

MARKET REPORT

Office
West Palm Beach Metro Area

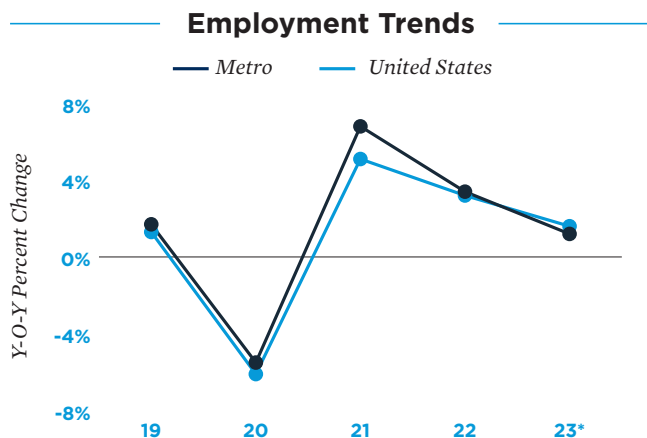
IPA
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4Q/23

Metro is One of Two Nationally with Lower Than Pre-Pandemic Vacancy; Signs of Softness Emerge

Local office sector resilience stands in contrast to broader trend. West Palm Beach entered the second half of 2023 with sub-12 percent vacancy, one of only five markets with at least 50 million square feet of office supply in the country to achieve that. Metro vacancy in June 2023 was also 130 basis points below the year-end 2019 rate, the largest reduction among major U.S. markets during that span, and joining Las Vegas as the only spots to register a vacancy compression. This momentum represents a sharp divergence from the national sector trend in recent years, as overall U.S. vacancy rose by 450 basis points since the end of 2019. West Palm Beach's comparative strength stems from its business-friendly environment and ability to attract corporate relocations. This is reflected in the market's expansionary traditional office-using job segments. As of August 2023, professional and businesses services, in addition to financial activities, employers added a net of 19,500 positions since 2019.

Turnover of pre-pandemic leases starting to surface. With the onset of the global health crisis and coinciding mass adoption of remote work several years in the rearview, leases that were in place are increasingly being vacated upon expiration. Over the past 12 months through June, less than 20,000 square feet of newly-built available space entered the market, yet the metro's vacant stock climbed by about 485,000 square feet. West Palm Beach's recent resilience provides a buffer, but this trend poses vacancy pressure going forward.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2023 Outlook



**8,000
JOBS**

will be created

EMPLOYMENT:

Traditional office-using firms shed a net 3,500 roles year-to-date through August. This weakness is being offset by gains in service and logistics industries, allowing overall employment to rise by 1.2 percent in 2023.



**320,000
SQ. FT.**

will be completed

CONSTRUCTION:

Falling just below the trailing five-year completion average of 360,000 square feet, developers hold a steady pace in 2023. Less than 10 percent of space delivering this year was marked available for lease as of September.



**140
BASIS POINT**

increase in vacancy

VACANCY:

The majority of new supply will be absorbed; however, expiring leases signed prior to the pandemic push up vacancy in 2023. Still, the metro's year-end rate of 12.4 percent stays under 2019's measure by 80 basis points.



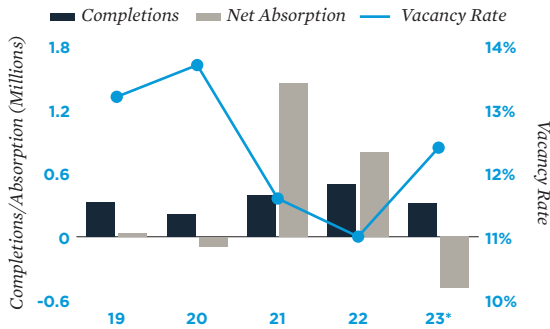
**1.2%
INCREASE**

in asking rent

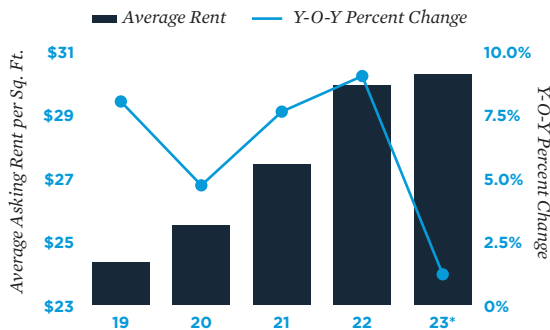
RENT:

West Palm Beach's average rent held relatively unchanged during this year's first half. A marginal bump is expected over the final six months, bringing the mean asking rate to \$30.25 per square foot in 2023.

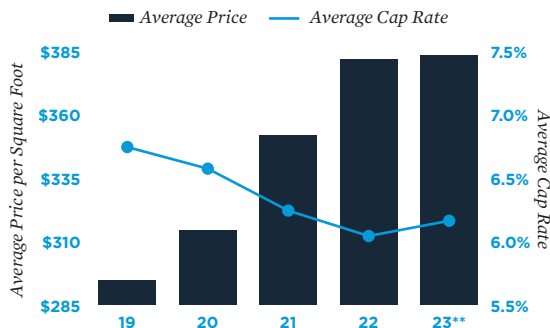
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Office

Al Pontius

Senior Vice President, Director

Tel: (415) 963-3000 | apontius@ipausa.com

For information on national office trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

282,000 sq. ft. completed

- The 12,000 square feet completed during 2023's first half was the smallest total over the opening six months of a year going back to at least 2007. Second half additions will nevertheless be the second largest since 2009.
- Trailing-year construction was almost entirely in North Palm Beach. Here, Florida Power & Light moved into a newly-built 270,000-square-foot spot.



VACANCY

90 basis point increase in vacancy Y-O-Y

- Vacancy fell year-over-year in five of the metro's nine submarkets as of June. The two largest areas by inventory — Boca Raton and West Palm Beach City — had the greatest lifts, however, inflating the overall metric.
- All of the past year's vacancy elevation occurred during the first half of 2023, despite mild supply. This brought the rate to 11.9 percent in June.



RENT

3.4% increase in the average asking rent Y-O-Y

- After briefly surpassing the \$30-per-square-foot benchmark for the first time on record in March 2023, West Palm Beach's average asking rent retreated in the second quarter to \$29.88 per square foot at midyear.
- Class A offices led metro rent growth with an 8.4 percent year-over-year segment gain. Rates at Class B/C offices, meanwhile, held relatively firm.

Investment Highlights

- West Palm Beach is one of just two major markets in the nation that had a lower vacancy rate at midyear 2023 than the local recording prior to the pandemic. This impressive feat was accompanied amid a 23 percent surge in the market's average asking rent since 2019 as well, with both factors shoring up investor confidence amid pronounced national headwinds. Nevertheless, the transaction landscape has been impeded by interest rate hurdles and conservative lending. Deal flow during the opening two quarters of 2023 held consistent with the second half of 2022, but fell roughly 50 percent from the equivalent period of last year.
- Sideline institutions swayed the composition of trades. Metro offices priced between \$1 and \$10 million accounted for 80 percent of deals during this year's first half, compared to 73 percent in the same span of 2022.
- The average price per square foot rose 5 percent to \$383 during the year-long period ending in June 2023, widening the margin of appreciation to 30 percent since 2019. Only Jacksonville, Raleigh and Tampa had larger increases over that span. West Palm Beach's average cap rate of 6.2 percent, meanwhile, is the lowest of that bunch, implying relatively lower risk.

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