

# Palm Beach County

## Strong Market Fundamentals Translate Into Continued Rent Growth as Leasing Activity Remains Steady

Palm Beach County's office market held steady as the U.S. economy entered into its longest expansion period in history during the month of July. In an effort to encourage further expansion amid a slowing global economy, the Federal Reserve announced two interest rate cuts during the third quarter, lowering the benchmark interest rate between 1.75 and 2%. Economic fundamentals remain strong in Palm Beach County and a pro-business environment continues to draw tenants from the financial and legal services and healthcare job sectors. The overall vacancy rate ticked down to 11.57%, a slight 19-basis point (bps) decrease from the third quarter of 2018. Pent-up demand for large blocks of office space has fueled the development of several new office towers in the CBD, as well as a significant class A development in Palm Beach Gardens that is expected to deliver by the end of 2019.

Leasing activity was strong during the third quarter, however net absorption remained relatively flat due to a handful of large tenant move-outs and significant downsizing. One of the most notable negative impacts on net absorption was Intech vacating nearly 50,000 sf at City Place Tower and relocating to 25,000 sf in the top two floors at One Clearlake Centre. The large block of premium class A office space coming back online also translated into a significant increase in rental rates with the average asking rental rate reaching \$36.84 per sf, a sizeable 8.5% increase over the trailing 12 months ending September 2019. Class A rents grew by a solid 4.6% to \$46.28 per sf, and class B rents grew at a steady 3.5% to \$31.88 per sf.



The average asking rate has increased by 8.5% over the trailing 12 months ending with September 2019.

### Office Market Snapshot

- Kroger took occupancy of 35,438 sf at the Boca Raton Innovation Campus during the third quarter of 2019. The company previously acquired Vitacost.com, an online seller of vitamins and other health related products, in 2014. Kroger relocated this digital operations arm of the company from its location of roughly the same size across the street at 5400 Broken Sound Blvd NW. The new headquarters will house about 250 employees. Since Crocker Partners and Rialto Capital Management purchased the 1.7 million-sf business park in April of 2018, the park's occupancy has increased from 60% to 86%.
- During the month of July, a four-story 60,000-sf building broke ground at the PGA Station Office Park in Palm Beach Gardens. The new building is Building 4 of the park and has entirely been pre-leased to TBC Corporation. Construction on the new building is expected to be completed during the first quarter of 2020. Another 128,000 sf has been site plan approved for two additional buildings at PGA Station.
- Investment activity remained steady during the third quarter, but declined by 10.7% over the trailing 12 months ending September 2019 with investment sales volume totaling \$570.2 million. Nearing the end of the economic cycle, investors have been much more cautious during their due diligence process. The largest sale during the third quarter of 2019 was New York Life's \$71.8 million purchase of the 195,787-sf class A office building named the Financial Center at the Gardens located in the Palm Beach Gardens submarket.
- An undisclosed national technology firm is reportedly seeking tax incentives to relocate its headquarters to a 12,500-sf space in Boca Raton. Referred to as "Project League," the company would create 30 new jobs over a three-year period. The move is also estimated to have a \$55.6 million economic impact on the area.
- Virgin Trains USA, formerly known as Brightline, has announced plans to add additional train stations in Boca Raton, Aventura, and PortMiami. The company has proposed building Boca Raton's new station on city-owned property just east of the city's library with possible plans for retail and apartment development at the site. The new stations are expected to be fully operational by the end of 2020.
- During the third quarter, Tricera Capital began demolition work for the redevelopment of the former Palm Beach Post office building. The new mixed-use project called The Press will add 125,000 sf of retail space and renovate the existing 140,000-sf office building. The newspaper will be consolidating into 35,000 sf on the second floor and the office building will be rebranded as "Workspaces at The Press." The entire project is expected to be completed by the first quarter of 2021.

