

2Q24

Palm Beach County Office Market Overview



Market Observations

Economy

- The market’s unemployment rate increased by 52 basis points year over year to 3.3% but remained well below the five-year average of 4.3%.
- Job growth pace has slowed compared with recent highs to 1.9% year over year, but still exceeds pre-pandemic levels, with 2019 growth averaging 1.7%.
- All sectors, except other services, financial activities, business and professional, and information, reported employment growth, with mining and construction leading job gains at 8.1% over the past 12 months.
- Office-using jobs in the market declined by 2.7% from the peak in June 2023 to 193,308 employees but still reflect 12.6% growth since 2019.

Major Transactions

- Geosyntec Consultants signed the largest new lease of the quarter with two noncontiguous floors totaling 43,673 SF at the Boca Colonnade I in Boca Raton.
- 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 4,336 SF and all leases averaging 2,921 SF.
- The Boca Raton and North Palm Beach/Palm Beach Gardens submarkets were notable locational picks, with seven of the ten largest deals signed located in the two submarkets.

Leasing Market Fundamentals

- Annual full-service asking rental rates remained near the historical high set in the previous quarter with the second quarter of 2024 closing at \$48.22/SF, a 5.9% increase year over year.
- Occupancy turned negative in the second quarter, pushing vacancy to increase by 90 basis points year over year to 14.1%.
- The under-construction pipeline continued to remain active, with 683,223 SF scheduled to deliver within the second half of 2024. However, there are at least three new office projects that have been proposed totaling approximately 1.5 MSF, one of which is slated to break ground by the end of the year.
- Total leasing activity closed the quarter at 528,810 SF, averaging 2,922 SF per deal and reflecting an average of 1,126 SF less than a year ago. In terms of the number of deals done, leasing activity fell 32.7% year over year.

Outlook

- The Palm Beach office market will likely see flat growth in the second half of 2024, 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.
- Despite the second quarter dip, near term rents are expected to continue increasing with upcoming deliveries but at a slower pace, as they are being counterbalanced with softer than average demand. In the medium term, rents are expected to flatten.
- The pending deliveries of Banyan & Olive and One Flagler in the second half of 2024 will provide a boost to absorption and to asking rents, as they are currently 62.0% preleased. The influx of the additional supply that is not preleased will lead to a near term vacancy increase that also coincides with positive absorption impacts.

