

PALM BEACH

After struggling in 2019, Palm Beach's office sector was closer to a balance between demand and supply during first-quarter 2020, which marked the only market in South Florida to see growth. Over 35,000 square feet of positive absorption occurred during the quarter, dipping vacancy 10 basis points from fourth-quarter 2019 and holding it level at 11.2% from one year ago. The lowest-tier sector, Class C inventory took the lead within the market as 28,000 square feet of positive absorption pushed vacancy down 150 basis points to 3.5%. Class B space trailed with 15,800 square feet of absorbed space, which decreased vacancy 10 basis points to 12.4%. Class A space continued to struggle with 4,200 square feet of negative absorption, increasing vacancy 10 basis points to 11.5%. Over the past year, higher-end space saw the largest increase of supply added, increasing 150 basis points from the 9.9% rate recorded on year ago. Despite the slowing growth, asking rents continued to rise as all three segments saw increases from the previous quarter and first-quarter 2020. The Class A segment rose to \$41.63/SF and landing over 12.3% from the previous record \$37.07/SF rate high-end space peaked at during the previous economic cycle. The Class B weighted average increased to \$29.39/SF from \$29.31/SF one year ago, a less significant change. The trend of lower-tier office buildings leading appeared to be holding, as escalating rents in Class A properties push tenants to consider cost over quality. Developers have restrained from robust construction, with two construction completions combining for 160,000 square feet taking place since the first half of 2011. Only three buildings were under construction, totaling over 621,000 square feet and due to hit the market in 2021.

LEASING AND DEMAND

Leasing activity consisting of 154 transactions totaling over 477,000 square feet was reported during first-quarter 2020. This was up more than 30.0% from deals seen one year ago, as Class A office space totaled 246,000 square feet, while Class B trailed behind with more than 198,500 square feet. Class C space continued to lag, with only 32,800 square feet of deal activity. Palm Beach County saw eight midsize lease deals during the quarter totaling 92,200 square feet. The largest coming in over 25,000 square feet by a real estate company helping the industry take the lead with 42,400 square feet. The professional and business services sector signed two deals totaling over 18,000 square feet. Most deals continued to come in the form of renewals and lateral relocations.

INVESTMENT SALES

Three investment sales totaling 249,000 square feet valued at \$73.2 million occurred in the first quarter. This was down from the 344,000 square feet sold one year ago but was more than the combined sale price of \$55.2 million in first-quarter 2019. Two sales of higher-end Class B properties took place at the Palm Beach Park Centre at 440 and 450 Royal Palm Way for more than \$505/SF. As a result, the average sales price rose from \$174/SF to \$294/SF. Owners held onto Class A properties, with no trophy sales taking place during the first quarter. The shortage of Class A properties for sale translated into increased sales activity for the Class B segment, with only three smaller sales for strong prices while one lower-tier Class C sale took place as well.

CURRENT CONDITIONS

Palm Beach's office market experienced the only growth in South Florida and rebounded during the first quarter after supply outpaced demand in 2019.

Vacancy dipped from the previous quarter and one year ago helping Palm Beach hold the number two spot in vacancy, beating out Miami for the second consecutive quarter.

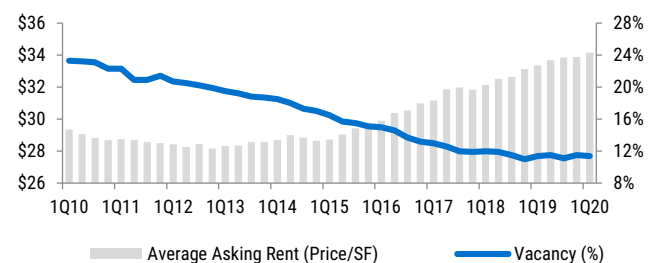
Construction activity held with no completions taking place during the first quarter and 621,000 square feet remaining under construction.

Overall average asking rates continued to climb higher in all three class segments as landlords have yet to lower rents.

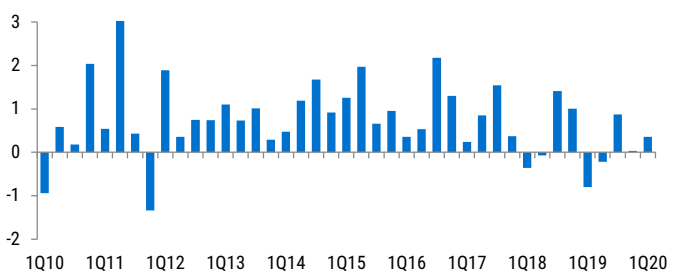
Palm Beach's strong tenant base of financial, insurance and medical companies could limit market corrections as impacts from the Covid-19 outbreak begin to take hold later this year.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, 100,000)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory	25.5 MSF	25.5 MSF	25.8 MSF	↑
Vacancy Rate	11.6%	11.3%	12.9%	↑
Quarterly Net Absorption	(82,908)	64,202	100,364	↔↔
Average Asking Rent	\$33.87	\$33.81	\$32.20	↑
Under Construction	621,971	621,971	196,272	↔↔
Deliveries	0	111,972	0	↑

PALM BEACH MARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
W Palm Beach CBD	2,359,181	510,000	10.9 %	-9,397	-9,397	\$56.62	\$27.33	\$50.57
Boca Raton	11,822,711	0	11.8 %	64,992	64,992	\$39.00	\$29.32	\$34.88
Boynton/Lantana	712,398	0	14.5 %	16,948	16,948	N / A	\$22.38	\$21.44
Delray Beach	1,244,922	0	9.3 %	-17,145	-17,145	N / A	\$31.63	\$30.48
Jupiter	596,224	0	7.6 %	13,620	13,620	N / A	\$24.10	\$24.10
N Palm Bch/Palm Bch Gardens	3,709,666	111,971	9.4 %	-35,398	-35,398	\$38.91	\$23.72	\$28.01
Palm Beach	822,706	0	13.6 %	5,675	5,675	N / A	\$61.54	\$61.54
Palm Springs/Lake Worth	238,131	0	13.8 %	3,189	3,189	N / A	\$18.25	\$18.25
Royal Palm Bch/Wellington	304,640	0	3.6 %	-2,065	-2,065	N / A	\$26.11	\$26.11
W Palm Beach Suburban	3,743,117	0	13.0 %	-608	-608	\$36.26	\$27.76	\$29.31
Suburban Total	23,194,515	111,971	11.4 %	49,208	49,208	\$38.69	\$29.46	\$32.58
Totals	25,553,696	621,971	11.4 %	39,811	39,811	\$41.63	\$29.39	\$34.15

PALM BEACH LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Spaces	360 Rosemary Ave	W Palm Beach CBD	Direct	25,790
Pulte Home Company	Centrepark 1475-1475 Centrepark Blvd	W Palm Beach Suburban	Direct	16,548
Sandow Media	Innovation Ctr 4-3750 FAU Blvd	Boca Raton	Direct	12,537
US Internal Revenue Service	1700 Palm Beach Lakes Blvd	W Palm Beach Suburban	Direct	12,274

SELECT SALE TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
Palm Beach Park Ctr Portfolio	Palm Beach	\$38,500,000	\$506	76,101
400 N Congress Ave	W Palm Beach Suburban	\$9,100,000	\$124	73,137
Peninsula Corp Ctr-950 Peninsula Corp Cir	Boca Raton	\$13,000,000	\$276	47,190
603 Village Blvd	W Palm Beach Suburban	\$7,500,000	\$252	29,722