**26.8MSF**

Total office inventory in the Palm Beach County market

**130,997 SF**

Direct Y-T-D net absorption as of 3Q-2019

**11.57%**

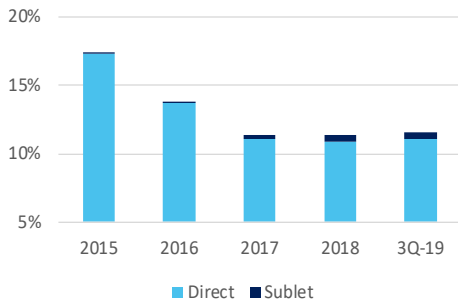
Overall Vacancy

**\$46.28/SF/FS**

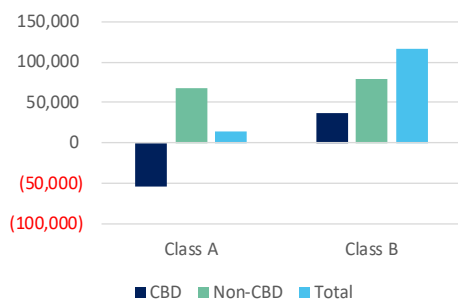
Average rental rate for class A space

### Statistical Snapshot

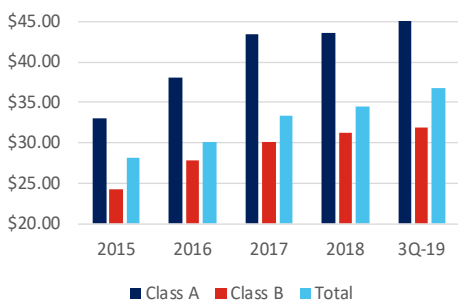
#### Vacancy Rate



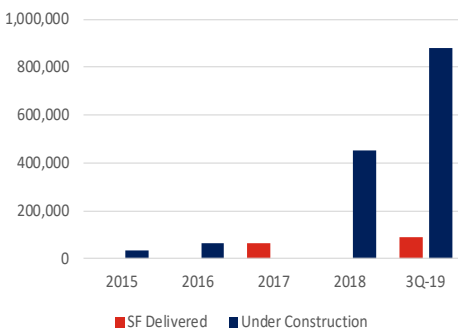
#### YTD Net Absorption (SF)



#### Average Asking Rent Rate (\$/SF/FS)



#### Construction Pipeline



### Palm Beach County Office Market At A Glance

#### Demographics & Economy

**213,000**

private sector jobs added to the state of Florida in the first eight months of 2019



**13,200**

increase in total non-farm employment since 3Q-2018



**5.0%**

12-month employment increase in the Financial Activities job sector

**3.8%**

**AUG-2018**



**3.7%**

**AUG-2019**

change in Palm Beach County's unemployment rate

#### Development

**2 MAJOR CLASS A OFFICE TOWERS** are under construction in Downtown West Palm Beach

One West Palm and 360 Rosemary together total 497,000 sf of office space and are expected to be completed in 2021.



**\$100 MILLION MIXED-USE MIDTOWN DELRAY** project could be moving forward in Delray Beach

Pebb Capital plans to move forward with a \$40 million acquisition of the site and hopes to begin construction in the second quarter of 2020.



**Divosta Towers**

223,943 sf of class A office space is expected to reach completion in Palm Beach Gardens by the end of 2019.



**881K**

square feet of office space currently under construction in Palm Beach County

#### Market Influencers



**\$570.2 million**

in total office sales volume during the T-12 months ending 3Q19



**Virgin Trains USA**

has announced plans to build additional train stations in Boca Raton, Aventura, and PortMiami



Migration of individuals from the northeast escaping high-tax states is fueling population growth



**51.8%**

of all office investment sales during 2019 has been to institutional investors

Palm Beach County										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	8,321,670	1,023,568	63,859	\$46.28	87.70%	12.30%	0.77%	13.07%	821,251	14,204
Class B	18,513,200	1,948,141	68,337	\$31.88	89.48%	10.52%	0.37%	10.89%	60,000	116,773
<b>Total</b>	<b>26,834,870</b>	<b>2,971,709</b>	<b>132,196</b>	<b>\$36.84</b>	<b>88.93%</b>	<b>11.07%</b>	<b>0.49%</b>	<b>11.57%</b>	<b>881,251</b>	<b>130,977</b>

CBD										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	1,698,934	222,608	13,940	\$64.80	86.90%	13.10%	0.82%	13.92%	497,000	(53,136)
Class B	1,633,948	199,037	5,187	\$38.18	87.82%	12.18%	0.32%	12.50%	0	36,969
<b>Total</b>	<b>3,332,882</b>	<b>421,645</b>	<b>19,127</b>	<b>\$52.23</b>	<b>87.35%</b>	<b>12.65%</b>	<b>0.57%</b>	<b>13.22%</b>	<b>497,000</b>	<b>(16,167)</b>