1. Economy
2. Leasing Market Fundamentals

2Q24

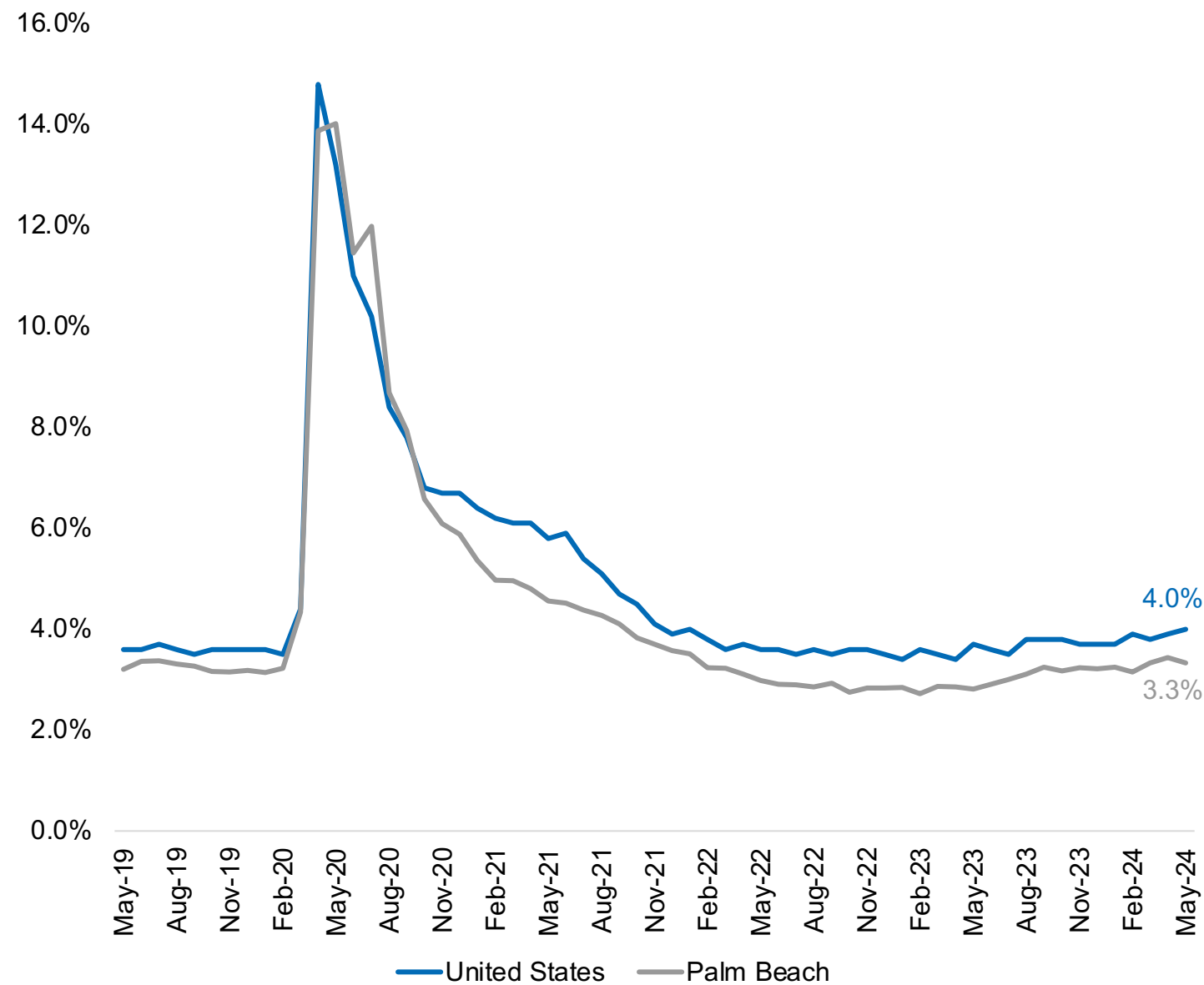
Economy



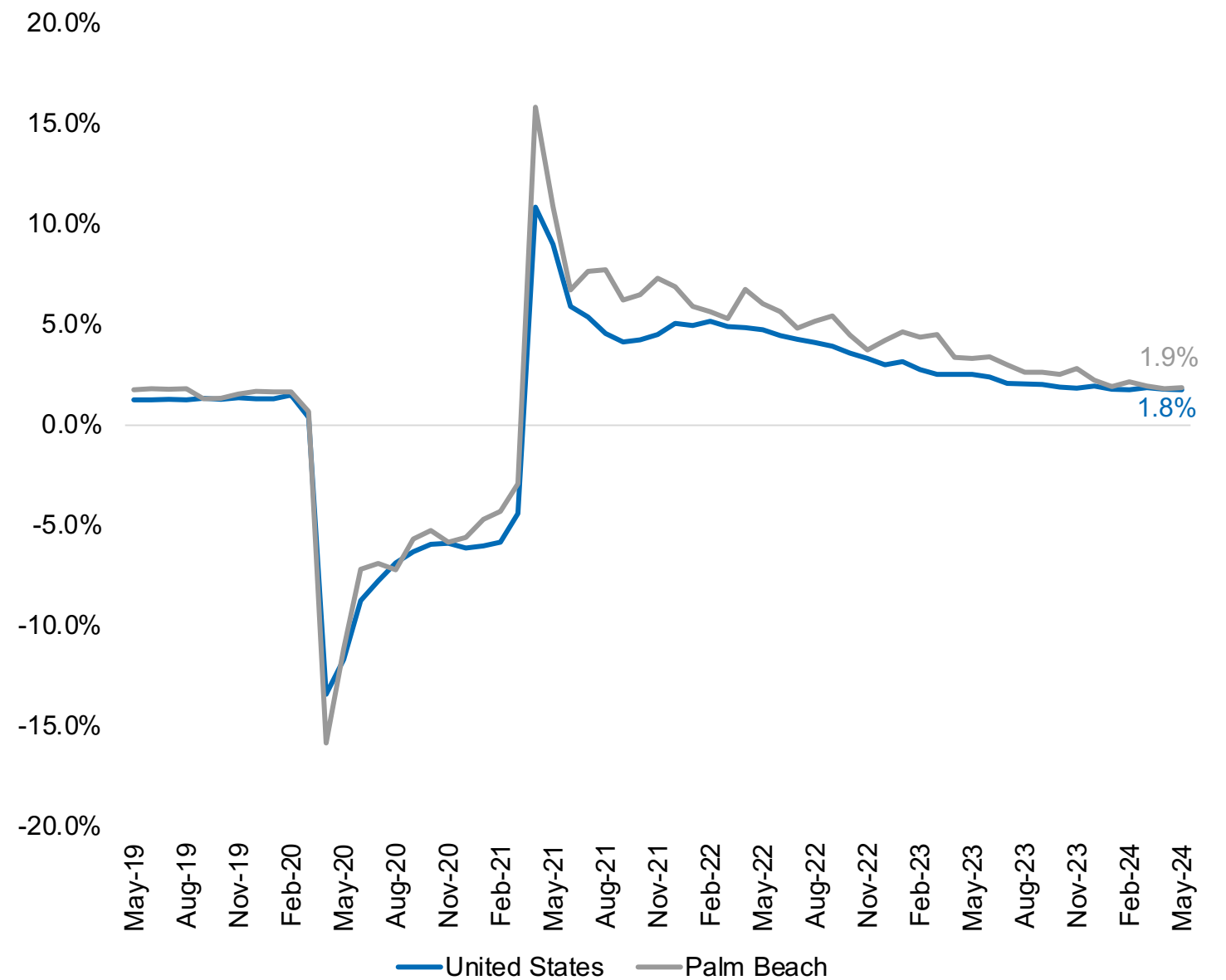
Unemployment Ticks Upward; Employment Growth Loses Steam

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 52 basis points year over year to 3.3%, marking the eleventh consecutive month above 3.0%. Employment growth has recently decelerated to just above pre-pandemic levels and fell by 146 basis points year over year to 1.9%, likely impacted by recent national economic headwinds.

