

# Demand from new-to-market tenants returns to normal and overall growth stabilizes

▼ 14.3%

Total Vacancy Rate

▼ (24,100)

SF Quarterly Net Absorption

▲ 701,000

SF Construction

▲ \$32.88

NNN / Lease Rate

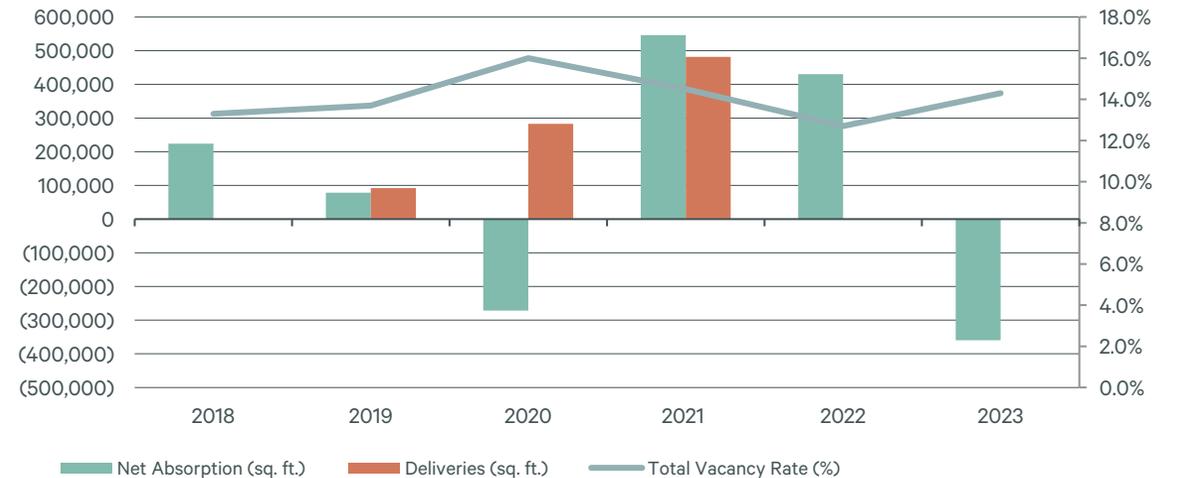
Note: Arrows indicate change from previous year.

## OVERVIEW

- Market fundamentals have slowed but remain positive with rent growth of 3.0% and total vacancy down 30 bps year-over-year to 14.3%.
- Active tenant requirements are down compared with last year as new-to-market returns to normal.
- The office market in Delray is primed for growth with no Class A vacancy and two new buildings currently under-construction.

Following record years for growth in 2021 and 2022, Palm Beach County has been relatively quiet in 2023. The new-to-market activity that drove leasing activity and rents in the market to record highs has leveled off. Additionally, new construction starts in the CBD have slowed. However, this new normal is not that different from pre-pandemic trends. Year-to-date leasing is in line with the five-year average (2015-2019) and year-over-year rent growth is 3.0%. Fundamentally, the biggest difference today compared with pre-pandemic is the influx of sublease space. There is 69.3% more sublease space available on the market than in Q1 2020.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

## DEMAND

Palm Beach County saw more than 620K SF and 15% of leasing activity by new-to-market tenants from 2020-2022. However, that number has fallen back to pre-covid levels this year. Leasing activity by new-to-market tenants has accounted for less than 1% of the total leasing activity in Palm Beach County; the 3-year average (2017 to 2019) was 0.8% of total activity.

## SUBLEASE

Sublease availability reached 4.2% this quarter; a record high in the county. For comparison sublease availability in Broward County is currently 3.9% and Miami-Dade is 1.8%. This is being primarily driven by suburban call-center and large blocks of space. In fact, more than half (54.7%) of all the sublease space available on the market is in a dozen of blocks over 20,000 square feet.

## PRICING

Average asking rents in the market currently sit at \$32.88 NNN; that is 29.9% higher than Q1 2020 but only 3.0% higher than this time last year. Following record growth, this rent growth is below the historical average. The five-year pre-pandemic average rent growth 6.1%.

## INVESTMENT

While building sales remain limited, development in Palm Beach County remains strong. There are five buildings currently under construction totaling more than 700,000 square feet. There are three in the CBD and two in Sundy Village in Delray. The new Delray development is in line with a major shift in that market over the past 5-year as this submarket has become a major player in the office market of Palm Beach County. All the existing Class A buildings are newer, built since 2019, and are fully leased.

