

FIGURES | WEST PALM BEACH OFFICE | Q2 2022

North County and South County rental rates continue to climb

▼ 14.1%

Total Vacancy Rate

▲ 133,000

SF Quarterly Net Absorption

▲ 587,000

SF Construction

▲ \$31.33

NNN / Lease Rate

Note: Arrows indicate change from previous year.

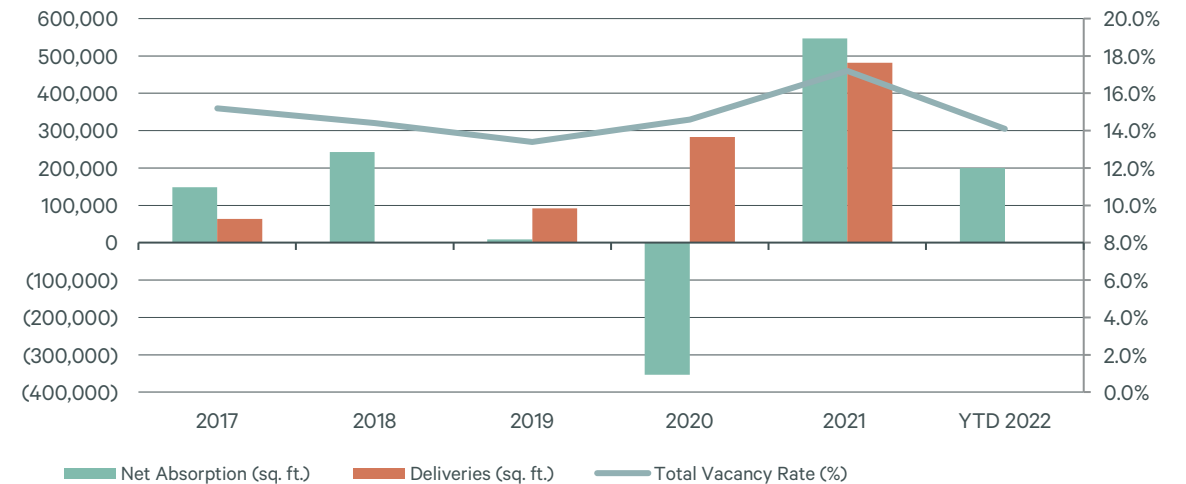
OVERVIEW

- Rental rates broke the \$30.00 threshold for the first time after increasing of \$2.18 per square foot (7.5%) compared with the previous quarter. Growth is strong countywide with meaningful increases in both North County and South County.
- Direct vacancy dropped to 12.9%; it has only fallen below this number once before in the past 10-years.
- Development in the West Palm Beach CBD continues to grow as 300 Banyan broke ground this quarter bringing the total square footage under-construction in the CBD up to 587,000 square feet.

Palm Beach County office fundamentals remain strong with declining vacancy, a growing development pipeline, and a constant flow of new-to-market tenant leases. Record setting growth has propelled landlords to push rents; the average asking rent in Palm Beach County increased 7.5% compared with the previous quarter to \$31.33 per square foot.

The market remains well positioned for continued growth, even amidst some uncertainty with rising inflation, going into the second half of 2022. From an office perspective, sublease space currently sits at 2.2%; in line with the 5-year rolling average and only 40 bps above the 10-year average in the market. And from an economic perspective, the most recent (May 2022) unemployment numbers show that 116% of jobs that were lost early in the pandemic have been recovered. And, job growth remains positive; employment in Palm Beach County increased 6.3% from May 2021 to May 2022. Comparatively, the national average job growth rate over that same period is 4.4%.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

PRICING

Rental rates in Palm Beach County closed the second quarter at \$31.33 per square foot (NNN); breaking the \$30.00 threshold for the first time. That is an increase of \$2.18 per square foot (7.5%) compared with the previous quarter and \$3.85 per square foot (14.0%) compared with this time last year.

While the initial rent growth post-pandemic was focused in North County, landlords in South County have increased rents significantly in recent quarters. Asking rents in South County are up 16.9% year-over-year and 19.5% since the start of the pandemic (Q1 2020) to \$28.57 per square foot. Comparably, asking rents in North County are up 13.6% year-over-year and 29.7% since the start of the pandemic to \$35.45 per square foot.

DEMAND

Demand from new-to-market tenants continues to drive growth in Palm Beach County. More than half a million square feet of new-to-market deals signed in the market since the start of the pandemic, equating to 16% of all leasing activity. Historically (2010-2019) new-to-market tenants only accounted for 2% of all leasing in the market annually.

VACANCY

During the second quarter the market saw more than 133,000 square feet of positive absorption. This was propelled by a number of large tenants occupying space at 360 Rosemary and a handful of large block subleases being removed. Direct vacancy dropped to 12.9%; it has only fallen below this number for one quarter in the past 10-years.