Unemployment Rate, Seasonally Adjusted



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



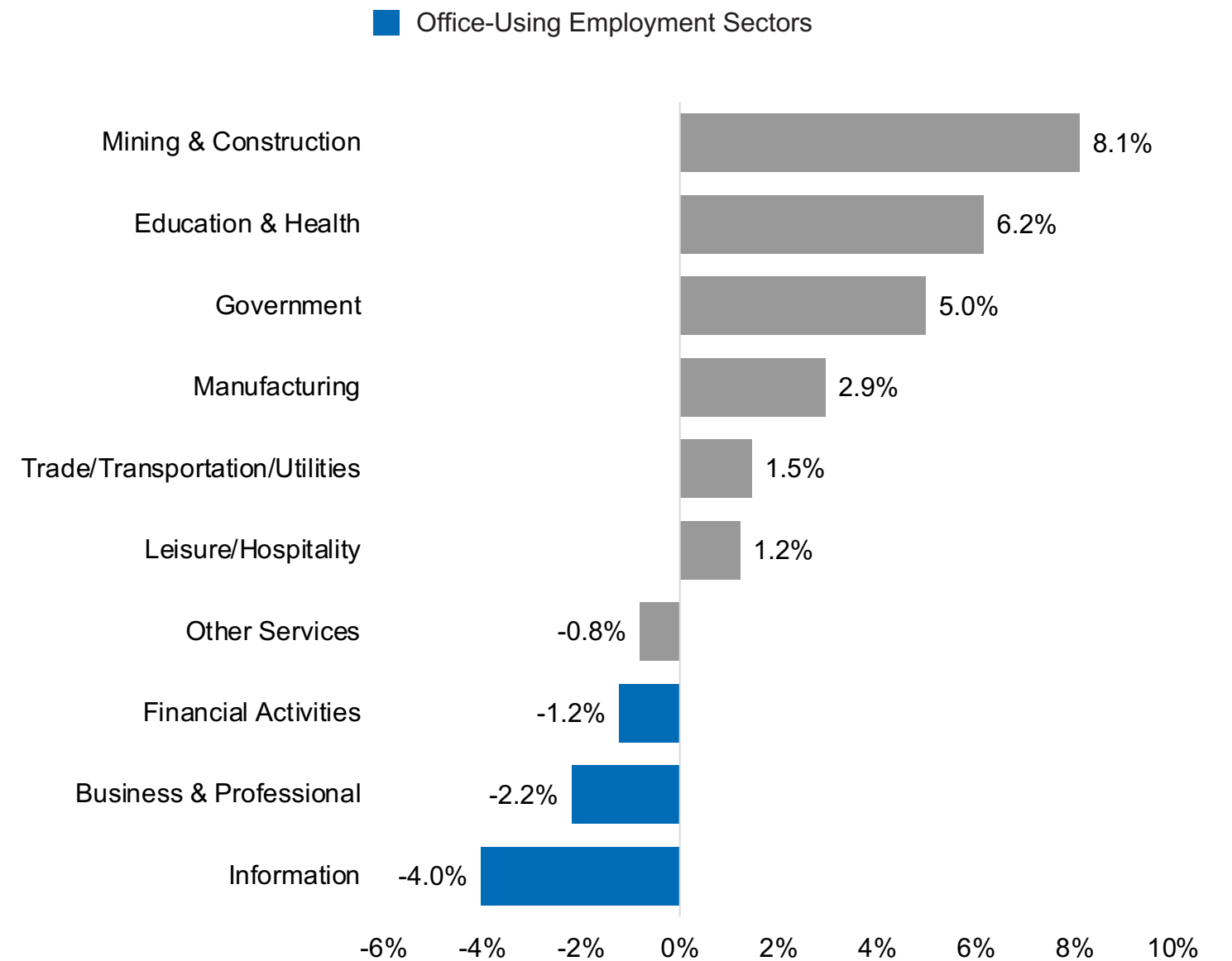
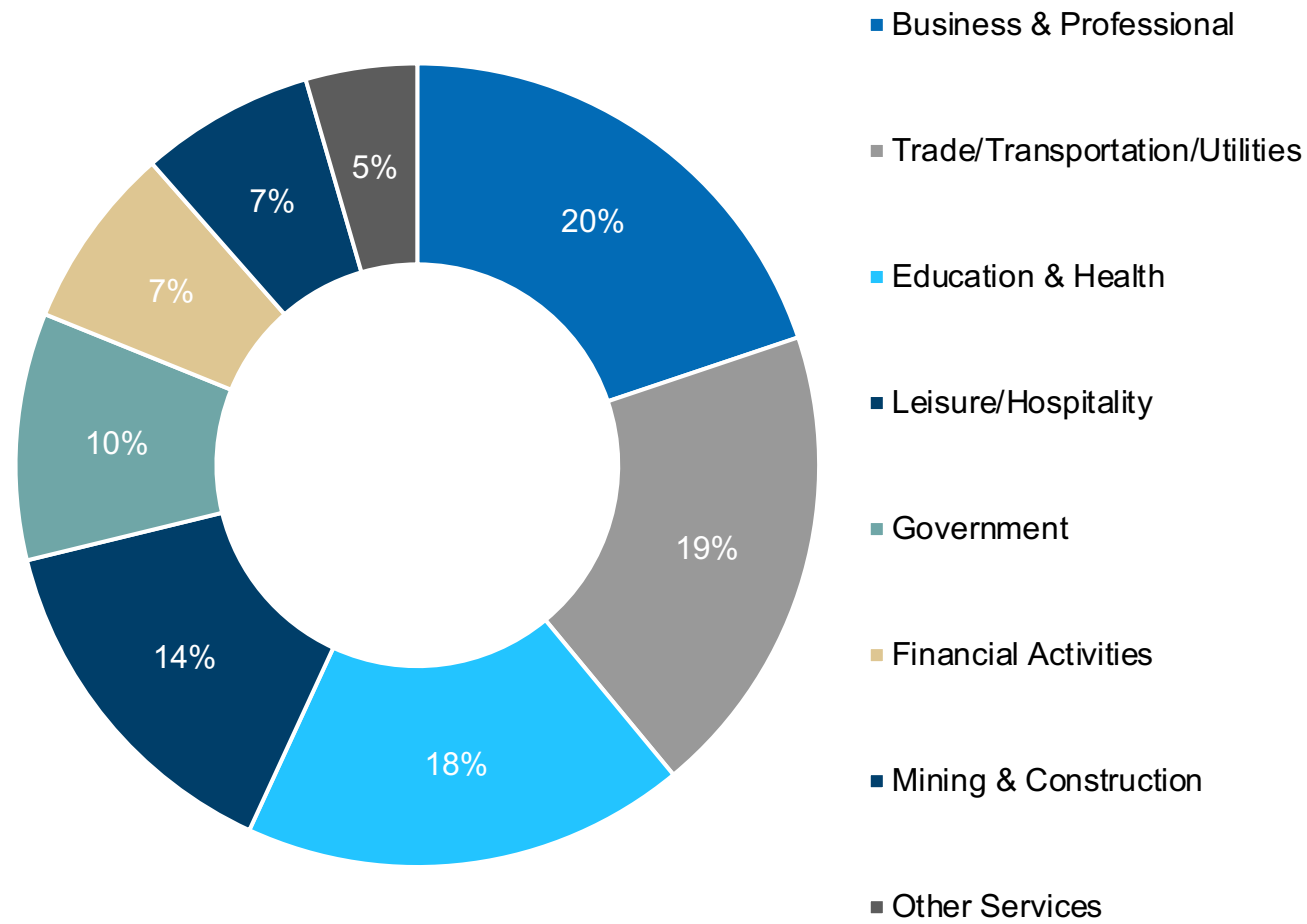
Source: U.S. Bureau of Labor Statistics, Palm Beach County

All Office-Using Employment Sectors Experience Continued Negative Growth

Palm Beach's top two employment industries account for 37.1% of market share. The office-using employment's business and professional sector is the largest industry sector in the metroplex at 18.9%. All industries reported growth, except for other services, financial activities, business and professional, and information sectors. Office-using industries reported year-over-year contractions ranging from a decrease of 1.2% to 4.0%.

