

INVESTMENT FORECAST

Retail
West Palm Beach

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2022

Sunbelt Demographic Trends Boost Local Economy; Investors Enjoy Elevated South Florida Yields

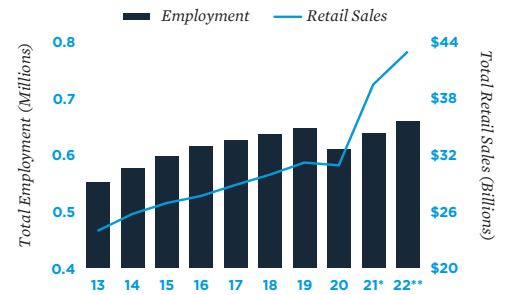
Palm Beach County retail completes health crisis recovery. The market is building on momentum that began in the middle of last year, and all major indicators should finish 2022 in a stronger position than prior to the pandemic. A combination of stimulus funds and an affluent local population propelled retail sales up nearly 28 percent last year, significantly higher than the national increase. The county has also benefited from a surge in population through the pandemic. Last year, the rate of household formation doubled the national pace and should approach 3.0 percent this year, fueling demand for retailers and jobs. The retail trade sector has already recouped approximately 75 percent of the positions lost during the initial stages of the shutdown, and the final few thousand spots will be recovered this year. On the supply side, less than 1 percent of existing stock is under construction, limiting pressure on existing assets.

Reopening head start drives robust investment activity in county. Attracted by the strong South Florida economy and higher cap rates than those available in Miami, buyers are ramping up asset purchases in the market. As it became clear that retail fundamentals were not going to weaken nearly as much as early projections, and Florida had a head start on an economic recovery, investors poured money into the county. Last year, the number of multi-tenant deals more than tripled, relative to pandemic-hamstrung 2020. The average cap rate for a multi-tenant asset entering the year was 6.7 percent, more than 100 basis points above the level in Miami. Single-tenant properties, meanwhile, attract capital from across the nation as the downleg of a 1031 Exchange. For buildings with creditworthy tenants, assets can change hands near or below 5 percent, though the overall first-year return is 5.7 percent for single-tenant deals. Rising interest rates will put pressure on yields as the year progresses, particularly for high-end purchases.

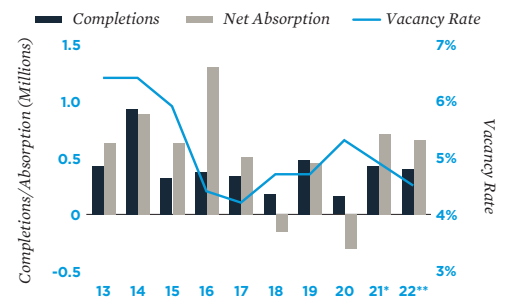
2022 Market Forecast

- Employment** up 3.3%  Another year of strong employment growth is anticipated as 21,000 positions are generated.
- Construction** 400,000 sq. ft.  The pace of development eases moderately as stock expands by a modest 0.6 percent this year. Approximately 60 percent of the underway inventory has leasing commitments.
- Vacancy** down 40 bps  By year-end, the average availability rate will dip to 4.5 percent, 20 basis points below the level at the beginning of the health crisis. In 2021, vacancy dropped 40 basis points.
- Rent** up 4.8%  Following a 5.7 percent surge in 2021, strong rent gains will push the asking rate for available space up to \$27.03 per square foot by the end of this year.
- Investment**  Although international buyers tend to gravitate to Miami, they are increasing their presence in West Palm Beach in search of higher returns.

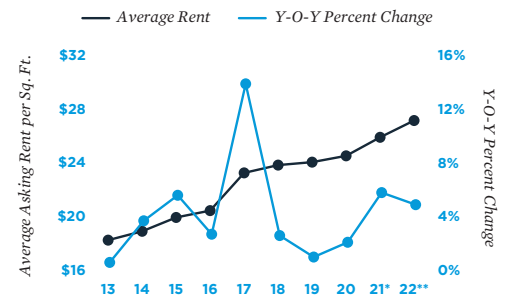
Economic Trends



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 February 2022. 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. Forecasts for employment and retail data are made during the first 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.