

4Q24

# Palm Beach County Office Market Overview





# Market Observations

## Economy

- The market’s unemployment rate increased by 19 basis points year over year to 3.4% but remained well below the five-year average of 4.4%.
- Job growth pace has slowed compared with recent highs to 1.5% year over year and has fallen below pre-pandemic levels, with November 2019 growth at 1.6%.
- All sectors, except office-using industries and manufacturing, reported employment growth, with mining and construction leading job gains at 4.0% over the past 12 months.
- Office-using jobs in the market declined by 2.3% from the peak in June 2023 to 194,178 employees but still reflected 13.1% growth since 2019.

## Major Transactions

- Morgan Stanley signed the largest new deal of the quarter with a renewal of their 21,099 SF space in The 1801 Building.
- Flight to quality continues to remain a central theme in some of the largest and most notable deals signed. The second largest deal of the quarter was signed by Vipertec, who signed a new lease for 19,008 SF in the recently delivered One Flagler.
- The West Palm Beach CBD and North Palm Beach/Palm Beach Gardens 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 remained near the all-time high in the fourth quarter of 2024 closing at \$49.99/SF, reflecting a 1.1% increase year over year.
- Occupancy turned positive in the fourth quarter, but the delivery of Banyan & Olive and Sundy Village pushed pushed vacancy to increase by 180 basis points year over year to 15.2%.
- The under-construction pipeline fell, with the 210,000 SF project called One West Palm scheduled to deliver late within the first half of 2025. One West Palm is currently 90.1% preleased. However, there are at least three new office projects that have been proposed totaling approximately 1.5 MSF, with West Palm Point slated to break ground by the end of the first quarter of 2025.
- Total leasing activity closed the quarter at 571,524 SF, averaging 2,634 SF per deal and reflecting an average of 451 SF less than a year ago. In terms of the number of deals done, leasing activity fell 11.8% year over year.

## Outlook

- The Palm Beach office market will likely see flat growth in the first quarter of 2025, impacted by national economic headwinds that are lending to the gradual loss of office-using employment. Office investment activity will remain low in the near term due to elevated inflation and a steeper cost of debt.
- Long-term rents are expected to continue increasing, driven by an upcoming delivery and declining availability of high-quality space, though the pace of increases may slow due to softer than average demand.
- The delivery of Banyan & Olive in the third quarter, which was 46.0% preleased prior to delivery, and the fourth quarter delivery of One Flagler, which was 82.1% pre-leased, will provide a future boost to absorption and to asking rents. The influx of the additional supply that is not preleased will add to a near-term vacancy increase that will coincide with positive absorption impacts.