Employment by Industry, May 2024

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

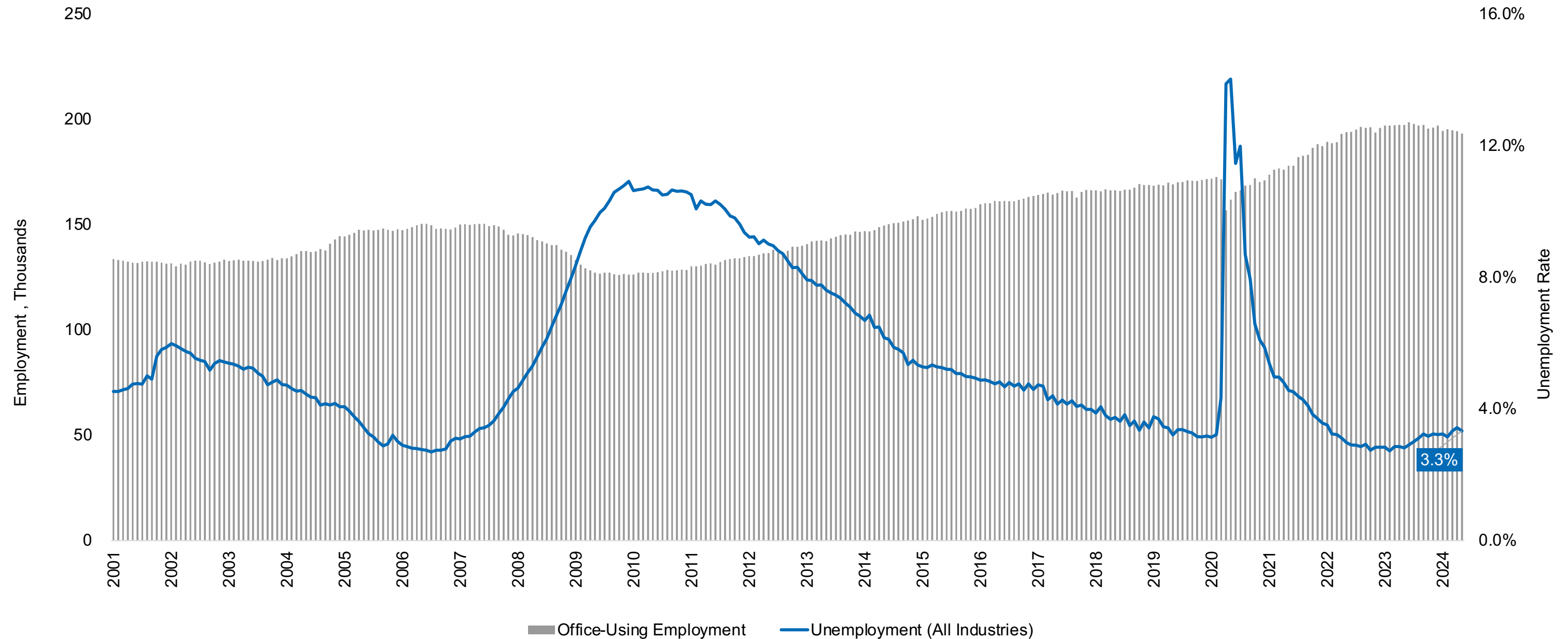


Source: U.S. Bureau of Labor Statistics, Palm Beach County

Overall Office-Using Employment in Decline

Office-using employment in Palm Beach declined 2.7% from an all-time historical high in June 2023 to 193,308 employees as of the end of May 2024. The seasonally-adjusted unemployment rate is 3.3%, a slight dip 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.

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.

2Q24

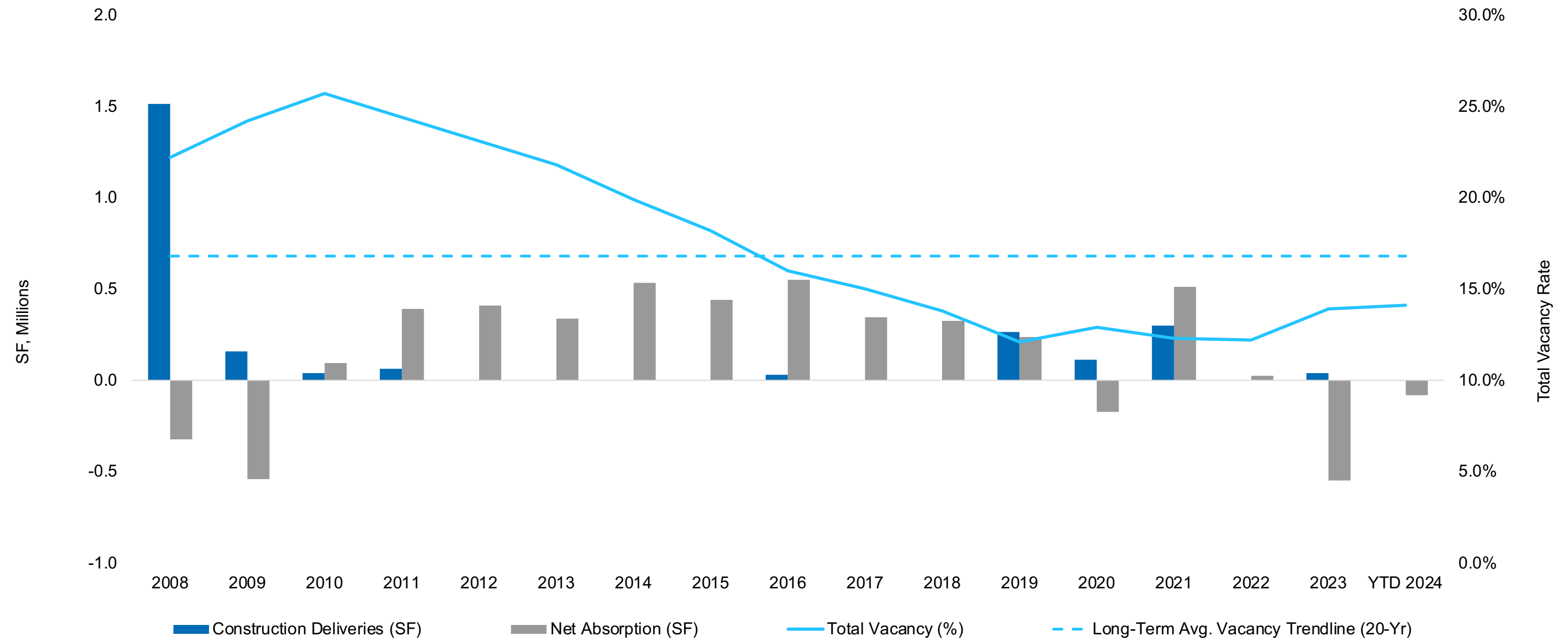
Leasing Market Fundamentals



Office Demand Ends Slightly Negative for First Half of 2024

Palm Beach's office vacancy rate increased by 30 basis points quarter over quarter and by 90 basis points year over year to 14.1% in the second quarter of 2024. Office vacancy continued to remain below the long-term average of 16.8%. Second quarter net absorption was negative 91,974 SF, eliminating the positive gain made in the first quarter of 2024. The second half of 2024 is expected to bring a positive uptick of absorption with the delivery of the 62.0% preleased One Flagler and Banyan & Olive projects.

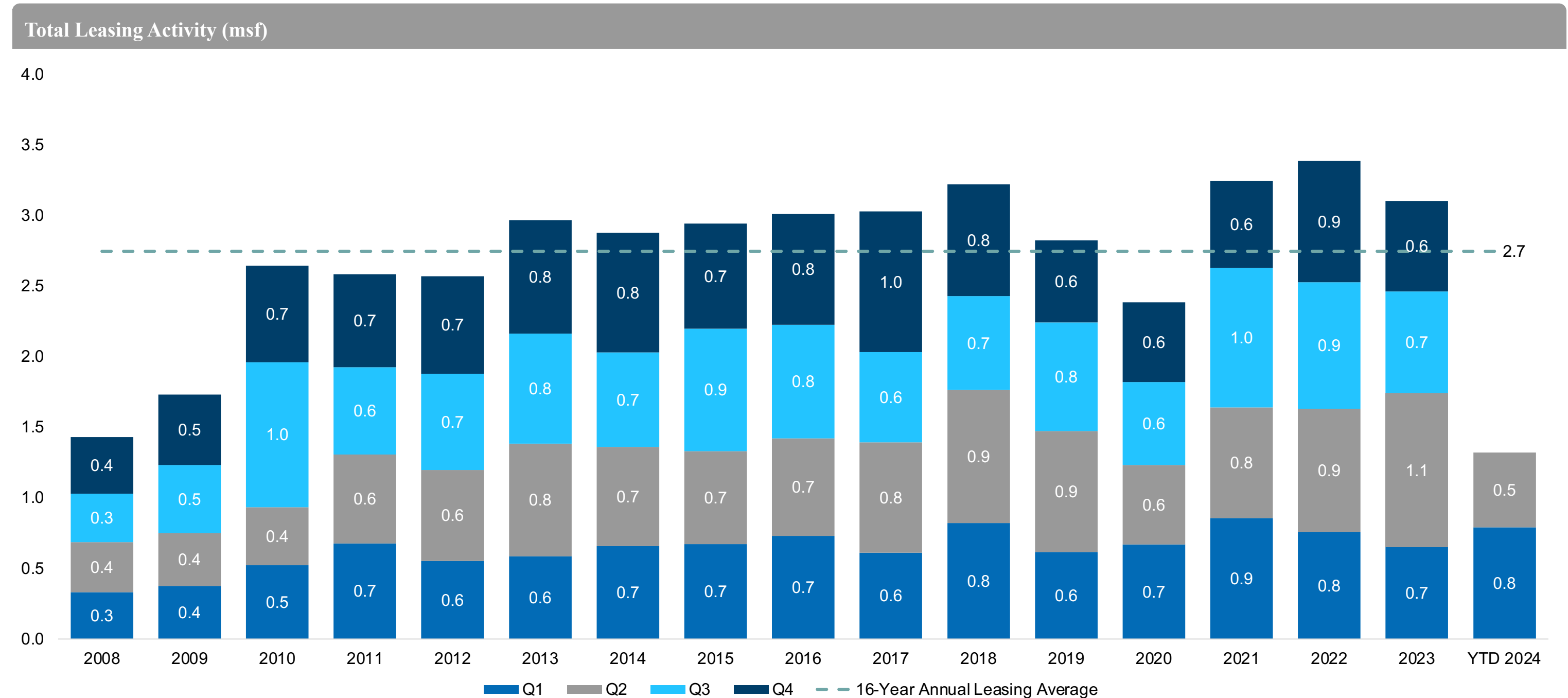
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Leasing Activity Falls Below Historical Average

