

Retail Recovery Underway in Palm Beach County

Market vacancy decreases 100 basis points to 10.9%; positive absorption of 460,000 square feet (SF); rental rates at Publix-anchored centers increase by 3.5% and return to 2005/2006 levels

Woolbright Development continues its 20-year tradition of surveying all retail projects in Florida's major metro areas to provide decision makers with real-time market updates. In the Palm Beach Market Summary and Outlook, findings come from data collected during physical site visits in January 2013 to all 271 shopping centers located in Palm Beach County.

Palm Beach Market

Pre-recession population growth and absorption levels in sight
The Palm Beach market is the smallest of South Florida's three major markets. It is home to 1.3M people and 271 shopping centers, which total approximately 35.8M SF of retail space, or about 28 SF per person.

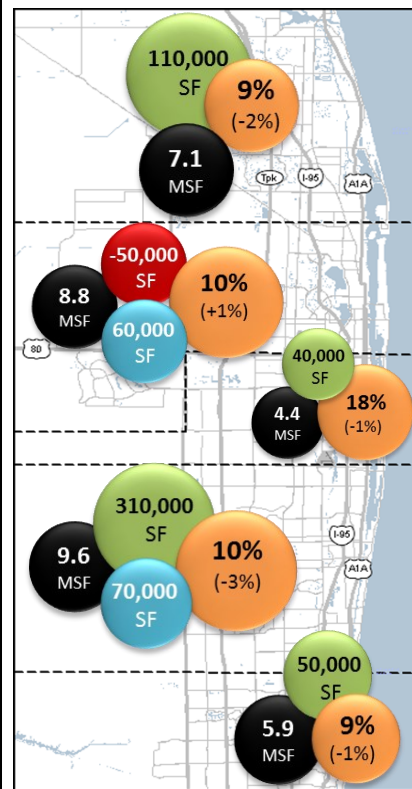
Palm Beach County boasts strong population growth. During 2012, Palm Beach County grew by an estimated 1.4%, adding about 18,000 people to its population, a 30 basis point increase from last year's population growth rate of 1.1%, which added about 14,000 people. This improvement puts Palm Beach County squarely on the path to reaching its pre-recession population growth levels of 1.5%, or approximately 20,000 people.

This year also signaled the return of pre-recession absorption levels to Palm Beach County. With four out of five Palm Beach submarkets boasting positive absorption rates, vacancy was driven down 100 basis points to 10.9%, totaling approximately 3.9M SF of vacancy in the market.

With only 130,000 SF of new retail opening in 2012, the remaining 340,000 SF of absorption in the Palm Beach market was the result of retailers filling vacancies in existing shopping centers.

2013 Retail Conditions

Palm Beach Market



Highlights:

- Positive absorption of 460,000 SF
- Retail market vacancy at 10.9%, down 100 basis points
- Only two new, ground-up developments: Publix at Delray Marketplace (Phase I) and Toys "R" Us/Babies "R" Us at the Shoppes of Isla Verde
- Jupiter and Boca Raton were the two strongest submarkets, both with single-digit vacancy rates
- Delray/Boynton Beach was the most improved submarket, with 310,000 SF of positive absorption

- Inventory
- Vacancy
- Absorption (positive)
- Absorption (negative)
- New retail space

Palm Beach Publix Centers

Strong absorption rates; continued decrease in vacancy

On average, a Publix supermarket anchors one out of every four shopping centers in Florida. Of the Palm Beach market's 271 shopping centers, 74 are anchored by Publix supermarkets, totaling approximately 9.3M SF of retail space.

Publix-anchored shopping centers in the Palm Beach market absorbed over 240,000 SF during 2012. Surprisingly, over two-thirds of that absorption was due to anchor vacancies being filled. As a result of that strong anchor absorption, currently only 10% of Publix-anchored centers in the Palm Beach market have large box space available.

In 2012, vacancy rates decreased 210 basis points to 8.9%, with 2 out of 5 submarkets showcasing single-digit vacancy rates. As of Q1 2013, Publix-anchored shopping centers have just 800,000 SF of total vacancy.

Increased Asking Rents at Publix-Anchored Shopping Centers

Average base rental rates stand at \$23.90/SF NNN, up \$0.80/SF in one year

During the recession, landlords slashed base rental rates by \$3.90/SF across the Palm Beach market, almost a 15% decrease from peak rental rates of \$27.00/SF NNN in 2007/2008. In 2012, rents bottomed out to \$23.10/SF NNN. But in 2013, for the first time in five years, rental rates at Publix-anchored centers in Palm Beach County have once again started to grow. Rates increased an average of \$0.80/SF in the last 12 months, bringing them up to \$23.90/SF NNN, or the same as rental rates in 2005/2006.

