



WEST PALM BEACH

EXECUTIVE SUMMARY

- A business-friendly environment and relocations from high-tax states in the northeast are fuelling economic fundamentals in Palm Beach County.
- Office vacancies may tighten in 2020 as the bulk of new office space under construction won't deliver until 2021.
- Significant new industrial developments are delivering in 2020 due to a lack of quality logistics space.
- The manufacturing sector is feeling the heat from the national slowdown due to tariffs and trade negotiations.
- The local retail market is strong trailing the multifamily boom of 2018 and 2019.

Palm Beach County's commercial real estate market enjoyed another year of steady growth largely due to healthy leasing activity, strong population growth, and its business-friendly government. Like many other Florida cities, Palm Beach will continue to benefit from the relocation of households and corporations from high-tax states like New York. Amid a global economic slowdown, market fundamentals remain sound in Palm Beach County and growth is expected to continue into 2020.

Palm Beach County's office market was characterized by healthy leasing activity, rising rental rates, and new construction starts during 2019. Average asking rental rates have steadily risen as demand has outpaced supply and large blocks of premium class A space remain limited. Although the office construction pipeline has been slow in recent years, several new office developments have broken ground in the CBD and in the suburbs. The most significant of these developments include the One West Palm and the 360 Rosemary towers in Downtown West Palm Beach, which are set to deliver in 2021. We can expect to see a further tightening of vacancies in 2020 as leasing activity remains sound and supply remains constrained for the time being. Also on the horizon in 2020 is a plan to build Palm Beach County's second Virgin Trains USA station in Boca Raton, which would create more regional connectivity for the county's labor force.

The demand for industrial product remains strong in Palm Beach County as the e-commerce industry commands a greater need for premium logistics and last-mile distribution space. Although gains in absorption have been relatively slow throughout 2019 due to a lack of supply, there is still significant tenant demand for large blocks of space, as evidenced by the pre-leasing of the last two buildings

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑↑	↑	↑
Vacant Space	↓	→	↑
Construction Levels	↓↓	↑	↑↑
Leasing Volume	↑	→	↑
Investment Volume	↑	↑	→

under construction at Duke Realty's Turnpike Crossing Industrial Park in West Palm Beach prior to their delivery. There has been an uptick in new development interest with McCraney Property Co. leading the way and breaking ground on its Airport Logistics Park in West Palm Beach, as well as announcing plans for two additional buildings in Boca Raton that are expected to deliver in 2020. The manufacturing sector is being affected significantly by tariffs and the escalating trade war, which have translated into a national slowdown within the sector. Palm Beach County, which boasts a strong manufacturing industry that has recorded steady gains of around 5% during 2019, is beginning to feel these effects with the county's year-over-year growth within the sector dropping to 1.4% in October. Although this slowdown is likely to remain a headwind in 2020, new supply of premium logistics space and the strength of the e-commerce sector may assist in offsetting some negative effects.

The retail market has remained on the upswing in Palm Beach County following the delivery of a wave of multifamily development in 2018 and 2019. Investor sentiment remains strong in the sector and new mixed-use projects like Uptown Boca Raton are expected to deliver in early 2020. Several major mixed-use retail projects are also planned in Delray Beach including Midtown Delray and AltaWest. Rental rates are experiencing consistent upward growth and even with the introduction of new supply in 2020, rates should continue to experience modest growth in the coming year.

Investment activity cooled slightly during 2019, falling by 8% from year-end 2018. This is unsurprising however, coming off Palm Beach County's record year for multifamily investment in 2018 where it recorded over \$1.4 billion in multifamily transactions. All sectors saw a decline in investment activity apart from the retail sector, a trend not seen in the other tri-county metros where retail investment lagged behind the other sectors. With a low interest rate environment and strong market fundamentals intact, investment sales interest is expected to remain strong during 2020.

After years of a downward trending construction cycle, new developments are on the horizon in both the office and industrial sectors. Although the county saw an uptick in office development in 2019 with the Divsota Towers in Palm Beach Gardens, its largest projects underway will not deliver until 2021. Significant industrial deliveries are expected for 2020 with just of 1 million sf forecasted to deliver, a level not seen since 2016.

WEST PALM BEACH CONSTRUCTION COMPLETIONS



Source: Avison Young and CoStar Realty Information, Inc.