

FIGURES | WEST PALM BEACH OFFICE | Q3 2022

# Growth continues albeit at a slower pace

▼ 13.8%	▼ 56,300	▶ 587,000	▲ \$31.87
Total Vacancy Rate	SF Quarterly Net Absorption	SF Construction	NNN / Lease Rate

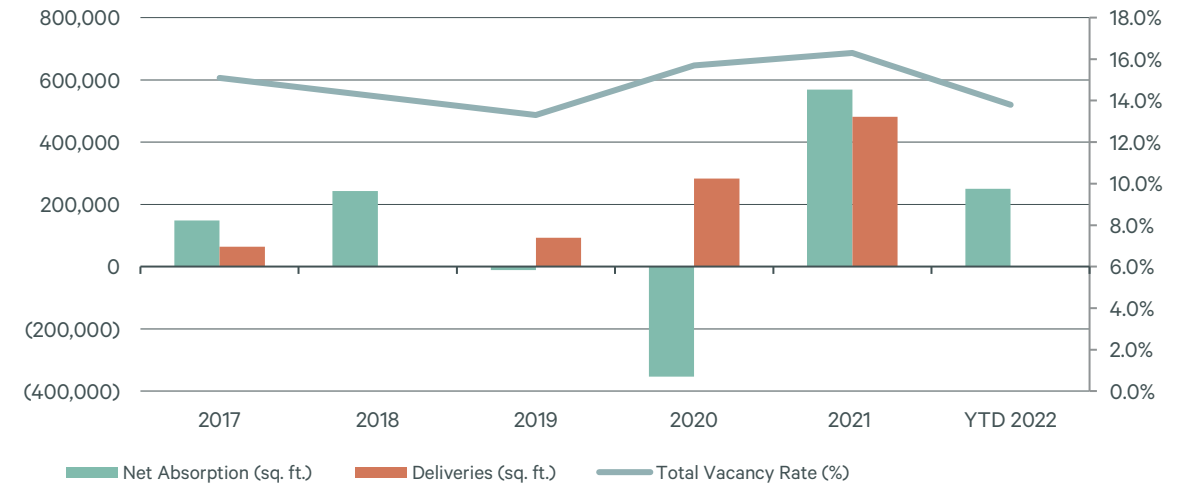
Note: Arrows indicate change from previous year.

## OVERVIEW

- Recent rent growth has been led by South County which has seen rents jump 15.6% year-over-year to \$29.26 per square foot.
- Vacancy dropped below the 14.0% threshold to 13.8% for the first time since 2019.
- Post-pandemic absorption is being compressed by sublease space which continues to come on-line as tenants evaluate future needs for office space.
- The development pipeline remains robust. While under-construction has been focused in the CBD, several proposed buildings in South County are set to break ground in the near term.

Palm Beach County has experienced record growth post pandemic propelled by an influx of companies and people flocking to the area. The market has seen over 500,000 square feet in new-to-market tenants sign in Palm Beach County since 2020. Additionally, based on data from the Florida Department of Highway and Motor Vehicles Palm Beach County experienced a 22.9% increase in drivers license swaps (defined as drivers exchanging out-of-state licenses for Florida licenses) in 2021 compared with the historical 5-year average; the highest growth rate in the tri-county area. While the level of growth may not be sustainable and seems to have slowed in the most recent quarter, we expect that the market will continue to see companies and people move to the area at a greater rates then they did prior to the pandemic for the foreseeable future.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

## DEMAND

The third quarter closed with 56,300 square feet of positive absorption and post-pandemic absorption in the market is on track to surpass half-a-million square feet by the end of the year. Absorption is being driven by tenants occupying space leased direct from the landlords. In fact, this quarter direct absorption was 101,100 square feet and the aggregate post-pandemic direct absorption currently sits at 662,900 square feet.

However, sublease space continues to put a strain on the market with numerous large blocks coming on-line and shifting total absorption downward. This quarter the market saw 44,700 square feet of negative sublease absorption and bringing the total negative sublease absorption post-pandemic 189,900 square feet. Most recently, White Oak listed 13,300 square feet for sublease in East Boca.

## PRICING

As tenants that signed large deals over the previous year continue to occupy vacancy dropped below the 14.0% threshold for the first time since the pandemic this quarter. This downward vacancy trend continues to push rental rates in Palm Beach County upward. The average asking rent is \$31.87 per square foot (NNN); that is an increase of \$3.79 per square foot (13.5%) compared with this time last year.

Recent rent growth has been led by South County which has seen rents jump 15.6% year-over-year to \$29.26 per square foot. Comparably, North County which saw stronger growth earlier in the pandemic has seen rents increase 12.3% year-over-year to \$35.74 per square foot.