DEVELOPMENT

With limited quality space remaining the market, office developers are betting big the West Palm Beach CBD. This quarter, Brand Atlantic Real Estate Partners and Wheelock Street Capital broke ground on 300 Banyan (100,000 square feet). This brings aggregate under-construction in the CBD to three buildings totaling nearly 600,000 square feet; One West Palm and One Flagler are the other two buildings currently under-construction.

FIGURE 2: Statistical Snapshot

| Submarket | Total Inventory (Sq. Ft.) | Direct Vacancy (%) | Total Vacancy (%) | Q2 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 | 13.8% | 14.4% | 9,600 | 41,300 | - | \$ 26.59 |
| East Boca | 2,318,100 | 12.5% | 13.9% | 9,600 | 8,900 | - | \$ 27.10 |
| North Boca | 5,157,800 | 11.6% | 13.7% | 10,400 | (12,500) | - | \$ 25.62 |
| West Boca | 3,137,100 | 10.3% | 10.6% | (500) | (4,000) | - | \$ 34.95 |
| South County Total | 11,336,700 | 11.6% | 12.9% | 29,100 | 33,700 | - | \$ 28.57 |
| Jupiter | 510,200 | 12.8% | 12.8% | - | - | - | \$ 19.93 |
| Palm Beach | 564,700 | 7.2% | 9.9% | 6,700 | 8,800 | - | \$ 44.47 |
| Palm Beach Gardens | 2,488,600 | 13.5% | 13.6% | 17,600 | 11,900 | - | \$ 31.54 |
| Suburban West Palm Beach | 2,280,100 | 18.1% | 19.5% | (9,800) | (8,800) | - | \$ 22.08 |
| West Palm Beach CBD | 3,270,600 | 14.7% | 15.7% | 89,300 | 154,600 | 587,000 | \$ 49.96 |
| North County Total | 9,117,100 | 14.7% | 15.6% | 103,900 | 166,500 | 587,000 | \$ 35.45 |
| Total | 20,450,800 | 12.9% | 14.1% | 133,000 | 200,200 | 587,000 | \$ 31.33 |

FIGURE 3: Class A West Palm Beach CBD Statistical Snapshot

| Submarket | Total Inventory (Sq. Ft.) | Direct Vacancy (%) | Total Vacancy (%) | Q2 2022 Net Absorption (Sq. Ft.) | YTD Net Absorption (Sq. Ft.) | Under Construction (Sq. Ft.) | Avg. Asking Lease Rate (\$/NNN) |
|--------------|---------------------------|--------------------|-------------------|----------------------------------|------------------------------|------------------------------|---------------------------------|
| Trophy | 1,205,100 | 20.0% | 21.9% | 69,100 | 125,600 | 587,000 | \$ 61.84 |
| Class A | 1,030,400 | 16.5% | 16.8% | 14,100 | 15,600 | - | \$ 42.08 |
| Total | 2,235,500 | 18.4% | 19.6% | 83,200 | 141,200 | 587,000 | \$ 52.22 |

