

Palm Beach County Office, Q1 2020

Path of steady strengthening continues to start 2020

▼ Total Vacancy
12.1%

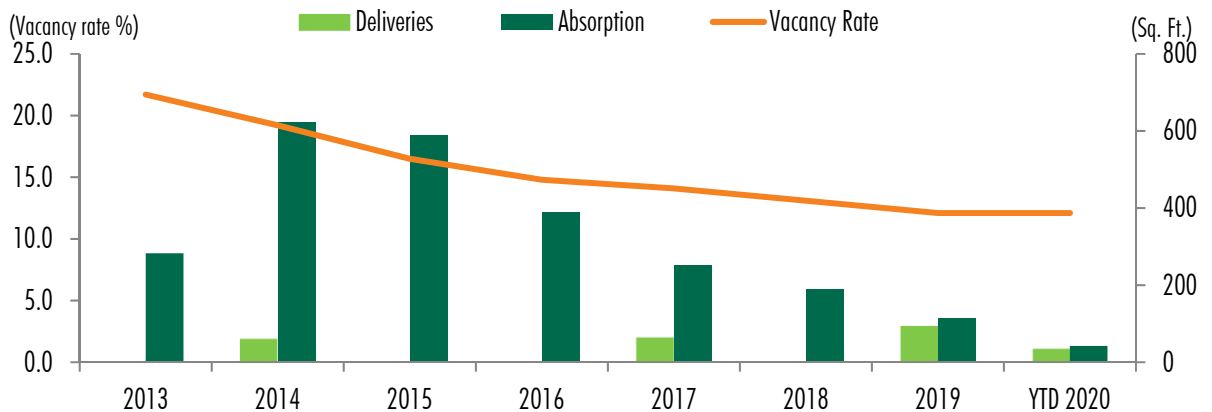
▲ Lease Rate
\$24.43 PSF

▼ Net Absorption
40,261 SF

▼ Under Construction
948,537 SF

*Arrows indicate change from previous year.

Figure 1: Under Deliveries, Absorption, and Vacancy



Source: CBRE Research, Q1 2020

- Vacancy sits at 12.1%, a slight decline of 40 basis points year-over-year. Class A vacancy is even lower at 11.6%.
- Tenants took occupancy of over 40,200 sq. ft. of space this quarter, which is in-line with the market's 3-year average for quarterly absorption.
- Boca Raton continued to be active among smaller tenants. While activity is down from recent quarters, the 15 transactions recorded in Class A space below 5,000 sq. ft. is a good sign that bread-and-butter demand remains.
- Investment activity was limited in Q1 2020, with the most significant transaction being the portfolio sale of 440/450 Royal Palm Way for \$38.5 million, or \$505 per sq. ft. to Armata Holdings.

DEVELOPMENT

Construction on two new Trophy Assets began downtown West Palm Beach last year, where space for high quality product has historically been very scarce, especially for large blocks. Tenants have found relief of late, particularly with 360 Rosemary, a 300,000 sq. ft. building being construction in proximity to the Brightline station. Prior to the development of 360 Rosemary and One West Palm (210,000 sq. ft.), vacancy among the Trophy set in the CBD was below 10% for 20 consecutive quarters. In the suburbs, new development has also seen strong preleasing, which is evidence of the pent up demand among tenants for quality space in the market. And with developable land scarce in the southern Boca Raton submarkets, new construction in Delray and Boynton has begun, ushering in a new era for the Palm Beach County office market.