1. Economy
2. Leasing Market Fundamentals



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# Economy

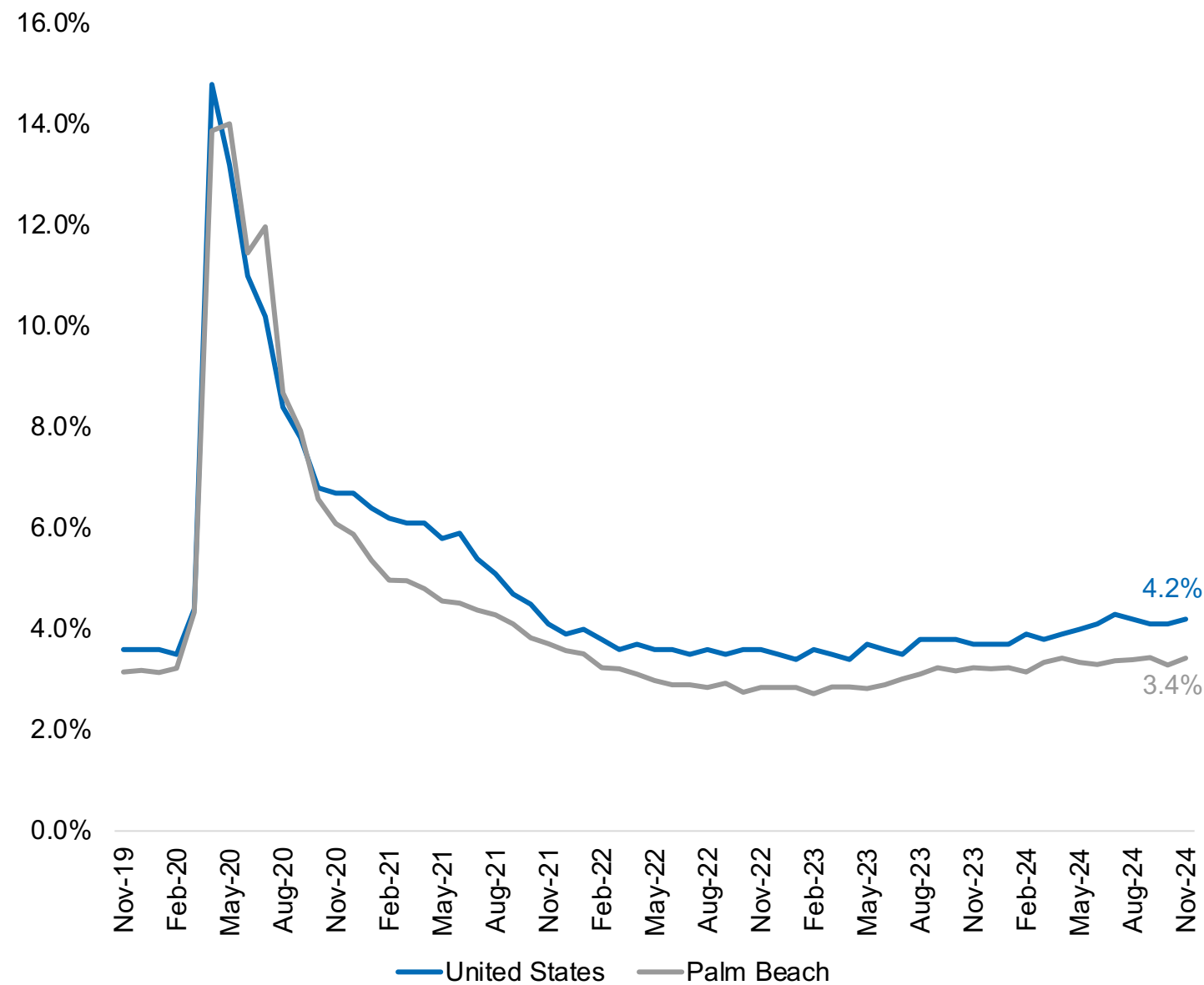




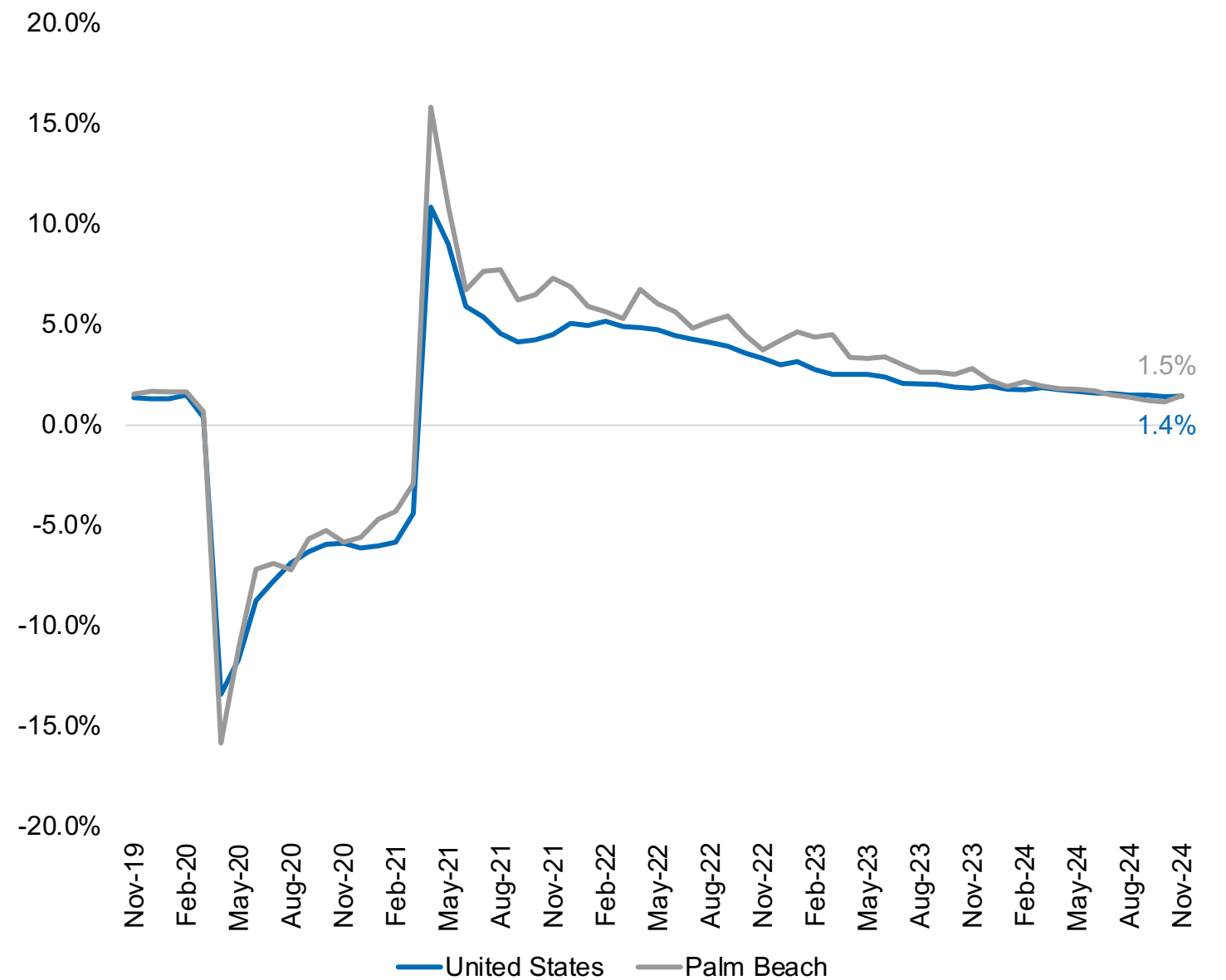
# Unemployment Flattens; Employment Growth Remains Muted

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 19 basis points year over year to 3.4%, marking the ninth consecutive month above 3.2%. Employment growth has recently accelerated back above the national average but fell by 136 basis points year over year to 1.5% as a likely result of continued national economic headwinds.