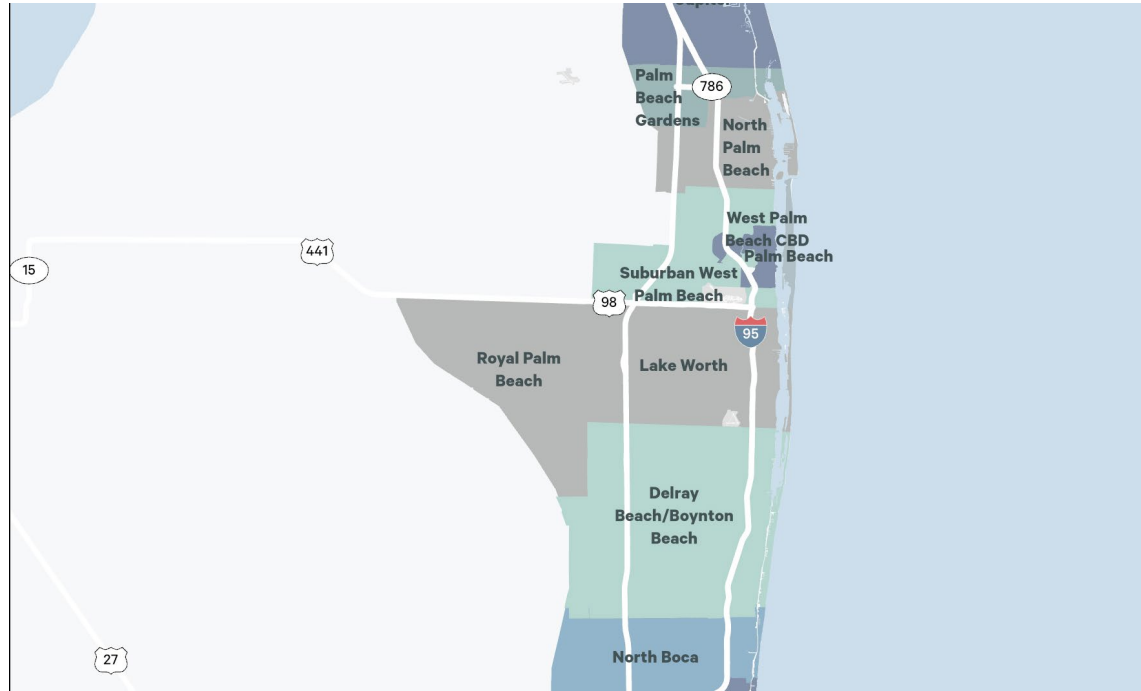
FIGURE 4: Class A

| Submarket | Total Inventory (Sq. Ft.) | Direct Vacancy (%) | Total Vacancy (%) | Q2 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 | 37.6% | 37.6% | - | 23,700 | - | \$ 44.02 |
| East Boca | 1,454,000 | 12.5% | 14.6% | 2,400 | 10,200 | - | \$ 28.11 |
| North Boca | 2,287,800 | 14.1% | 14.1% | 53,300 | 73,500 | - | \$ 25.94 |
| West Boca | 2,029,200 | 12.5% | 12.9% | (3,300) | (3,300) | - | \$ 36.94 |
| South County Total | 5,861,700 | 13.5% | 14.2% | 52,600 | 104,200 | - | \$30.30 |
| Jupiter | 95,500 | 12.8% | 12.8% | - | - | - | \$ 28.00 |
| Palm Beach | 126,000 | 6.2% | 6.2% | 3,100 | 3,100 | - | \$ 70.67 |
| Palm Beach Gardens | 1,481,400 | 13.7% | 13.9% | 11,000 | 11,000 | - | \$ 33.74 |
| Suburban West Palm Beach | 328,800 | 21.7% | 21.7% | (9,400) | (9,400) | - | \$ 24.60 |
| West Palm Beach CBD | 2,235,500 | 18.4% | 19.6% | 83,200 | 141,200 | 587,000 | \$ 52.22 |
| North County Total | 4,267,300 | 16.5% | 17.2% | 88,000 | 145,700 | 587,000 | \$ 42.98 |
| Total | 10,129,000 | 14.8% | 15.5% | 140,400 | 249,800 | 587,000 | \$ 35.07 |

FIGURE 5: Class B

| Submarket | Total Inventory (Sq. Ft.) | Direct Vacancy (%) | Total Vacancy (%) | Q2 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 | 10.4% | 11.0% | 9,600 | 17,600 | - | \$ 15.67 |
| East Boca | 864,100 | 12.7% | 12.7% | 7,200 | (1,400) | - | \$ 25.18 |
| North Boca | 2,870,100 | 9.6% | 13.4% | (42,900) | (86,000) | - | \$ 24.86 |
| West Boca | 1,107,800 | 6.2% | 6.2% | 2,800 | 2,800 | - | \$ 27.25 |
| South County Total | 5,475,00 | 9.5% | 11.6% | (23,300) | (70,500) | - | \$24.50 |
| Jupiter | 414,600 | 12.8% | 12.8% | - | - | - | \$ 17.71 |
| Palm Beach | 438,700 | 7.6% | 11.0% | 3,600 | 5,700 | - | \$ 41.60 |
| Palm Beach Gardens | 1,007,200 | 13.2% | 13.2% | 6,600 | 1,100 | - | \$ 24.38 |
| Suburban West Palm Beach | 1,951,300 | 17.5% | 19.1% | (300) | 600 | - | \$ 21.30 |
| West Palm Beach CBD | 1,035,100 | 6.8% | 7.4% | 6,100 | 13,400 | - | \$ 22.68 |
| North County Total | 4,846,900 | 13.0% | 14.1% | 15,900 | 20,800 | - | \$22.62 |
| Total | 10,321,800 | 11.1% | 12.7% | (7,400) | (49,600) | - | \$23.65 |

Market Area Overview



ECONOMIC OUTLOOK

Sentiment has taken a turn for the worse during the first quarter with Russia’s invasion of Ukraine magnifying existing economic concerns. Specifically, the exclusion of Russian oil & gas from global markets is pushing up gasoline prices for U.S. consumers already rattled by inflation. American consumers are more sensitive to energy prices shifts than those in other OECD countries. Energy prices will likely remain heightened throughout this year, which will increase our inflation forecast to over 6% for 2022.

The prospects of weaker global growth—especially in Germany and China—and rising interest rates are causing some alarm. Bond markets are pricing in rate hikes through 2023 with a terminal Fed Funds Rate of 3% to 3.5%. On the upside, consumer demand should remain heightened this year driven by excess savings, especially among more affluent households, and a very strong labor market. This should translate into another year of above-trend annual growth, at 2.4%. It is possible that these tailwinds will fade quicker than the downside risks and weaker economic growth should be expected next year. The beginnings of an inverted yield curve are hinting at a recession in 2023. This is not our base case, and there is plenty of momentum left in the U.S. economy, but medium-term risks are rising, with an increasingly hawkish Fed. being the main cause for concern.

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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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