

# MARKETBEAT

# Palm Beach County

Office Q3 2019



## PALM BEACH COUNTY OFFICE

### Economic Indicators

	Q3 18	Q3 19	12-Month Forecast
Palm Beach County Employment	695k	711k	▲
Palm Beach County Unemployment	3.8%	3.7%	▼
U.S. Unemployment	3.8%	3.7%	▲

\*Numbers above are monthly figures, August, 2019, FL Dept. Economic OPP

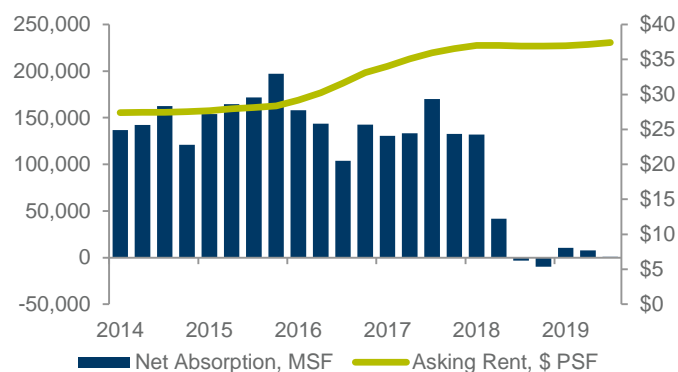
### Market Indicators (Overall, All Classes)

	Q3 18	Q3 19	12-Month Forecast
Vacancy	14.0%	13.3%	▼
YTD Net Absorption (sf)	-119k	-77k	▲
Under Construction (sf)	333k	864k	▲
Average Asking Rent*	\$36.89	\$38.00	▲

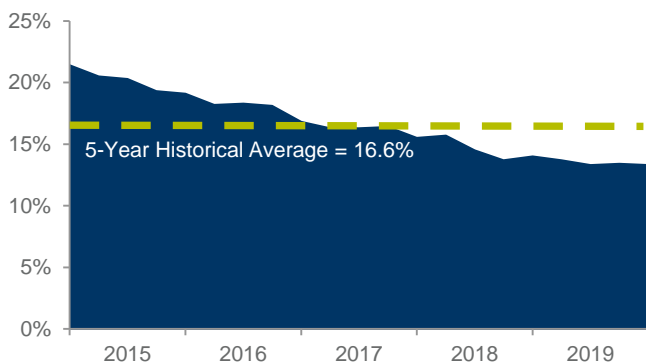
\*Rental rates reflect gross asking \$psf/year.

### Overall Net Absorption/Overall Asking Rent

#### 4-QTR TRAILING AVERAGE



### Overall Vacancy



## Economy

Palm Beach County added 13,200 jobs year-over-year (YOY), for an annual growth rate of 2.1%. As of August 2019, the unemployment rate was 3.7%, a 10 basis-point (bps) decrease YOY. The county led the state for fastest job growth in the Financial Activities sector with a 5.0% increase in 12 months. Other industries adding jobs were Education & Health Services, Professional & Business Services, and Government which combined created an additional 10,500 jobs in the County.

## Market Supply

Over 860,000 square feet (sf) of office space was under construction at the end of the third quarter, of which approximately 20% was preleased. The South Tower in DiVosta Investment's project was reported to deliver by year end with significant pre-leasing in place. The DiVosta Towers together will total 220,000 sf with each tower containing 110,000 sf of Class A space. Two other major projects under construction will change the West Palm Beach skyline. One West Palm, a massive two tower mixed-use project with a significant office component and Related Companies' 360 Rosemary with 300,000 sf of office in 20 stories. These larger projects were projected to deliver in 2021. Construction in the third quarter nearly tripled from this time last year when only 330,000 sf was under construction.

## Market Pricing

The third quarter saw a 2.4% YOY increase in overall asking rents for Palm Beach County. The Delray Beach submarket led the market in terms of rental rate gains, increasing 34.1% YOY. The steep rise in rates for Delray was mainly due to the delivery of a mixed-use project with office rental rates as high as \$53.00 per square foot (psf) full service gross. Class A rates remained high in the West Palm Beach Central Business District (CBD) with a 1.6% YOY increase that pushed rents to \$60.38 (psf). Class B availabilities in the CBD saw a significant uptick in overall asking rates, recording an 8.3% increase YOY. The Downtown Boca Raton submarket recorded increases in both Class A and B assets at a YOY rate of 8.0% and 7.8%, respectively.

While the rents quoted in this report are full service, many office buildings in South Florida, including most premier buildings in Palm Beach County, lease office space on a triple net basis. This allows landlords to pass potential rises in insurance and operating expenses directly to tenants, insulating owners from unpredictable fluctuations in expenses. Depending on the asset class and submarket, operating expenses in South Florida at the end of the second quarter ranged from below \$10.00 psf to over \$24.00 psf for some class A towers.