FIGURE 2: Statistical Snapshot

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2023 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/NNN)
Delray Beach/ Boynton Beach	1,049,000	7.2%	10.8%	(5,900)	(10,600)	99,100	\$ 19.44
East Boca	2,352,800	8.6%	10.4%	29,700	101,400	-	\$ 28.48
North Boca	5,367,100	16.8%	19.4%	(34,400)	(345,000)	-	\$ 29.09
West Boca	3,148,800	9.3%	13.0%	8,500	(62,000)	-	\$ 39.28
<b>South County Total</b>	<b>11,917,700</b>	<b>12.4%</b>	<b>15.2%</b>	<b>(2,200)</b>	<b>(316,100)</b>	<b>99,100</b>	<b>\$ 30.84</b>
Jupiter	530,200	14.3%	14.3%	-	34,100	-	\$ 23.27
Palm Beach	572,600	5.6%	8.3%	1,500	1,500	-	\$ 48.94
Palm Beach Gardens	2,456,200	8.7%	11.2%	(15,200)	19,700	-	\$ 31.91
Suburban West Palm Beach	2,336,900	14.8%	15.6%	11,400	(21,600)	-	\$ 23.05
West Palm Beach CBD	3,357,500	11.8%	13.4%	(19,500)	(77,200)	614,000	\$ 52.09
<b>North County Total</b>	<b>9,253,300</b>	<b>11.5%</b>	<b>13.1%</b>	<b>(21,900)</b>	<b>(43,500)</b>	<b>614,000</b>	<b>\$ 36.34</b>
<b>Total</b>	<b>21,170,900</b>	<b>12.0%</b>	<b>14.3%</b>	<b>-24100</b>	<b>(359,600)</b>	<b>713100</b>	<b>\$ 32.88</b>

FIGURE 3: Class A West Palm Beach CBD Statistical Snapshot

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2023 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/NNN)
Trophy*	1,230,900	5.7%	7.4%	(6,500)	14100	614000	\$ 87.99
Class A	1,040,800	16.2%	17.8%	2,600	(27,100)	-	\$ 52.82
<b>Total</b>	<b>2,271,700</b>	<b>10.5%</b>	<b>12.2%</b>	<b>(3,900)</b>	<b>(13,000)</b>	<b>614,000</b>	<b>\$ 64.00</b>

