

3Q23

Palm Beach Office Market Overview

NEWMARK

Market Observations

Economy

- The market's unemployment rate remained near the all-time historical low, increasing by 11 basis points year over year to 2.7% and remaining well below the five-year average of 4.3%.
- Job growth pace has slowed compared with recent highs to 1.1% year over year, and employment growth is now outpaced by pre-pandemic levels, with 2019 growth averaging 1.7%.
- All sectors, except construction, other services, business and professional, and information, reported employment growth, with leisure and hospitality leading job gains at 4.6% over the past 12 months.
- Office-using jobs in the market remained near the all-time historical high at 192,400 employees, reflecting 12.2% growth since 2019.

Major Transactions

- Palm Beach Atlantic University signed the largest new lease of the quarter for 17,929 SF in The Press.
- Renewals dominated most of the top large leases signed in the third quarter of 2023, including Cole, Scott & Kissane, SCG, Florida Peninsula Managers, and BPC Plasma (Grifols).

Leasing Market Fundamentals

- Annual full-service asking rental rates increased to a historical high of \$47.14/SF, a 6.9% increase year over year.
- Occupancy remained negative, pushing overall vacancy rates to increase by 60 basis points year over year, to 13.2%.
- The under-construction pipeline continued to remain active, with 642,000 SF in progress.
- Total leasing activity closed the quarter at 494,084 SF, averaging 2,628 SF per deal and reflecting a decrease in deal size by 35.7% quarter over quarter and a decrease of 24.5% year over year.

Outlook

- The Palm Beach office market will likely see more muted growth this year, impacted by national economic headwinds. 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 continue increasing.

1. Economy
2. Leasing Market Fundamentals

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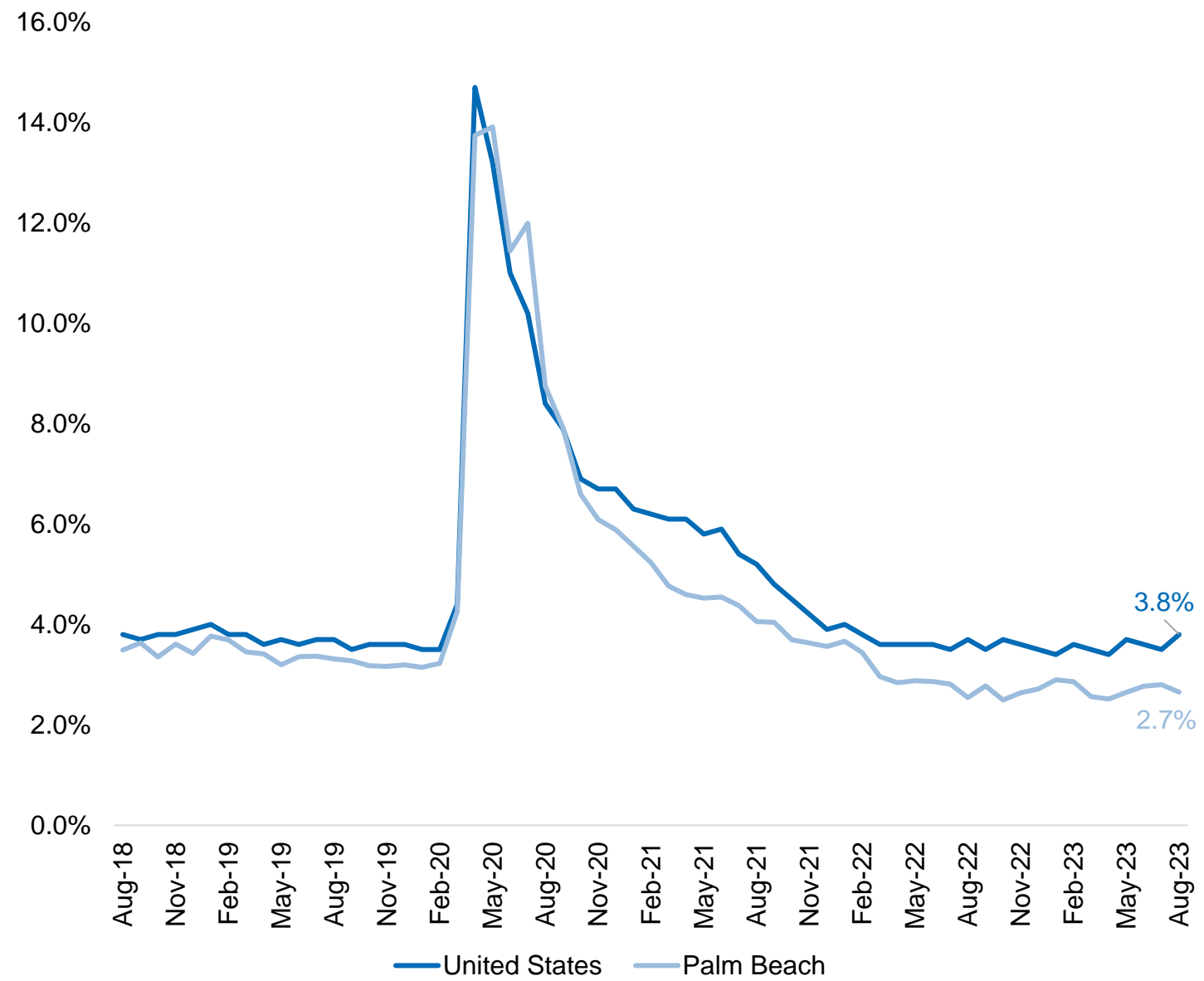
Economy



