# MARKET REPORT

**Office**

*West Palm Beach Metro Area*

IPA INSTITUTIONAL PROPERTY ADVISORS

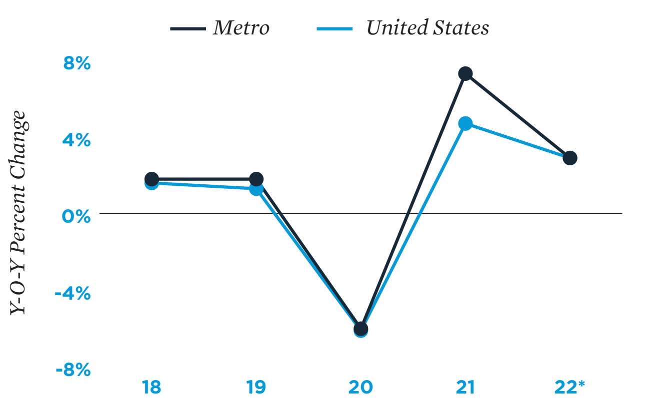
2Q/22

## High-Power Entrants Lease Class A Space as Class B and C Availability Hits Multiyear Low

**New arrivals pursue quality space.** Entering April, five of the metro's nine submarkets posted year-over-year vacancy declines exceeding 470 basis points. Demand was strongest in the city of West Palm Beach, where a net of 800,000 square feet was absorbed during the yearlong span ending in March. Class A offices here draw finance-sector tenants following clients to South Florida from northeastern markets. Enthusiastic leasing should continue in the submarket, as firms including NewDay USA and Millennium Management supplement earlier move-ins by DigitalBridge and Goldman Sachs. Furthermore, the first quarter vacancy rate for Palm Beach County's amenity-rich stock was 15.8 percent, the lowest in this tier in the southeast. With over 80 percent of the active pipeline of traditional office assets pre-leased, marketed rents should maintain high upward momentum for the forseeable future.

**Lower-tier leasing leads to tight vacancy.** Supplementing headline corporate entrants, the in-migration of young, educated workers is drawing the attention of companies planning back-office operations in Florida. These firms are committing to Class B/C floor plans in the metro, shown by demand for mid- and lower-tier space rapidly outpacing available supply in suburban submarkets. At the end of March, Boynton-Lantana, Royal Palm Beach-Wellington and Palm Springs-Lake Worth each posted sub-6 percent Class B/C vacancy rates. Moving forward, smaller builds targeting cost-conscious tenants are warranted in these submarkets.

### Employment Trends




** Forecast*

*Sources: BLS; CoStar Group, Inc.*

## Office 2022 Outlook

**19,000 JOBS**
*will be created*

### EMPLOYMENT:

The overall employment base expands by 2.9 percent, but traditionally office-using sectors are expected to trail that pace. This segment lost 5,000 jobs in the first quarter, but a return to the 2021 level is expected by the end of this year.

**750,000 SQ. FT.**
*will be completed*

### CONSTRUCTION:

More than 85 percent of the square footage set to be added to the market this year is divided between three properties. A proposal pipeline exceeding 2 million square feet indicates signficant developer interest in the metro.

**20 BASIS POINT**
*decrease in vacancy*

### VACANCY:

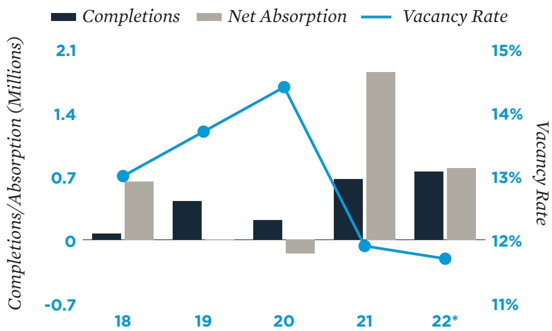
Following a 250-basis-point reduction last year, metro vacancy will end 2022 at 11.7 percent, a rate last reported before the financial crisis. Inbound corporate arrivals should help tighten vacancy in the West Palm Beach CBD.

