

Palm Beach County

Economic Growth Mirrors National Trend as It Decelerates Amid Global Headwinds and Significant New Development on the Horizon

Palm Beach County's office market ended 2019 lagging slightly behind the growth set in 2018. A decelerating global economy alongside ongoing trade wars, tension in the Middle East, and uncertainty surrounding the upcoming political season have all played a role in creating weaker demand for office space. Employment growth in Palm Beach County continues on a positive trajectory, albeit at a slower pace, adding 4,200 nonfarm jobs over the trailing 12 months ending November 2019 compared to the 15,400 nonfarm jobs added over the same period in 2018. The strongest employment growth was within the construction sector, which grew by 4.1%, followed by the financial activities sector, which grew by 3%.

There has been an office development boom, particularly in Downtown West Palm Beach, after years of keeping supply in check with a subdued construction pipeline. Two major class A office towers totaling 497,000 sf are underway downtown with a third on the horizon with the approval of the Related Companies' One Flagler Tower totaling 270,000 sf. With the growth of sublease space during 2019, there are some concerns regarding the overbuilding of class A space in the CBD, however economic fundamentals remain in check and relocations from the northeast may help mitigate some of the supply and demand imbalance. Net absorption ended the year relatively flat, but in positive territory at 186,787 sf. The largest gains in absorption were in Boca Raton, Delray and West Palm Beach. The average asking rental rate grew by 5.9% year-over-year to \$35.45, marking the strongest rent growth in the tri-county area. Leading into 2020, growth is expected to remain on a similar path to 2019 and the market may see some tightening as supply remains relatively constrained for the coming year.



769,317 SF

of new office developments are under construction in Palm Beach County at the end of 2019

Office Market Snapshot

- In a unanimous 5 to 0 vote in December, Boca Raton officials approved a proposal to build a Virgin Trains USA station in Boca Raton. This station will be one of three new train stations in South Florida including locations in Aventura and PortMiami. Construction should begin in early 2020 and service is expected to begin by October of 2020.
- The Related Companies recently announced that it has revived plans for a 25-story class A tower project called One Flagler. The building would contain more than 270,000 sf of office space in the CBD's Okeechobee Business District. Plans for the project were originally proposed prior to the up-zoning of the Okeechobee Business District in 2018. Before that, the area was restricted to a maximum of five stories. One Flagler will be the third major class A office tower in Downtown West Palm Beach following the ground breaking of the One West Palm and 360 Rosemary towers.
- During the fourth quarter, the South Tower of the Divosta Towers was completed in Palm Beach Gardens. The building delivered with a significant amount of pre-leasing including J.P. Morgan taking space on the eighth and ninth floors as well as Comiter, Singer, Baseman & Braun taking the seventh and part of the first floor. With a somewhat muted construction pipeline since the last cycle, the delivery of the 111,972-sf class A office tower marks the first significant office completion in nearly a decade. Delivery of the identical North Tower is expected in early 2020.
- Investment activity began to decelerate during 2019, ending the year with a total investment volume of \$465.8 million, a notable 29.4% decrease from total investment volume recorded in 2018. Some investors have been slow to deploy capital during 2019 amid global headwinds surrounding trade wars and political uncertainty. Still, investor sentiment remains strong in Palm Beach County with 49.8% of investment sales during 2019 accounting for institutional investors. Investment activity was strongest in West Palm Beach, Palm Beach Gardens, and Boca Raton, which comprised 87% of all office investment sales.
- According to the Business Development Board of Palm Beach County, more than 70 financial services firms have moved from New York City to Palm Beach County in the preceding three years. Fifteen of those firms relocated in September of this year. With the \$10,000 cap on the SALT (state and local taxes) deductions as part of the Tax Cuts and Jobs Act of 2017, many high-net-worth individuals from high-tax states in the northeast are choosing to relocate their families and businesses to Florida in search of a more tax-friendly environment.

