

INVESTMENT FORECAST

Office
West Palm Beach

IPA
INSTITUTIONAL
PROPERTY
ADVISORS






2022

Southbound Corporate Arrivals Aid Office Growth; Investors Taking Advantage of Stable Fundamentals

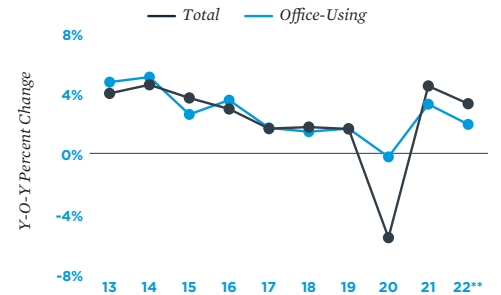
With pandemic losses recovered, Palm Beach County continues expansion. Due to high ongoing in-migration as well as lenient state health policy, the market observed a strong rebound in the office sector last year. Metro office-using employers regained all pandemic job losses by the second quarter of 2021, and are on track to end this year 8,000 positions above pre-health crisis counts. The city of West Palm Beach has become a choice destination for financial firms looking to expand their South Florida footprint. In 2021, New Day USA, Goldman Sachs, Point 72 and Colony Capital were among the metro's large number of new tenants, in addition to existing leaseholders in search of additional office space. After observing a relatively modest 80-basis-point rise in vacancy at the height of the pandemic, Palm Beach County recorded historic net absorption last year of 1.7 million square feet, compressing availability below the pre-pandemic average. Elevated leasing appetites will leave this year's net absorption at just under 700,000 square feet, ensuring a favorable market for the 550,000 square feet of new stock.

Steady office demand growth assists full investment recovery. Following a suppressed market throughout 2020, general office deal flow in Palm Beach County surged to a seven-year high in 2021 as investors responded enthusiastically to the metro's stable fundamentals. Transaction activity rose the most dramatically in the West Palm Beach CBD, which offered a mix of Class B properties in the sub-\$10 million range in addition to much larger Class A assets. West Palm Beach also offers Class C assets in the sub-\$5 million range that can trade at cap rates in the high-5 to low-7 percent range. Cap rates may see additional downward pressure if outlooks remain positive. Out-of-state investors may move capital from struggling markets into Palm Beach, particularly from the Northeast, where office demand recovery lags behind its Sunbelt counterparts.

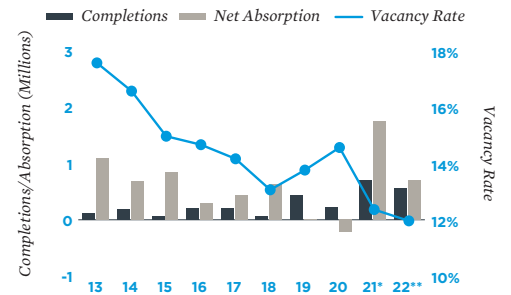
2022 Market Forecast

- Employment**  The metro's job growth continues, with employers expanding total headcounts by around 21,000 workers.
up 3.3%
- Construction**  Stock expansion slows by 150,000 square feet after last year's post-financial crisis high. The rate of construction remains elevated as developers respond to tenant demand in the market.
550,000 sq. ft.
- Vacancy**  Corporate in-migration leads to declining availability. After seeing a minor bump earlier in the health crisis, vacancy declines to 12 percent, its lowest level in at least 15 years.
down 40 bps
- Rent**  Asking rents saw consistent growth through the pandemic, only declining in the second quarter of 2020. Office rents will hit a new high this year, ending 2022 at \$27.49 per square foot.
up 4.6%
- Investment**  Medical offices constituted nearly one-third of all office trades last year. Cap rates trend in the 5 to 7 percent range, but first-year returns as low as 2 to 3 percent have been recorded.

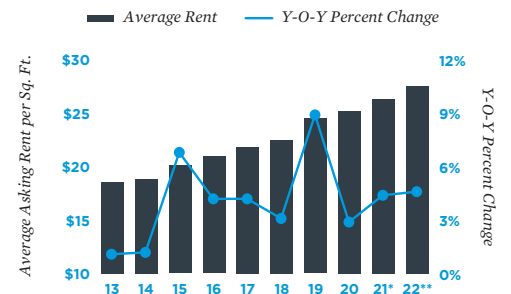
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.