

1Q24

Palm Beach County Office Market Overview



NEWMARK

Market Observations

Economy

- The market’s unemployment rate increasing by 57 basis points year over year to 3.4% but remained well below the five-year average of 4.3%.
- Job growth pace has slowed compared with recent highs to 2.0% year over year, but still exceeds pre-pandemic levels, with 2019 growth averaging 1.7%.
- All sectors, except business and professional, other services, and information, reported employment growth, with education and health leading job gains at 5.8% over the past 12 months.
- Office-using jobs in the market declined by 1.7% from the peak in June 2023 to 195,305 employees but still reflect 13.8% growth since 2019.

Major Transactions

- Dycor Industries signed the largest new lease of the quarter for their new headquarters totaling 43,673 SF at the Banyan & Olive, bringing the under-construction property to 50% preleased.
- Flight to quality continues to remain a central theme in some of the largest and most notable deals signed in the quarter, with Class A leases averaging 5,169 SF and all leases averaging 3,470 SF.
- The Boca Raton and West Palm Beach CBD submarkets were notable locational picks, with six of the ten largest deals signed located in the two submarkets.

Leasing Market Fundamentals

- Annual full-service asking rental rates increased to a historical high of \$51.38/SF, a 19.9% increase year over year.
- Net absorption in the first quarter of 2024 was positive at 41,042 SF, however vacancy has increased by 150 basis points year over year to 13.6%.
- The under-construction pipeline continued to remain active, with 602,000 SF in progress.
- Total leasing activity closed the quarter at 759,998 SF, averaging 3,470 SF per deal and reflecting an increase in deal size by 16.5% quarter over quarter and an increase of 25.0% year over year.

Outlook

- The Palm Beach office market will likely see more muted growth this year, impacted by national economic headwinds and the uncertainty surrounding the upcoming elections. Office investment activity will remain low in the near term due to elevated inflation and a steeper cost of debt.
- Asking rents are expected to remain elevated and are likely to continue increasing due to tightening supply of quality space prior to upcoming high-quality deliveries.
- In the near term, as more deliveries hit the market and continue to push supply to outpace demand, vacancy rates are projected to increase.