## Market Demand

Leasing activity in the first nine months of the year was 8.7% higher than at this point last year. The overall vacancy rate fell 70 bps YOY to 13.3% on the growing strength in Class A assets where the rate decreased by 270 bps in 12 months to 11.7%. Tenants took space off the market in suburban Class A submarkets which offset increases in availabilities in Class B and C property types. Major submarkets in Boca Raton, including Glades Road, Federal Highway and Northwest Boca Raton, all had gains in occupancy in the third quarter. Class B buildings in Suburban West Palm Beach and in Palm Beach Gardens/North Palm Beach had the largest increases in vacancy on several tenants moveouts.

Overall net absorption through the third quarter trended downward, approximately -27,000 year-to-date (YTD). Class A assets, in conjunction with its compression in vacancy, were the only assets to have positive absorption. While Class A space was the driver in minimizing vacancy overall, many move-outs occurred in Classes B and C assets. Boca Raton accounted for the bulk of negative absorption for both Class B and C, 62,000 sf and 10,000 sf respectively.

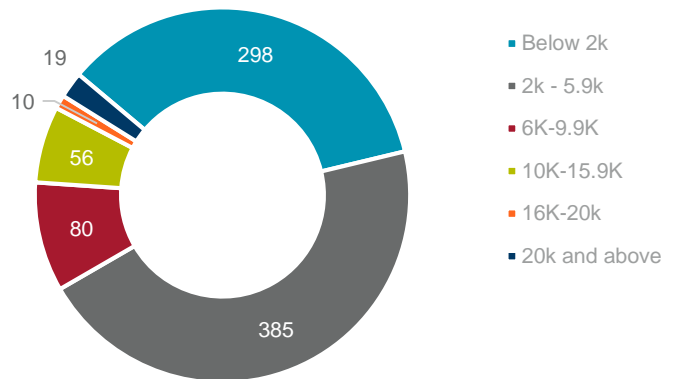
### Overall vacancy across all asset classes dropped 70 bps YOY to 13.3%.

Investment sales continued to be light in 2019 with approximately 1.4 million square feet (msf) sold, a significant decrease when compared to this time last year when over 2.8 msf traded. The bulk of the sales occurred in Class B assets with over 880,000 sf sold YTD. West Palm Beach CBD had the most sale activity with nearly 300,000 sf sold in the third quarter. With a lack of investment grade assets available on market, the amount of transactions remained flat.

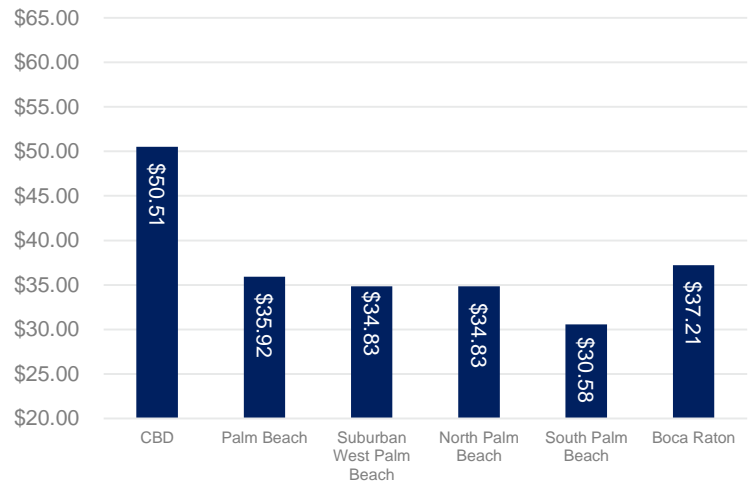
## Market Highlights

- Overall rents continued to rise in Class A assets with an increase of 8.6% YOY
- Financial Activities and Professional & Business Services bolstered leasing activity creating demand for office space in core submarkets
- Class B office rents grew closer to Class A rates in some submarkets which created a lack of differentiation in value ultimately pushing Class A absorption upward and Class B downward