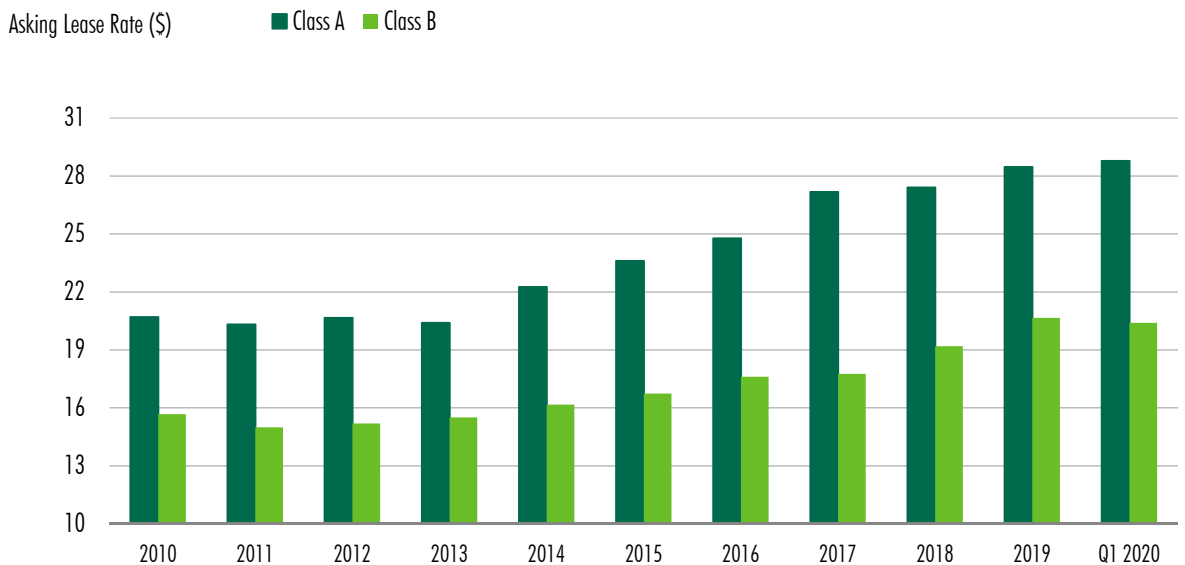
DEMAND

The quarter closed with tenants taking Occupancy of over 40,000 sq. ft. of space. While not eye popping, this quarter’s absorption is inline with the rolling 3-year average of 46,700 sq. ft. of quarterly absorption, proving that slow and steady wins the race. Vacancy market wide is now at its lowest level since 2007 (12.1%), a significant figure given the market is historically not a destination for large, new-to-market tenants (implying the bulk of this absorption is due to organic growth within the market).

An exception to this dynamic would be Misfits Gaming opening their 18,000 sq. ft. headquarter operation in Boca Raton. While local/regional operators are currently in the market, a national coworking provider also entered the market for the first time, with Spaces leasing a full floor at 360 Rosemary, slated to open upon the building’s scheduled delivery next year.

These dynamics have bolstered landlord’s confidence in the market, as evident by the upward trending asking rents market wide. Rents closed out the first quarter of 2020 at \$24.43 per sq. ft. countywide, up 5.8% compared with Q1 2019. This represents the 10th consecutive quarter of asking rate increases in Palm Beach County and growth has been seen in across both Class A and Class B properties. Since year-end 2018, Class A rents have increased by 5.0% and Class B rents have outpaced those gains at 6.8%. This is along side a steep vacancy decline in Class B space, which has dropped 200 basis points in that same time.

Figure 2: Average Direct Asking Lease Rate (NNN)



OUTLOOK

The COVID-19 pandemic has forced some state governments to impose strict stay-at-home orders that are adversely affecting many industries. This is leading the U.S. economy into a recession that will result in very sharp declines in GDP for H1 2020 and in job losses, particularly in the retail, food & beverage and transportation sectors. Office-using employment may be less negatively affected than in recent recessions. But the unique nature of this downturn should result in an unusually swift recovery that could begin as early as Q3 2020. Assuming the coronavirus peaks this summer in the U.S.—mirroring China’s experience—the U.S. government’s fiscal and monetary stimulus will begin to bear fruit. This will be paired with pent-up private demand that could help the U.S. economy return to growth by year-end and drive stronger than previously expected growth in 2021.