26.9 MSF

Total office inventory in the Palm Beach County market

186,787 SF

Direct Y-T-D net absorption as of 4Q-2019

12.07%

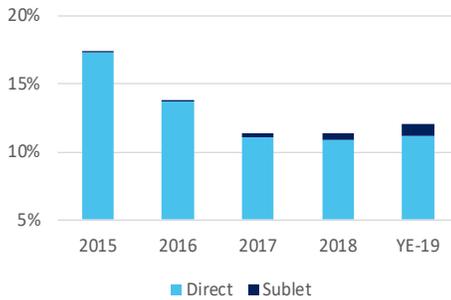
Overall Vacancy

\$45.97/SF/FS

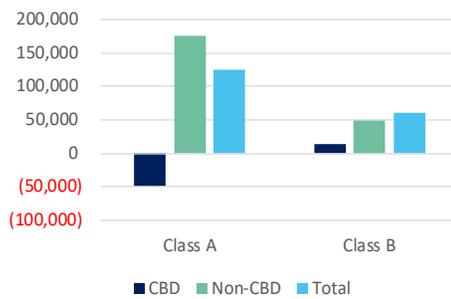
Average rental rate for class A space

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

202,000

private sector jobs added in the U.S. in the month of December



4,200

increase in total non-farm employment since 4Q-2018

1



According to new data compiled by U-Haul, Florida has surpassed Texas as the number one state for population growth.

3.3%

NOV-2018



2.8%

NOV-2019

change in Palm Beach County's unemployment rate

Development

11 STORY DIVOSTA TOWERS PROJECT delivered one of its two planned towers in 4Q19

The completion of the South Tower brings 111,972 sf of class A office space to Palm Beach Gardens, the first in 10 years.



767,000 SF of Class A Space

planned or under construction within three office towers in Downtown West Palm Beach



Virgin Trains USA has been approved to build a new station in Boca Raton. Service is scheduled to begin in October 2020.



769K square feet of office space currently under construction in Palm Beach County

Market Influencers



\$465.8 million

in total office sales volume during the T-12 months ending 4Q19



5.9%

growth in the overall average asking rental rate over the trailing 12 months ending 4Q19



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



49.8%

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	8,433,642	1,016,209	106,229	\$45.97	87.95%	12.05%	1.26%	13.31%	709,317	125,529
Class B	18,513,200	2,003,656	125,494	\$31.61	89.18%	10.82%	0.68%	11.50%	60,000	61,258
Total	26,946,842	3,019,865	231,723	\$36.45	88.79%	11.21%	0.86%	12.07%	769,317	186,787

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	218,520	27,145	\$63.15	87.14%	12.86%	1.60%	14.46%	497,000	(49,048)
Class B	1,633,948	222,967	926	\$36.19	86.35%	13.65%	0.06%	13.70%	0	13,039
Total	3,332,882	441,487	28,071	\$49.53	86.75%	13.25%	0.84%	14.09%	497,000	(26,009)

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	6,734,708	797,689	79,084	\$41.27	88.16%	11.84%	1.17%	13.02%	212,317	174,577
Class B	16,879,252	1,780,689	124,568	\$31.04	89.45%	10.55%	0.74%	11.29%	60,000	48,219
Total	23,613,960	2,578,378	203,652	\$34.20	89.08%	10.92%	0.86%	11.78%	272,317	222,796

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	535,904	60,340	\$40.80	87.96%	12.04%	1.36%	13.40%	0	40,998
Class B	7,309,020	778,686	56,122	\$32.37	89.35%	10.65%	0.77%	11.42%	0	41,129
Total	11,759,734	1,314,590	116,462	\$35.81	88.82%	11.18%	0.99%	12.17%	0	82,127

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	5,146	\$29.61	97.16%	2.84%	1.83%	4.68%	0	(1,577)
Class B	604,841	72,788	0	\$25.12	87.97%	12.03%	0.00%	12.03%	0	45,193
Total	885,434	80,760	5,146	\$25.57	90.88%	9.12%	0.58%	9.70%	0	43,616

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	31,240	0	\$59.16	71.14%	28.86%	0.00%	28.86%	65,308	22,223
Class B	941,093	87,931	0	\$28.34	90.66%	9.34%	0.00%	9.34%	0	44,013
Total	1,029,373	119,171	0	\$36.42	88.98%	11.02%	0.00%	11.02%	65,308	66,236

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	218,520	27,145	\$63.15	87.14%	12.86%	1.60%	14.46%	497,000	(49,048)
Class B	1,633,948	222,967	926	\$36.19	86.35%	13.65%	0.06%	13.70%	0	13,039
Total	3,332,882	441,487	28,071	\$49.53	86.75%	13.25%	0.84%	14.09%	497,000	(36,009)