**Note:** All spaces at 360 Rosemary have been marked as fully occupied as of Q4 2022.

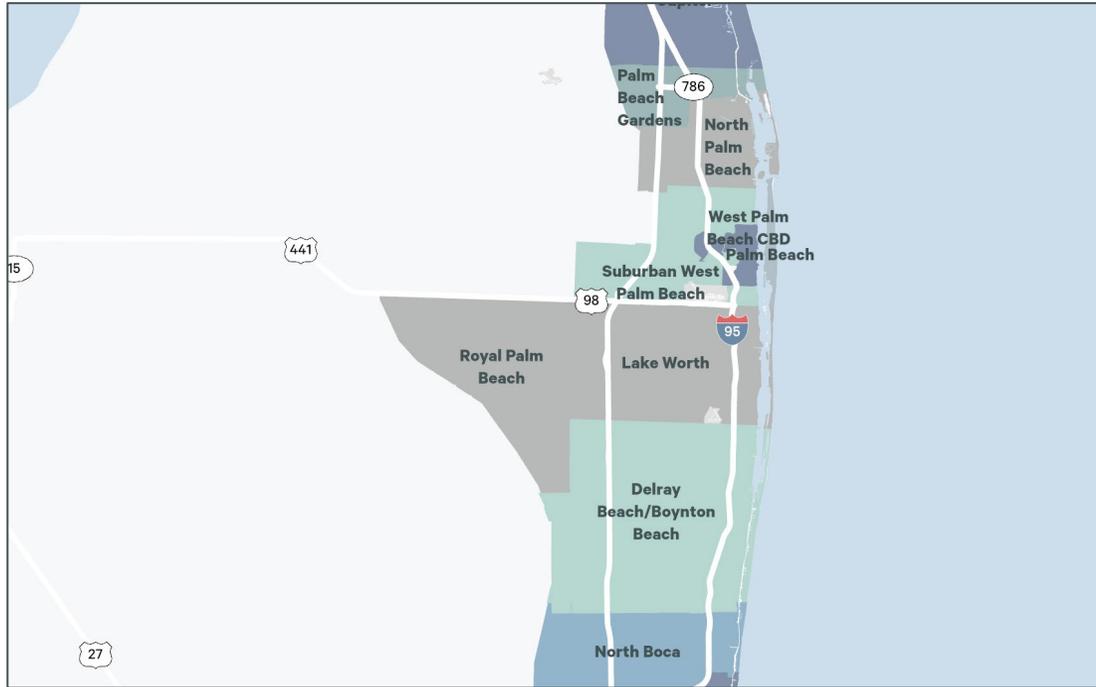
FIGURE 4: Class A

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2023 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/NNN)
Delray Beach/ Boynton Beach	90,700	0.0%	0.0%	-	10,900	99,100	-
East Boca	1,509,700	12.1%	14.9%	5,900	34,400	-	\$ 29.85
North Boca	2,842,100	20.6%	21.1%	(7,400)	(249,800)	-	\$ 30.23
West Boca	2,041,500	11.0%	16.6%	4,300	(57,900)	-	\$ 41.31
<b>South County Total</b>	<b>6,484,000</b>	<b>15.3%</b>	<b>18.0%</b>	<b>2,800</b>	<b>(262,500)</b>	<b>-</b>	<b>\$ 32.83</b>
Jupiter	99,000	12.4%	12.4%	-	-	-	\$ 28.00
Palm Beach	132,600	1.4%	1.4%	1,500	1,500	-	\$ 70.67
Palm Beach Gardens	1,494,000	8.9%	10.2%	(17,800)	200	-	\$ 36.02
Suburban West Palm Beach	345,400	19.8%	19.8%	(1,900)	(7,600)	-	\$ 25.62
West Palm Beach CBD	2,271,700	10.5%	12.2%	(3,900)	(13,000)	614,000	\$ 64.00
<b>North County Total</b>	<b>4,342,600</b>	<b>10.5%</b>	<b>11.8%</b>	<b>(22,000)</b>	<b>(19,000)</b>	<b>614,000</b>	<b>\$ 49.83</b>
<b>Total</b>	<b>10,826,700</b>	<b>13.4%</b>	<b>15.5%</b>	<b>(19,300)</b>	<b>(281,400)</b>	<b>713,100</b>	<b>\$ 37.31</b>

FIGURE 5: Class B

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2023 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/NNN)
Delray Beach/ Boynton Beach	958,300	7.9%	11.8%	(5,900)	(21,500)	-	\$ 19.44
East Boca	843,100	2.4%	2.4%	23,800	67,000	-	\$ 23.99
North Boca	2,524,900	12.5%	17.5%	(27,000)	(95,200)	-	\$ 26.04
West Boca	1,107,300	6.4%	6.4%	4,200	400	-	\$ 33.31
<b>South County Total</b>	<b>5,433,600</b>	<b>8.9%</b>	<b>11.9%</b>	<b>(5,000)</b>	<b>(53,700)</b>	<b>-</b>	<b>\$ 23.09</b>
Jupiter	431,200	14.7%	14.7%	-	34,100	-	\$ 22.42
Palm Beach	440,000	6.9%	10.4%	-	-	-	\$ 43.75
Palm Beach Gardens	962,200	8.3%	12.9%	2,500	19,500	-	\$ 23.47
Suburban West Palm Beach	1,991,500	13.9%	14.9%	13,300	(13,900)	-	\$ 22.55
West Palm Beach CBD	1,085,800	14.7%	15.9%	(15,700)	(64,200)	-	\$ 33.29
<b>North County Total</b>	<b>4,910,600</b>	<b>12.4%</b>	<b>14.3%</b>	<b>200</b>	<b>(24,500)</b>	<b>-</b>	<b>\$ 26.18</b>
<b>Total</b>	<b>10,344,260</b>	<b>10.6%</b>	<b>13.0%</b>	<b>(4,800)</b>	<b>(78,200)</b>	<b>-</b>	<b>\$ 26.14</b>

**Market Area Overview**



**ECONOMIC OUTLOOK**

The U.S. economy has defied expectations for a slowdown and has even exhibited some signs of acceleration despite sharp tightening of credit conditions and ongoing write-downs in the banking sector. This resilience due to a number of factors: 1) the Chips and IRA Acts have stimulated the construction sector; 2) the Fed. and the FDIC have provided prompt and effective support for the banks, and: 3) consumers are in good shape from a balance sheet and income perspective. Nevertheless, headwinds are intensifying: such as higher oil prices, resumption of student loan payments, and a weakening global economy. These headwinds, not serious in themselves, will hit home at a time when the squeeze from elevated interest rates is at its maximum. The upshot for real estate is that the Fed is likely finished with its tightening cycle, allowing a clearer path for real estate capital markets to unfold. Although we expect economic growth to deteriorate it is likely that valuations will stabilize during 1H 2024.

**Contact**

**David J. Bateman**

Managing Director  
 +1 954 331 1722  
 david.bateman@cbre.com

**Marc L. Miller**

Associate Field Research Director  
 +1 305 381 6428  
 marc.miller1@cbre.com

**Ilyssa Ettelman**

Research Manager  
 +1 954 331 1797  
 Ilyssa.ettelman@cbre.com

**Survey Criteria:** Includes all competitive Class A and Class B office buildings 30,000 sq. ft. and greater in size in Palm Beach County. Beginning Q1 2022, single tenant non-owner-occupied buildings have been added to the set and their inclusion is reflected historically in the data. Excludes: government and medical buildings..

© 2023 CBRE, Inc. All rights reserved. This information has been obtained from sources believed reliable but has not been verified for accuracy or completeness. CBRE, Inc. makes no guarantee, representation or warranty and accepts no responsibility or liability as to the accuracy, completeness, or reliability of the information contained herein. You should conduct a careful, independent investigation of the property and verify all information. Any reliance on this information is solely at your own risk. CBRE and the CBRE logo are service marks of CBRE, Inc. All other marks displayed on this document are the property of their respective owners, and the use of such marks does not imply any affiliation with or endorsement of CBRE. Photos herein are the property of their respective owners. Use of these images without the express written consent of the owner is prohibited.