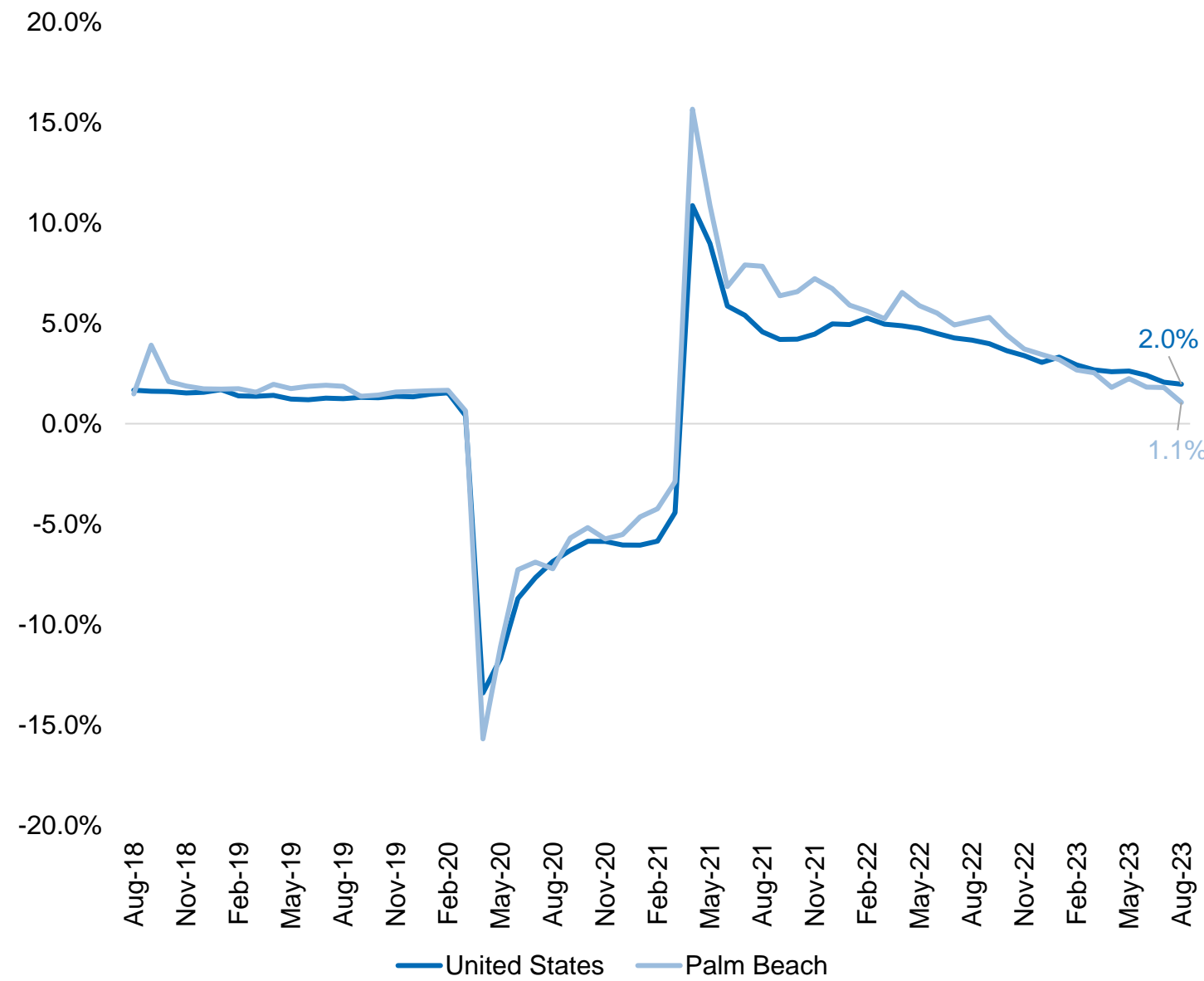
Unemployment Remains Near Historical Low

Palm Beach has generally reported lower unemployment rates compared with the national average but has recently fallen below the national average in employment growth. The region’s unemployment rate increased by 11 basis points year over year to 2.7%, remaining near the historical low of 2.5% achieved in October 2022. Employment growth has decelerated since 2021 and fell by 405 basis points year over year, likely impacted by recent national economic headwinds.

Unemployment Rate, Seasonally Adjusted



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



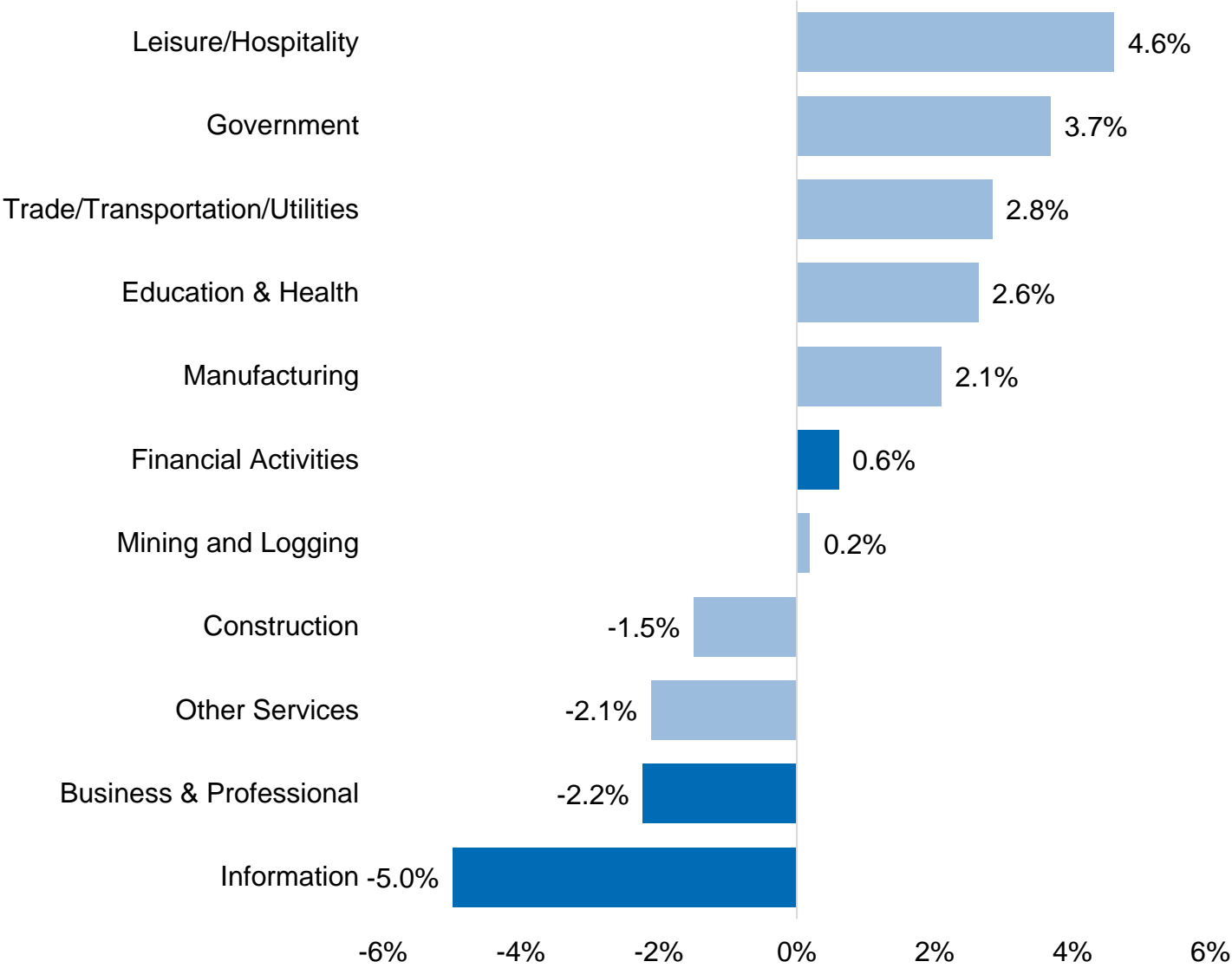
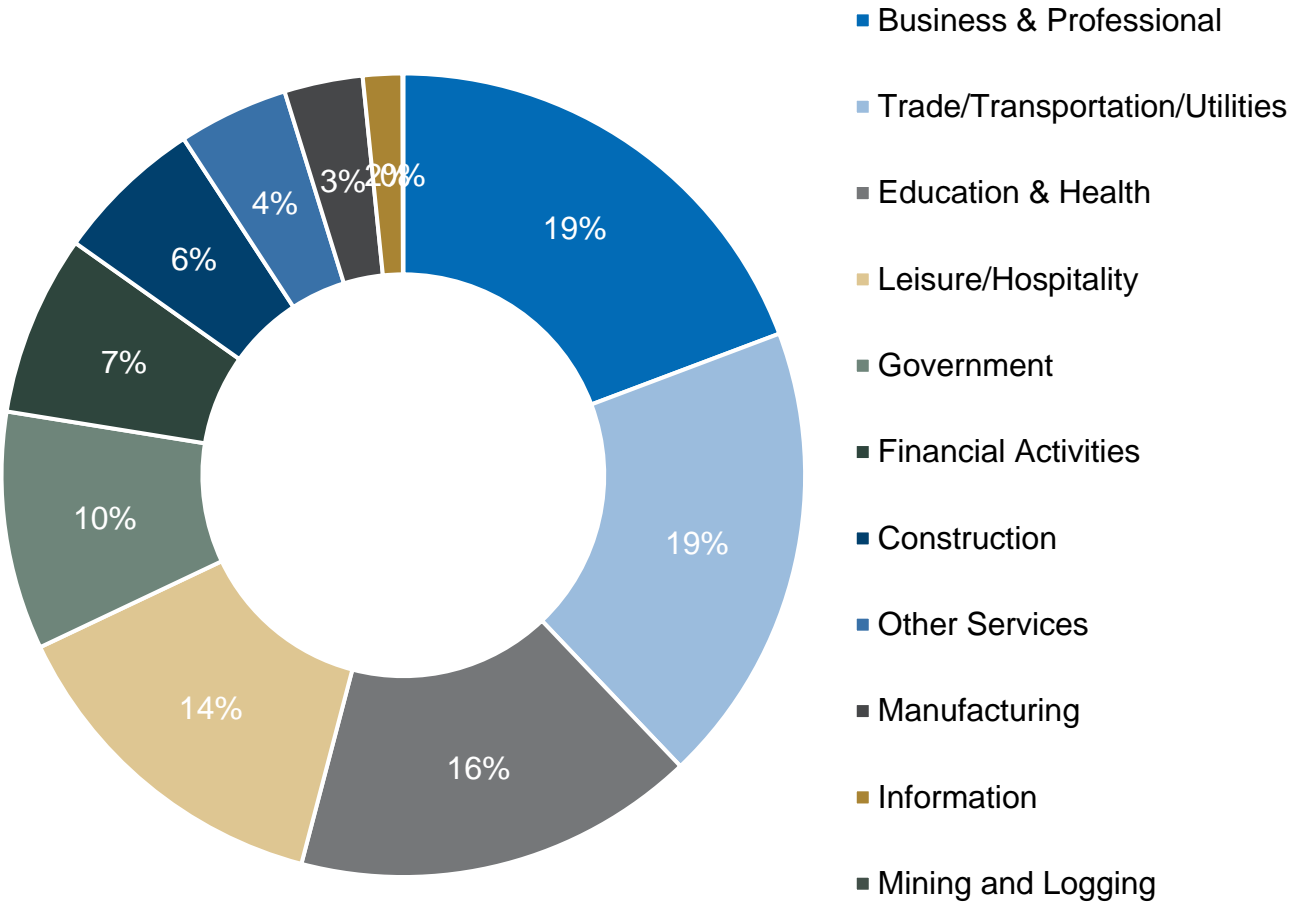
Source: U.S. Bureau of Labor Statistics, Palm Beach County

