

FIGURES | WEST PALM BEACH OFFICE | Q1 2024

Strong Rent Growth and Market Dynamics in Palm Beach



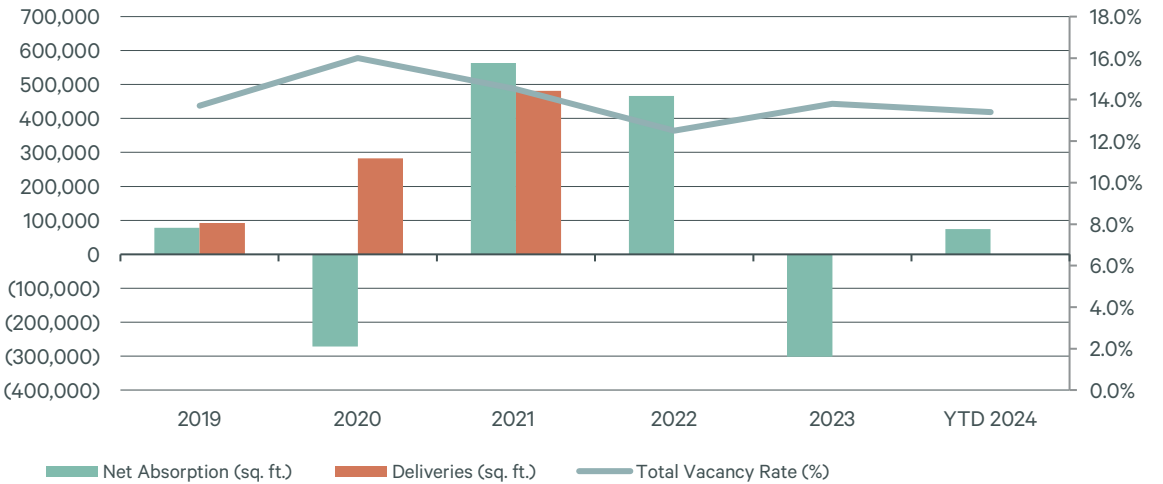
Note: Arrows indicate change from previous year.

OVERVIEW

- Annual rent growth remains strong at 7.9%, increasing from \$31.55 to \$34.03 PSF. Overall, rent have increased 41.3% in 5 years, rising from \$24.09 PSF.
- Following 343K SF of negative absorption in the first three quarters in 2023, Q4 2023 and Q1 2024 saw combined positive absorption of 115K SF.
- Driven by the vacancy of several large spaces in North Boca, South Palm Beach County has elevated availability compared with North Palm Beach County.

The Palm Beach office market remains healthy, characterized by strong rent growth of 7.9% year-over-year and ongoing large-scale developments in the CBD and Delray Beach, which will add 700K SF of office space. Local tenants are playing a significant role in driving this rent growth, as they prioritize higher quality office space. Digital Bridge, currently leasing 32K SF in Boca Raton, exemplifies this trend by planning to move its headquarters to the new Sundy Village development in Delray Beach where they have already secured a pre-lease of 80K SF.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

DEMAND

Following 343K SF of negative absorption in the first three quarters in 2023, Q4 2023 and Q1 2024 saw a combined positive absorption of 115K SF. Local tenants are driving leasing activity, prioritizing high-quality office spaces. Highly desirable submarkets Palm Beach and West Palm CBD report record low vacancy rates of 3.9% and 9.9% respectfully for Class A space.

SUBLEASE

Sublease availability stands at 5.5% this quarter; representing over 936K SF on the market. Availability is concentrated in the Southern part of the county, where availability has more than doubled since 2020 to reach 661K SF. The North Boca submarket accounts for most of this availability. In fact, North Boca accounts for 65.3% of South County sublease availability and 46.1% of total Palm Beach County availability. In contrast, availability in North County grew substantially slower, standing at 275K SF (45% increase since 2020).

PRICING

Rent growth stands strong at 7.9% in the last year, with average asking rents at \$34.03. In comparison, the five-year pre-pandemic average rent growth was 6.1%. Reflecting the drive to quality, trophy buildings in the CBD continue to see rents increase up 11.0% year-over-year to \$87.01 PSF.

INVESTMENT

While building sales remain limited, development in Palm Beach County remains strong. There are five buildings currently under construction totaling more than 700,000 square feet. There are three in the CBD and two in Sundy Village in Delray. The new Delray development is in line with a major shift in that market over the past 5-year as this submarket has become a major player in the office market of Palm Beach County. All the existing Class A buildings are newer, built since 2019, and are fully leased.

FIGURE 2: Statistical Snapshot

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q1 2024 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/NNN)
Delray Beach/ Boynton Beach	1,049,000	9.8%	13.4%	3,100	3,100	99,100	\$ 25.42
East Boca	2,448,800	10.2%	11.1%	(37,500)	(37,500)	-	\$ 33.37
North Boca	5,367,100	16.0%	18.0%	57,900	57,900	-	\$ 29.71
West Boca	3,148,800	8.3%	11.9%	5,500	5,500	-	\$ 39.02
South County Total	12,013,700	12.3%	14.6%	29,100	29,100	99,100	\$ 32.21
Jupiter	530,200	14.3%	14.3%	-	-	-	\$ 22.34
Palm Beach	572,600	4.0%	4.0%	4,800	4,800	-	\$ 91.68
Palm Beach Gardens	2,456,200	7.2%	9.6%	10,400	10,400	-	\$ 31.13
Suburban West Palm Beach	2,336,900	15.0%	15.8%	1,000	1,000	-	\$ 24.79
West Palm Beach CBD	3,357,500	10.3%	11.9%	28,600	28,600	602,200	\$ 52.22
North County Total	9,253,300	10.5%	11.9%	45,000	45,000	602,200	\$ 37.24
Total	21,266,900	11.5%	13.4%	74,000	74,000	701,300	\$ 34.03