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	\$35.06	95.62%	4.38%	0.00%	4.38%	0	6,344
Class B	1,282,316	64,690	1,246	\$29.13	94.96%	5.04%	0.10%	5.14%	0	(16,795)
Total	1,417,349	70,608	1,246	\$29.62	95.02%	4.98%	0.09%	5.07%	0	(10,451)

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	746,235	92,836	12,836	\$37.47	87.56%	12.44%	1.72%	14.16%	111,971	63,895
Class B	3,276,822	358,026	46,533	\$28.85	89.07%	10.93%	1.42%	12.35%	60,000	(51,422)
Total	4,023,057	450,862	59,369	\$30.63	88.79%	11.21%	1.48%	12.68%	171,971	12,473

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	38,095	0	\$67.57	73.93%	26.07%	0.00%	26.07%	0	6,197
Class B	411,182	63,621	0	\$65.67	84.53%	15.47%	0.00%	15.47%	0	(6,528)
Total	557,315	101,716	0	\$66.38	81.75%	18.25%	0.00%	18.25%	0	(331)

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	63,831	9,875	\$24.41	84.58%	15.42%	2.39%	17.80%	0	(4,596)
Total	414,045	63,831	9,875	\$24.41	84.58%	15.42%	2.39%	17.80%	0	(4,596)

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%	35,038	0
Class B	726,337	22,592	150	\$31.04	96.89%	3.11%	0.02%	3.13%	0	(1,912)
Total	726,337	22,592	150	\$31.04	96.89%	3.11%	0.02%	3.13%	35,038	(1,912)

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	85,724	762	\$31.59	90.34%	9.66%	0.09%	9.74%	0	36,497
Class B	1,913,596	268,524	10,642	\$26.42	85.97%	14.03%	0.56%	14.59%	0	(863)
Total	2,801,316	354,248	11,404	\$27.67	87.35%	12.65%	0.41%	13.05%	0	35,634

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.

The unemployment rate fell to an all-time low of 2.8% in November 2019, surpassing the previous record of 2.9% in April 2019 and outperforming the statewide average of 3.1%.

Leading Indicators (Y-O-Y 4Q-2018 to 4Q-2019)

Vacancy Rate	Net Absorption	Average Asking Rate (FS)	New Construction	Total Employment
↑ 12.07%	↓ 186,787 SF	↑ \$36.45	↑ 769,317 SF	↑ 719 K

Significant Fourth Quarter 2019 Lease Transactions - Sorted by SF

Tenant	Property	Type	SF	Submarket
NSD	Boca Raton Innovation Campus	Sublease	30,000	Boca Raton
Mill Creek Residential	Boca Village Corporate Center	New	27,079	Boca Raton
Digital Risk, Inc.*	North 40	Renewal	26,756	Boca Raton
Florida Atlantic Research & Development Authority*	3651 FAU Blvd	New	13,852	Boca Raton
Edison, McDowell & Hetherington	Abacoa Town Center	Sublease	11,182	Boca Raton
Confidential Tenant	1400 Centrepark Blvd	New	7,683	West Palm Beach

* Avison Young handled this transaction

Significant Fourth Quarter 2019 Sales Transactions - Sorted by Sale Price

Property	SF	Sale Price	Price/SF	Buyer	Submarket
Centurion Tower	143,966	\$32,500,000	\$226	Suffolk Advisors	West Palm Beach
5400 Broken Sound Blvd NW*	99,219	\$20,000,000	\$202	Related Group / Rockpoint Group	Boca Raton
Village Square II	38,944	\$14,850,000	\$381	MB Real Estate	North Palm Beach / Palm Beach Gardens
4290 Professional Center Dr	30,681	\$10,200,000	\$332	JKHA Group	North Palm Beach / Palm Beach Gardens