## DEVELOPMENT

There are three buildings totaling nearly 600,000 square feet currently under-construction in Palm Beach County; all are in the West Palm Beach CBD. While nothing was delivered or broke ground this quarter, the development pipeline is continuing to grow both in the CBD and the suburbs. Notably, in South County Pebb Capital is set to break ground on Sundry Village next quarter; a new 90,900 square foot building Delray Beach/Boynton Beach.

FIGURE 2: Statistical Snapshot

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2022 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/NNN)
Delray Beach/ Boynton Beach	723,700	11.8%	12.3%	12,900	34,100	-	\$ 27.36
East Boca	2,318,100	13.4%	15.5%	(37,000)	(28,100)	-	\$ 26.69
North Boca	5,231,700	11.2%	13.3%	(3,600)	(2,700)	-	\$ 26.36
West Boca	3,137,100	9.9%	10.2%	30,100	27,800	-	\$ 36.82
<b>South County Total</b>	<b>11,410,500</b>	<b>11.3%</b>	<b>12.8%</b>	<b>2,300</b>	<b>31,200</b>	<b>-</b>	<b>\$ 29.26</b>
Jupiter	510,200	12.8%	12.8%	-	-	-	\$ 19.93
Palm Beach	564,700	6.8%	9.5%	2,700	11,500	-	\$ 44.47
Palm Beach Gardens	2,488,600	12.3%	12.9%	21,200	28,400	-	\$ 32.38
Suburban West Palm Beach	2,280,100	16.4%	17.8%	30,900	29,800	-	\$ 22.14
West Palm Beach CBD	3,270,600	14.7%	15.9%	(800)	145,500	587,000	\$ 50.33
<b>North County Total</b>	<b>9,114,100</b>	<b>13.9%</b>	<b>15.0%</b>	<b>54,000</b>	<b>219,300</b>	<b>587,000</b>	<b>\$ 35.74</b>
<b>Total</b>	<b>20,524,600</b>	<b>12.5%</b>	<b>13.8%</b>	<b>56,300</b>	<b>250,500</b>	<b>587,000</b>	<b>\$ 31.87</b>

FIGURE 3: Class A West Palm Beach CBD Statistical Snapshot

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2022 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/NNN)
Trophy	1,205,100	17.9%	20.4%	19,000	144,600	-	\$ 62.23
Class A	1,030,400	18.5%	18.9%	(16,600)	16,600	587,000	\$ 44.12
<b>Total</b>	<b>2,235,500</b>	<b>18.2%</b>	<b>19.7%</b>	<b>2,400</b>	<b>139,400</b>	<b>587,000</b>	<b>\$ 52.97</b>