Leasing activity was weaker in the second quarter 2024, ending at 528,810 SF and falling below the 16-year second quarter average of 697,419 SF. Deal size averaged 2,922 SF in the second quarter of 2024, an average of 1,126 SF less than a year ago. The decrease in leasing activity, which is down 32.7% 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 second half of the year is expected to improve slightly as the Fed gains confidence in

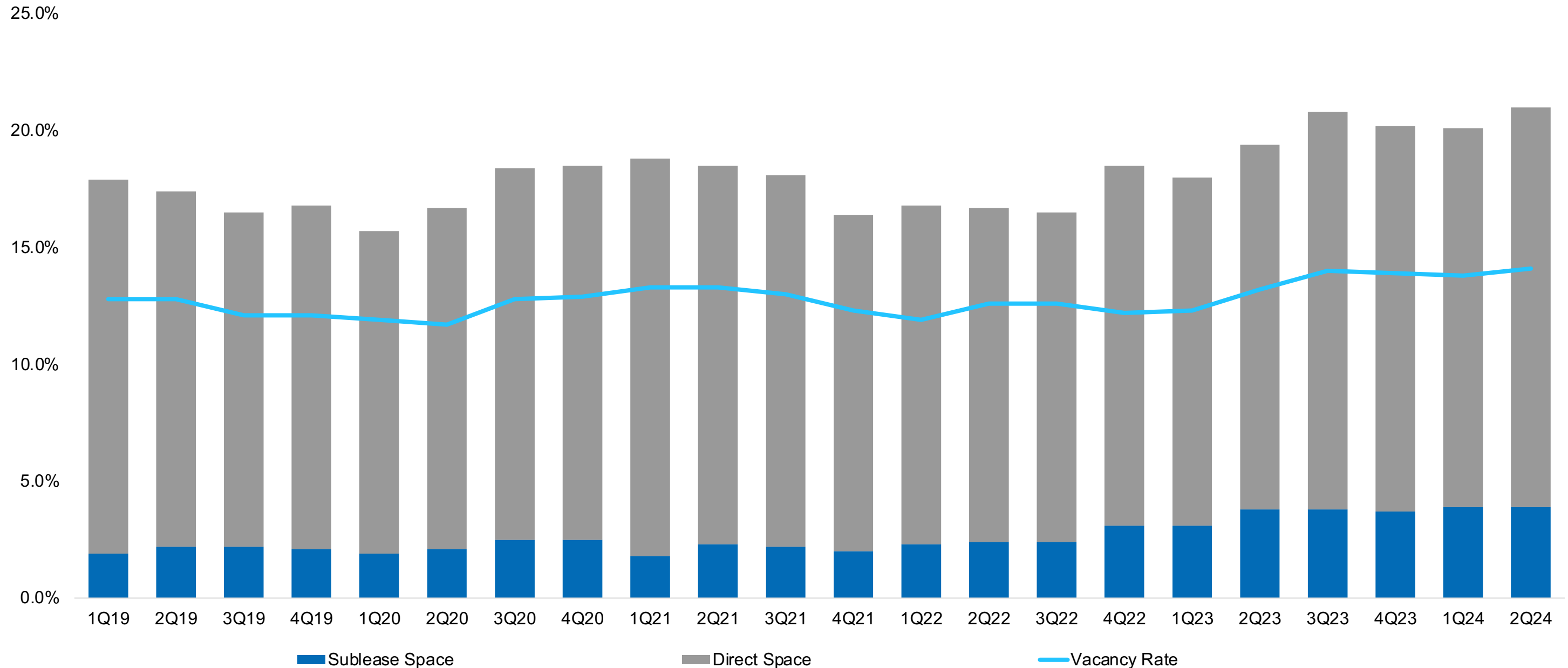


Source: Newmark Research, CoStar

Availability Jumps to New Recent High

Sublease availability in Palm Beach remains elevated compared to values reported pre-pandemic but has held relatively steady for the past five quarters. As of the end of the second quarter of 2024, sublease availability in the market was at 3.9%. Direct availability jumped following recent consecutive declines in the prior two quarters, closing the quarter at 17.1%. Vacancy increased by 30 basis points quarter over quarter and by 90 basis points year over year, closing the quarter at 14.1%.