Unemployment Rate, Seasonally Adjusted



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

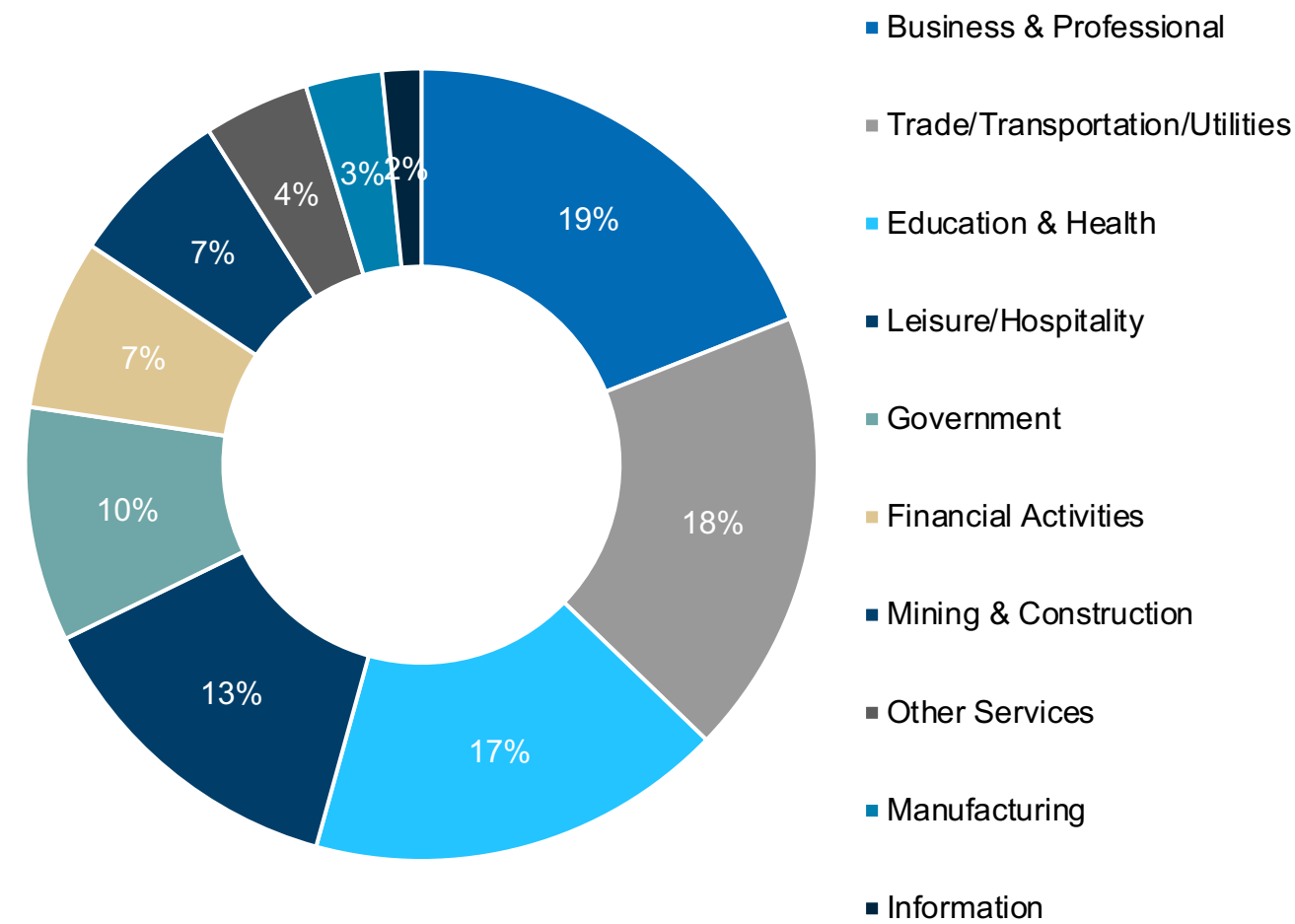


Source: U.S. Bureau of Labor Statistics, Palm Beach County

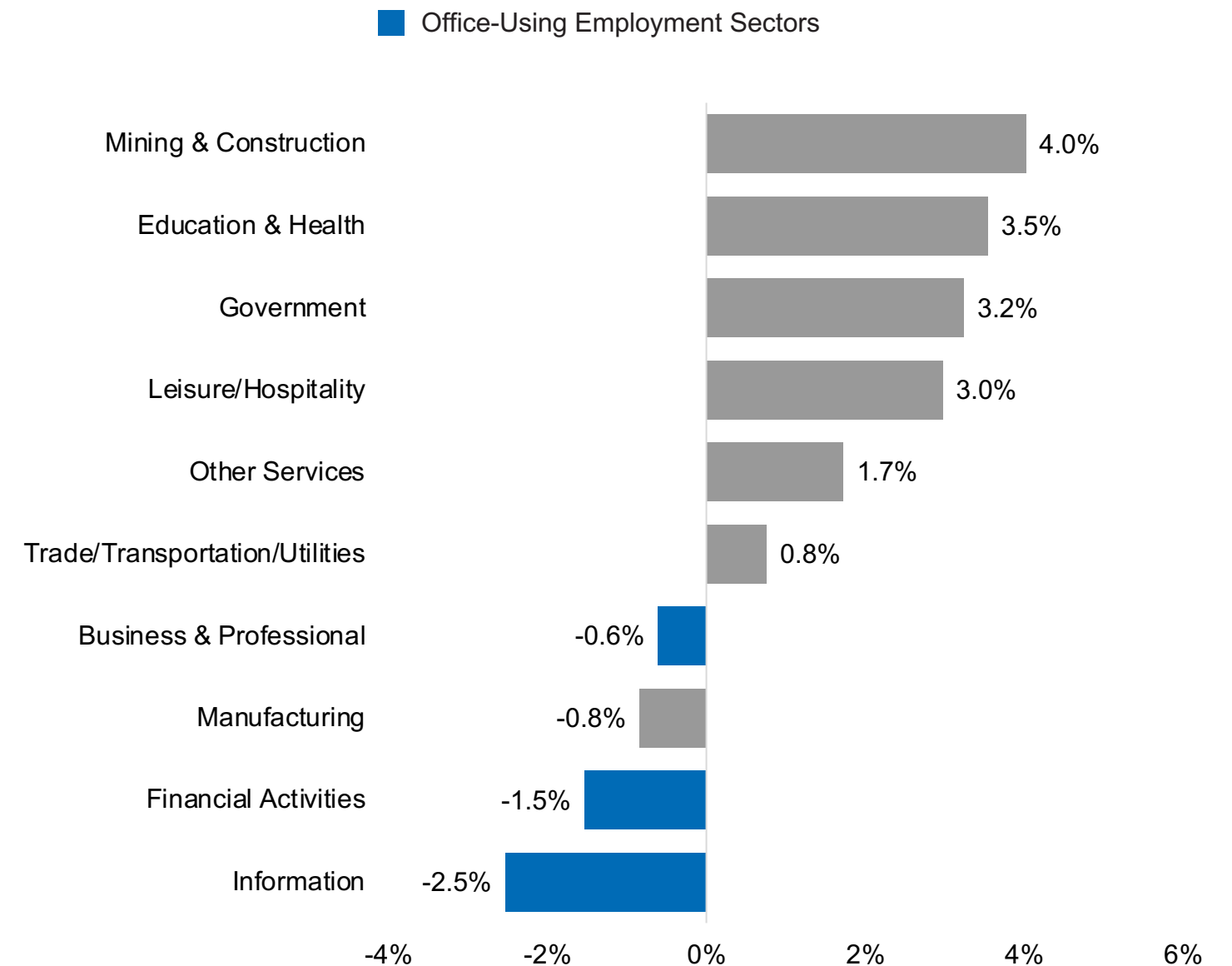
# All Office-Using Employment Sectors Experience Continued Negative Growth

Palm Beach's top two employment industries account for 37.2% of market share. The office-using employment's business and professional sector is the largest industry sector in the metroplex at 19.0%. All industries reported growth, except for manufacturing and office-using sectors, which reported year-over-year contractions ranging from a decrease of 0.6% to 2.5%.

Employment by Industry, November 2024



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

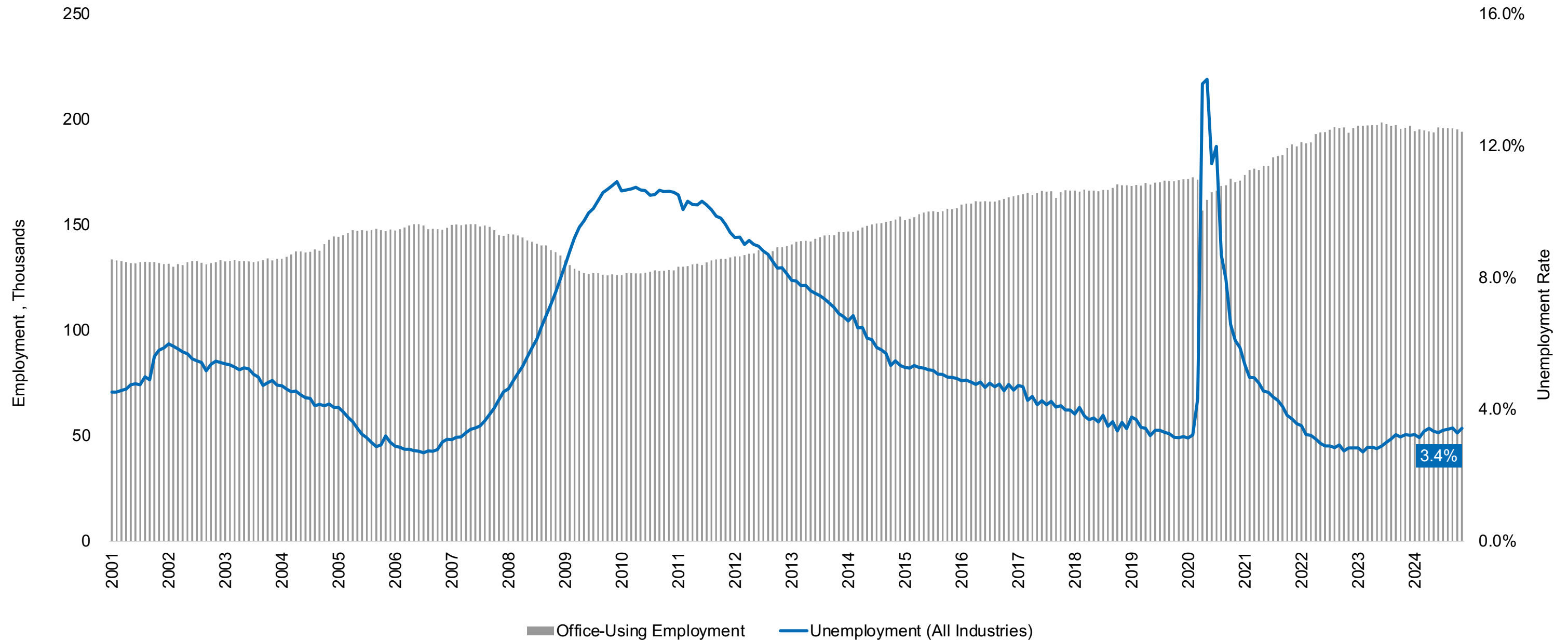


Source: U.S. Bureau of Labor Statistics, Palm Beach County

# Overall Office-Using Employment Continues to Decline

Office-using employment in Palm Beach declined by 2.3% from the all-time historical high in June 2023 to 194,178 employees as of the end of November 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-using 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