Office-Using Employment Sectors Experience Decline in Growth

Palm Beach’s top two employment industries account for 37.9% of market share. The office-using employment’s business and professional sector is the largest industry sector in the metroplex at 19.3%. All industries reported growth, except for information, business and professional, other services, and construction. Office-using industries reported year-over-year growth ranging from a decrease of 5.0% to an increase of 0.6%.

Employment by Industry, August 2023

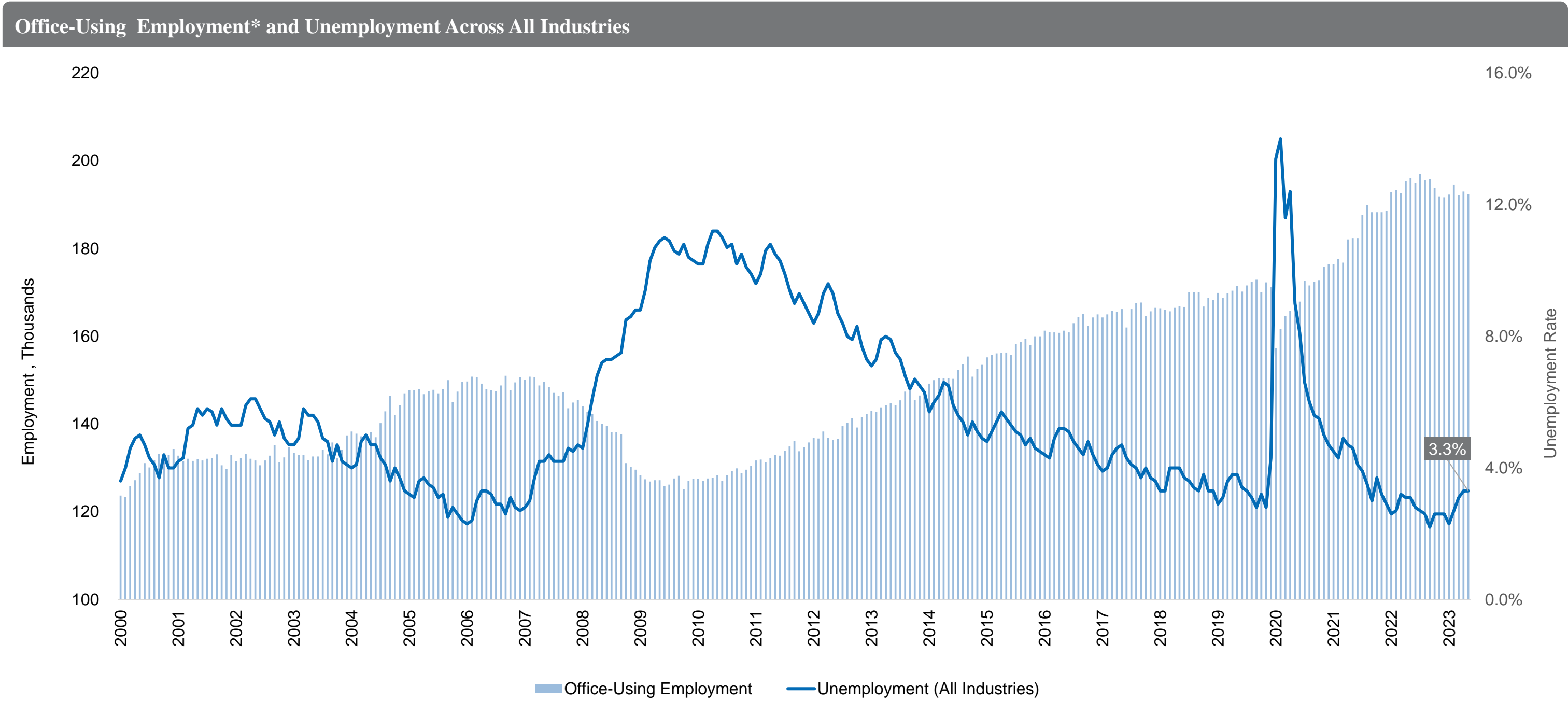
Employment Growth by Industry, 12-Month % Change, August 2023



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

Overall Office-Using Employment Near Historical High

Office-using employment in Palm Beach declined 2.3% from an all-time historical high in October 2022 to 192,400 employees as of the end of August 2023. Currently, the non-seasonally-adjusted unemployment rate is at 3.3%, below 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.