Non-CBD										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	6,622,736	800,960	49,919	\$41.14	87.91%	12.09%	0.75%	12.85%	324,251	67,340
Class B	16,879,252	1,749,104	63,150	\$31.16	89.64%	10.36%	0.37%	10.74%	60,000	79,804
<b>Total</b>	<b>23,501,988</b>	<b>2,550,064</b>	<b>113,069</b>	<b>\$34.30</b>	<b>89.15%</b>	<b>10.85%</b>	<b>0.48%</b>	<b>11.33%</b>	<b>384,251</b>	<b>147,144</b>

Boca Raton										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	4,450,714	554,113	36,937	\$41.62	87.55%	12.45%	0.83%	13.28%	0	30,795
Class B	7,309,020	761,085	21,448	\$32.47	89.59%	10.41%	0.29%	10.71%	0	58,730
<b>Total</b>	<b>11,759,734</b>	<b>1,315,198</b>	<b>58,385</b>	<b>\$36.33</b>	<b>88.82%</b>	<b>11.18%</b>	<b>0.50%</b>	<b>11.68%</b>	<b>0</b>	<b>89,525</b>

Boynton / Lantana										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	280,593	7,972	146	\$31.22	97.16%	2.84%	0.05%	2.89%	0	(1,577)
Class B	604,841	71,586	0	\$24.72	88.16%	11.84%	0.00%	11.84%	0	46,395
<b>Total</b>	<b>885,434</b>	<b>79,558</b>	<b>146</b>	<b>\$25.37</b>	<b>91.01%</b>	<b>8.99%</b>	<b>0.02%</b>	<b>9.00%</b>	<b>0</b>	<b>44,818</b>

Delray Beach										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	88,280	29,117	0	\$59.48	96.73%	3.27%	0.00%	3.27%	65,308	24,346
Class B	941,093	90,026	605	\$28.21	90.43%	9.57%	0.06%	9.63%	0	41,918
<b>Total</b>	<b>1,029,373</b>	<b>119,143</b>	<b>605</b>	<b>\$35.85</b>	<b>90.97%</b>	<b>9.03%</b>	<b>0.06%</b>	<b>9.08%</b>	<b>65,308</b>	<b>66,264</b>

Downtown West Palm Beach										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	1,698,934	222,608	13,940	\$64.80	86.90%	13.10%	0.82%	13.92%	497,000	(53,136)
Class B	1,633,948	199,037	5,187	\$38.18	87.82%	12.18%	0.32%	12.50%	0	36,969
<b>Total</b>	<b>3,332,882</b>	<b>421,645</b>	<b>19,127</b>	<b>\$52.23</b>	<b>87.35%</b>	<b>12.65%</b>	<b>0.57%</b>	<b>13.22%</b>	<b>497,000</b>	<b>(16,167)</b>

Jupiter										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	135,033	5,918	0	\$38.56	95.62%	4.38%	0.00%	4.38%	0	6,344
Class B	1,282,316	61,918	4,760	\$30.30	95.17%	4.83%	0.37%	5.20%	0	(14,023)
<b>Total</b>	<b>1,417,349</b>	<b>67,836</b>	<b>4,760</b>	<b>\$31.02</b>	<b>95.21%</b>	<b>4.79%</b>	<b>0.34%</b>	<b>5.12%</b>	<b>0</b>	<b>(7,679)</b>

North Palm Beach / Palm Beach Gardens										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	634,263	49,921	12,836	\$36.46	92.13%	7.87%	2.02%	9.89%	223,943	(5,162)
Class B	3,276,822	355,550	14,282	\$29.42	89.15%	10.85%	0.44%	11.29%	60,000	(48,946)
<b>Total</b>	<b>3,911,085</b>	<b>405,471</b>	<b>27,118</b>	<b>\$30.28</b>	<b>89.63%</b>	<b>10.37%</b>	<b>0.69%</b>	<b>11.06%</b>	<b>283,943</b>	<b>(54,108)</b>