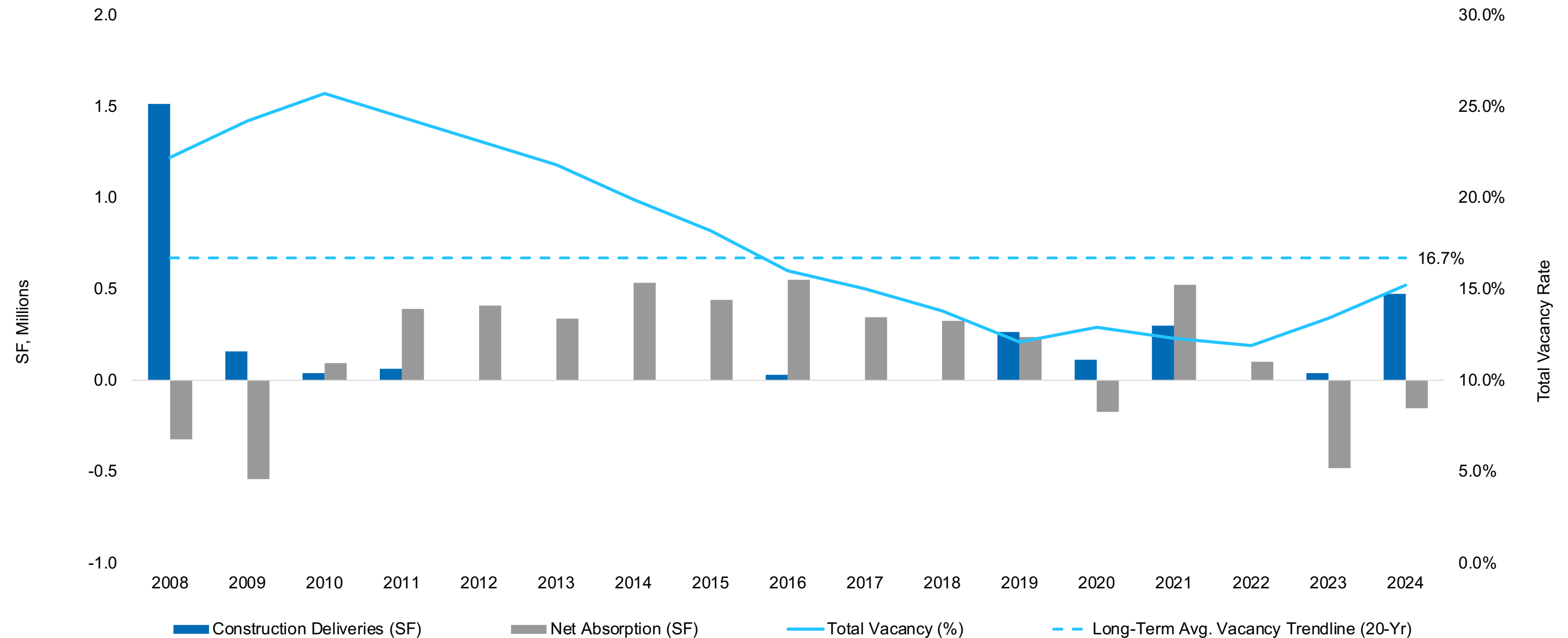




# Office Demand Ends Slightly Positive for the Fourth Quarter of 2024

Palm Beach's office vacancy rate increased by 100 basis points quarter over quarter and by 180 basis points year over year to 15.2% in the fourth quarter of 2024. Office vacancy continued to remain below the long-term average of 16.7%. Fourth quarter net absorption was positive 12,893 SF. Looking forward into the first half of 2025, the delivery of Banyan & Olive in the third quarter of 2024, which was 46.0% preleased, and One Flagler in the fourth quarter of 2024, which was 82.1% preleased, are expected to bring additional positive absorption as move-ins take place.

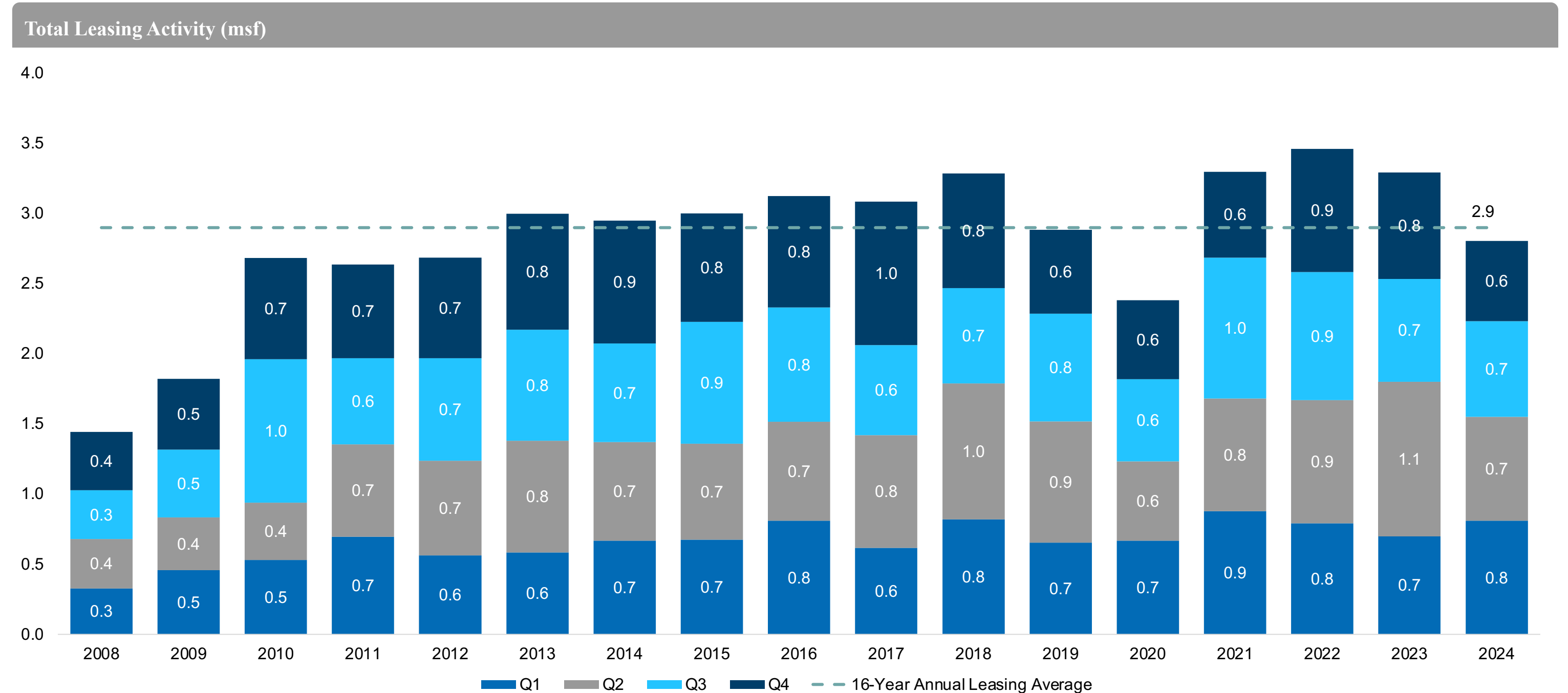
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

# Leasing Activity Ends 2024 Slightly Below Historical Average

Leasing activity was weaker in the fourth quarter 2024, ending at 571,524 SF and falling below the 16-year fourth quarter average of 721,471 SF. Deal size averaged 2,634 SF in the fourth quarter of 2024, an average of 451 SF less than a year ago. The decrease in leasing activity, which is down 11.8% year over year by deal count, is due to both a reduction in the number of deals being done and a decrease in average deal size. Activity in the first quarter of 2025 is expected to improve slightly as debt liquidity environment improves.