1. Economy
2. Leasing Market Fundamentals

1Q24

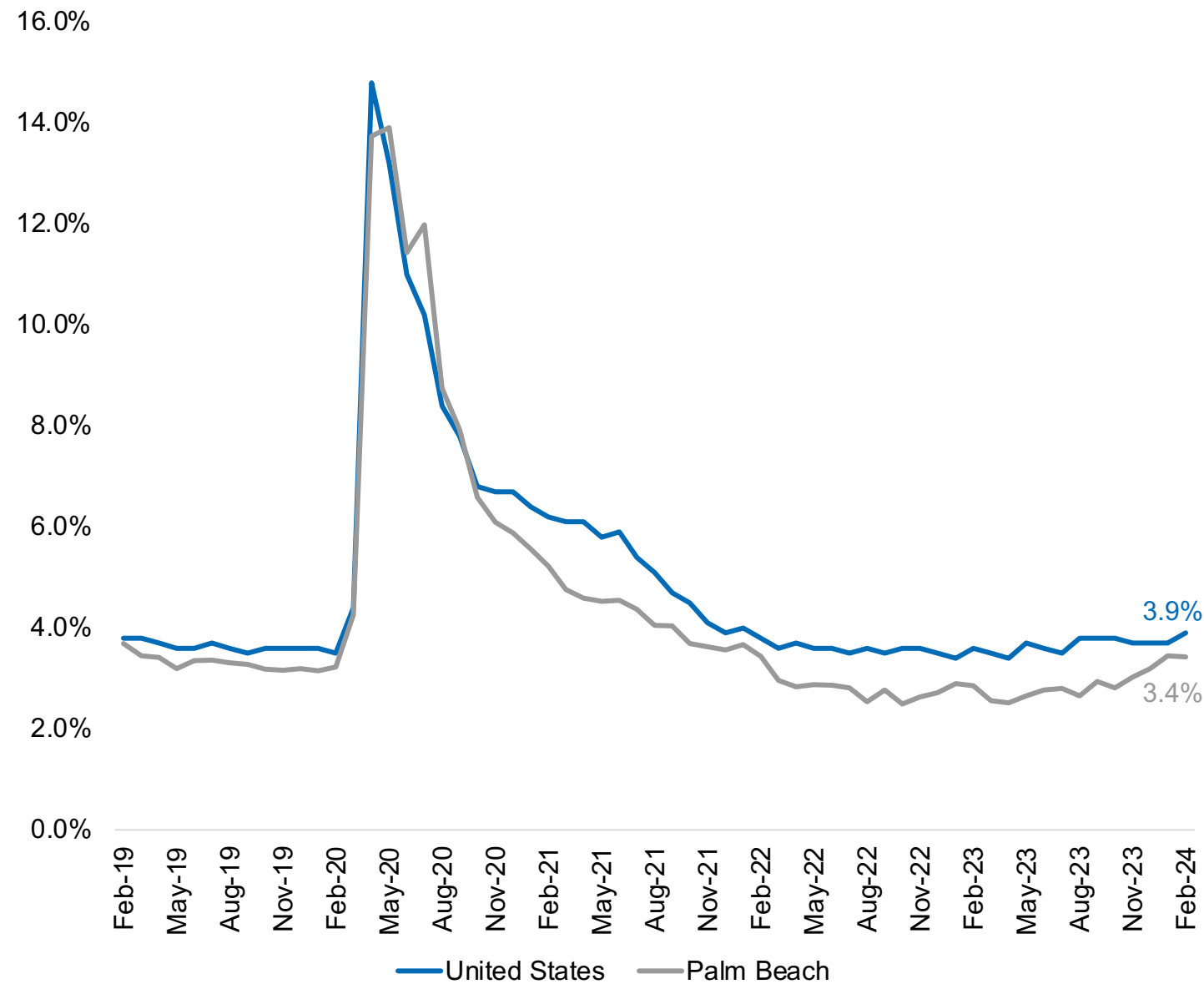
Economy



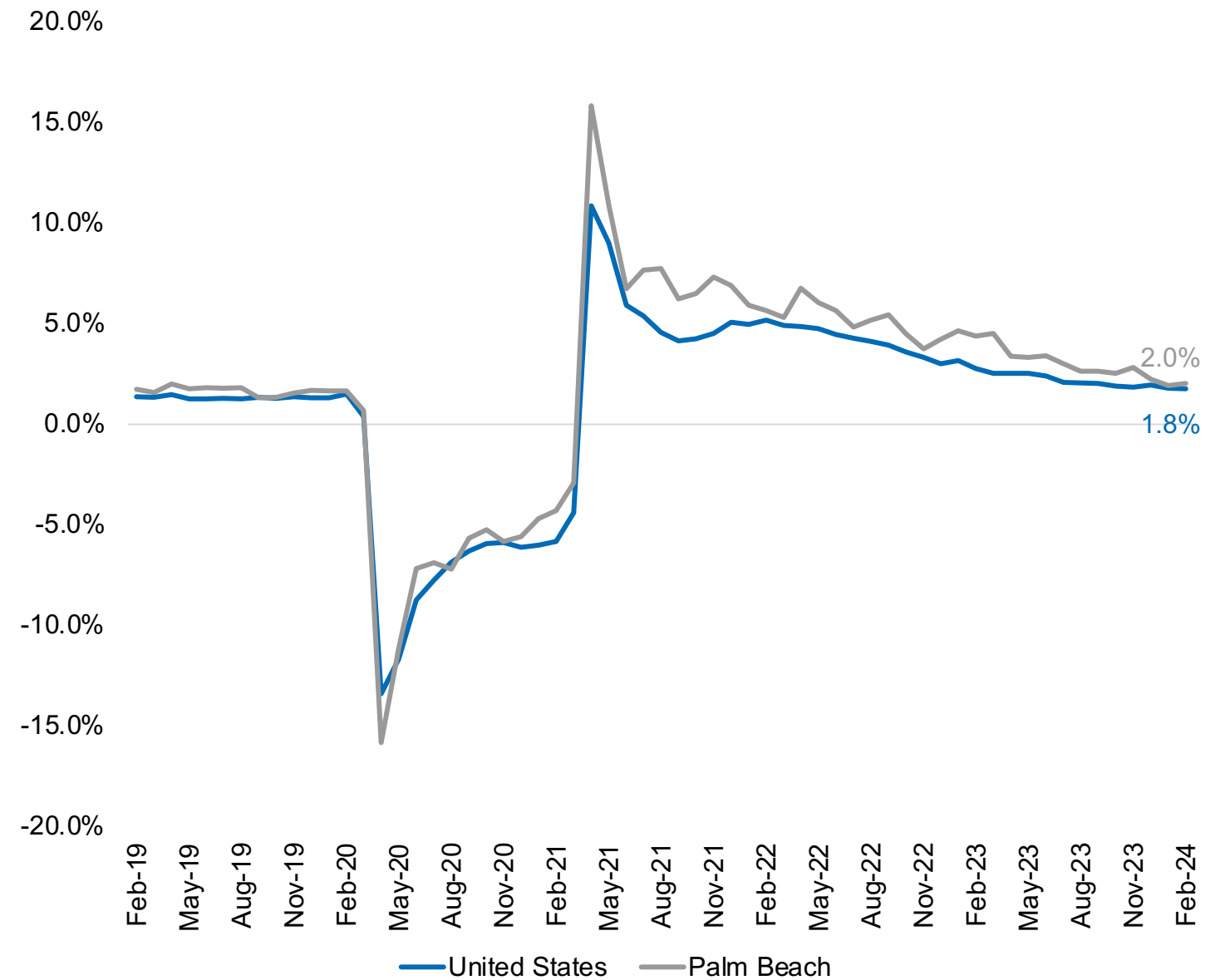
Unemployment Ticks Upward; Employment Growth Slows

Palm Beach has generally reported lower unemployment rates compared with the national average but has recently fallen closer to the national average in employment growth. The region's unemployment rate increased by 57 basis points year over year to 3.4%, marking the fourth consecutive month above 3.0%. Employment growth has decelerated since 2021 and fell by 237 basis points year over year to 2.0%, likely impacted by recent national economic headwinds.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change



