

FIGURES | WEST PALM BEACH OFFICE | Q3 2021

Record breaking activity, propelled by new-to-market tenants, continues

▲ 15.7%

Total Vacancy Rate

▲ 144,200

SF Net Absorption

▶ 184,400

SF Construction

▲ \$28.11

Full-Service / Lease Rate

Note: Arrows indicate change from previous year.

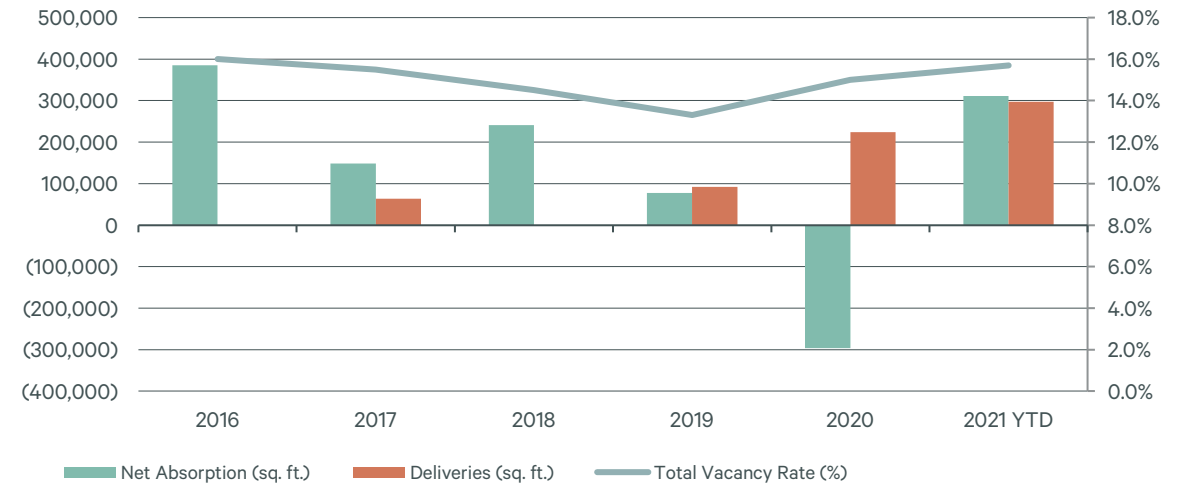
OVERVIEW

- New-to-market activity continued this quarter as Millennium Partners leased 38,000 sq. ft. at CityPlace Tower, and Elliott Management leased 26,000 sq. ft. at 360 Rosemary.
- Direct Vacancy currently sits at 14.5%, however, when 360 Rosemary is removed from the statistical set, direct vacancy in the county falls to below pre-pandemic vacancy levels of 13.6% to 13.4%.
- Investment in office remains strong. Numerous properties traded this quarter and several proposed projects continue progress towards breaking ground.

The future of the office market in Palm Beach County is bright. This is due to a continued influx of new-to-market tenants. Over 260,000 sq. ft. of new-to-market transactions (each over 5,000 sq. ft.) have been executed over the past 12-months. CBRE is currently tracking an additional 260,000 sq. ft. of new-to-market tenants touring the market.

Palm Beach County continues to draw tenants, in part due to long-standing fundamental advantages which include business-friendly policies and employee life-quality perks stemming from a year-round moderate climate.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

DEMAND

Palm Beach County had 144,200 sq. ft. of positive absorption this quarter, the strongest quarter since Q3 2016. This was propelled by North County, where previously signed new and expansion deals occupied. With record leasing activity, absorption trends are expected to continue. The rolling 12-month leasing activity hit a record high 900,000 sq. ft. in North County.

VACANCY

Direct Vacancy currently sits at 14.5%, up 90-bps from Q1 2020, before the pandemic began. However, when 360 Rosemary, which while nearly 100% leased sits mostly vacant until tenant leases commence, is removed, vacancy drops to 13.4% which is 20 bps below pre-pandemic vacancy (Q1 2020).

INVESTMENT

In South County, Grover & Corlew purchased 150 E Palmetto Park Rd for \$44.6M (\$407 psf) and Prime US REIT purchased 1 Town Center Rd for \$99.5M (\$520 psf). Additionally, on the development side, Compson Associates announced plans for Aletto Square, a new mixed-use project in East Boca with plans to include 64,000 sq. ft. of office.

In North County, Morning Calm Management purchased a West Palm Beach CBD portfolio (319 Clematis, 324 Datura, and 224 Datura) for \$54.17M (\$206 psf). The company also owns 205 Datura Street, which it purchased in 2019. The continual investment by Morning Calm Management validates existing ownership confidence in the market and is similar what we have seen from Related Companies, albeit at smaller scale. Related Companies has ownership in four Class A buildings and has plans to develop One Flagler (280K sq. ft.) in the CBD.