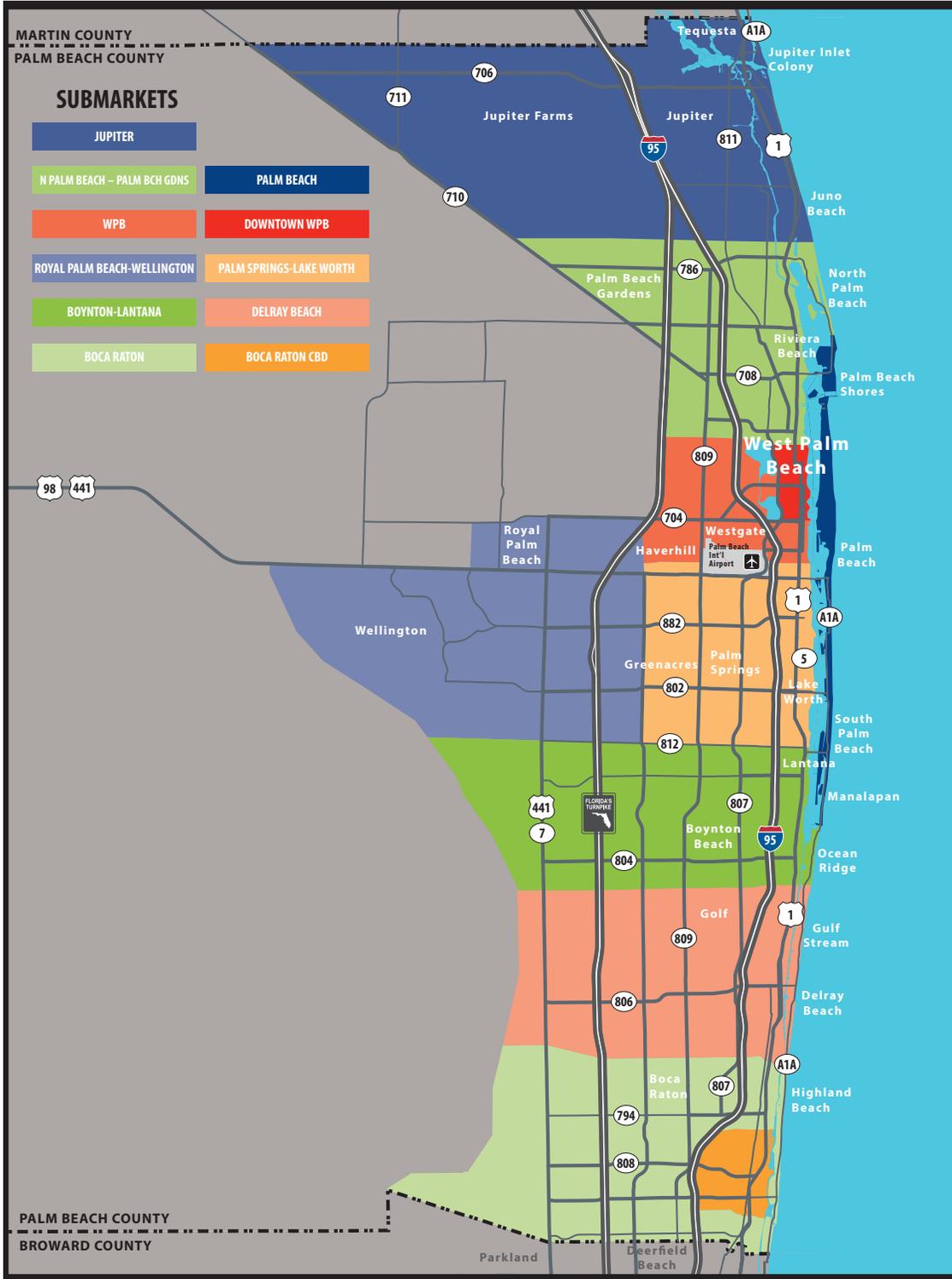
* Property sold for land value



Centurion Tower

Centurion Tower Sells for a 25% Profit in Just Three Years

During the fourth quarter, C-III Capital Partners sold the Centurion Tower in West Palm Beach to Suffolk Advisors for \$32.5 million, or \$226 per sf. The tower, which has 143,966 sf of leasable office space, last sold for \$26 million in 2016, turning a profit of 25% in just three years. The property was 86% occupied at the time of sale. Although investment sales have lagged in the CBD, the sale of Centurion Tower is just one of several large office sales in suburban submarkets this year as investors seek out well-positioned assets for a higher return on investment.



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