

3Q24

Palm Beach County Office Market Overview



Market Observations

Economy

- The market’s unemployment rate increased by 29 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 1.4% year over year and has fallen below pre-pandemic levels, with August 2019 growth at 1.8%.
- All sectors, except office-using industries, reported employment growth, with mining and construction leading job gains at 6.6% over the past 12 months.
- Office-using jobs in the market declined by 1.5% from the peak in June 2023 to 195,765 employees but still reflected 14.0% growth since 2019.

Major Transactions

- Venture X signed the largest new lease of the quarter with a long-term lease of 28,959 SF in the top floor of Palmetto Central.
- 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 4,247 SF and all leases averaging 2,224 SF.
- 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 fell in the third quarter of 2024 closing at \$47.76/SF, reflecting a 0.7% decrease year over year.
- Occupancy remained negative in the third quarter, pushing vacancy to increase by 50 basis points year over year to 14.3%.
- The under-construction pipeline continued to remain active, with 568,223 SF scheduled to deliver within the fourth quarter of 2024. 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 year.
- Total leasing activity closed the quarter at 529,375 SF, averaging 2,224 SF per deal and reflecting an average of 935 SF less than a year ago. In terms of the number of deals done, leasing activity fell 4.4% year over year.

Outlook

- The Palm Beach office market will likely see flat growth in the last quarter 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 and third quarter dip, long 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 short term, rents are expected to flatten.
- The delivery of Banyan & Olive, which was 46.0% preleased prior to delivery, and the expected fourth quarter delivery of One Flagler, which is currently 84.1% pre-leased, will provide a boost to absorption and to asking rents. The influx of the additional supply that is not preleased will add a near term vacancy increase that will coincide with positive absorption impacts.