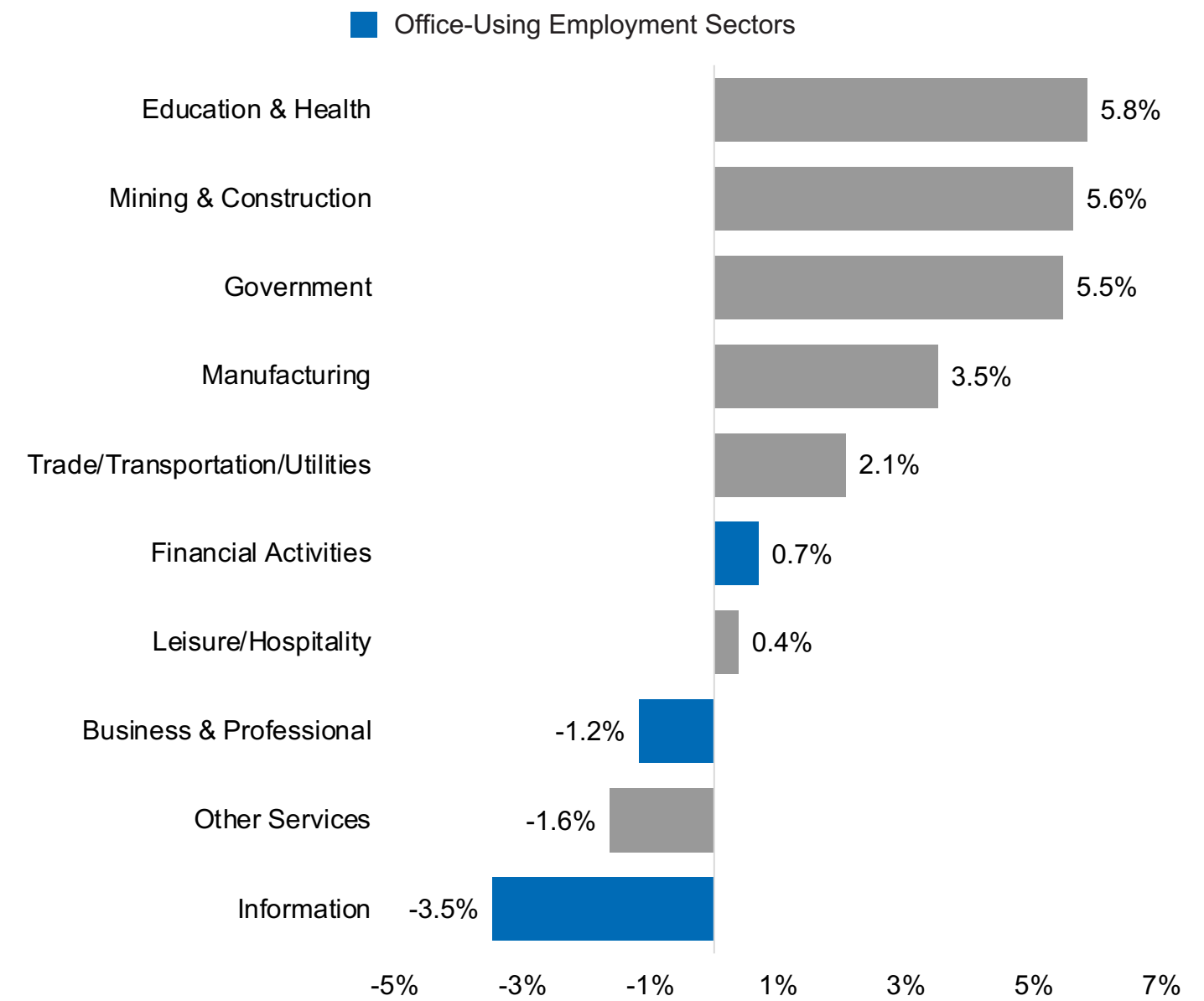
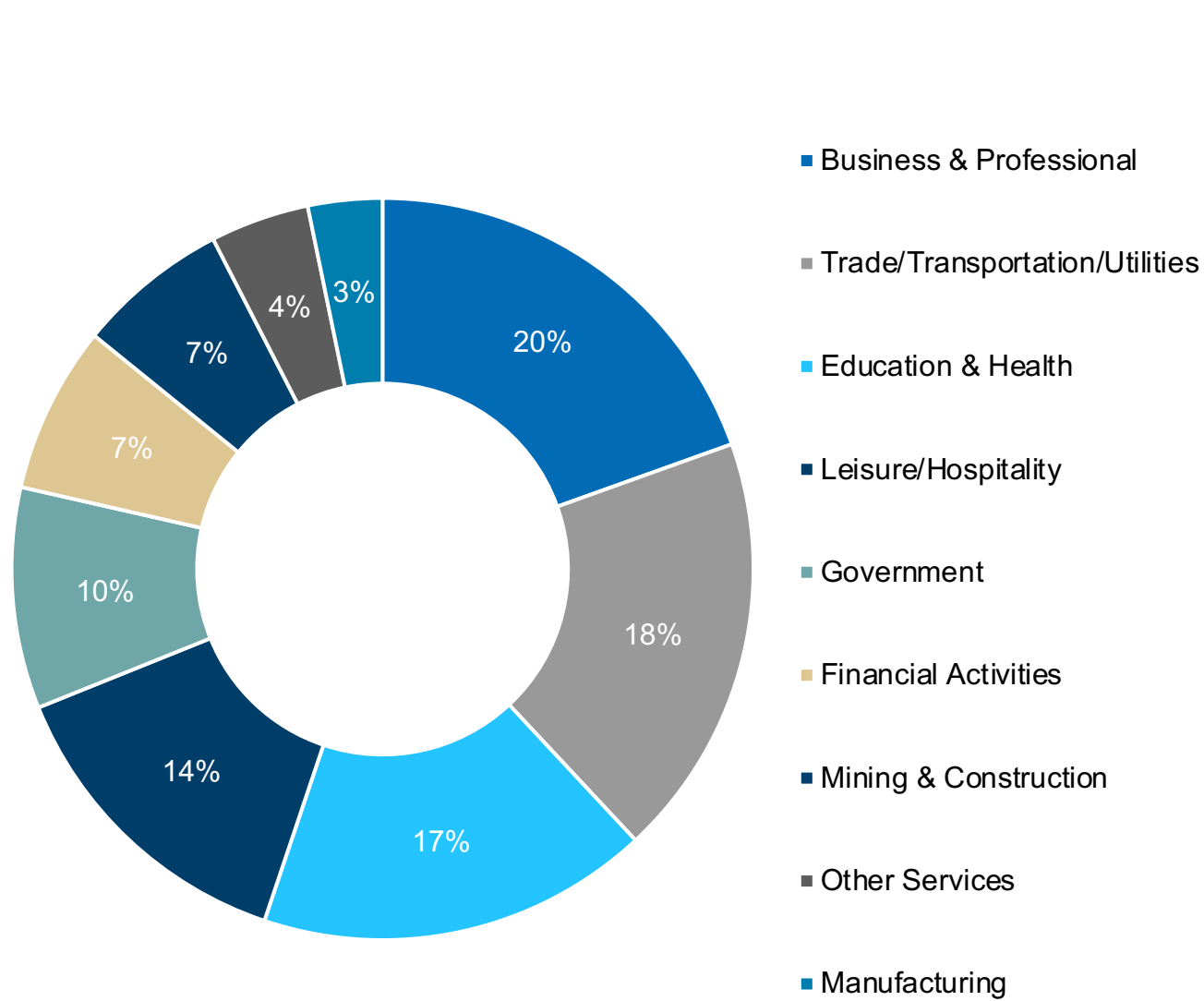
Source: U.S. Bureau of Labor Statistics, Palm Beach County

Office-Using Employment Sectors Experience Decline in Growth

Palm Beach's top two employment industries account for 37.4% of market share. The office-using employment's business and professional sector is the largest industry sector in the metroplex at 19.2%. All industries reported growth, except for business and professional, other services, and information. Office-using industries reported year-over-year growth ranging from a decrease of 3.5% to an increase of 0.7%.