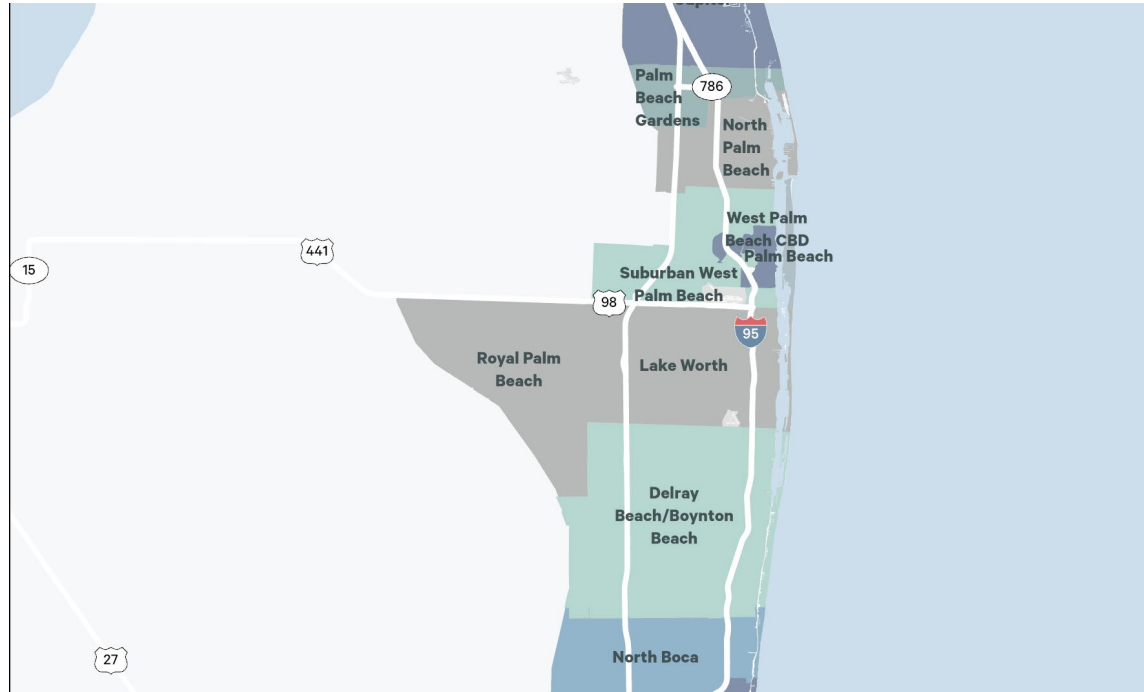
FIGURE 4: Class A

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2022 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/NNN)
Delray Beach/ Boynton Beach	90,700	49.0%	49.0%	-	-	-	\$ 45.00
East Boca	1,454,000	13.3%	16.5%	(28,000)	(17,000)	-	\$ 27.58
North Boca	2,361,600	13.1%	13.5%	(2,400)	77,800	-	\$ 26.70
West Boca	2,029,200	12.5%	12.9%	25,500	25,500	-	\$ 39.03
<b>South County Total</b>	<b>5,935,600</b>	<b>13.5%</b>	<b>14.6%</b>	<b>(4,900)</b>	<b>76,200</b>	<b>-</b>	<b>\$31.02</b>
Jupiter	95,500	12.8%	12.8%	-	-	-	\$ 28.00
Palm Beach	126,000	6.2%	6.2%	-	3,100	-	\$ 70.67
Palm Beach Gardens	1,481,400	12.6%	13.6%	9,000	15,000	-	\$ 35.11
Suburban West Palm Beach	328,800	19.3%	19.3%	1,800	1,500	-	\$ 25.56
West Palm Beach CBD	2,235,500	18.2%	19.7%	2,400	139,400	587,000	\$ 52.97
<b>North County Total</b>	<b>4,267,300</b>	<b>15.9%</b>	<b>17.0%</b>	<b>13,100</b>	<b>156,100</b>	<b>587,000</b>	<b>\$ 44.35</b>
<b>Total</b>	<b>10,202,800</b>	<b>14.5%</b>	<b>15.6%</b>	<b>8,200</b>	<b>232,300</b>	<b>587,000</b>	<b>\$ 35.94</b>

FIGURE 5: Class B

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2022 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/NNN)
Delray Beach/ Boynton Beach	633,000	6.4%	7.0%	12,900	34,100	-	\$ 15.33
East Boca	864,100	13.7%	13.7%	(8,900)	10,300	-	\$ 25.43
North Boca	2,870,100	9.6%	13.2%	(1,300)	(80,400)	-	\$ 25.50
West Boca	1,107,800	5.1%	5.1%	4,600	11,600	-	\$ 27.25
<b>South County Total</b>	<b>5,475,000</b>	<b>9.0%</b>	<b>10.9%</b>	<b>7,300</b>	<b>(45,000)</b>	<b>--</b>	<b>\$ 25.16</b>
Jupiter	414,600	12.8%	12.8%	-	-	-	\$ 17.71
Palm Beach	438,700	6.9%	10.4%	2,700	8,400	-	\$ 41.60
Palm Beach Gardens	1,007,200	11.9%	11.9%	12,300	13,400	-	\$ 23.53
Suburban West Palm Beach	1,951,300	15.9%	17.5%	29,100	31,300	-	\$ 21.33
West Palm Beach CBD	1,035,100	7.2%	7.8%	(3,300)	10,200	-	\$ 24.03
<b>North County Total</b>	<b>4,846,900</b>	<b>12.1%</b>	<b>13.2%</b>	<b>40,800</b>	<b>63,200</b>	<b>-</b>	<b>\$ 22.60</b>
<b>Total</b>	<b>10,321,800</b>	<b>10.5%</b>	<b>12.0%</b>	<b>48,100</b>	<b>18,100</b>	<b>-</b>	<b>\$ 23.96</b>

## Market Area Overview



## ECONOMIC OUTLOOK

The problems associated with inflation continue to run their course. Although the pace of inflation may have started to plateau, the Federal Reserve’s hawkish response has been unequivocal in a way that caught markets by surprise. Aggressive rate hikes and Fed balance sheet reductions have successfully resulted in a strong dollar and higher mortgage rates, and the beginning of a slowdown in the U.S. economy.

Higher rates are not just impeding household decisions; a higher corporate cost of capital is forcing firms to rethink hiring plans. So far resilient consumers have driven further economic growth but now the realities of lower savings rates and chronically poor sentiment suggest excess spending is coming to an end. Consequently, we expect the economy to contract early next year, and unemployment to rise. This should push inflation down toward 3% by year-end 2023. It is possible the Fed may be able to reduce inflation and maintain the unemployment rate below 5%, but we should not bank on that. Once inflation is tamed, both capital and real estate markets will become more predictable again

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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. Beginning Q1 2022, single tenant non-owner-occupied buildings have been added to the set and their inclusion is reflected historically in the data. Excludes: government and medical buildings..

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