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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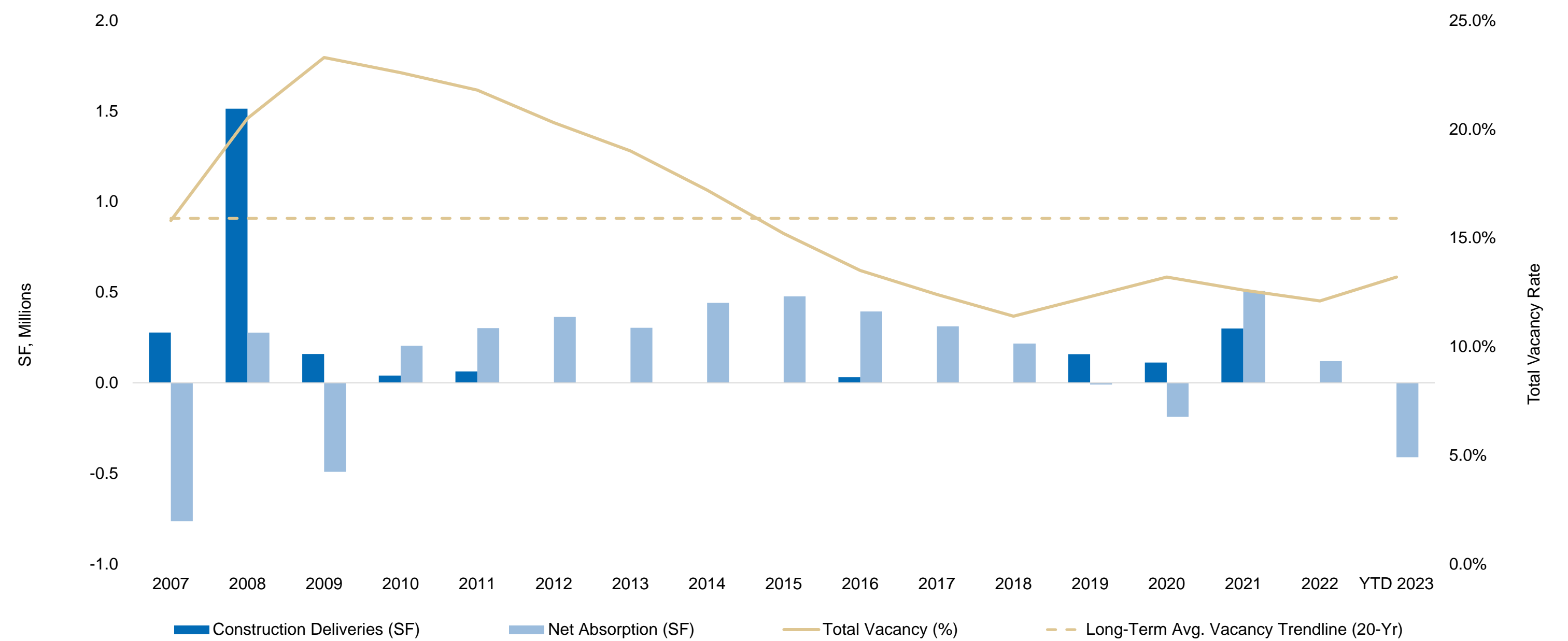
Leasing Market Fundamentals



Office Demand Remains Negative

Palm Beach’s office vacancy rate increased by 60 basis points year over year to 13.2% in the third quarter of 2023 but remained below the long-term average of 15.9%. Office occupancies were down 39,971 SF in the third quarter, bringing the year-to-date absorption to negative 410,727 SF.

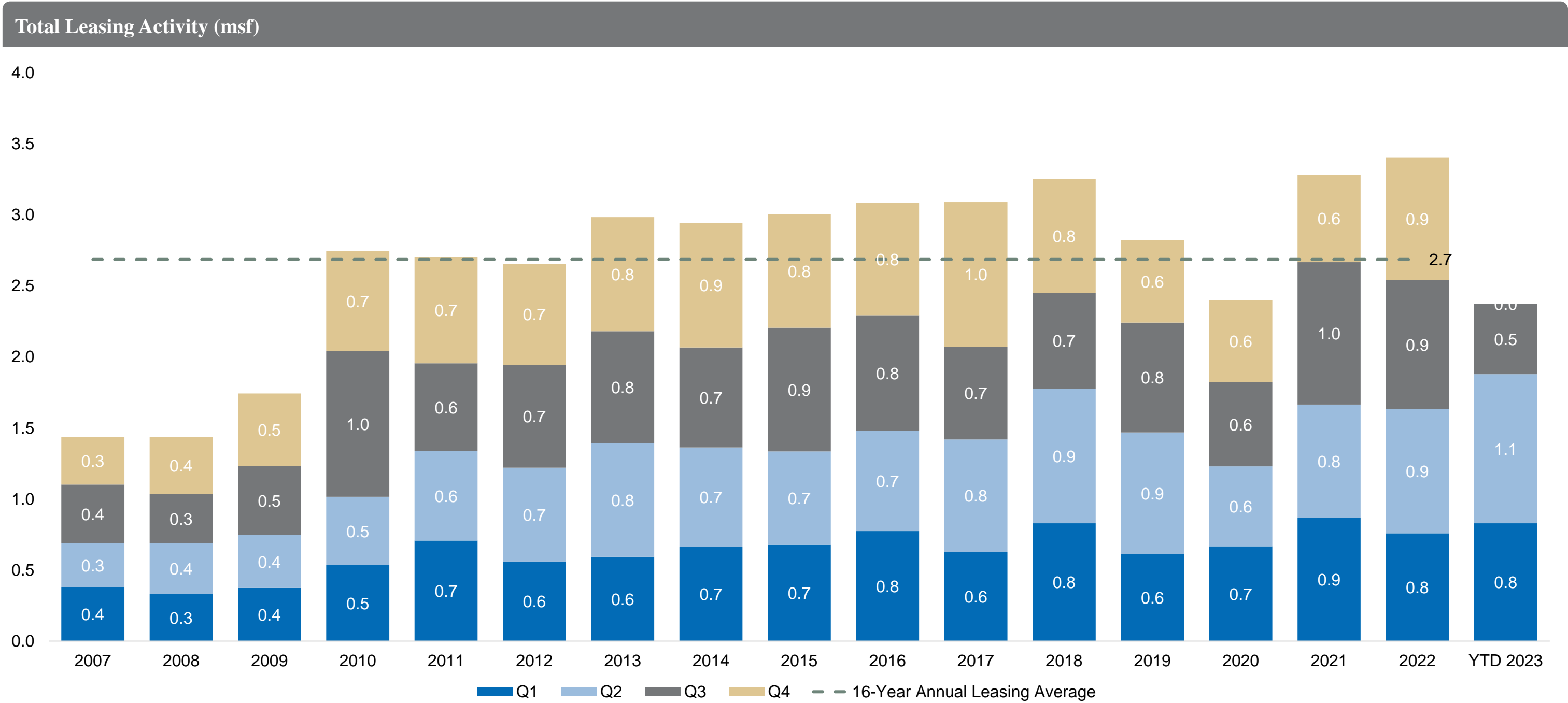
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Leasing Activity Remains in Line with Historical Averages

