

FIGURES | WEST PALM BEACH OFFICE | Q4 2021

Positive trends in 2021 expected to continue in 2022

▼ 15.3%

Total Vacancy Rate

▲ 177,200

SF Quarterly Net Absorption

▲ 321,400

SF Construction

▲ \$28.90

NNN / Lease Rate

Note: Arrows indicate change from previous year.

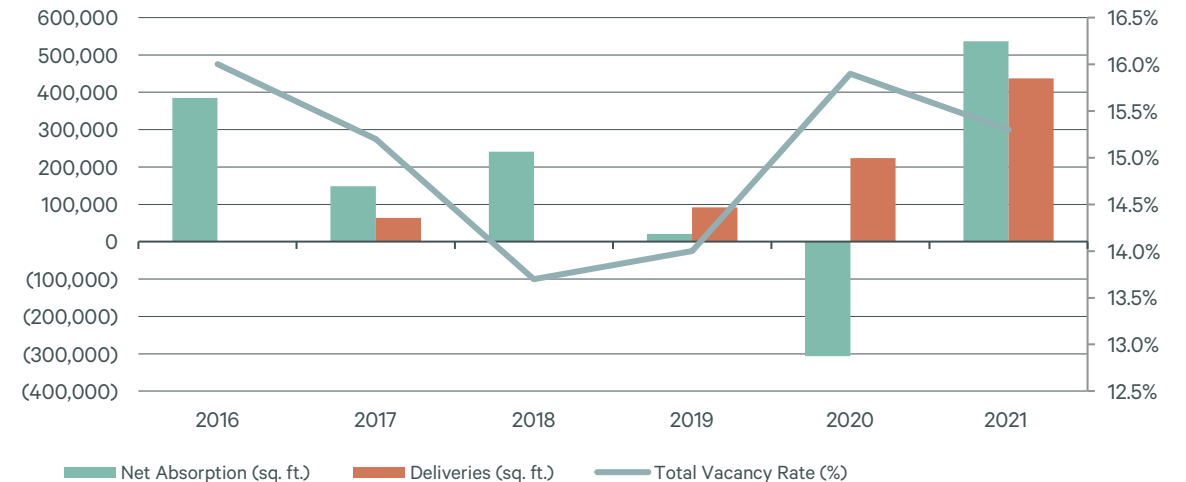
OVERVIEW

- Absorption broke the 500,000 sq. ft. threshold in 2021 for the first time since 2014.
- Investor confidence remains strong in the fourth quarter as Boca Raton Innovation Campus traded and One Flagler broke ground.
- West Palm Beach CBD saw record breaking rent growth as asking rents increased 33.9% year-over-year, or \$11.68 psf, to \$46.14 psf (NNN).

Pam Beach County continued to break records as it closed out 2021. Fourth quarter absorption and reached 177,000 sq. ft. bringing the YTD absorption to 536,000 sq. ft.; the strongest year on record. Most of the fourth quarter gains came in large part from existing tenants as many of new-to-market tenant leases have yet to commence.

The absorption gains further propelled landlord confidence in the market. The average asking rent in Palm Beach County is up 9.7% year-over-year to \$28.90 per sq. ft. Asking rents in the West Palm Beach CBD are up 33.9% year-over-year; the strongest year on record. Rent growth is likely to continue with new developments breaking ground and vacancy expected to decline. One Flagler, a 277K sq. ft. building in the CBD being developed by The Related Companies, broke ground the fourth quarter.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

PRICING

North County has been driving rent growth with average asking rents up 20.7% to \$32.98 per sq. ft compared with start of the pandemic (Q1 2020) . However, rent growth among South County assets has picked up over the previous 12-months. Average asking rents have increased 10.1% compared with the start of the pandemic and 8.3% year-over-year to \$26.32 per sq. ft.

DEMAND

Positive absorption in 2021 surpassed the negative absorption the market saw in 2020. South County closed the year with 202,000 sq. ft. of positive absorption; there was negative 90K sq. ft. of absorption in 2020. The gains in South County were a result of an aggregate of several smaller move-ins/expansions and limited move-outs. North County closed the year with 335K sq. ft. of positive absorption; there was negative 217,000 sq. ft. of absorption in the aggregate submarkets in 2020.