**4.6% INCREASE**
*in asking rent*

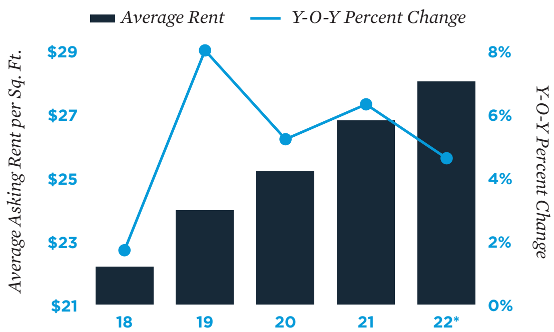
### RENT:

Having maintained a consistent upward trajectory during the worst of the health crisis, asking rents will see their eighth consecutive year of growth in 2022. The average marketed rate will reach a new high of $28.03 per square foot this year.

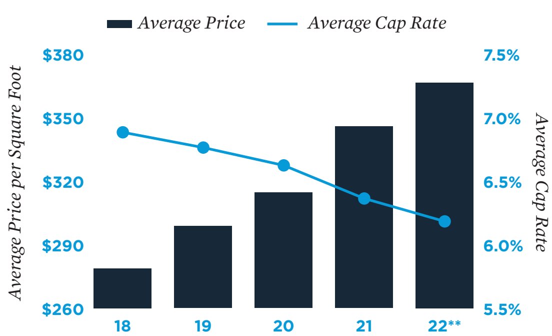
## Supply and Demand




## Rent Trends




## Sales Trends




** Forecast ** Through 1Q*

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

## 1Q 2022 - 12-Month Period

### CONSTRUCTION

**403,000 sq. ft. completed**

- While construction tapered during the 12-month period ended this March from the previous span, annual completions during the trailing half-decade preceding the pandemic averaged just 194,000 square feet.
- A slowdown in medical office construction was observed, with a negligible amount of projects delivered during this time frame.

### VACANCY

**200 basis point decrease in vacancy Y-O-Y**

- The most rapid vacancy compression since at least 2007 drove availability to pre-financial crisis levels, ending the first quarter at 11.8 percent.
- Elevated construction activity compared to the pre-pandemic norm did not prevent a 210-basis-point decline in Class A availability. Class B/C vacancy reported a 200-basis-point drop, entering April at just 10.0 percent.

### RENT

**7.8% increase in the average asking rent Y-O-Y**

- Marketed rents have reported consistent year-over-year gains since 2015, and ended this March at an average of $27.59 per square foot.
- While rent growth in the West Palm Beach CBD was a robust 6.6 percent, limited stock expansion elsewhere translated to a 10.2 increase in the mean marketed rent in suburban submarkets.

## Investment Highlights

- Notably strong fundamentals attracted a bevy of investment over the year-long span ending March, with deal flow roughly double what was reported during pre-pandemic annual periods. With average pricing increasing 14 percent to $366 per square foot over that period, West Palm Beach led Florida metros in price gains. So far in 2022, transaction velocity appears to be proceeding at the elevated rate observed last year.
- Rapidly escalating bidding activity translated to a 40-basis-point decline in the mean cap rate over the past four quarters ended this March, bringing the average yield to 6.2 percent, on par with neighboring Broward County. Investors seeking higher first-year returns may expand their search criteria to submarkets farther from the CBD or to include lower-tier assets.
- Projected to rank third among major metros for growth in the 55-plus demographic this year, West Palm Beach is a natural target for medical office investors. Quarterly deal flow in this segment beginning in late 2021 was at the highest level observed on record, exceeding annual totals observed for most of the last decade. Aggressive investment has pushed the sector's average yield to 6.0 percent, well below the national average.

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