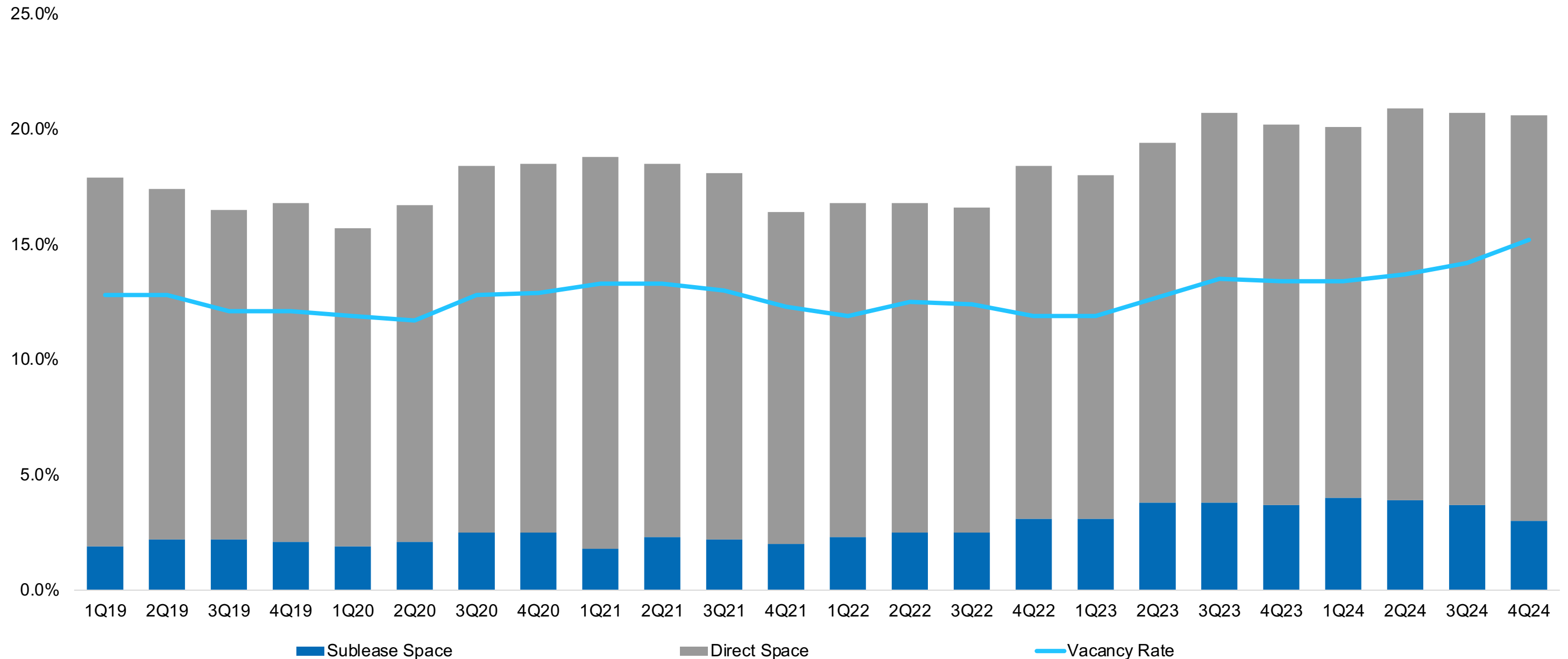
Source: Newmark Research, CoStar



# Sublet Availability Continues Decline From All-Time High

As of the end of the fourth quarter of 2024 sublease availability in Palm Beach County was at 3.0%, declining from the record high of 4.0% set in the first quarter of 2024. Direct availability saw an increase of 60 basis points quarter over quarter, closing the quarter at 17.6%. Vacancy increased by 100 basis points quarter over quarter and by 180 basis points year over year, closing the quarter at 15.2%. The increase in vacancy can be attributed to the fourth quarter delivery of two projects including Banyan and Olive and Sundry Village which were a combined 81.9% pre-leased. However, vacancy will remain elevated since most new tenants will not take occupancy until the first half of 2025.

## Available Space as Percent of Overall Market

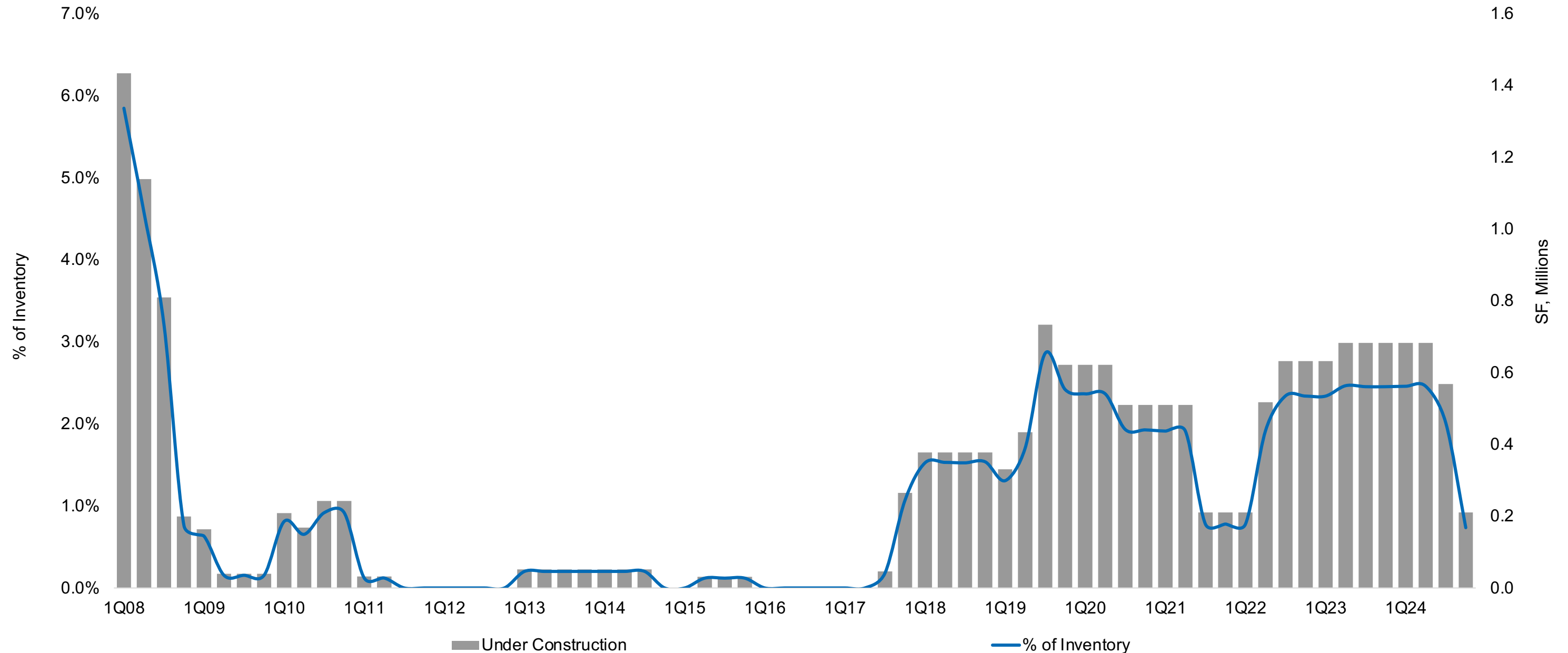


Source: Newmark Research, CoStar

# Construction Activity Declines From Recent Highs

The pandemic led to an influx of companies and people into Palm Beach County, 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 in the market. After a slow down at the end of 2021, construction activity moderately increased in 2022 through 2024. As of the fourth quarter of 2024, One West Palm was the only remaining project in the under-construction pipeline, which totals 210,000SF and accounts for 0.7% of the market's inventory.