VACANCY

While vacancy in the county still sits 90 above pre-pandemic levels at 15.3%, it has declined 180 bps since Q2 2021 when it peaked. The increase in vacancy is a result of new product, namely 360 Rosemary, coming online. As a preponderance of new-to-market tenants continue to occupy, we expect to see vacancy fall below pre-pandemic levels. In fact, when 360 Rosemary, which is nearly 100% leased but still mostly vacant, is removed from the statistical set, vacancy in the county drops 20 bps below pre-pandemic levels to 14.2%.

INVESTMENT

Boca Raton Innovation Campus traded, marking the largest single office sale in the market. DRA Advisors bought the park for \$320M (\$193 psf) from Rialto Capital Management. This is a 78% increased compared with the most recent sale in 2018 when it traded for \$179M (\$108 psf).

FIGURE 2: Statistical Snapshot

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q4 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	15.4%	16.0%	8,900	80,500	44,400	\$19.73
East Boca	2,318,100	13.6%	14.3%	14,600	14,500	-	\$25.42
North Boca	5,018,000	11.7%	13.8%	32,500	49,700	-	\$24.25
West Boca	3,137,100	10.2%	10.7%	27,300	56,900	-	\$32.16
South County Total	11,103,400	12.6%	13.8%	83,300	201,600	44,400	\$26.32
Jupiter	450,200	14.5%	14.5%	-	14,300	-	\$19.93
Palm Beach	564,700	8.8%	11.5%	5,000	1,700	-	\$45.43
Palm Beach Gardens	2,383,200	13.9%	14.7%	28,300	154,800	-	\$29.92
Suburban West Palm Beach	2,081,800	17.3%	18.6%	6,800	23,000	-	\$18.55
West Palm Beach CBD	3,258,100	20.7%	21.8%	53,900	141,000	277,000	\$46.14
North County Total	8,738,000	17.0%	18.0%	94,000	334,800	277,000	\$32.98
Total	19,841,400	14.1%	15.3%	177,300	536,400	321,400	\$28.90

FIGURE 3: Class A West Palm Beach CBD Statistical Snapshot

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q4 2021 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/NNN)
Trophy	1,205,100	31.2%	33.2%	7,400	41,300	277,000	\$57.76
Class A	1,030,400	18.5%	19.1%	40,400	39,000	-	\$40.92
Total	2,235,500	25.4%	26.7%	47,800	80,300	277,000	\$49.31