Available Space as Percent of Overall Market

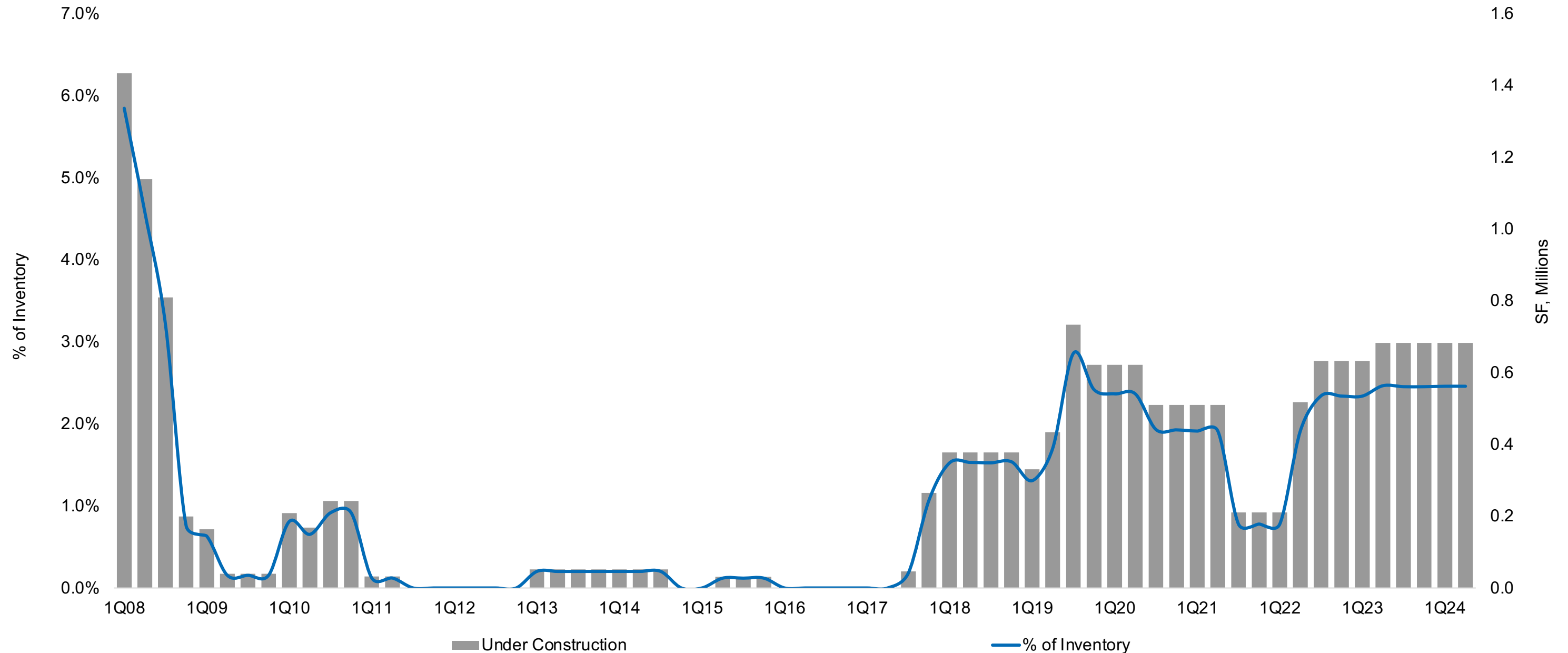


Source: Newmark Research, CoStar

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 683,223 SF under construction. As of the second quarter of 2024, the under-construction pipeline accounted for 2.5% of the market's inventory. 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.