Palm Beach										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	146,133	39,234	0	\$58.33	73.15%	26.85%	0.00%	26.85%	0	5,058
Class B	411,182	62,949	0	\$65.13	84.69%	15.31%	0.00%	15.31%	0	(5,856)
<b>Total</b>	<b>557,315</b>	<b>102,183</b>	<b>0</b>	<b>\$62.52</b>	<b>81.67%</b>	<b>18.33%</b>	<b>0.00%</b>	<b>18.33%</b>	<b>0</b>	<b>(798)</b>

Palm Springs / Lake Worth										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	414,045	61,652	8,635	\$23.55	85.11%	14.89%	2.09%	16.98%	0	(2,417)
<b>Total</b>	<b>414,045</b>	<b>61,652</b>	<b>8,635</b>	<b>\$23.55</b>	<b>85.11%</b>	<b>14.89%</b>	<b>2.09%</b>	<b>16.98%</b>	<b>0</b>	<b>(2,417)</b>

Royal Palm Beach / Wellington										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	35,000	0
Class B	726,337	19,781	0	\$29.84	97.28%	2.72%	0.00%	2.72%	0	899
<b>Total</b>	<b>726,337</b>	<b>19,781</b>	<b>0</b>	<b>\$29.84</b>	<b>97.28%</b>	<b>2.72%</b>	<b>0.00%</b>	<b>2.72%</b>	<b>35,000</b>	<b>899</b>

West Palm Beach										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	887,720	114,685	0	\$31.12	87.08%	12.92%	0.00%	12.92%	0	7,536
Class B	1,913,596	264,557	13,420	\$26.49	86.17%	13.83%	0.70%	14.53%	0	3,104
<b>Total</b>	<b>2,801,316</b>	<b>379,242</b>	<b>13,420</b>	<b>\$27.89</b>	<b>86.46%</b>	<b>13.54%</b>	<b>0.48%</b>	<b>14.02%</b>	<b>0</b>	<b>10,640</b>

Reporting Methodology: This report includes all class 'A' and 'B' office buildings and parks 20,000 SF and greater in Palm Beach County that are not owner occupied, office medical, or government owned. All rents are reported on a full-service gross basis and are direct weighted averages calculated on total available space. The information in this report has been collected by the Avison Young research team via sources that are deemed reliable but is not guaranteed.

Pent up demand for large blocks of high-quality office space has fueled the need for new office development. The amount of office space currently under construction has more than doubled since the third quarter of 2018.

**Leading Indicators (Y-O-Y 3Q-2018 to 3Q-2019)**



**Significant Third Quarter 2019 Lease Transactions - Sorted by SF**

Tenant	Property	Type	SF	Submarket
TBC Corporation	4250 Design Center Dr	New	60,000	North Palm Beach / Palm Beach Gardens
Confidential Healthcare Firm*	North 40	Renewal/Expansion	29,219	Boca Raton
NYU	Quantum Park at Boynton	Renewal	27,108	Boynton / Lantana
MPLT*	FAU Research & Development Park	New	22,567	Boca Raton
InteleTravel	Delray Central	New	14,438	Delray Beach
Oppenheimer	Yamato Office Center	New	12,515	Boca Raton
Lewis, Longman & Walker (LLW)	360 Rosemary	New	12,366	Downtown West Palm Beach
Otis Elevator	Golden Bear Plaza	New	12,261	North Palm Beach / Palm Beach Gardens
Florida Spine & Joint Institute	Peninsula Executive Center II	Sublease	11,561	Boca Raton
Newbridge Securities Corp	1200 Corporate Place	Sublease	11,510	Boca Raton
Bowman Consulting	Quantum Corporate Park	New	10,847	Boynton / Lantana
HappyOrNot Americas Inc.	1690 S Congress Ave	New	9,004	Delray Beach