Employment by Industry, February 2024

Employment Growth by Industry, 12-Month % Change, February 2024

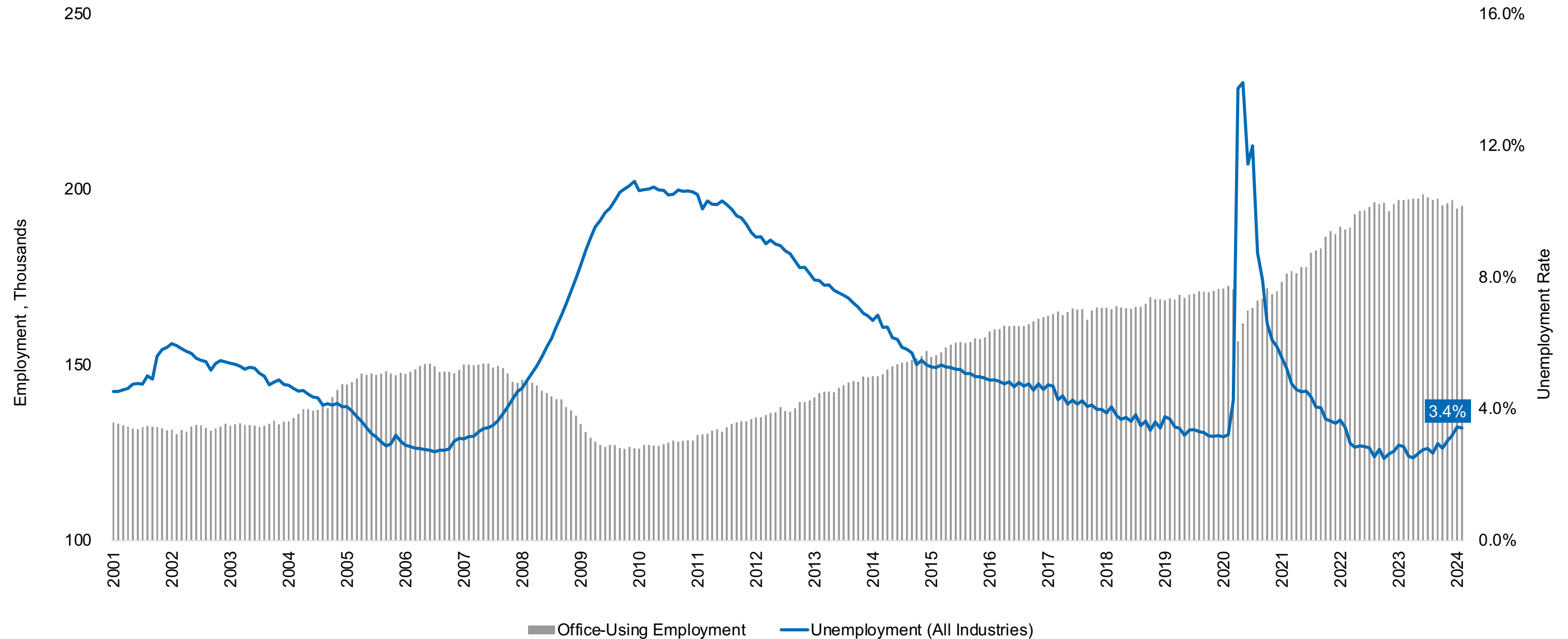


Source: U.S. Bureau of Labor Statistics, Palm Beach County

Overall Office-Using Employment in Gradual Decline

Office-using employment in Palm Beach declined 1.7% from an all-time historical high in June 2023 to 195,305 employees as of the end of February 2024. The seasonally-adjusted unemployment rate is 3.4%, a return to the 3.4% average levels reported in 2019. National economic headwinds are having a negative impact on the office employment sector, which is directly correlated to the rising unemployment rate in Palm Beach.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Palm Beach County

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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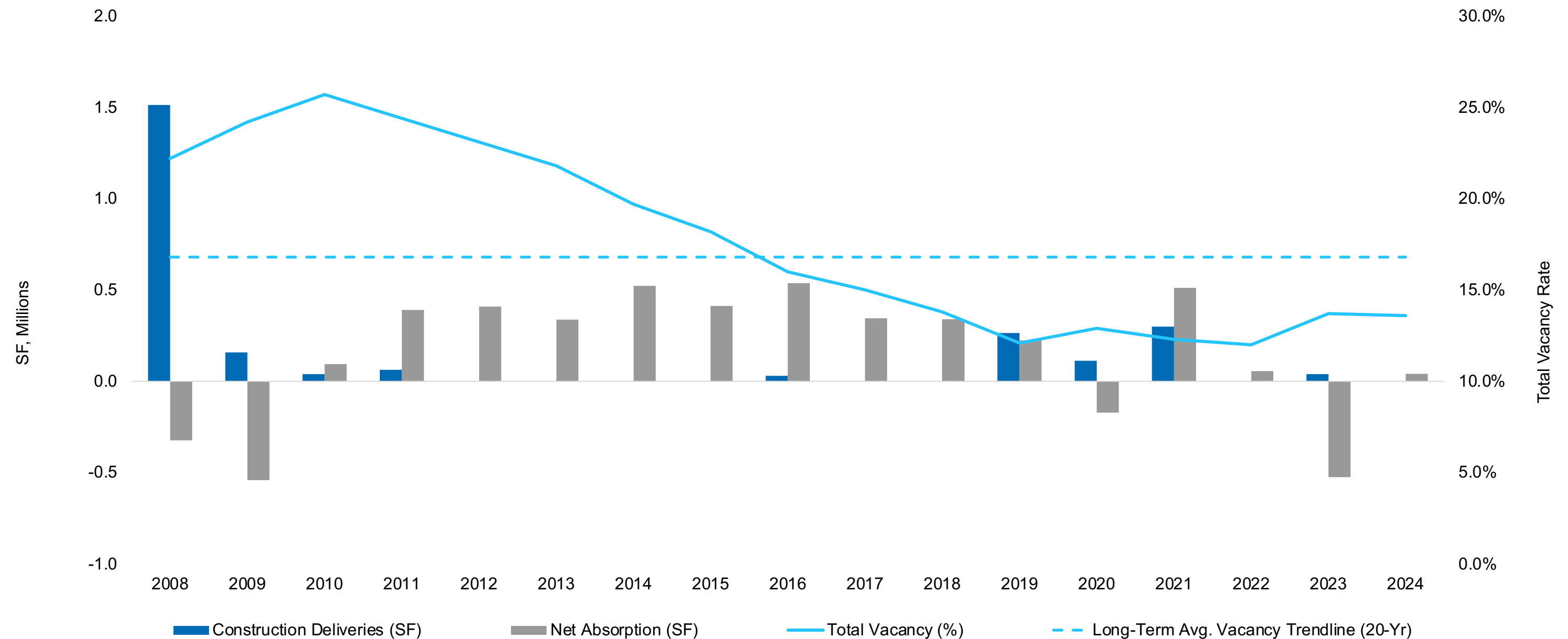
Leasing Market Fundamentals



Office Demand Starts New Year Positively

Palm Beach’s office vacancy rate increased by 150 basis points year over year and decreased by 10 basis points quarter over quarter to 13.6% in the first quarter of 2024. Office vacancy continued to remain below the long-term average of 16.8%. Net absorption was positive 41,042 SF in the first quarter of 2024. Continued positive net absorption will lead to further declines in vacancy, increases in asking rents, and reduced availability, as the current under-construction pipeline is largely pre-leased.

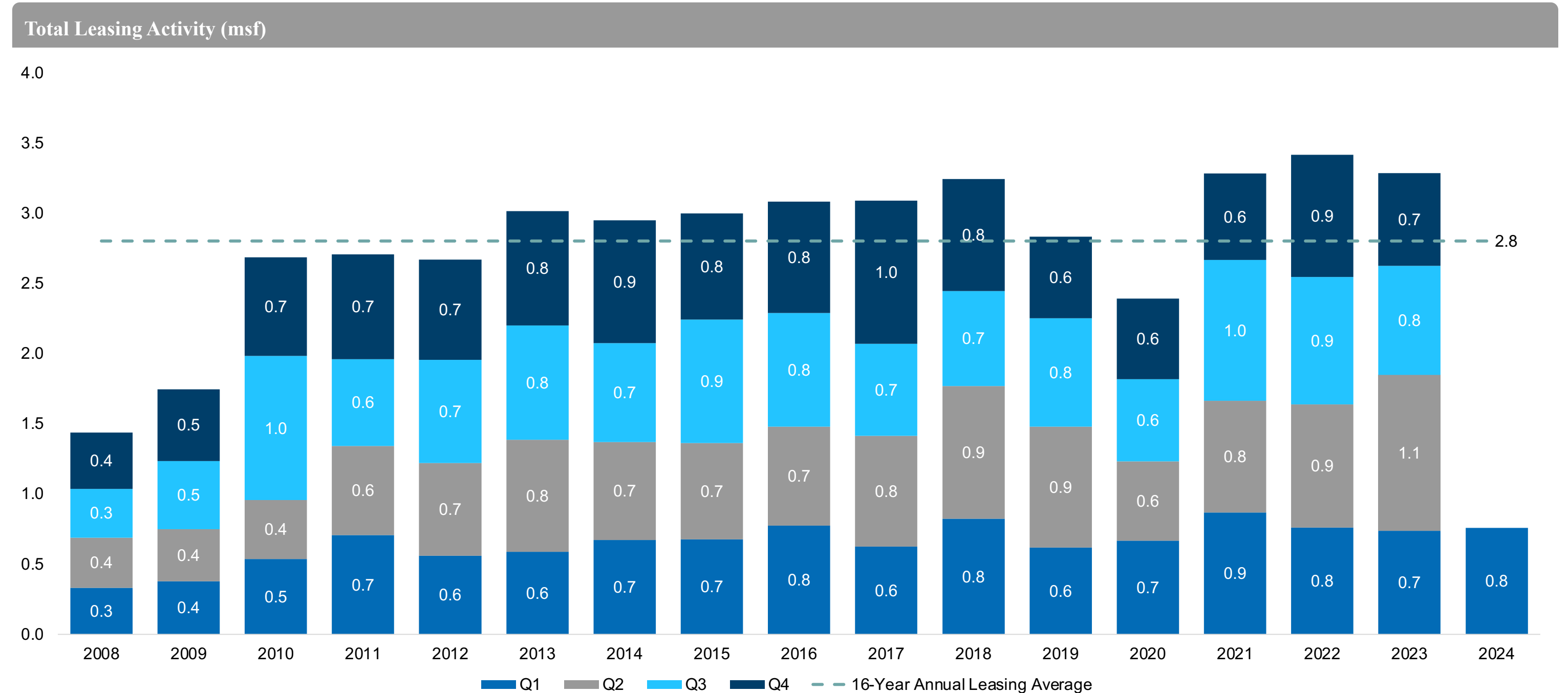
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Leasing Activity Exceeds Historical Average