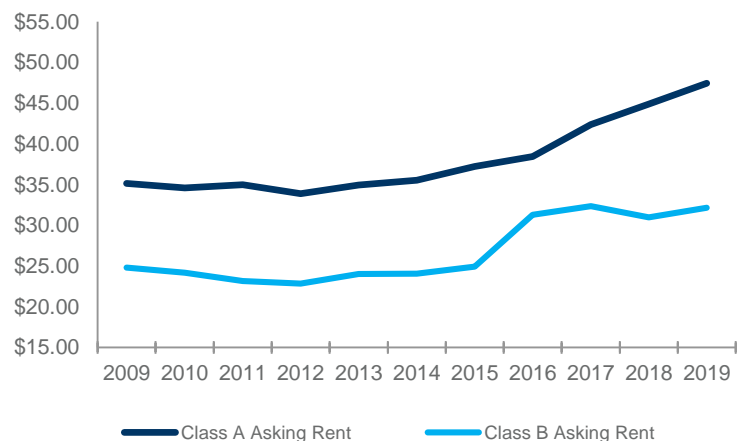
Direct Availability by Size Segment



Full Service Asking Rents by Submarket



CLASS A & B Asking Rent Trend



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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
West Palm Beach CBD	3,209,572	37,281	391,315	13.4%	-19,037	-17,034	114,074	497,095	\$50.51	\$60.38
Suburban Palm Beach County	20,483,746	99,802	2,620,098	13.3%	-8,556	-59,761	1,144,294	366,943	\$35.92	\$43.95
<b>SUBURBAN WPB</b>	<b>3,624,500</b>	<b>13,420</b>	<b>561,726</b>	<b>15.9%</b>	<b>-24,210</b>	<b>-58,985</b>	<b>132,905</b>	<b>0</b>	<b>\$34.83</b>	<b>\$40.46</b>
West Palm Beach	3,043,377	13,420	451,247	15.3%	-25,729	-57,041	105,152	0	\$28.58	\$31.27
Palm Beach	581,123	0	110,479	19.0%	1,519	-1,944	27,753	0	\$64.49	\$66.76
<b>NORTH PALM BEACH</b>	<b>3,392,868</b>	<b>7,548</b>	<b>348,349</b>	<b>10.5%</b>	<b>-12,040</b>	<b>-21,880</b>	<b>158,583</b>	<b>283,943</b>	<b>\$34.83</b>	<b>\$40.46</b>
Palm Beach Gardens/N. Palm Beach	2,630,225	7,548	291,597	11.4%	-7,993	-13,959	153,636	283,943	\$35.34	\$40.15
Jupiter/Tequesta/Juno	762,643	0	56,752	7.4%	-4,047	-7,921	4,947	0	\$31.11	\$44.75
<b>SOUTH PALM BEACH</b>	<b>1,886,188</b>	<b>11,928</b>	<b>275,366</b>	<b>15.2%</b>	<b>31,648</b>	<b>50,470</b>	<b>222,380</b>	<b>83,000</b>	<b>\$30.58</b>	<b>\$51.42</b>
Lake Worth	538,017	11,928	71,856	15.6%	9,826	15,253	46,459	0	\$25.21	N/A
Boynton Beach	462,712	0	96,349	20.8%	9,537	-2,864	58,709	0	\$27.20	\$37.50
Delray Beach	885,459	0	107,161	12.1%	12,285	38,081	117,212	83,000	\$38.90	\$53.51
<b>BOCA RATON</b>	<b>11,580,190</b>	<b>66,906</b>	<b>1,434,657</b>	<b>13.0%</b>	<b>-3,954</b>	<b>-29,366</b>	<b>630,426</b>	<b>0</b>	<b>\$37.21</b>	<b>\$43.20</b>
Glades Road	2,940,002	40,179	269,360	10.5%	71,302	107,036	161,703	0	\$46.16	\$49.04
Federal Highway Corridor	1,129,928	7,819	127,637	12.0%	-2,340	6,375	105,388	0	\$33.45	\$35.96
Northwest Boca Raton	5,778,486	10,689	802,353	14.1%	-24,562	-109,335	295,454	0	\$33.19	\$36.80
Southwest Boca Raton	532,226	0	41,657	7.8%	-6,866	-18,330	9,783	0	\$29.40	\$30.11
Downtown Boca Raton	1,199,548	8,219	193,650	16.8%	-41,488	-15,112	58,098	0	\$41.74	\$43.11
<b>PALM BEACH TOTALS</b>	<b>23,693,318</b>	<b>137,083</b>	<b>3,011,413</b>	<b>13.3%</b>	<b>-27,593</b>	<b>-76,795</b>	<b>1,258,368</b>	<b>864,038</b>	<b>\$38.00</b>	<b>\$47.29</b>

\*Rental rates reflect gross asking \$psf/year \*\*Does not include Renewals

ASSET CLASS***	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	YTD CNSTR COMPLETIONS (SF)	DIRECT AVERAGE ASKING RENT*
Class A	9,535,019	86,129	1,033,478	11.7%	44,466	132,939	494,052	864,038	46,233	\$47.04
Class B	13,211,227	47,969	1,897,462	14.7%	-61,853	-197,821	714,253	0	0	\$32.77
Class C	947,072	2,985	80,473	8.8%	-10,206	-11,913	50,063	0	0	\$29.60