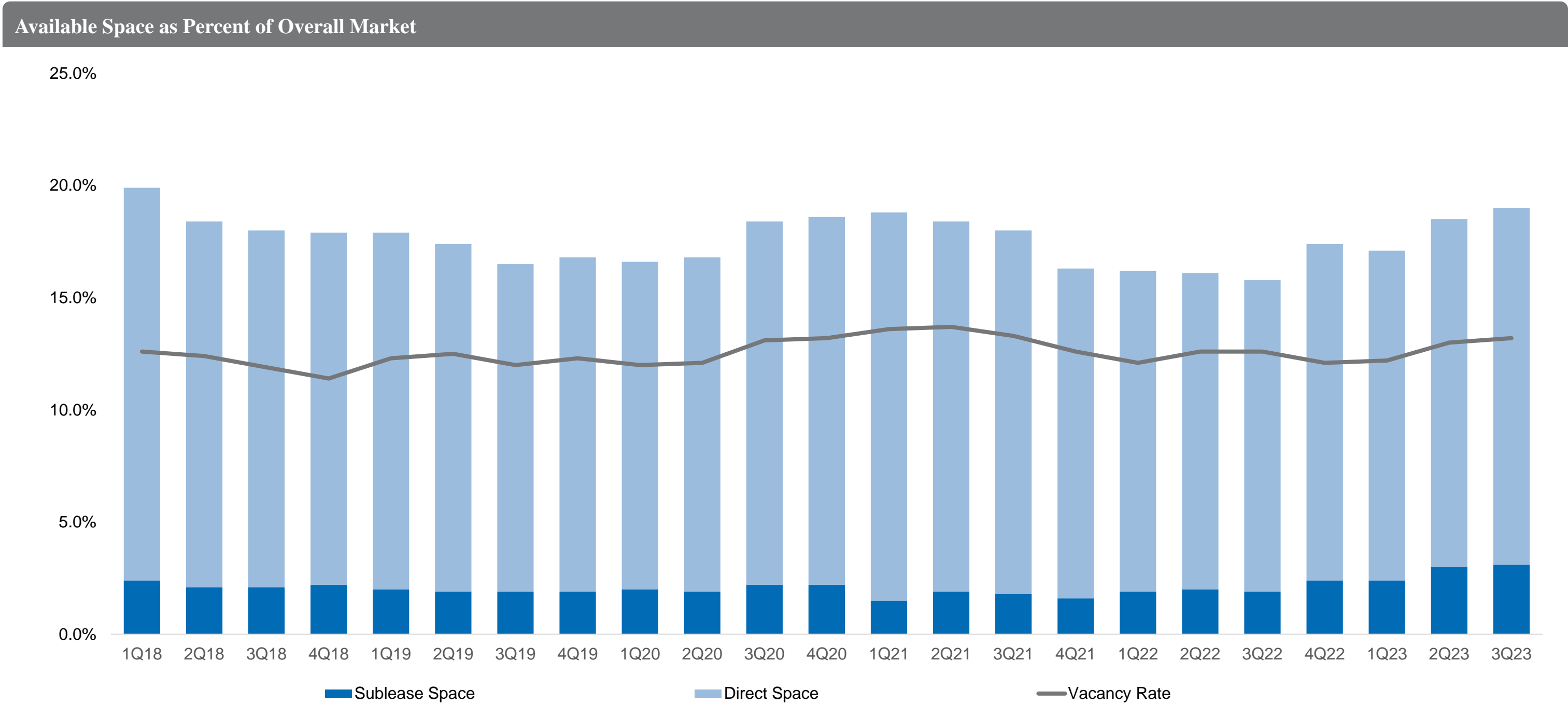
Leasing activity in the market remains steady, with the first three quarters of 2023’s leasing activity ending at 2.4 MSF, outpacing the same period activity averaged since 2007 at 2.0 MSF. Since 2007, third-quarter leasing activity averaged 712,422 SF, with the third quarter of 2023 falling short at 494,084 SF. Deal size averaged 2,628 SF in the third quarter of 2023, an average of 855 SF less than a year ago. The slower leasing activity pace, compared to 2022 levels, is largely attributed to fewer deals being done, likely impacted by a more challenging debt liquidity environment preventing larger deals from occurring as easily.