Leasing activity was stronger in the first quarter 2024 ending at 759,998 SF, exceeding the 16-year first quarter average of 672,490 SF. Deal size averaged 3,470 SF in the first quarter of 2024, an average of 695 SF more than a year ago. The higher leasing activity pace, when compared to 2023 levels, is attributed to larger deals being done.

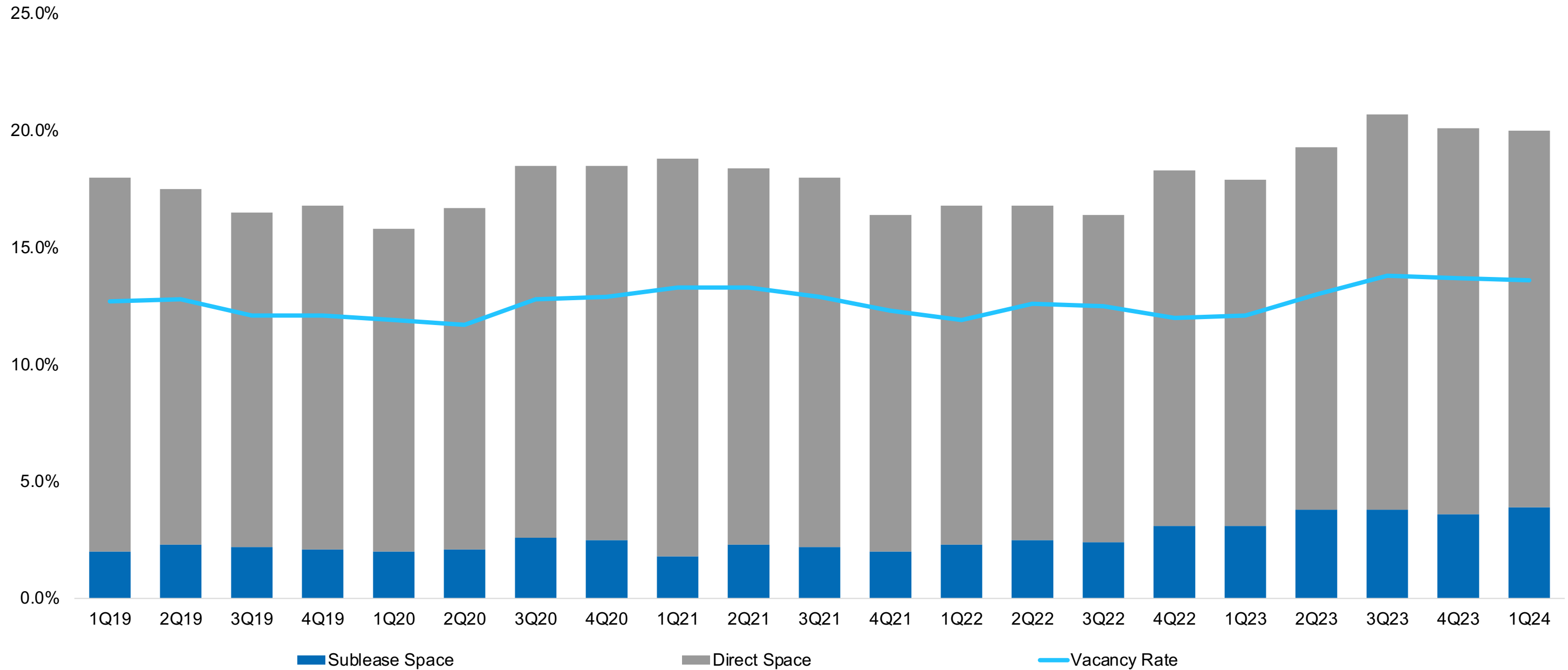


Source: Newmark Research, CoStar

Availability Begins to Flatten

Sublease availability in Palm Beach is elevated compared to values reported pre-pandemic but has held relatively steady for four quarters. As of the end of the first quarter of 2024, sublease availability in the market was at 3.9%. Direct availability has risen since the start of the pandemic but has decreased from the peak reported in 2021 at 17.0%, currently standing at 16.1%. Vacancy increased by 150 bps year over year but decreased by 10 bps quarter over quarter, closing the quarter at 13.6%.