### Key Lease Transactions Q3 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
777 S Flagler Drive	17,467	Holland & Knight	New Lease	West Palm Beach CBD
1200 N Federal Highway	11,510	Newbridge Securities Corp	New Lease	Federal Highway Corridor
750 Park of Commerce Blvd	8,748	Goldman Sachs	New Lease	Northwest Boca Raton

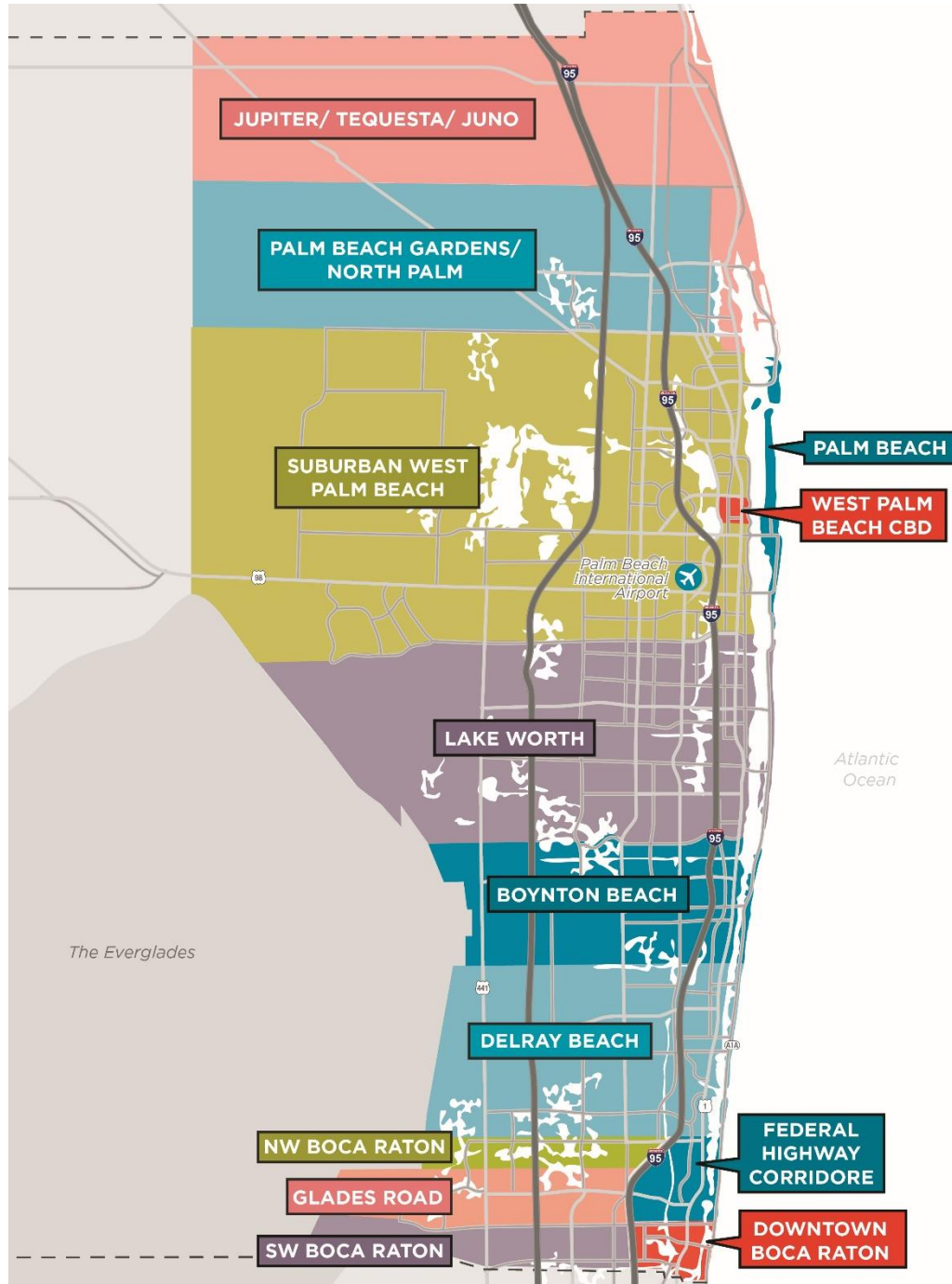
### Key Sales Transactions Q3 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
515 N Flagler Drive	393,415	Crocker Partners/Vanderbilt	\$98,000,000/\$334	West Palm Beach CBD
3801 PGA Boulevard	188,378	KBS Realty/New York Life	\$71,800,000/\$381	Palm Beach Gardens
1700 Palm Beach Lakes Boulevard	113,953	Breakers Capital/Capstone Realty	\$19,350,000/\$170	Suburban West Palm Beach

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