Ground-Up Development Remains Below Historic Levels

Palm Beach County construction rates hover at 0.3%, compared to historical 3.0%

Over the last 12 months, three new projects added 130,000 SF of new retail space to the Palm Beach market. Delray Marketplace, developed by Kite Realty, opened its Phase I, which features a 45,000 SF freestanding Publix. In addition, Toys “R” Us/Babies “R” Us opened a 60,000 SF freestanding combination store at the Shoppes at Isla Verde in Wellington and Wal-Mart expanded its store on Hypoluxo Road and Military Trail in Lake Worth to a super-center. After Woolbright’s site visit, Delray Marketplace opened Phase II, which features 215,000 SF of retail space anchored by Frank’s Theaters.

Forecast

Beginning stages of a recovery

While traces of the recession, such as low levels of construction, are still evident, it’s clear that the Palm Beach market finds itself firmly in the beginning stages of recovery. The significant decrease in the vacancy rate by 100 basis points over a 12-month period signals that retailers are once again regaining their confidence and beginning to expand their network of stores.

As vacant space continues to fill up and with little new construction coming online, rents should continue their upward trend. At the current growth rate of 3.5%, the Palm Beach retail market should reach the peak levels of 2007/2008 in 3-4 years. Once rents increase enough to justify the high cost of new development, we may see construction rates reverting back to more historical levels of 2-3%. In addition, population growth and a reduction of vacant space will also spur new development.

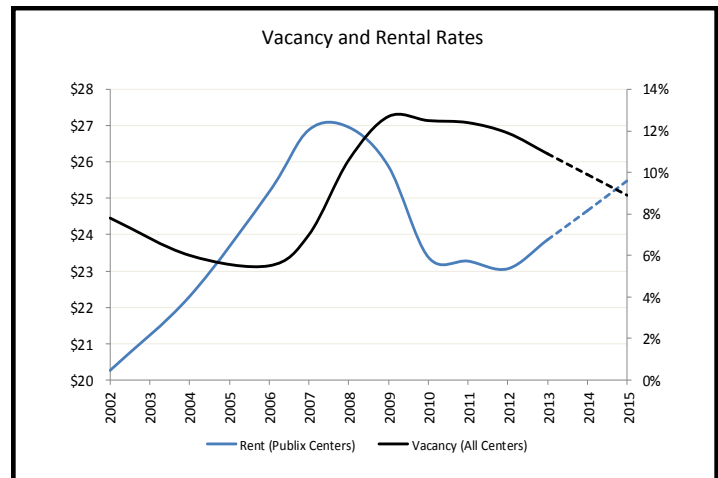
There is no doubt that Palm Beach County still has some way to go before the market returns to pre-recession peak levels. But what exists today is steady, sustainable, positive rent growth and an increase in retailer and consumer confidence across the board. And that is the sign of a true recovery.

About this study

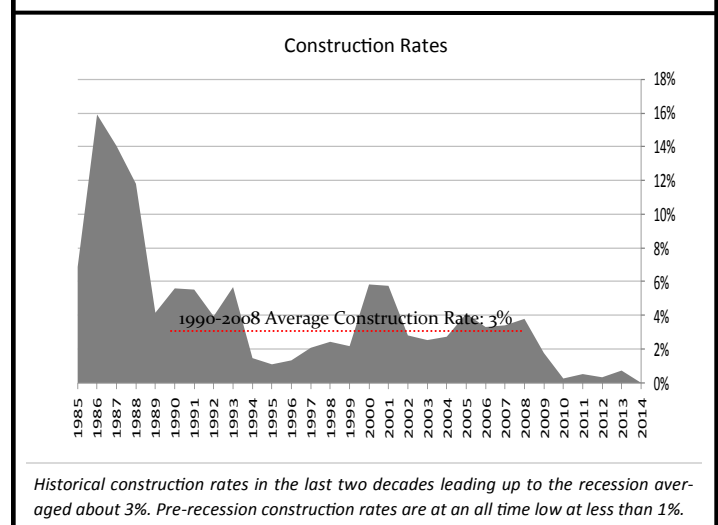
Data was collected in January 2013 through on-site inspection by Woolbright Development and includes all shopping centers over 50,000 SF in Palm Beach County. This report is the exclusive property of Woolbright Development, Inc. For more information about Woolbright’s research please email Liz Hoyer, Research Director, at lhoyer@woolbright.net or call her at 561-989-2247.

Woolbright Development

Woolbright Development, Inc., a real estate investment firm based in Boca Raton, Florida, acquires and develops retail grocery and basic needs shopping centers throughout the state of Florida. Founded 22 years ago, Woolbright is now one of Florida’s largest investors in Florida shopping centers and is partnered with some of the largest real estate investors in the United States. The keys to its success are extensive market research, industry knowledge, client commitment and vision. Woolbright currently maintains a retail portfolio of 4.0M SF, all of which is located in Florida’s major metro markets. Information about the firm, recent research studies and a complete listing of its portfolio can be found at: www.woolbright.net.



As occupancy levels continue to increase, Palm Beach County rental rates have finally started to grow, increasing \$0.80/SF NNN in 2012, returning to 2005/2006 levels. If base rental rates continue to increase at the current rate of 3.5% annually, we can expect to reach peak levels of \$27.00/SF NNN by 2017.



Historical construction rates in the last two decades leading up to the recession averaged about 3%. Pre-recession construction rates are at an all time low at less than 1%.