Figure 3: Market Statistics

Submarket	Total Inventory (SF)	Total Availability (%)	Total Vacancy (%)	Q1 2020 Net Absorption (SF)	2019 YTD Net Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/NNN)
Boca Raton	11,397,368	19.6	10.9	37,040	4,390	0	23.95
Boynton Beach	418,063	38.2	28.8	967	(18,112)	0	15.69
Delray Beach	885,415	18.3	14.4	(9,251)	(11,061)	41,500	27.14
Jupiter	491,140	10.4	15.0	0	(7,861)	0	24.01
Lake Worth	384,961	25.1	17.6	7,972	(23,607)	0	19.19
North Palm Beach	2,797,928	16.6	7.9	8,462	52,871	223,942	22.66
Palm Beach Island	541,306	17.9	13.2	0	2,408	0	38.12
Royal Palm Beach	248,578	12.7	4.5	35,000	(7,397)	0	27.09
West Palm Beach	5,625,097	23.0	14.6	(19,040)	22,143	683,095	25.95
Total Palm Beach County	22,789,856	20.3	12.1	40,261	114,957	948,537	24.43
Class A	10,280,307	19.8	11.6	12,975	82,683	948,537	28.78
Class B	11,001,994	21.8	12.8	21,791	44,008	0	20.49
Class C	1,542,555	13.3	9.8	5,495	(11,734)	0	24.68

Source: CBRE Research, Q1 2020.

Figure 4: Significant Q1 2020 Lease Transactions

Submarket	Property	Tenant	Transaction (SF)
West Palm Beach	360 Rosemary	Spaces	25,800
West Palm Beach	1475 Centrepark Blvd	Pulte Home Company	17,200
West Palm Beach	501 S Flagler Dr	AMSI	16,700

Source: CBRE Research, Q1 2020

Figure 5: Significant Q1 2020 Sale Transactions

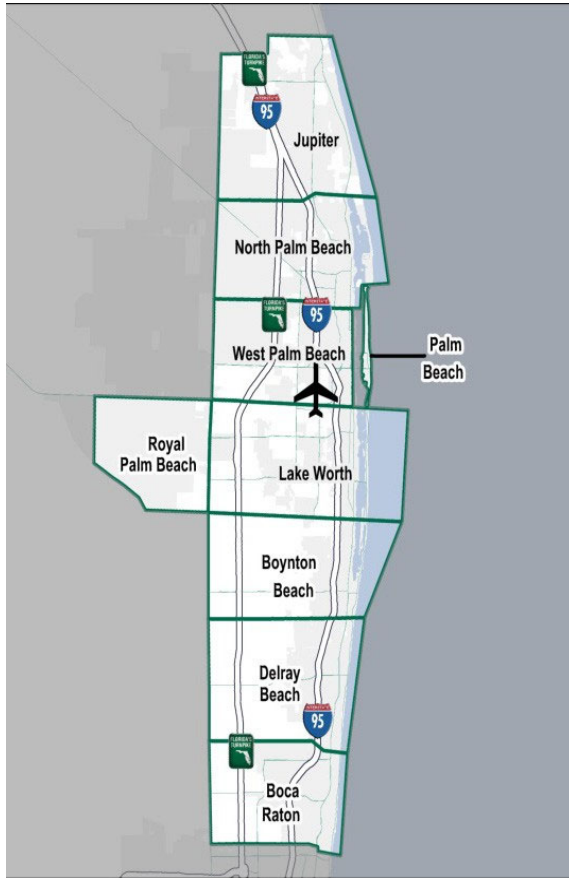
Submarket	Property	Buyer	Seller	Building (SF)	Sale Price (\$)
Palm Beach Island	440/450 Royal Palm Way	Armata Holdings	Palm Beach Park Centre 1, LLC	76,100	38,500,000
Boca Raton	950 Peninsula Corporate Cir	Butters Realty	Greenway Properties	47,200	13,000,000

Source: CBRE Research, Q1 2020

Figure 6: Significant Projects Under Construction (SF)

Submarket	Property	Owner	Developer	Building (SF)
West Palm Beach	360 Rosemary	The Related Companies	The Related Companies	300,000
West Palm Beach	One West Palm	Florida Sunshine Investments	Florida Sunshine Investments	210,000
West Palm Beach	The Press	Corporate Service Company	Corporation Service Company	176,000

Source: CBRE Research, Q1 2020



Market Coverage: Includes all competitive office buildings 30,000 sq. ft. and greater in size in Broward County.
Excludes: single occupancy, government and medical buildings.

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