

INVESTMENT FORECAST

OFFICE

West Palm Beach Metro Area

IPA

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PROPERTY
ADVISORS






2020

Investors Turn to Palm Beach County as a Safe Haven for Long-Term Office Acquisitions

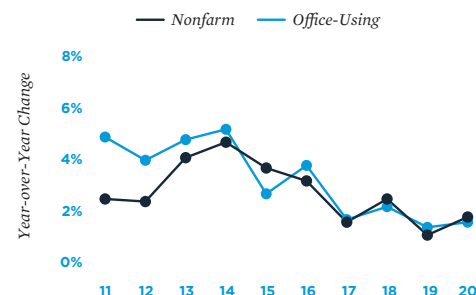
Steady improvement marks West Palm Beach office market. Vacancy resumes its descent following a pause last year. After developers largely bypassed Palm Beach County during this cycle, supply additions are beginning to inch higher. The pace of deliveries increases again this year after reaching the highest level in a decade in 2019. Nonetheless, a supply overhang is not anticipated due to well-spaced completions and sufficient leasing activity. Office space demand will climb 1.4 percent in 2020, outpacing construction by 50 basis points. Although pre-leasing falls short of 50 percent for underway properties, the two largest projects are not scheduled for delivery until 2021 and account for more than half of the uncommitted space. Several smaller leases signed by a wide variety of companies in the county are pulling occupancy higher. The diverse economic base and steady population growth are translating into improvement in office fundamentals, particularly for Class B/C owners.

Stabilized assets attract investors with long-term hold strategies. Buyers are targeting Class B properties with secure tenant rosters in an effort to park capital through the end of the current economic expansion and ride through a future downturn. These trades account for most of the investment activity in the county, and average vacancy at properties in these deals is nearly half the level than in deals involving Class A and C assets. Boca Raton, North Palm Beach and West Palm Beach represent more than half of Class B deals with cap rates in the mid-6 percent range. Local investors and owner/users remain active with Class C properties, targeting assets that have value-add potential. Most of these are relatively small and located in Delray Beach and West Palm Beach. At the top of the market, a handful of properties change hands each year, though deal flow is hampered by the lack of new construction.

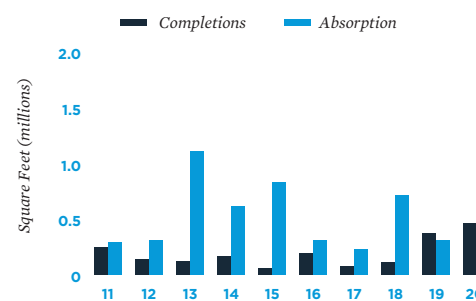
2020 Market Forecast

- Employment** up 1.7%  Payrolls expand by 10,800 positions this year, eclipsing the 6,100 spots created last year. Office-using employment gains 2,600 positions, or 1.5 percent.
- Construction** 460,000 sq. ft.  Construction increases again this year as developers ramp up activity in the county. Last year, 370,000 square feet was delivered in the market.
- Vacancy** down 40 bps  Average vacancy resumes a downward trajectory, falling to 13.1 percent by year end. Last year, the rate was flat.
- Rent** up 5.0%  Rent growth is above average in the county. After a 5.6 percent rise in 2019, the average asking rent will climb to \$32.00 per square feet.
- Investment**  The county's aging demographics attracts medical office users and investors, particularly in the North Palm Beach and West Palm Beach areas.

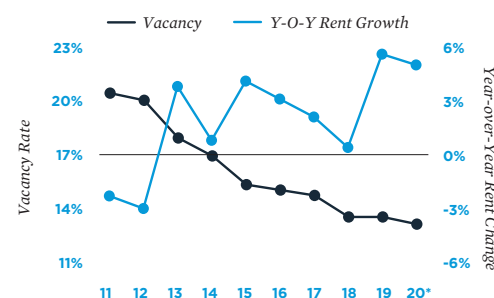
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



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

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.