Source: Newmark Research, CoStar

Availability Continues Increasing

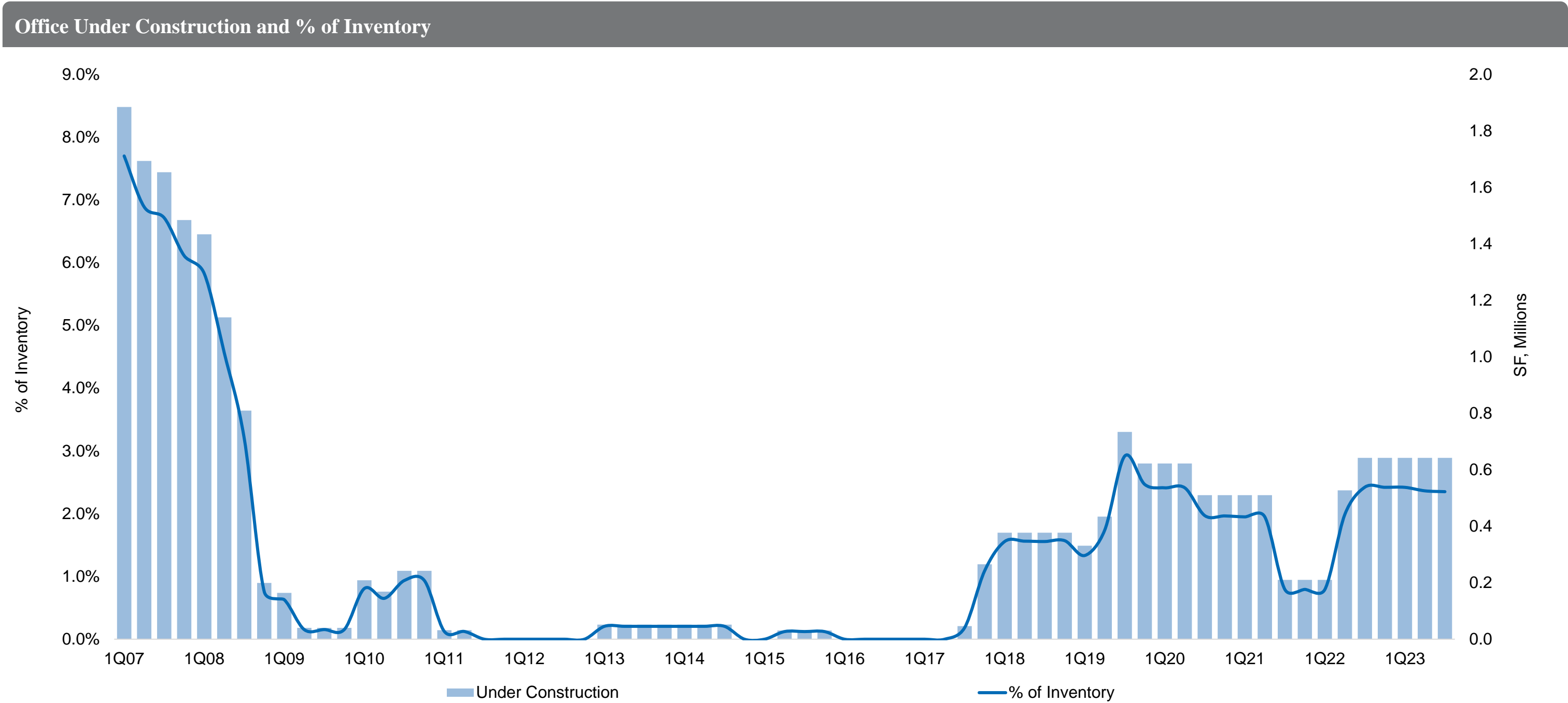
Sublease availability in Palm Beach has become recently elevated compared to values reported pre-pandemic. As of the end of the third quarter of 2023, sublease availability in the market was at 3.1%. Direct availability has risen since the start of the pandemic but has decreased from the peak reported in 2021 at 17.3%, currently standing at 15.9%. Vacancy has ticked upwards in by 1.1% year-to-date, closing the quarter at 13.2%.



Source: Newmark Research, CoStar

Construction Activity Remains Robust

After a slow down at the end of 2021, construction activity sharply increased in 2022 and that trend has continued into 2023. Although construction has decreased since recent highs, activity continues to remain robust in Palm Beach with 642,000 SF currently under construction. As of the third quarter of 2023, the under-construction pipeline accounts for 2.4% of the market's inventory.