Office Under Construction and % of Inventory



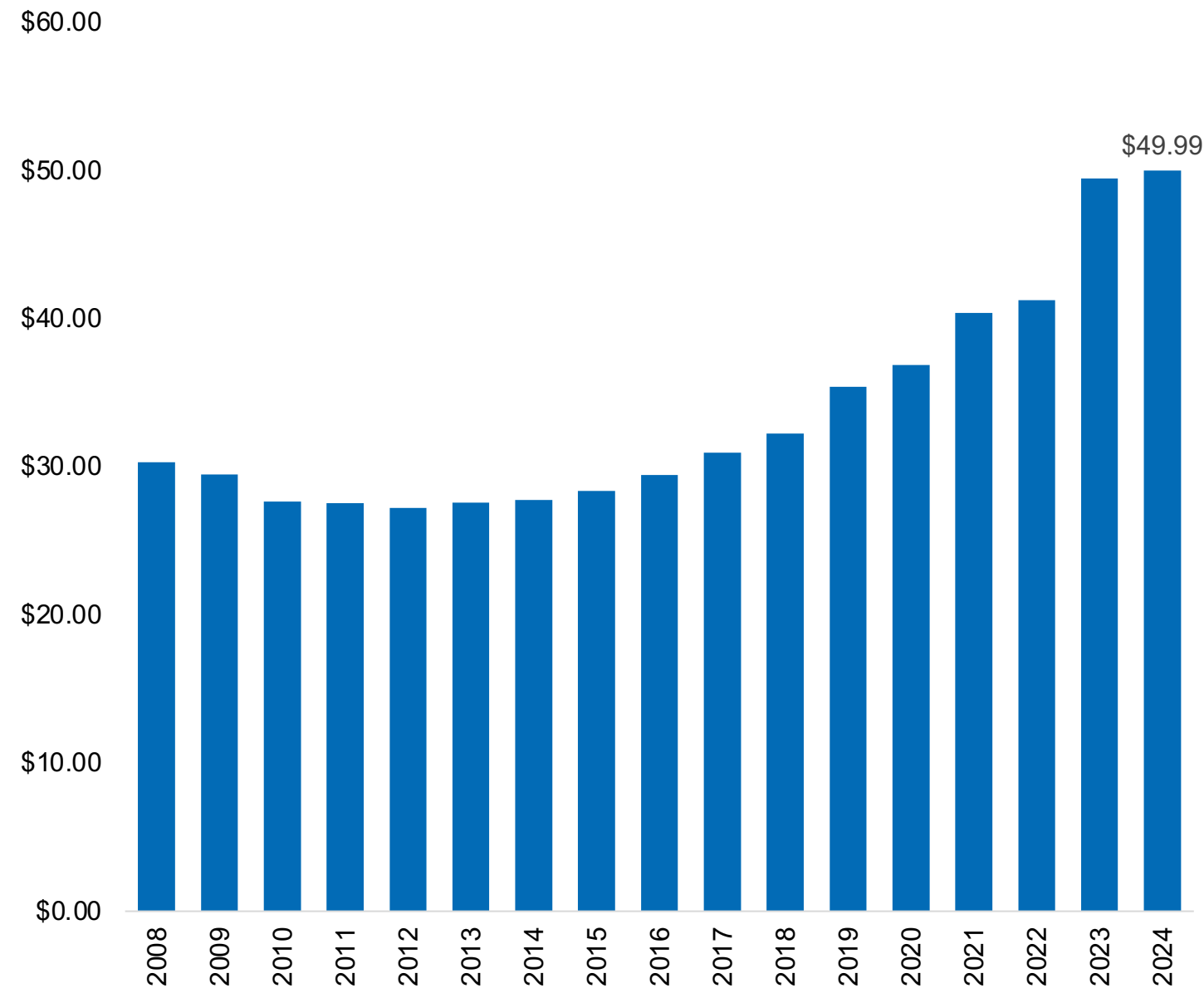
Source: Newmark Research, CoStar



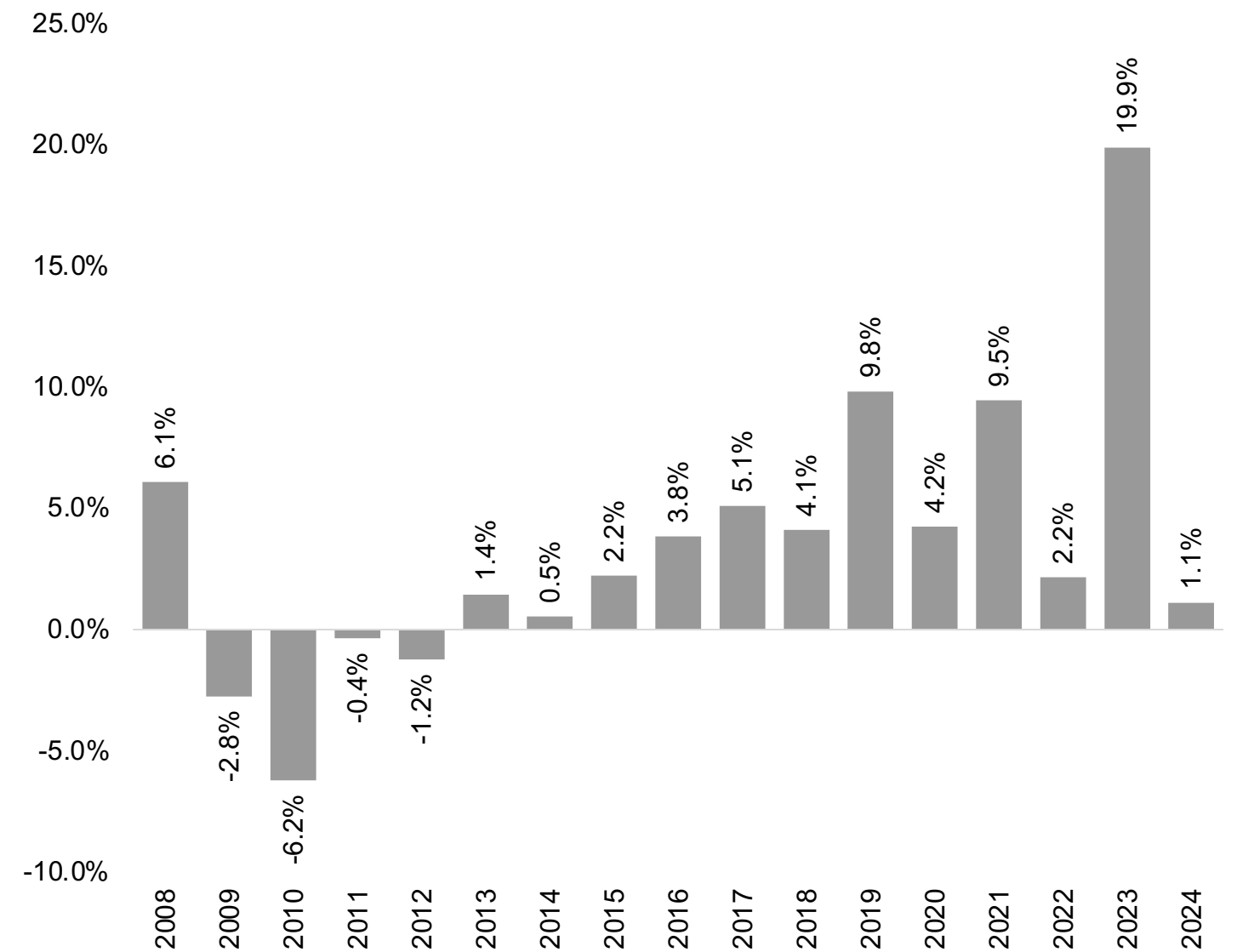
# Rents Remain Near All-Time High

Rental rates in the fourth quarter of 2024 were \$49.99/SF, just below the all-time high of \$50.89/SF in the first quarter. Quarter over quarter, asking rents are up by 5.3%. Recent growth in the market is generally attributed to new high-quality deliveries such as One Flagler, Banyan & Olive, and Sundy Village as well as increased competition for high-quality space. Asking rents are likely to continue growing in the medium term, especially with the expected delivery of One West Palm in the first half of 2025.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