Available Space as Percent of Overall Market

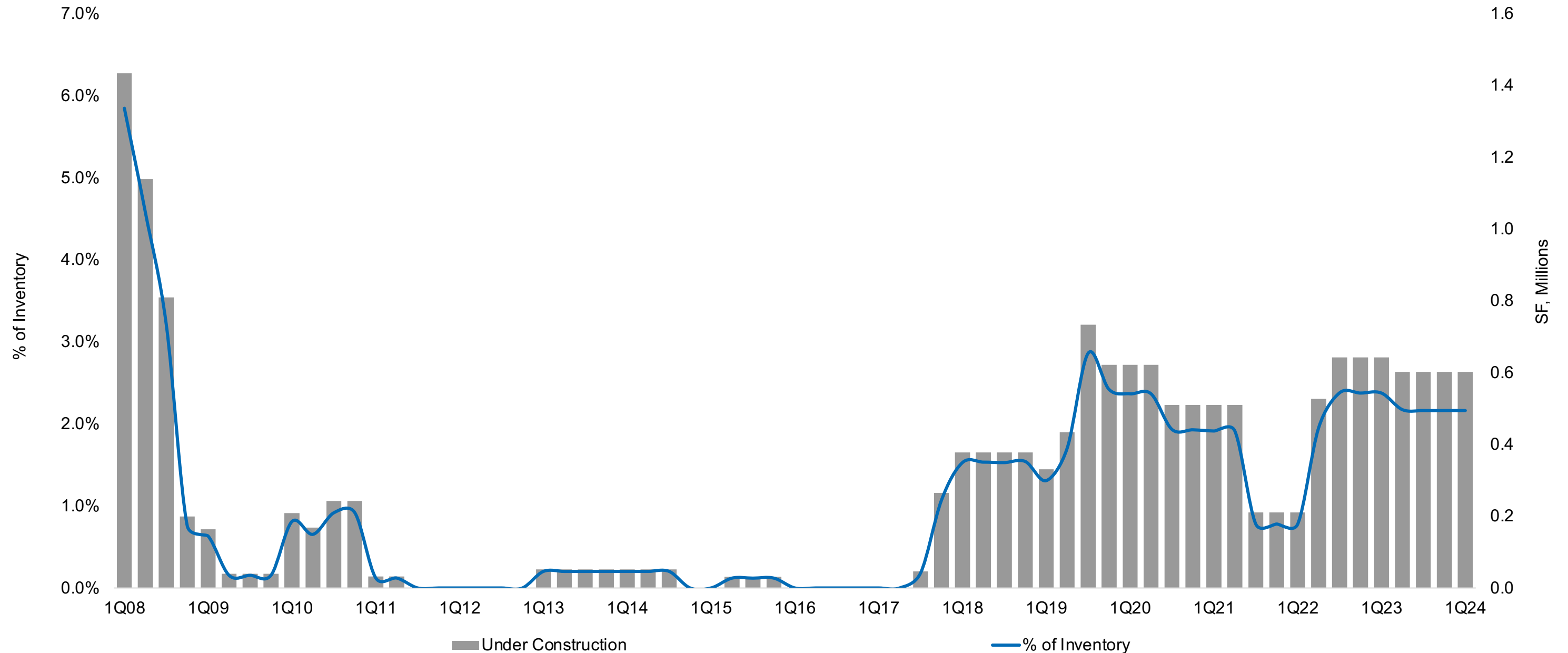


Source: Newmark Research, CoStar

Construction Activity Remains Elevated

After a slow down at the end of 2021, construction activity moderately increased in 2022 and continued the trend into 2024. The market currently has 602,000 SF under construction. As of the first quarter of 2024, the under-construction pipeline accounted for 2.2% of the market's inventory. The pandemic has led to an influx of companies and people into the market, resulting in increased demand for new projects that provide high-quality space. This demand also necessitates addressing nearly a decade's worth of non-existent new development.