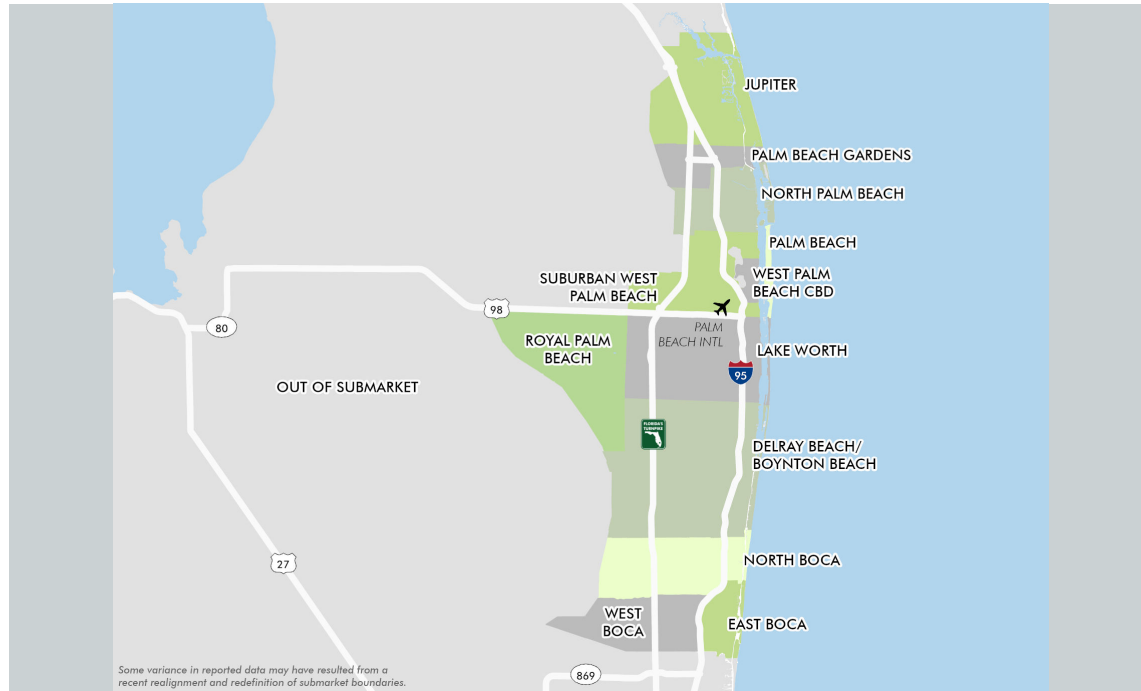
FIGURE 2: Statistical Snapshot Q3 2021

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2021 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/NNN)
Delray Beach/Boynton Beach	630,200	16.0%	16.6%	19,500	80,800	44,400	\$19.41
East Boca	2,318,100	13.5%	13.9%	(14,800)	(17,600)	-	\$24.18
North Boca	5,018,000	11.7%	14.1%	4,600	17,700	-	\$22.31
West Boca	3,137,100	11.0%	11.3%	9,500	23,500	-	\$31.10
South County Total	11,103,500	12.1%	13.4%	18,900	104,400	44,400	\$25.18
Jupiter	450,200	14.5%	14.5%	-	14,300	-	\$19.93
Palm Beach	564,700	11.2%	12.8%	-	(5,700)	-	\$41.75
Palm Beach Gardens	2,383,200	15.4%	16.8%	21,800	105,700	-	\$29.77
Suburban West Palm Beach	393,500	8.0%	8.0%	1,000	(6,600)	140,000	\$19.33
West Palm Beach CBD	4,806,400	20.6%	21.7%	102,400	98,800	-	\$33.64
North County Total	8,597,900	17.7%	18.7%	125,300	206,500	140,000	\$31.95
Total	19,701,300	14.5%	15.7%	144,200	310,900	184,400	\$28.11

FIGURE 3: Class A West Palm Beach CBD Statistical Snapshot Q3 2021

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2021 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/NNN)
Trophy	1,205,100	32.5%	34.4%	15,700	25,900	-	\$53.45
Class A	1,222,800	21.9%	22.6%	19,300	(15,900)	-	\$35.62
Total	2,427,900	27.1%	28.5%	35,100	10,000	-	\$42.94

Market Area Overview



ECONOMIC OUTLOOK

Due to the rise of the Delta variant, CBRE pared back our GDP growth outlook for the year by an entire percentage point, to 6%, followed by nearly 4% year-on-year growth in 2022. The labor market has also been volatile, primarily due to a reversal in hiring within the Accommodation & Food Services sector, reflecting uncertainty in the space. But demand for labor remains high and most signals suggest the key problem firms face is finding workers. Thus, employment growth should remain above 3% through 2022. Longer-term hiring in the U.S. will be restrained by a shrinking labor force.

Shortages are not just limited to people. Key economic inputs ranging from raw materials to microchips pushed consumer prices up by 5% year-on-year. Some supply bottlenecks have proven transitory and annual price increases are stalling. Inflation should ultimately settle into the low-2% range next year. The Fed is responding to these labor market and price developments by announcing it might begin tapering its quantitative easing program as soon as this November.

A plausible outlook is that waves of COVID-19 continue but the U.S. economy and health system learn to manage these disruptions. This will allow room for 5% GDP growth in 2022, as business investment and consumer activity normalize. Upside risks include the prospect of greater infrastructure spending, albeit the political dynamics are fluid. Also, the construction of more housing units to correct a historic shortage—estimated at 3.8 million units, per FreddieMac—would also be material tailwind for growth.

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Survey Criteria: Includes all competitive Class A and Class B office buildings 30,000 sq. ft. and greater in size in Palm Beach County. Excludes: single occupancy, government and medical buildings..