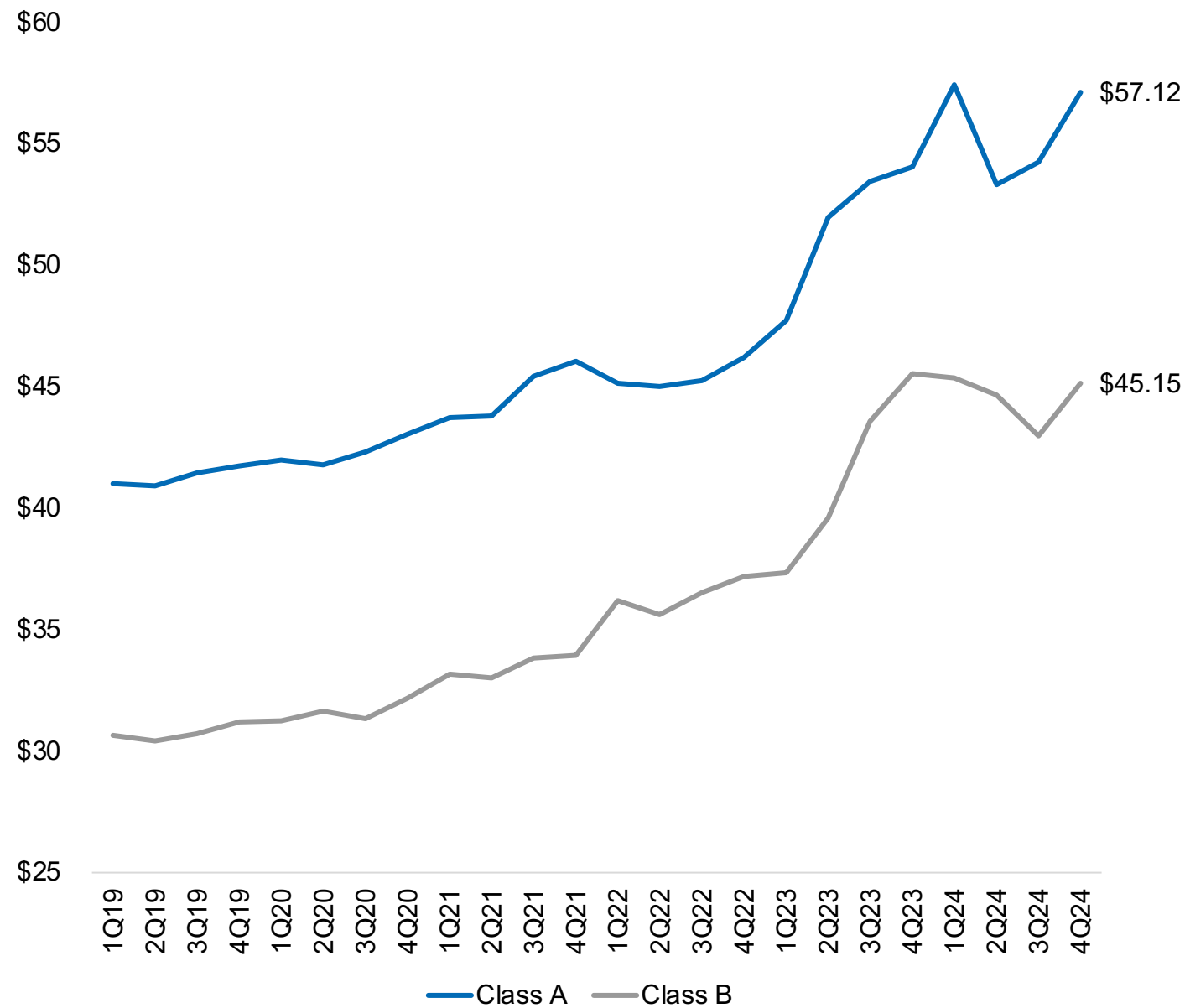


Source: Newmark Research, CoStar

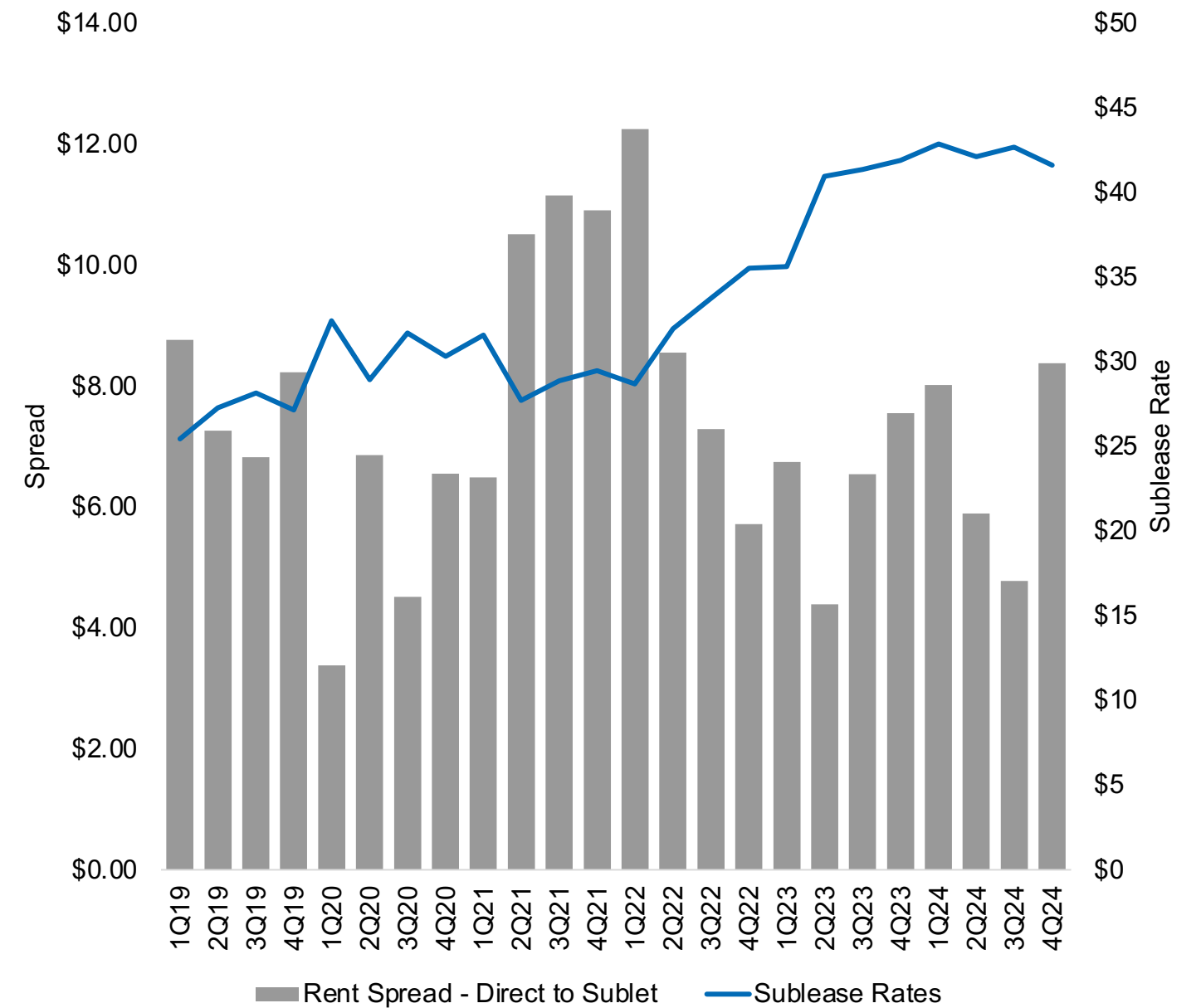
# Asking Rents Rise in Response to New High-Quality Deliveries

The bifurcation in rent spread between Class A and Class B assets has remained relatively equidistant above the \$8.50/SF mark. As of the end of the fourth quarter of 2024, Class A rents ended at \$57.12/SF, while Class B reported \$45.15/SF. The current spread between Class A and Class B is at \$11.97/SF, whereas it was at \$10.52/SF in the fourth quarter of 2019. Class A and Class B rents increased by 5.3% and by 5.1% quarter over quarter, respectively. Sublease rents fell by 2.9% from their peak in the first quarter of 2024 to \$41.61/SF.