Office Under Construction and % of Inventory

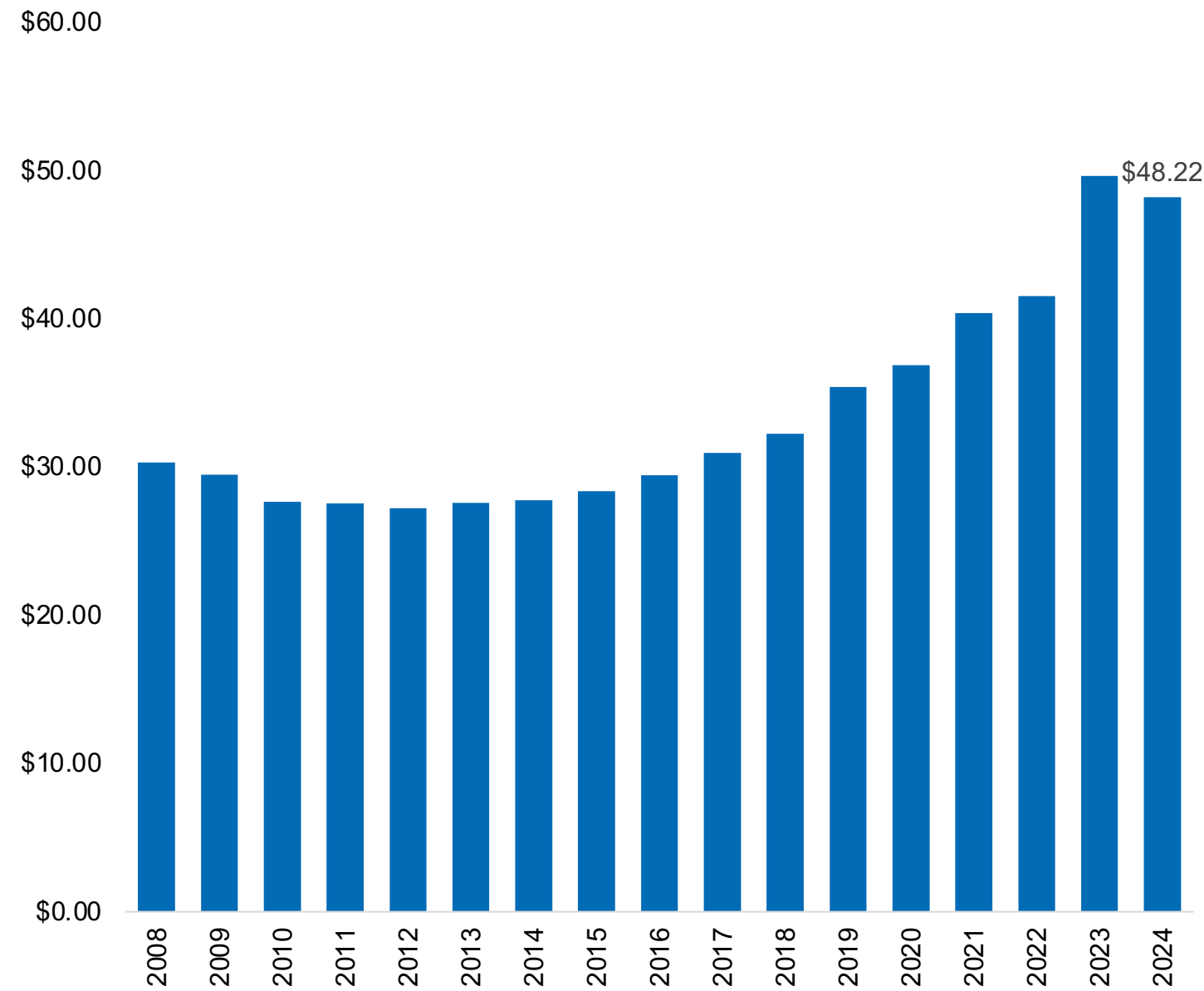


Source: Newmark Research, CoStar

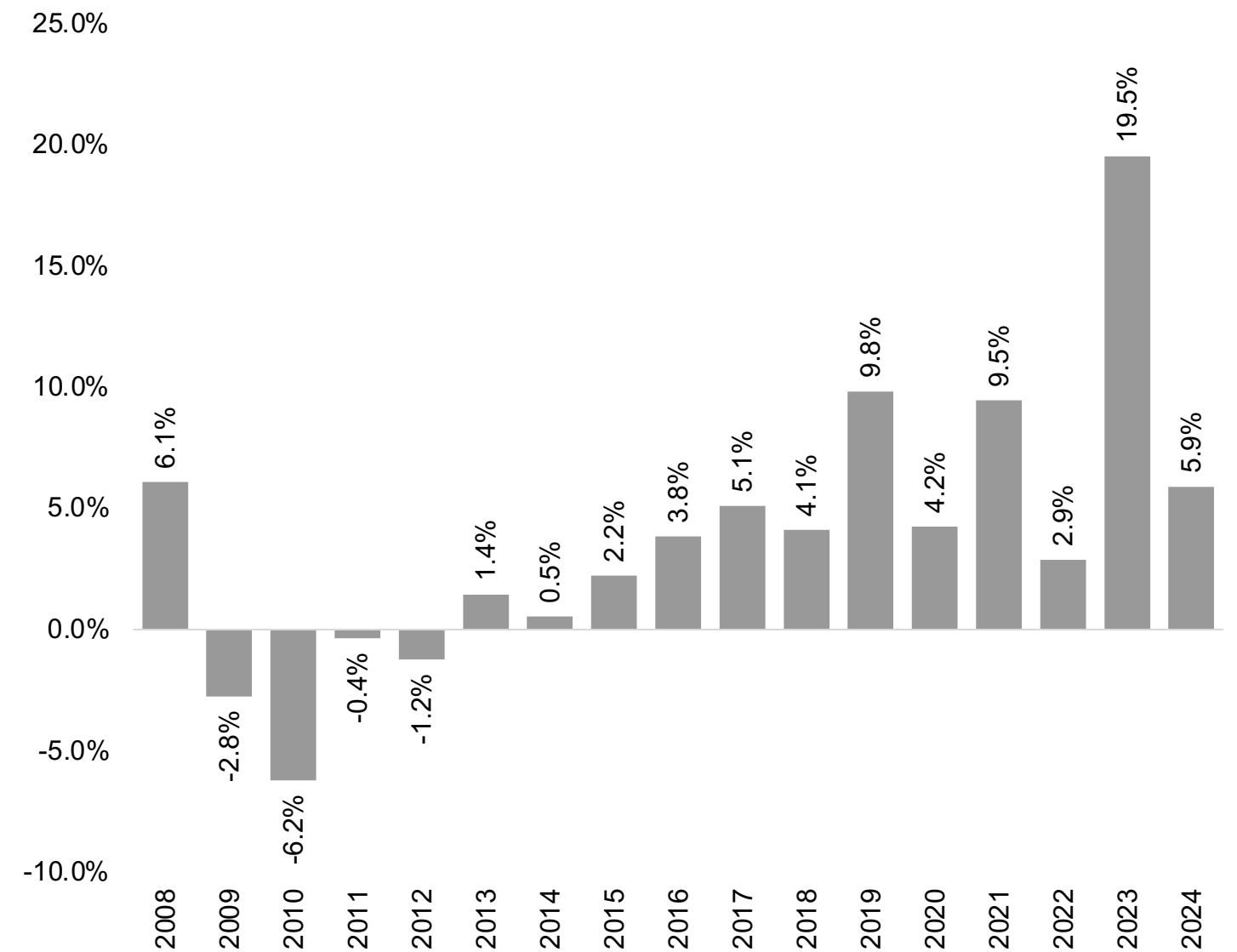
Rents Dip From All Time High

Rents fell in the second quarter of 2024 to \$48.22/SF. Year over year, asking rents are still up 5.9%. Recent 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 resume growing in the short term with the upcoming delivery of new projects but are currently being counterbalanced by the overall softer demand for office space in the market, likely due to the loss of office-using jobs.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