\* Avison Young handled this transaction

**Significant Third Quarter 2019 Sales Transactions - Sorted by Sale Price**

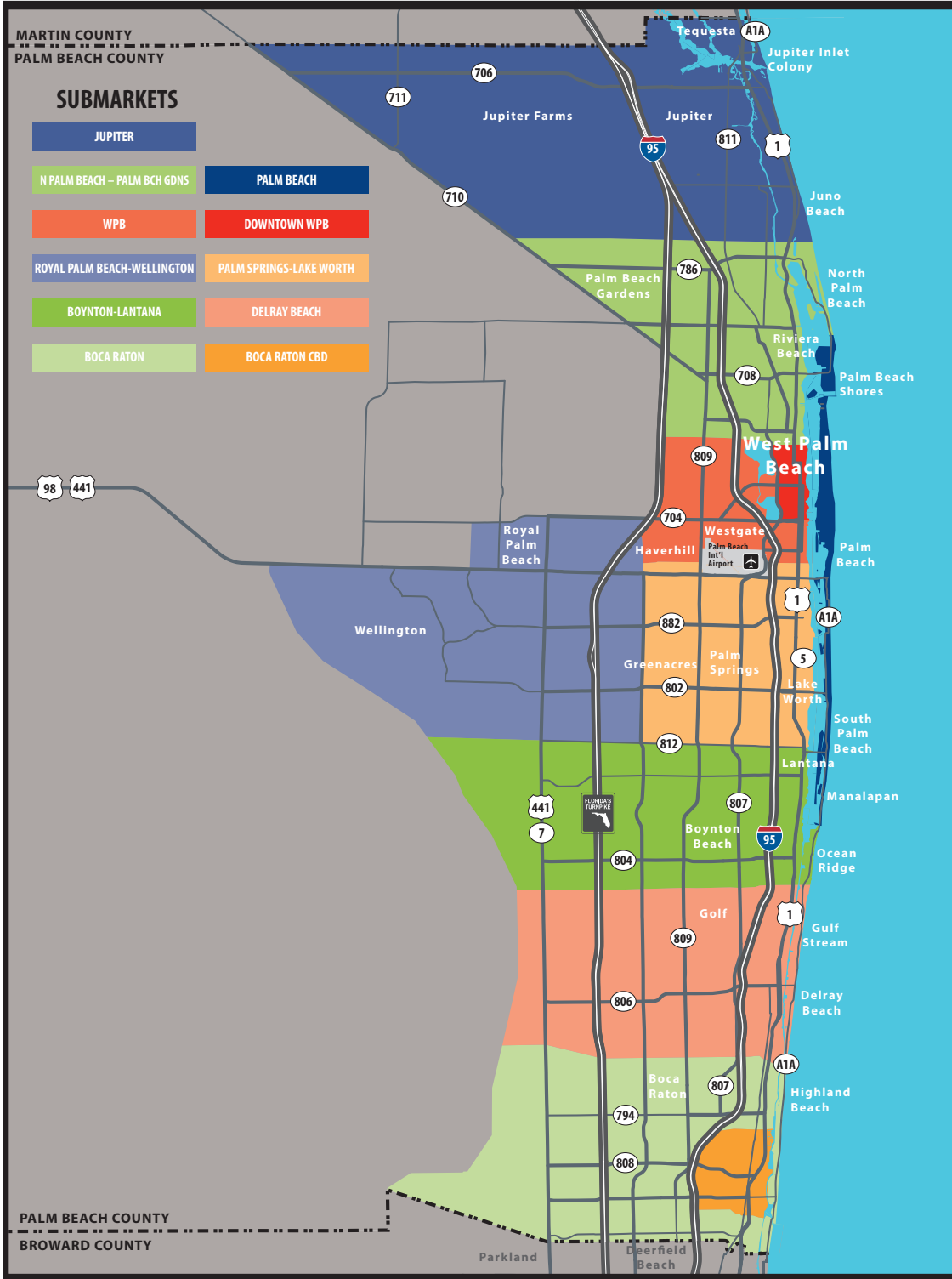
Property	SF	Sale Price	Price/SF	Buyer	Submarket
Financial Center at the Gardens	195,787	\$71,800,000	\$366	New York Life	North Palm Beach / Palm Beach Gardens
1700 Palm Beach Lakes Blvd	113,964	\$19,350,000	\$170	Capstone Realty Group	West Palm Beach
190 Congress Park Drive	60,000	\$10,100,000	\$168	TMT Properties	Delray Beach



Financial Center at the Gardens

**Palm Beach Gardens Office Tower Sells for \$71.8 MM**

In one of the largest office sales of the year in Palm Beach County, California-based KBS announced that it had sold the 195,787-sf Financial Center at the Gardens office tower to New York Life for \$71.8 million, or \$366 per sf. Boca-Raton based Crocker Partners will be the operating partner for the 10-story financial center. KBS bought the property in 2015 for \$63.1 million, making a 13.8% profit within four years. The building was nearly 100% leased at the time of sale with a tenant roster including Morgan Stanley, UBS, and J.P. Morgan Chase.



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