FIGURE 3: Class A West Palm Beach CBD Statistical Snapshot

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q1 2024 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/NNN)
Trophy*	1,230,900	4.7%	7.1%	2,900	2,900	602,200	\$ 87.01
Class A	1,040,800	12.3%	13.2%	14,300	14,300	-	\$ 53.54
Total	2,271,700	8.2%	9.9%	17,100	17,100	602,200	\$ 66.57

Note: All spaces at 360 Rosemary have been marked as fully occupied as of Q4 2022.

FIGURE 4: Class A

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q1 2024 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/NNN)
Delray Beach/ Boynton Beach	137,700	6.9%	8.9%	-	-	99,100	\$ 60.00
East Boca	1,693,700	13.8%	15.1%	(41,500)	(41,500)	-	\$ 35.34
North Boca	2,842,100	19.5%	20.4%	45,100	45,100	-	\$ 30.23
West Boca	2,041,500	10.1%	15.6%	500	500	-	\$ 41.55
South County Total	6,715,000	14.9%	17.3%	4,100	4,100	99,100	\$ 34.20
Jupiter	99,000	12.4%	12.4%	-	-	-	\$ 28.00
Palm Beach	172,600	3.9%	3.9%	5,000	5,000	-	\$ 105.50
Palm Beach Gardens	1,494,000	7.2%	8.3%	2,700	2,700	-	\$ 34.88
Suburban West Palm Beach	345,400	18.9%	19.4%	(1,900)	(1,900)	-	\$ 25.71
West Palm Beach CBD	2,271,700	8.2%	9.9%	17,600	17,600	602,200	\$ 66.57
North County Total	4,382,600	8.6%	9.9%	23,300	23,300	602,200	\$ 52.06
Total	11,097,700	12.4%	14.4%	27,400	27,400	701,300	\$ 38.53

FIGURE 5: Class B

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q1 2024 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/NNN)
Delray Beach/ Boynton Beach	911,300	10.2%	14.1%	3,100	3,100	-	\$ 21.26
East Boca	755,100	2.0%	2.0%	4,000	4,000	-	\$ 24.56
North Boca	2,524,900	12.0%	15.4%	12,800	12,800	-	\$ 28.64
West Boca	1,107,300	5.1%	5.1%	5,000	5,000	-	\$ 31.71
South County Total	5,298,600	8.9%	11.1%	25,000	25,000	-	\$ 27.72
Jupiter	431,200	14.7%	14.7%	-	-	-	\$ 21.01
Palm Beach	400,000	4.1%	4.1%	(100)	(100)	-	\$ 74.43
Palm Beach Gardens	962,200	7.1%	11.6%	7,700	7,700	-	\$ 25.34
Suburban West Palm Beach	1,991,500	14.4%	15.2%	2,900	2,900	-	\$ 24.63
West Palm Beach CBD	1,085,800	14.6%	16.0%	11,100	11,100	-	\$ 33.07
North County Total	4,870,600	12.2%	13.7%	21,600	21,600	-	\$ 27.60
Total	10,169,300	10.4%	12.4%	46,500	46,500	-	\$ 27.66

Market Area Overview



ECONOMIC OUTLOOK

Continued economic growth paired with the Fed signaling more accommodative policy all suggests the U.S. economy is heading toward a ‘soft landing’. GDP growth should be less than half 2023’s pace when growth topped 3%. Reasons for the slowdown include a more prudent consumer and much weaker hiring. This latter issue is most acute within interest rate sensitive sectors, such as tech start-ups and goods manufacturing. Notable exceptions include investment in EV and microchip production capacity.

More caution from businesses means a good chunk of recent hiring came from publicly funded sectors (e.g., education, healthcare, state & local governments). A key exception is leisure & hospitality, driven by continued demand for discretionary services. With many private firms on the sidelines the job openings rate declining to 5.5% from its peak of 7.8% in 2022. This has also meant the pace of wage growth has cooled, but not enough to see inflation fall quickly to 2%. With unemployment remaining below 4% and high-capacity utilization, CPI is unlikely to return to target until 2025.

The Fed will likely make three, 25 basis point cuts this year. This outlook is putting downward pressure on longer-term rate expectations, providing some optimism for real estate capital markets, but the recovery will only begin after the first cut is actually delivered. Better than expected growth over the last 18 months has been helpful in holding real estate vacancy down, notably in the industrial, retail and multifamily sectors.

Contact

Josh Bank

Executive Managing Director
+1 305 381 6423
Josh.bank@cbre.com

Marc L. Miller

Associate Field Research Director
+1 305 381 6428
marc.miller1@cbre.com

Ilyssa Ettelman

Research Manager
+1 954 331 1797
Ilyssa.ettelman@cbre.com

Elliott Kramer

Research Analyst
+1 954 331 1797
Elliott.Kramer@cbre.com

Survey Criteria: Includes all competitive Class A and Class B office buildings 30,000 sq. ft. and greater in size in Broward County. Beginning Q1 2022, single tenant non-owner-occupied buildings have been added to the set and their inclusion is reflected historically in the data. Excludes: government and medical buildings.