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 fourth quarter of 2024, Class A space accounted for 50.9% of the market's leasing activity by SF, but only 34.1% of the market's deal volume. Average leases signed in Class A space were 3,932 SF and continue to remain larger than the average market deal size at 2,634 SF. Of the 210,000 SF of Class A space under construction, 90.1% has been preleased.

## Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Morgan Stanley	The 1801 Building	Boca Raton	Renewal	21,099
<i>The largest lease of the fourth quarter belongs to Morgan Stanley, who renewed their lease for 21,099 SF in The 1801 Building.</i>				
Vipertec	One Flagler	W Palm Beach CBD	Direct New	19,008
<i>Vipertec develops consumer and commercial products and currently has an office at 2855 PGA Blvd in Palm Beach Gardens.</i>				
Reyes Holdings	Phillips Point	W Palm Beach CBD	Renewal	17,747
<i>Reyes Holdings, which first leased space in the Phillips Point office complex in 2014 for their C-Suite executives renewed the lease of their existing space.</i>				
Walter Kidde Portable Equipment Inc.	Corporate Center at the Gardens	North Palm Beach/Palm Beach Gardens	Direct New	15,880
<i>The fourth largest deal of the fourth quarter is a new lease by Walter Kidde Portable Equipment (Carrier Corporation), who manufactures fire and safety products.</i>				
General Services Administration	Northbridge Centre	W Palm Beach CBD	Direct New	13,135
<i>General Services Administration, an independent agency of the United States government established to help manage the basic functioning of federal agencies, will occupy space at Northbridge Centre.</i>				

# Palm Beach Office Submarket Overview (Page 1 of 2)

## Submarket Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
W Palm Beach CBD	3,261,577	210,000	20.1 %	43,726	17,273	\$103.69	\$65.26	\$89.17
<b>CBD Total</b>	<b>3,261,577</b>	<b>210,000</b>	<b>20.1 %</b>	<b>43,726</b>	<b>17,273</b>	<b>\$103.69</b>	<b>\$65.26</b>	<b>\$89.17</b>
Boca Raton	13,563,876	-	17.2 %	-45,666	-144,060	\$48.75	\$46.28	\$47.38
Boynton/Lantana	572,398	-	3.0 %	-1,834	-6,759	-	\$34.95	\$35.25
Delray Beach	1,674,749	-	16.4 %	50,305	-74,211	\$95.59	\$33.83	\$39.67
Jupiter	649,829	-	6.7 %	7,570	20,412	-	\$42.10	\$42.10
N Palm Bch/Palm Bch Gardens	3,912,125	-	9.9 %	-2,353	41,417	\$50.68	\$39.38	\$42.72
Palm Beach	703,354	-	4.9 %	-16,148	-21,726	\$100.00	\$105.70	\$105.28
Palm Springs/Lake Worth	269,800	-	6.6 %	-652	11,046	-	\$57.27	\$57.27

Source: Newmark Research

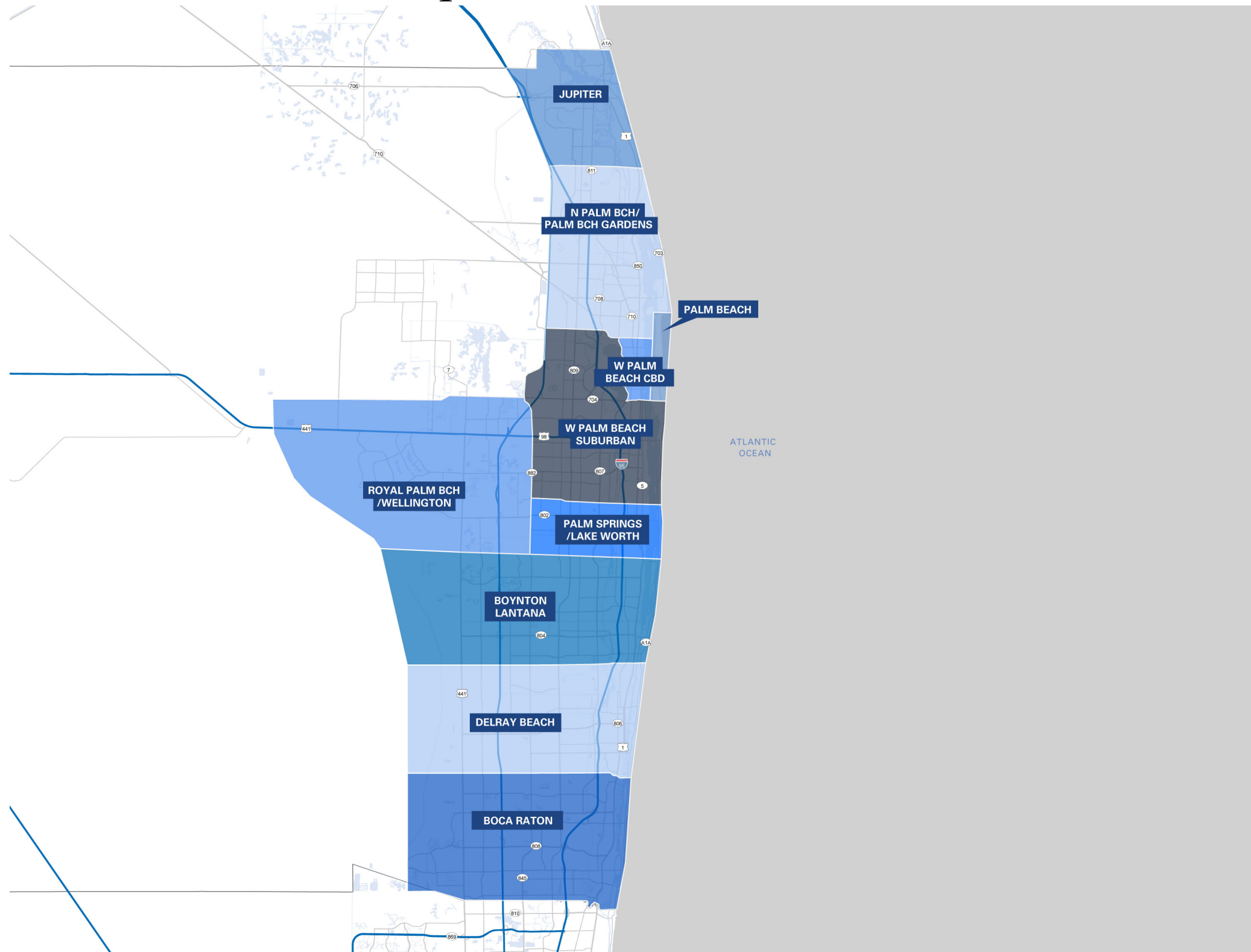


# Palm Beach Office Submarket Overview (Page 2 of 2)

## Submarket Statistics – All Classes

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Royal Palm Bch/Wellington	415,640	-	2.0 %	2,021	85	-	\$46.46	\$44.14
W Palm Beach Suburban	3,549,153	-	16.2 %	-24,076	3,060	\$51.25	\$37.68	\$41.56
<b>Suburban Total</b>	<b>25,310,924</b>	<b>-</b>	<b>14.6%</b>	<b>-30,833</b>	<b>-170,736</b>	<b>\$49.91</b>	<b>\$44.02</b>	<b>\$46.25</b>
<b>Market</b>	<b>28,572,501</b>	<b>210,000</b>	<b>15.2 %</b>	<b>12,893</b>	<b>-153,463</b>	<b>\$57.12</b>	<b>\$45.15</b>	<b>\$49.99</b>

# Palm Beach Office Submarket Map



Source: Newmark Research



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