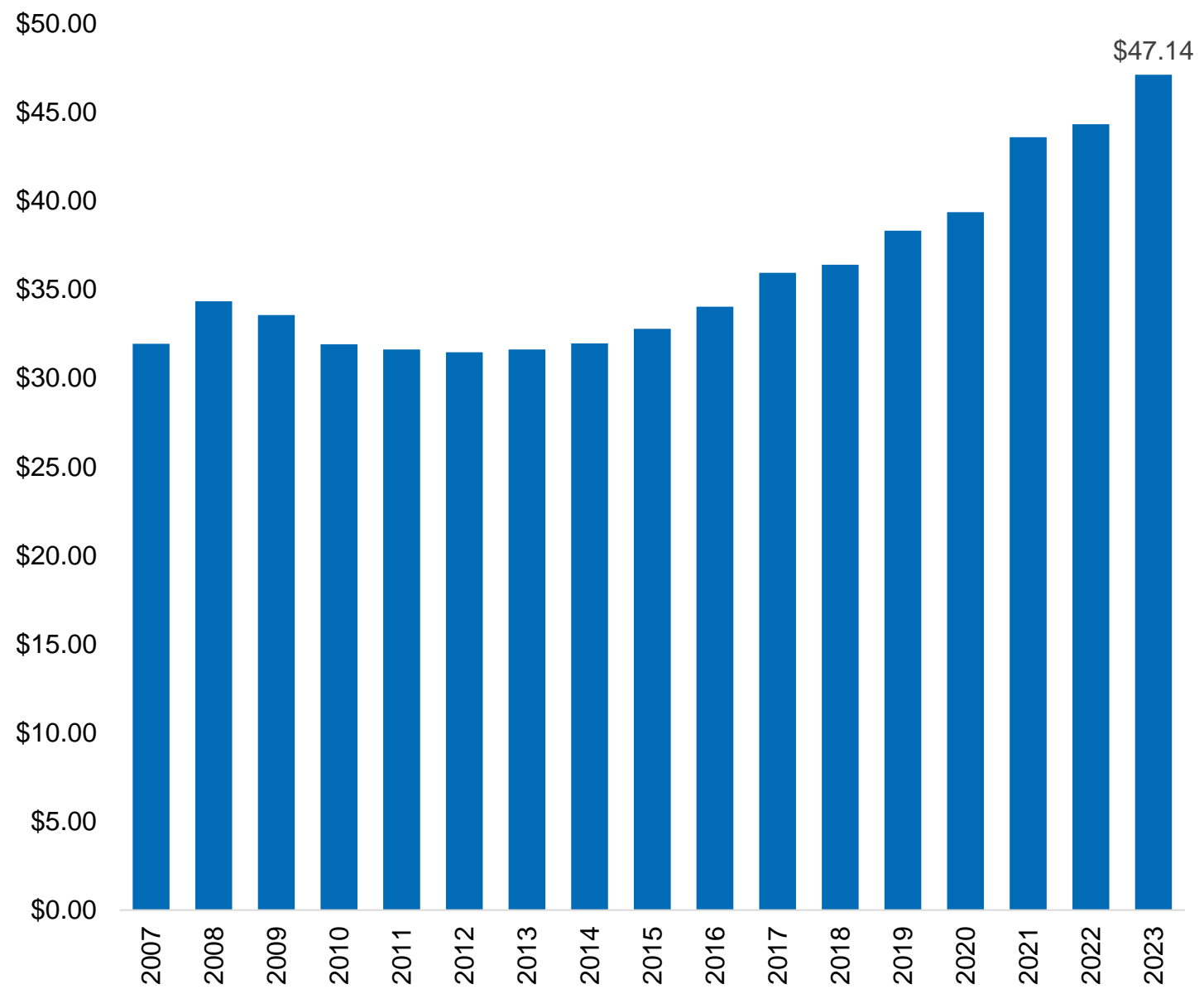


Source: Newmark Research, CoStar

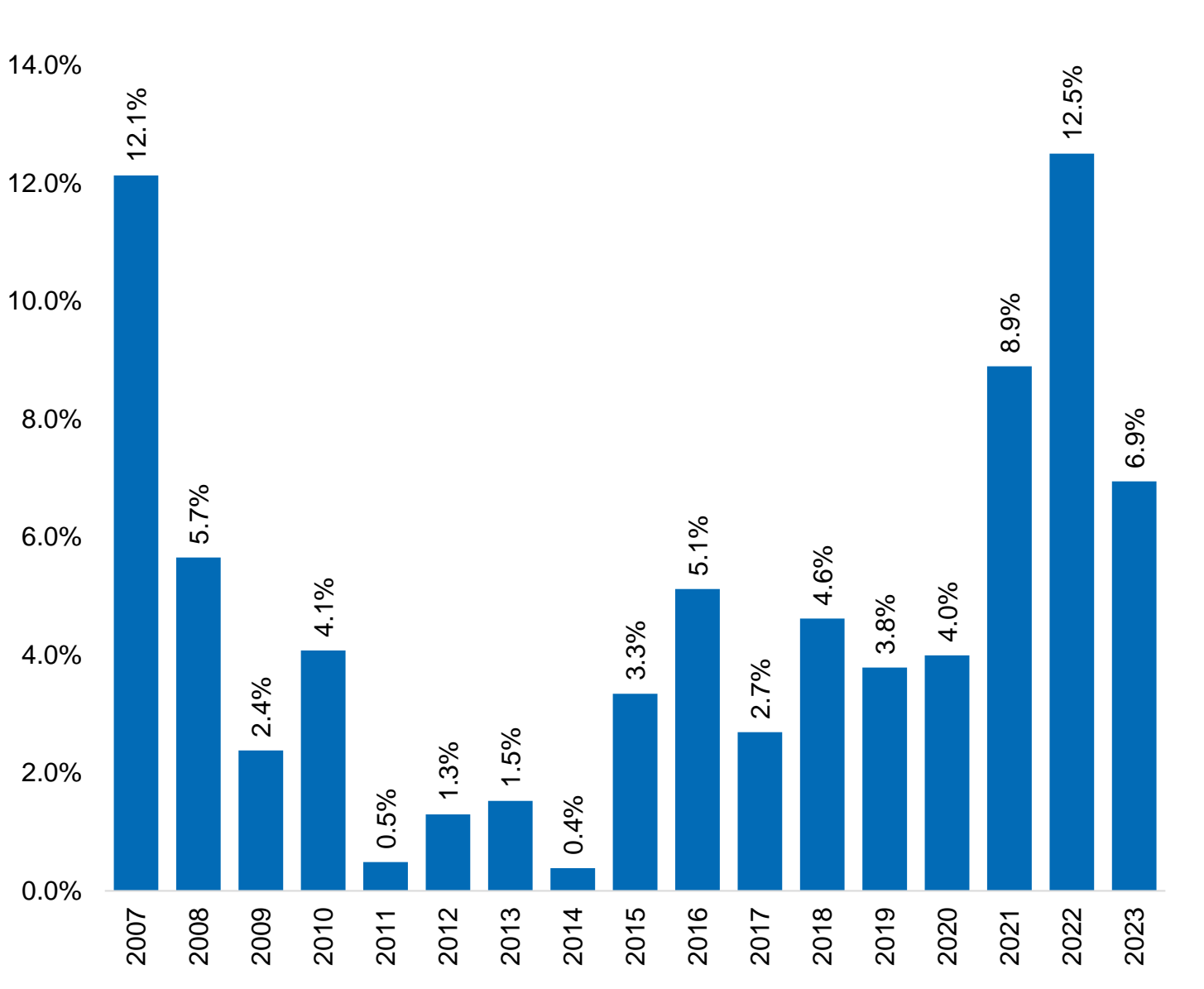
Rents Reach Historical High

Rents continued increasing in the third quarter of 2023 to an all-time historical high of \$47.14/SF. Year over year, asking rents are up 6.9% Rent growth in the market is generally attributed to higher-quality space availability. Asking rents are likely to remain elevated in a market impacted by inflation and increasing operating costs.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