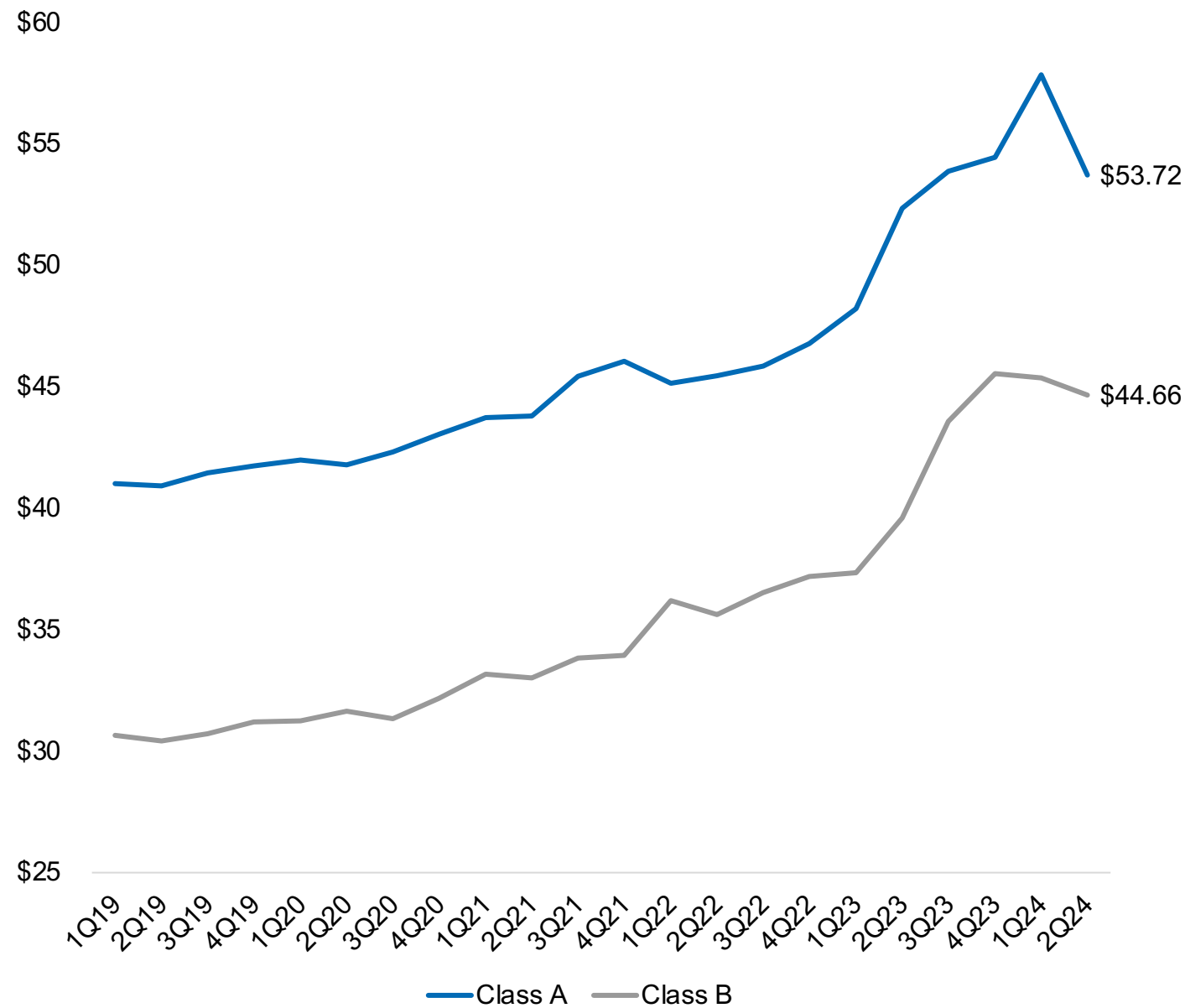


Source: Newmark Research, CoStar

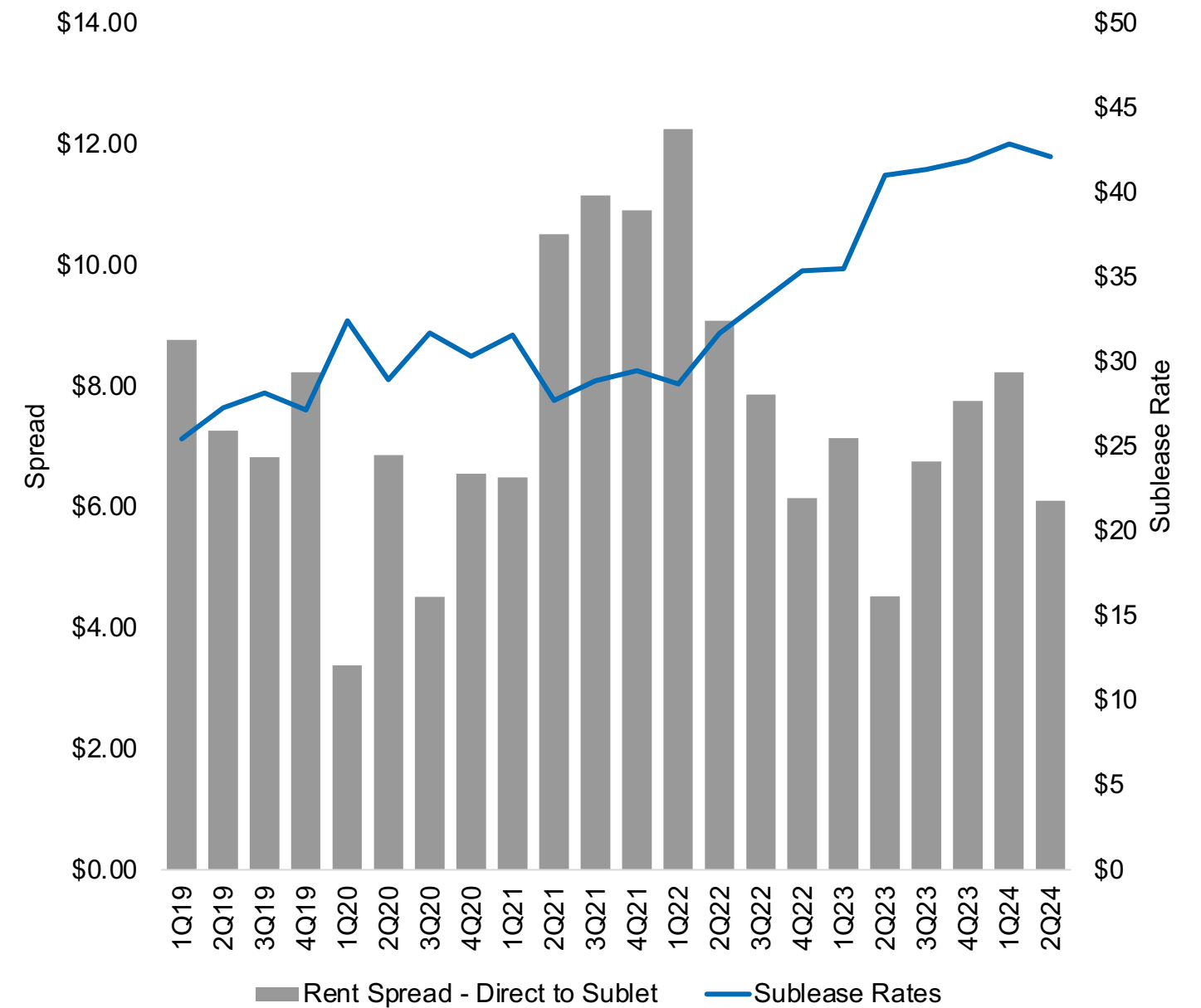
Asking Rents Fall in Reaction to Slower Leasing and Greater Availability

As rents continue increasing, the bifurcation in rent spread between Class A and Class B assets has remained relatively equidistant above the \$9.00/SF mark. As of the end of the second quarter of 2024, Class A rents ended at \$53.72/SF, while Class B reported \$44.66/SF. After a more robust first quarter of 2024, leasing for both Class A and Class B space hit a wall in the second quarter, falling 51.6% year over year, which can be to blame for the reactionary fall in asking rents. Class A rents fell by 7.1% and Class B rents fell by 1.5% quarter over quarter. Sublease rents fell by 1.7% from their peak in the first quarter of 2024.

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 second quarter of 2024, Class A space accounted for 55.8% of the market's leasing activity by SF, but only 37.6% of the market's deal volume. Average leases signed in Class A space were 4,336 SF and continue to remain larger than the average market deal size, at 2,921 SF. Of the 683,223 SF of Class A space under construction, 68.5% has been preleased.

Notable 2Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Geosyntec Consultants	Boca Colonnade I	Boca Raton	Direct New	50,794
<i>The largest lease of the second quarter belongs to Geosyntec Consultants, who took down two noncontiguous floors (2nd and 8th) within Boca Colonnade I.</i>				
Bessemer Trust	One Flagler	West Palm Beach CBD	Direct New	19,787
<i>Bessemer Trust is a private, independent wealth management office headquartered in New York city. One Flagler is scheduled to deliver in the third quarter of 2024.</i>				
Welco Track Services	5300 Broken Sound Blvd	Boca Raton	Direct New	18,500
<i>The third largest deal of the second quarter is a new lease by Welco Track Services, which is a home health provider.</i>				
AmeriHealth Caritas Florida, Inc.	Professional Centre at the Gardens	North Palm Beach/Palm Beach Gardens	Renewal	15,386
<i>AmeriHealth Caritas Florida, Inc., operates as a Medicaid managed care plan through Florida's Statewide Medicaid Managed Care program.</i>				
NVR, Inc.	Centrepark East	West Palm Beach Suburban	Renewal	14,465
<i>NVR, Inc., operates in two business segments: homebuilding and mortgage banking. The homebuilding unit sells and constructs homes under the Ryan Homes, NVHomes, and Heartland Homes brands. As a corporate entity, NVR, Inc., provides various support functions such as sales and marketing support and human resources for each of its sub-entities.</i>				



Please reach out to your
Newmark business contact for this information

For more information:

John Tagg

Senior Research Analyst

John.Tagg@nmrk.com

Ching-Ting Wang

Head of Southeast Research

ChingTing.Wang@nmrk.com

Miami

1111 Brickell Avenue, Suite 2000

Miami, FL 33131

t 305-350-0915

New York Headquarters

125 Park Ave.

New York, NY 10017

t 212-372-2000

nmrk.com

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