Office Under Construction and % of Inventory

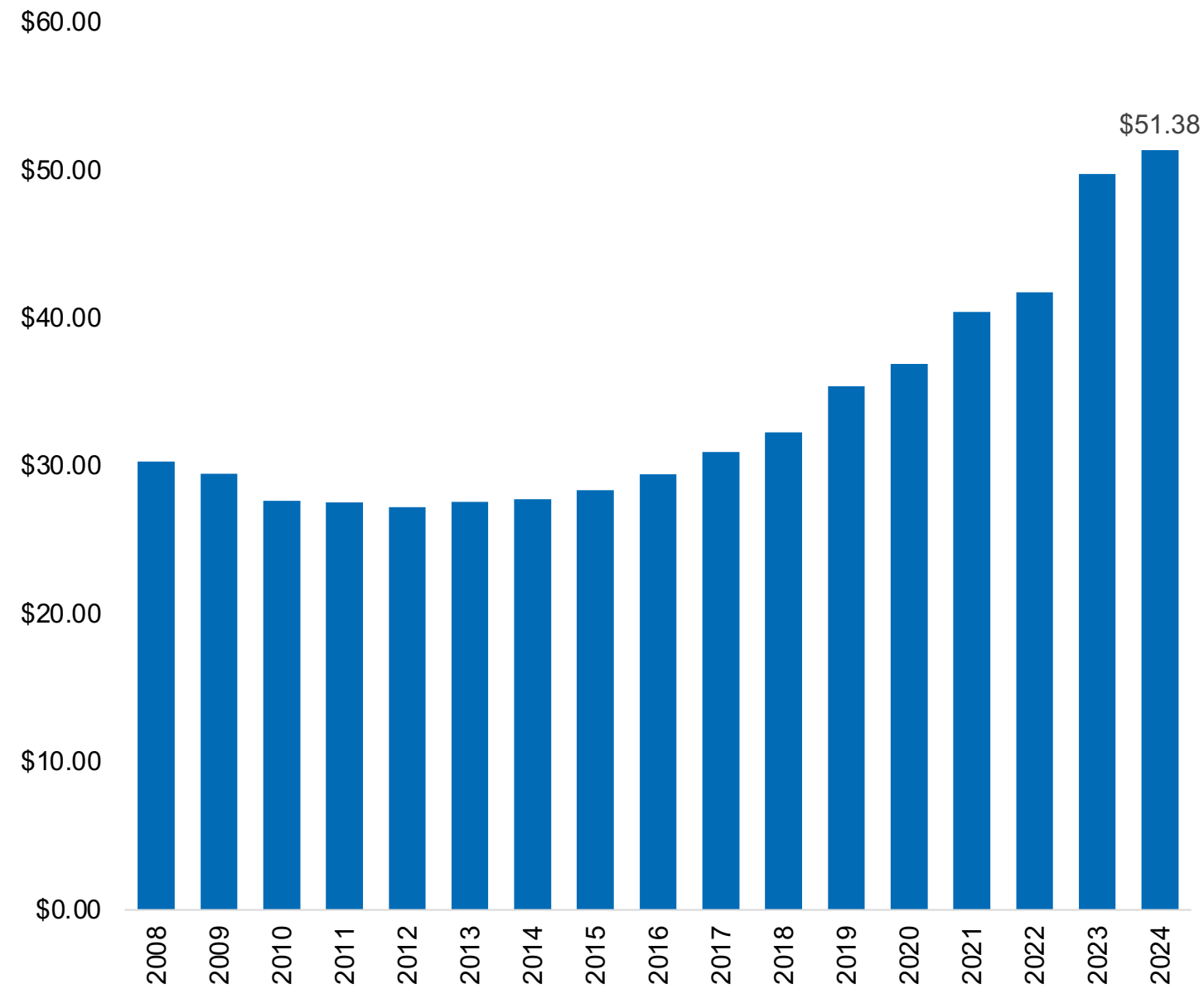


Source: Newmark Research, CoStar

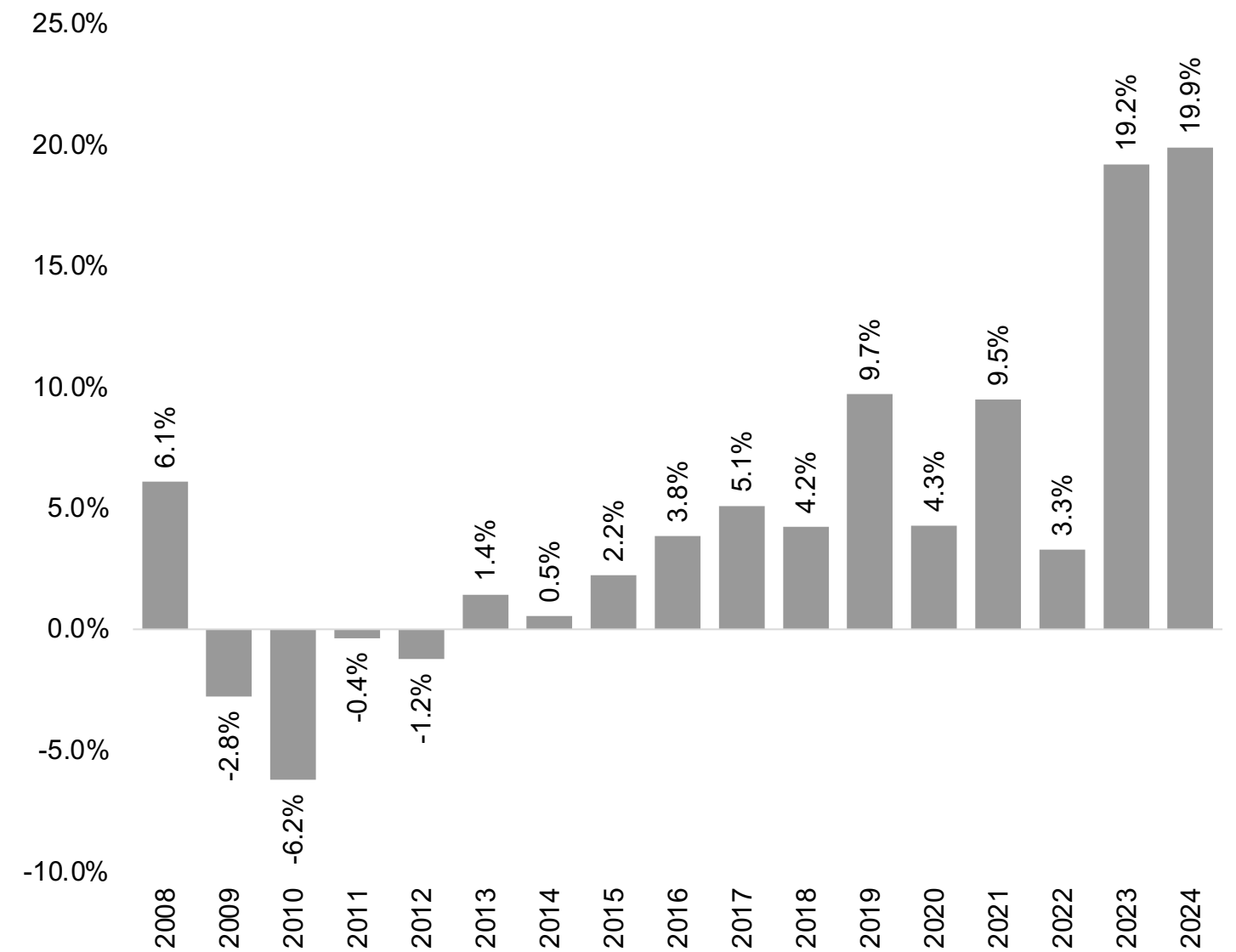
Rents Reach All-Time High

Rents continued increasing in the first quarter of 2024 to an all-time historical high of \$51.38/SF. Year over year, asking rents are up 19.9%. Rent growth in the market is generally attributed to a reaction to the current inflationary economic environment and increased competition for the limited availability of high-quality space. Asking rents are likely to remain elevated in the near term as demand for Class A space continues to outpace demand for Class B space; coupled with fact that the construction pipeline is already largely preleased.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