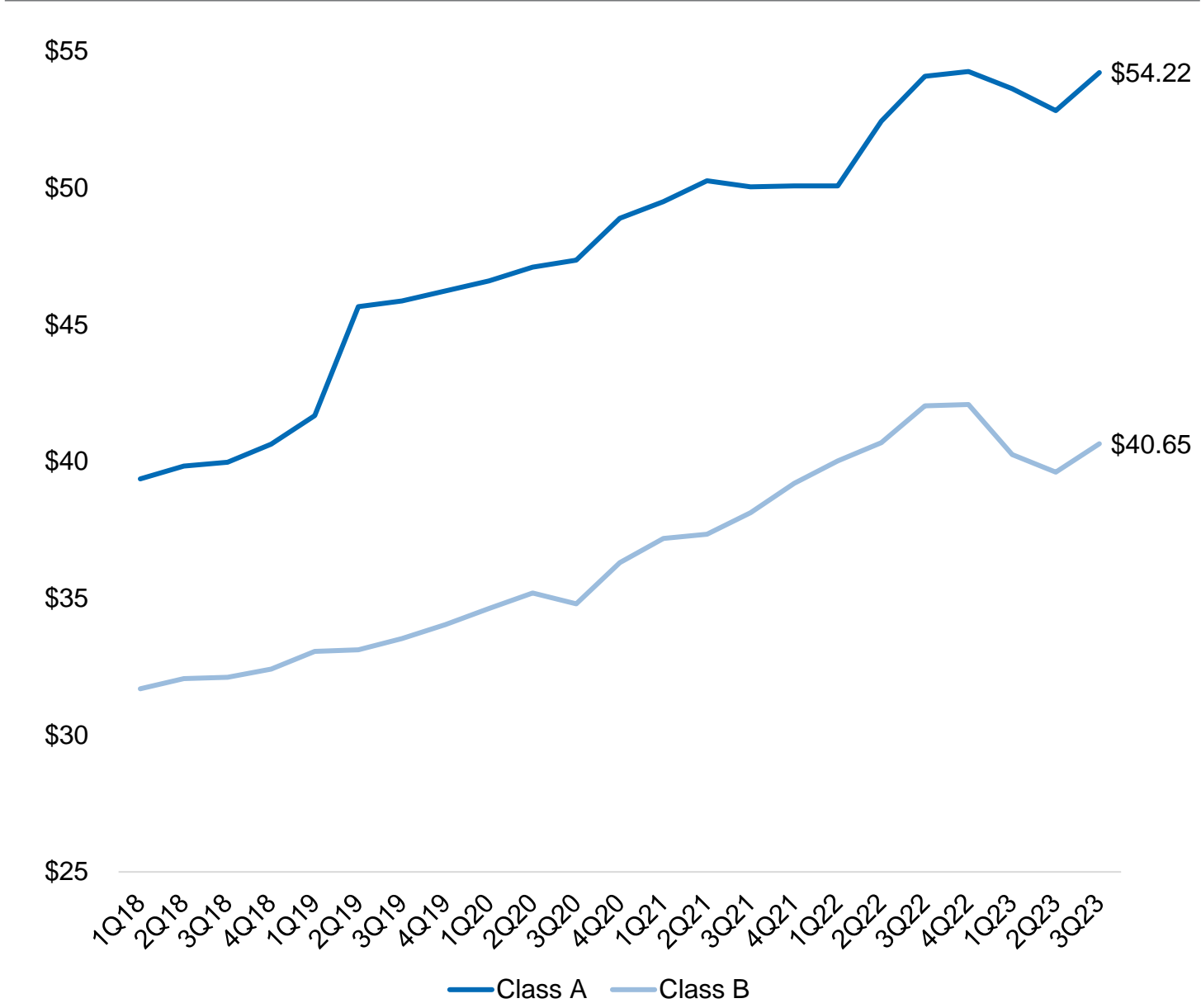


Source: Newmark Research, CoStar

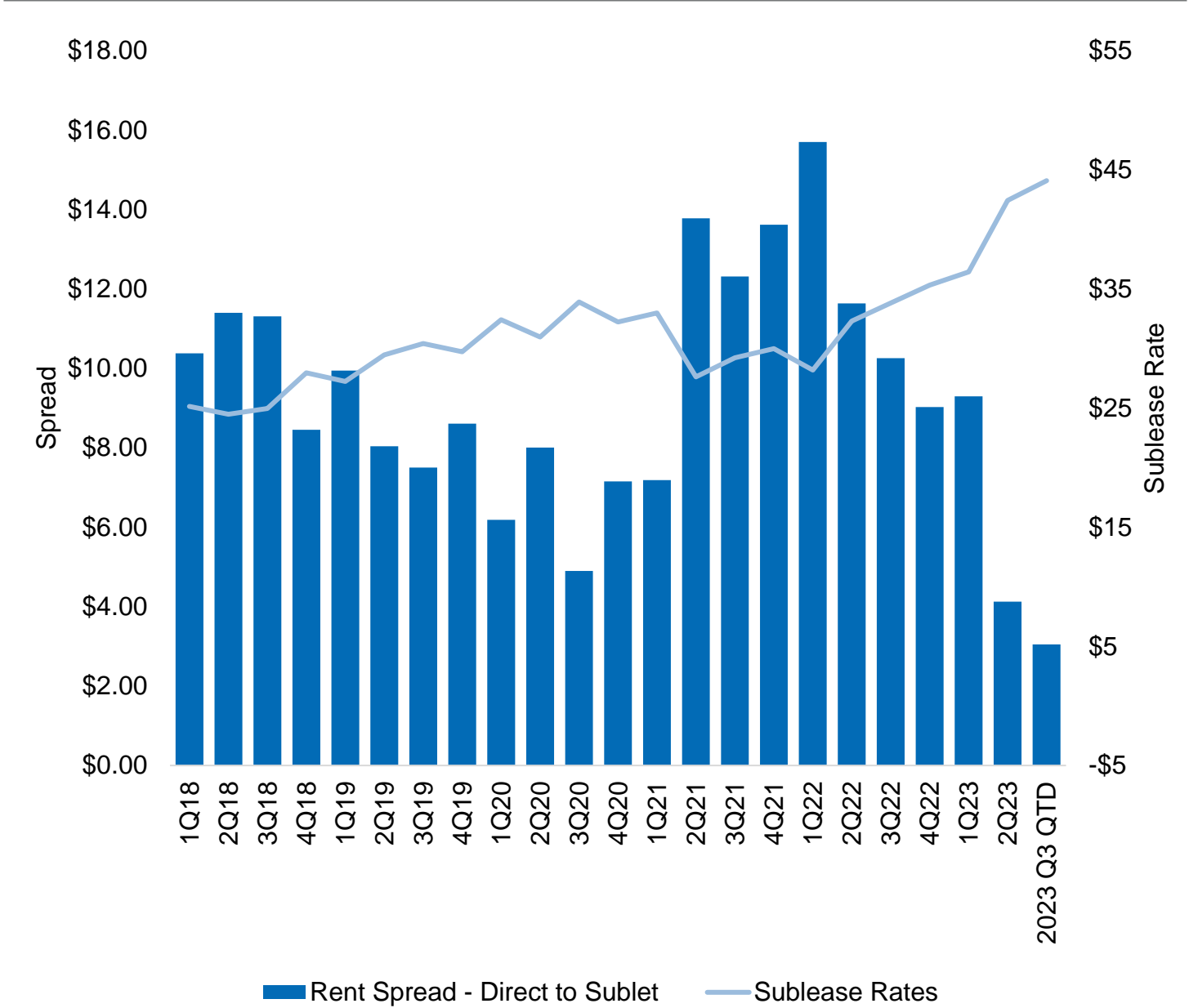
Asking Rents Growth Reflect Flight to Quality

As rents continue increasing, the bifurcation in rent spread between Class A and Class B assets has jumped to above the \$13.50/SF mark. As of the end of the third quarter of 2023, Class A rents ended at \$54.22/SF, while Class B reported \$40.65/SF. Due to much higher demand of quality assets, rent difference between the two assets have experienced a 11.3% spread increase since 2019. Sublease rates have jumped in recent quarters, with asking sublease rents increasing by 3.9% quarter over quarter and by 30.4% year over year.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Flight-to-Quality Leasing Activity Continues

Despite slowing leasing activity in the market, flight to quality continues to remain a trend in the Palm Beach office market. As of the end of the third quarter of 2023, Class A space accounted for 53.3% of the market’s leasing activity by SF, but only 37.8% of the market’s deal volume. Average leases signed in Class A space were 3,711 SF and continue to remain larger than the average market deal size, at 2,628 SF.

Notable 3Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Cole, Scott & Kissane	Esperanté Corporate Center	West Palm Beach CBD	Expansion/Renewal	63,570
This expansion adds another 13,000 square feet to their existing footprint to facilitate the addition of 18 attorneys.				
Florida Peninsula Managers LLC	Congress Corporate Center	North Boca	Renewal	25,874
The homeowner’s insurance company occupies the entire first floor and a portion of the second floor.				
Palm Beach Atlantic University Inc.	The Press	Suburban West Palm Beach	New Lease	17,929
The space will be used for a new medical program that trains physician associates.				
GTCR Investments	One Flagler	West Palm Beach CBD	New Lease	16,695
The new office will house 25 employees as well as serve as a place for visitors, meetings, and events. This space comes in addition to a previously signed lease, bringing the total to about 26,000 SF.				
Hidden Harbor Capital Management	Corporate Centre South Tower	Boca Raton	Expansion	15,716
Hidden Harbor is a private equity firm that currently manages over \$800M of equity capital and focuses mainly in the mid-Atlantic and south-Midwest regions of the USA.				

Source: Newmark Research, CoStar

Palm Beach Office Submarket Overview



Please reach out to your
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Palm Beach Office Submarket Map



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