

MARKET REPORT

Retail

West Palm Beach Metro Area

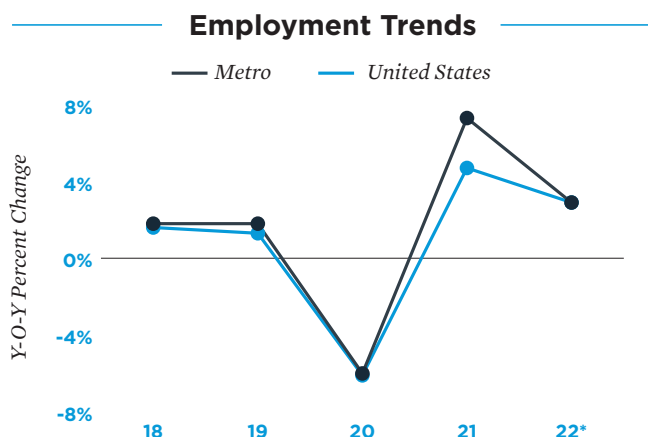
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2Q/22

High-Credit Tenants Rapidly Leasing; Construction Appears Conservative

Retailers target metro as standout for regional expansion. Having led South Florida in population growth during the trailing half-decade, Palm Beach County is projected to maintain this standing for the foreseeable future. Larger retailers are tracking the metro's progress, attracting both tenants seeking to expand northward from Broward and Miami-Dade counties, and established companies anticipating considerable upside potential in West Palm Beach and adjacent municipalities. Of this year's move-ins, Wawa, Hobby Lobby and Sprouts Farmers Market are counted among the national brands taking on multiple leases in the metro. Leasing activity in the first quarter of 2022 translated to 450,000 square feet of net absorption, the highest three-month total observed here since 2014.

Leasing improving, but developers target sure bets. While 2022's pipeline trails last year's deliveries by just 25,000 feet, a slowdown in larger proposals will have a greater effect on the long-term pipeline. At the beginning of last year, 750,000 square feet of retail space was underway, but as of April 2022, the pipeline has narrowed to 600,000 square feet as leasing preferences shift to smaller footprints. Furthermore, a rate of pre-leasing exceeding 75 percent as of May suggests that developers prefer to have tenants locked in before breaking ground. However, westward expansion potential may support more construction in Palm Beach County in the future, as limitations presented by the Everglades in Broward County and the Miami metro may translate to increased premiums on parcels there.



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**19,000
JOBS**

will be created

EMPLOYMENT:

Following a full employment recovery in 2021, Palm Beach County employers will expand staffing counts by 2.5 percent this year. However, as the metro unemployment rate approaches previous cyclical nadirs, hiring velocity will likely decelerate.



**450,000
SQ. FT.**

will be completed

CONSTRUCTION:

The pace of construction slows from last year, but remains above the trailing half-decade average of 300,000 square feet delivered annually. The majority of larger stock in this year's pipeline is either build-to-suit or heavily pre-leased.



**90
BASIS POINT**

decrease in vacancy

VACANCY:

Retailer expansion will accelerate in 2022, pushing vacancy down to 4.0 percent, a post-financial crisis low. Net absorption is on track to surpass 1 million square feet for the first year since 2016, when availability declined by 140 basis points.



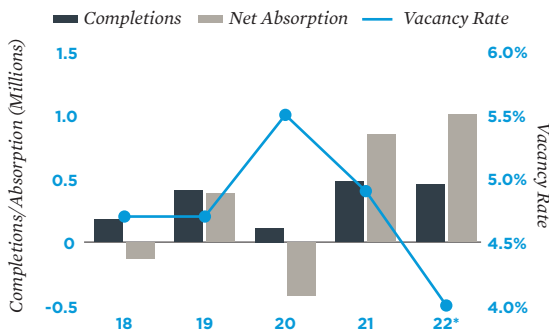
**4.3%
INCREASE**

in asking rent

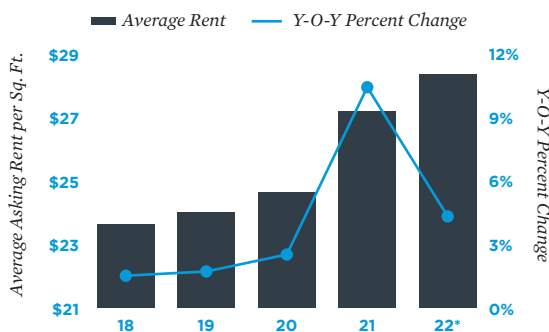
RENT:

Robust demographic growth in the market has translated to increased competition for retail space during the pandemic, pushing the two-year rent gain over 15 percent. The average asking rent ends this year at \$28.35 per square foot.

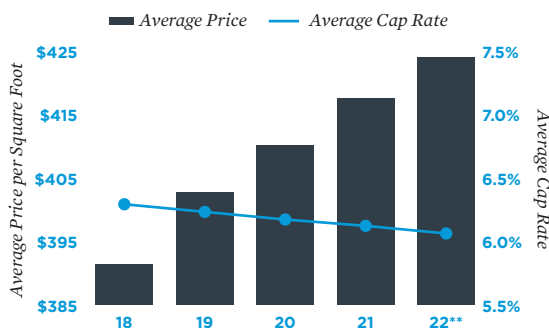
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

596,000 sq. ft. completed

- Construction shot up by 550,000 square feet this 12-month period ending in March relative to the previous year, when delays were more prevalent.
- Development this period was dominated by additions of neighborhood and outlet centers, in contrast to many other high-growth metros where larger projects were often retail portions of mixed-use properties.



VACANCY

90 basis point decrease in vacancy Y-O-Y

- Construction failed to match a quickly expanding retail sector, with unoccupied stock accounting for just 4.4 percent of inventory entering April.
- Single-tenant leasing drove the drop in vacancy this period. Properties of this type reported a 130-basis-point decline in availability, ending the first quarter of 2022 at 4.2 percent, the lowest level since 2007.



RENT

11.4% increase in the average asking rent Y-O-Y

- The average asking rent ended March at \$27.42 per square foot, representing the largest 12-month growth since 2017.
- This period's increase was mostly driven by single-tenant assets, which saw asking rents rise by an average of 15.4 percent, ending March at \$29.04 per square foot. Multi-tenant rents averaged a 0.4 percent gain.

Investment Highlights

- The release of pent-up buyer demand generated record deal flow last year, with the number of trades exceeding the previous annual peak by over 40 percent. Palm Beach County has observed the strongest valuation gains among South Florida markets. The average price per square foot across all retail property types rose to \$424 during the trailing 12-month period ending in March.
- Robust single-tenant fundamentals translated to heavy investor interest for these assets, with this segment accounting for a larger proportion of trades than in prior years. Despite bidding activity on these properties, the average yield in this sector bumped up 10 basis points to 5.8 percent as some investors pursued higher-yield assets in this category.
- Despite surging bidding activity and higher valuation gains than nearby Broward County, the West Palm Beach metro retains the highest average cap rate among South Florida retail markets at 6.1 percent. Elevated yields should bolster capital migration both from nearby metros and national investors seeking higher first-year returns.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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