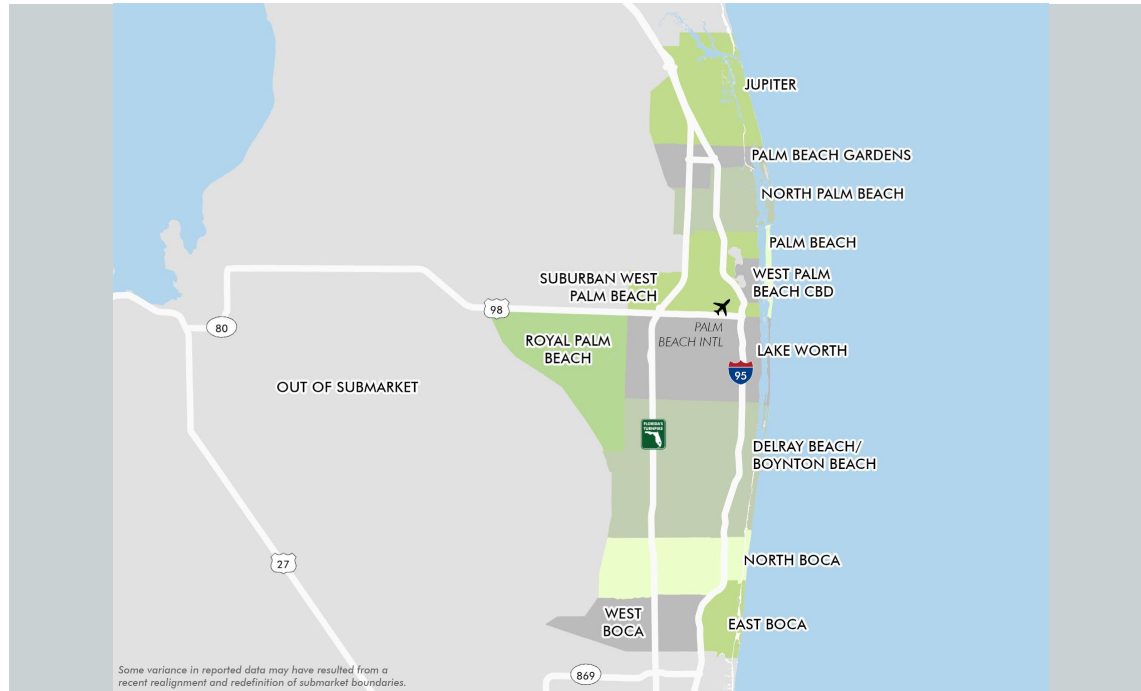
FIGURE 4: Class A

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q4 2021 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/NNN)
Delray Beach/ Boynton Beach	46,200	28.9%	28.9%	-	25,900	44,400	\$42.50
East Boca	1,454,000	14.7%	15.8%	7,700	(14,500)	-	\$26.74
North Boca	2,287,800	15.3%	17.3%	32,600	42,100	-	\$24.99
West Boca	2,029,200	12.8%	13.5%	16,300	22,800	-	\$34.40
South County Total	5,817,300	14.4%	15.7%	56,600	76,200	44,400	\$28.22
Jupiter	95,500	12.8%	12.8%	-	-	-	\$28.00
Palm Beach	126,000	8.7%	8.7%	1,800	10,800	-	\$56.08
Palm Beach Gardens	1,376,000	15.2%	15.7%	10,200	58,200	-	\$32.06
Suburban West Palm Beach	469,800	30.9%	30.9%	5,700	(17,000)	-	\$22.56
West Palm Beach CBD	2,235,500	25.4%	26.7%	47,700	80,300	277,000	\$49.31
North County Total	4,301,800	21.9%	22.8%	65,400	132,300	277,000	\$40.72
Total	10,119,100	17.6%	18.7%	122,000	208,500	321,400	\$32.80

FIGURE 5: Class B

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q4 2021 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/NNN)
Delray Beach/ Boynton Beach	584,000	14.3%	15.0%	8,900	54,700	-	\$15.46
East Boca	864,100	11.7%	11.7%	6,900	29,000	-	\$22.65
North Boca	2,730,300	8.8%	10.8%	-	7,600	-	\$22.82
West Boca	1,107,800	5.5%	5.7%	10,900	34,100	-	\$25.91
South County Total	5,286,200	9.2%	10.3%	26,600	125,400	-	\$22.58
Jupiter	354,600	13.0%	13.6%	2,000	(1,700)	-	\$24.18
Palm Beach	438,700	8.8%	12.3%	3,200	(9,100)	-	\$41.09
Palm Beach Gardens	1,007,200	12.2%	13.3%	18,100	96,600	-	\$23.10
Suburban West Palm Beach	1,612,900	13.3%	15.0%	1,100	39,900	-	\$17.58
West Palm Beach CBD	1,022,600	10.6%	11.0%	6,200	60,700	-	\$26.83
North County Total	4,436,000	12.1%	13.4%	28,600	202,400	-	\$21.14
Total	9,722,200	10.5%	11.7%	55,200	327,800	-	\$21.97

Market Area Overview



ECONOMIC OUTLOOK

The problem of supply shortages, amid heightened demand, is front-and-center and impacting everything from manufacturing feed stock to the labor market. Regarding the latter, low participation rates are poised to push the unemployment rate to pre-COVID lows by year-end. Shortages of goods and people will continue to drive heightened inflation readings in coming quarters before easing supply chain disruption, slightly higher labor market participation and improving production capacity restrains prices. We assume that CPI will settle to the mid-2% range by year-end 2022, still notably above long-term trends.

Expectedly, waves of COVID-19 continued during the past year and new variants, from Delta to Omicron, have tested growth. But the U.S. economy is learning how to function amid the pandemic. Presently, sturdy income growth is supporting consumer spending and business investment should remain elevated to satisfy unfilled orders and alleviate supply shortages, supporting GDP growth in the mid-4% range for 2022.

The Federal Reserve has become more attune to rising prices and now intends to end its quantitative easing by this spring—ahead of schedule. The Fed is also expected to raise its benchmark rate a few times this year. Thus, it is plausible 10-year Treasury bond yields could hit the mid-2% range by year-end; however, financial markets do not anticipate a significant uptick in long-duration yields as structural factors, particularly slower labor-force growth, will be centered as the pandemic becomes more endemic.

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..

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