in areas of California and selected other markets. Office rents are reported full service where

all costs of operation are paid for by the landlord up to a base year or expense stop. The asking rent for each building in the market is weighted by the amount of available space in the building.

*\* Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.*

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