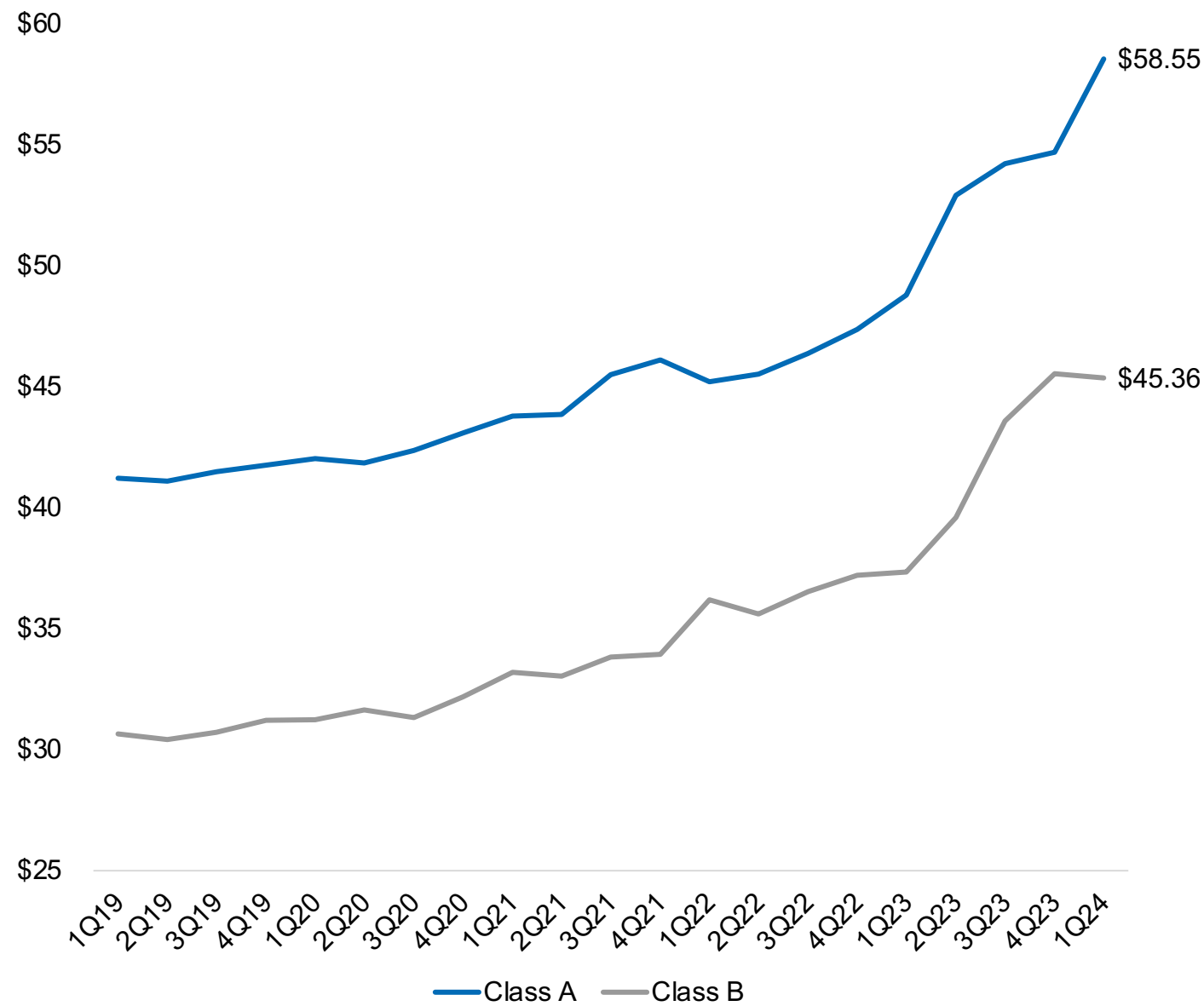


Source: Newmark Research, CoStar

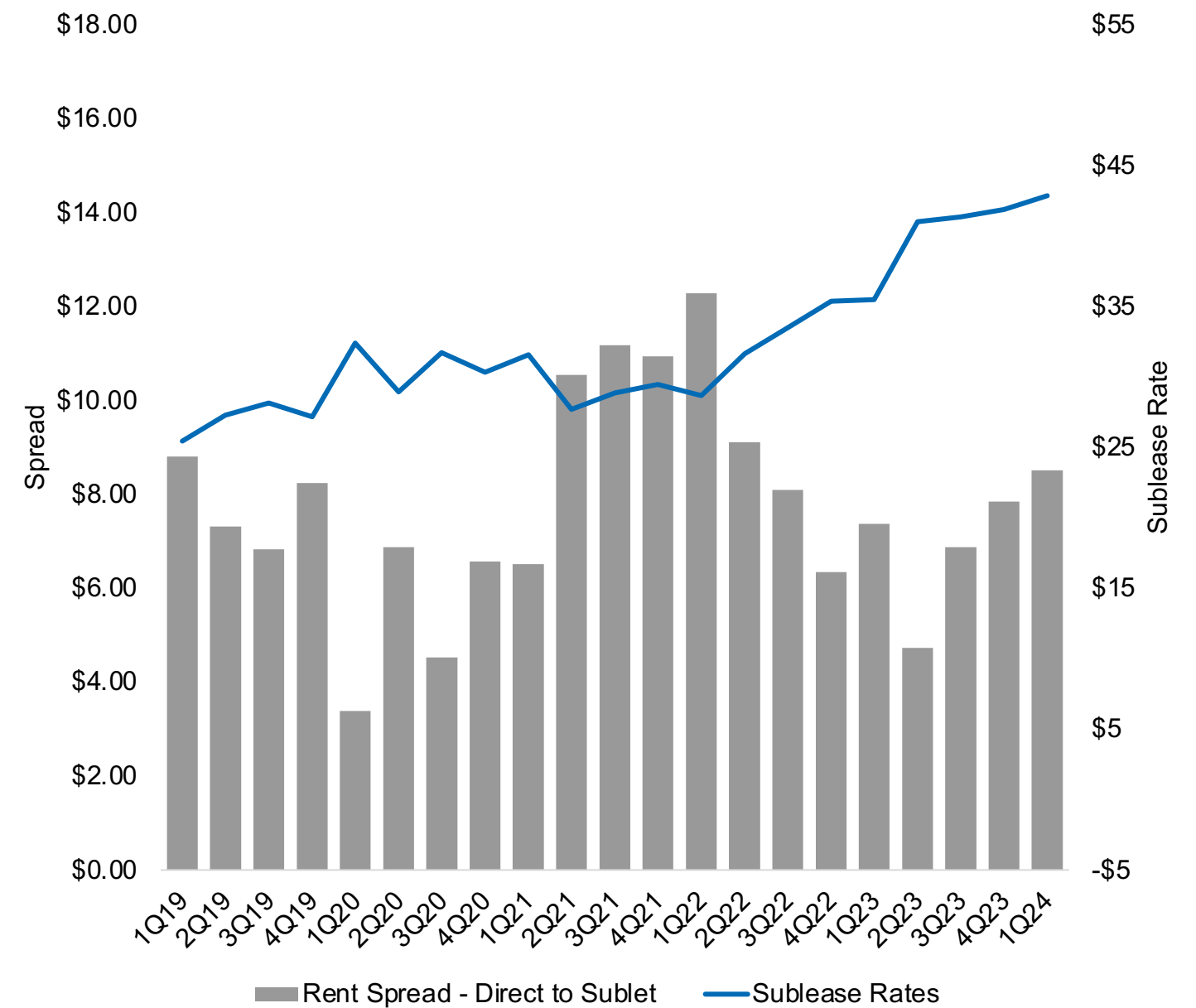
Asking Rent Spread Widens in First Quarter

As rents continue increasing, the bifurcation in rent spread between Class A and Class B assets has remained above the \$9.00/SF mark. As of the end of the first quarter of 2024, Class A rents ended at \$58.55/SF, while Class B reported \$45.36/SF. Leasing demand for Class A Space has outpaced Class B Space for four consecutive quarters, leading to the rise of Class A asking rents by 7.0% quarter over quarter and the decline of class B rents by 0.4% quarter over quarter. Sublease rates have jumped in recent quarters, with asking sublease rents increasing by 2.3% quarter over quarter and by 20.8% year over year.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Flight-to-Quality Leasing Activity Continues

Flight to quality continues to remain a trend in the Palm Beach office market. As of the end of the first quarter of 2024, Class A space accounted for 61.2% of the market's leasing activity by SF, but only 41.1% of the market's deal volume. Average leases signed in Class A space were 5,169 SF and continue to remain larger than the average market deal size, at 3,470 SF. Of the 602,000 SF of Class A space under construction, 63.2% has been preleased.

Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Dycom Industries, Inc.	Banyan & Olive	West Palm Beach CBD	Direct New	43,673
<i>Dycom Industries, Inc signed the largest new lease of the quarter for their new headquarters that will comprise the top two floors of 300 Banyan, bringing the property to 50% preleased.</i>				
AmWINS Insurance Brokerage	Abacoa Town Center	Jupiter	Direct New	16,139
<i>The second largest lease of the quarter is a new lease by AmWINS, a leading specialty insurance distributor.</i>				
Sachs, Sax, Caplan Law	The Atrium at Broken Sound	Boca Raton	Renewal	14,597
<i>The Boca Raton-based law firm specializes in many practice areas including government, litigation, real estate and trusts, and estates.</i>				
CELLCO	Boca Raton Innovation Campus	Boca Raton	Direct New	12,965
<i>CELLCO, doing business as Verizon Wireless, provides wireless voice and data services.</i>				
Andersen Tax	Waterfront Clematis	West Palm Beach CBD	Expansion	12,943
<i>Andersen Tax expanded their space within the heart of Downtown West Palm Beach on the newly revitalized Flagler Drive park and waterfront area.</i>				



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