1. Economy
2. Leasing Market Fundamentals

3Q24

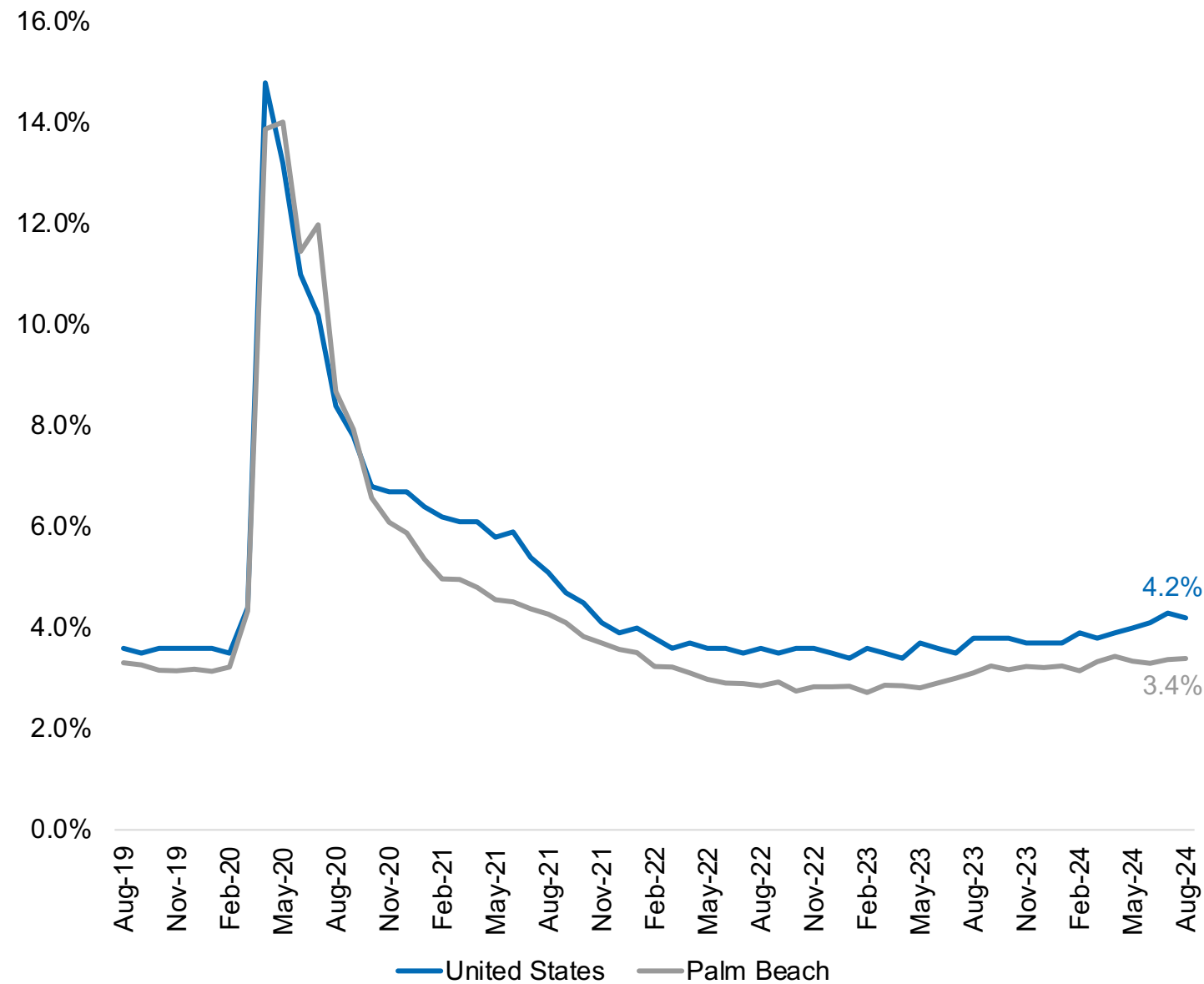
Economy



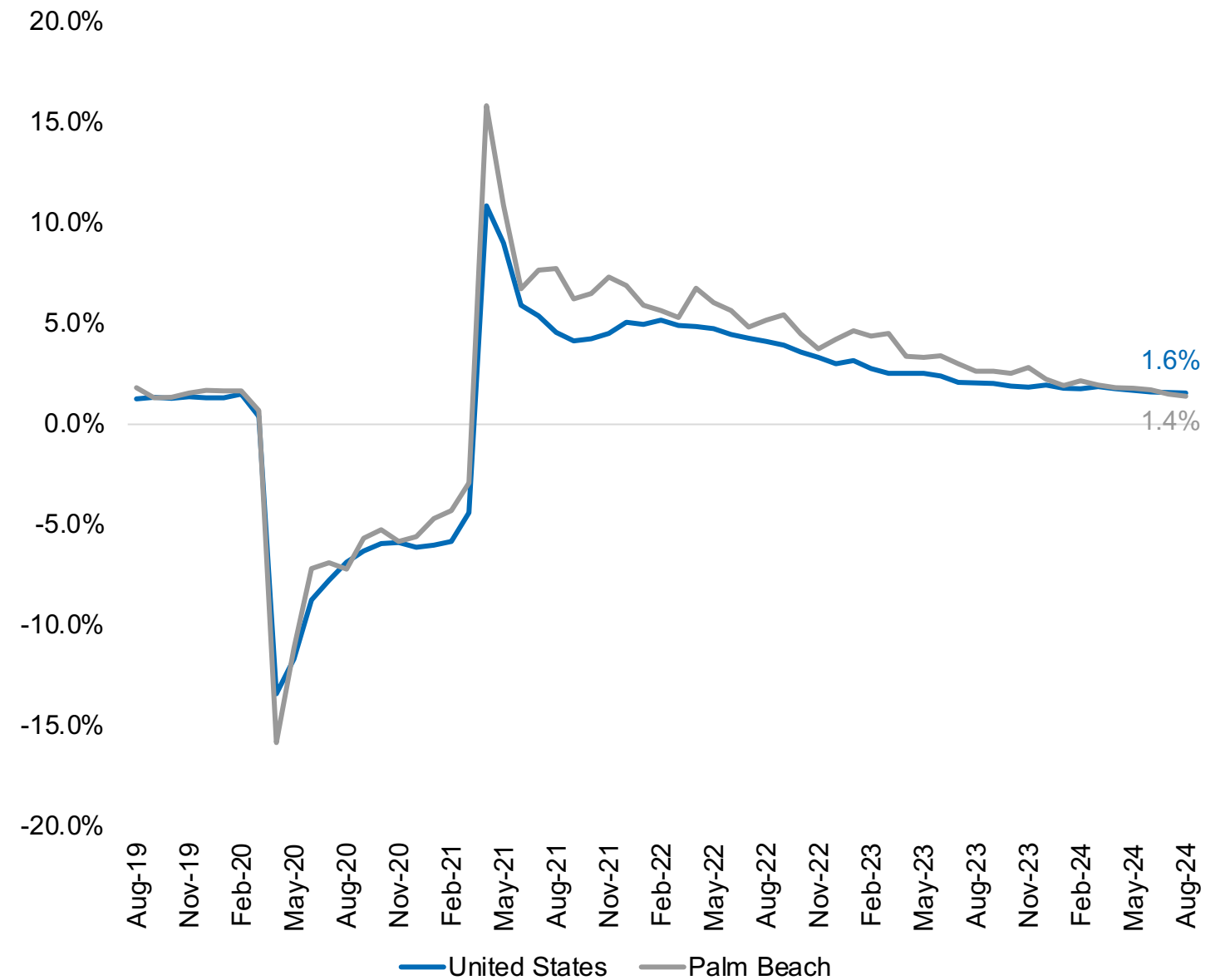
Unemployment Flattens; Employment Growth Loses Steam

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 29 basis points year over year to 3.4%, marking the sixth consecutive month above 3.3%. Employment growth has recently decelerated to below the national average, falling by 125 basis points year over year to 1.4% as a likely result of continued national economic headwinds.

Unemployment Rate, Seasonally Adjusted



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

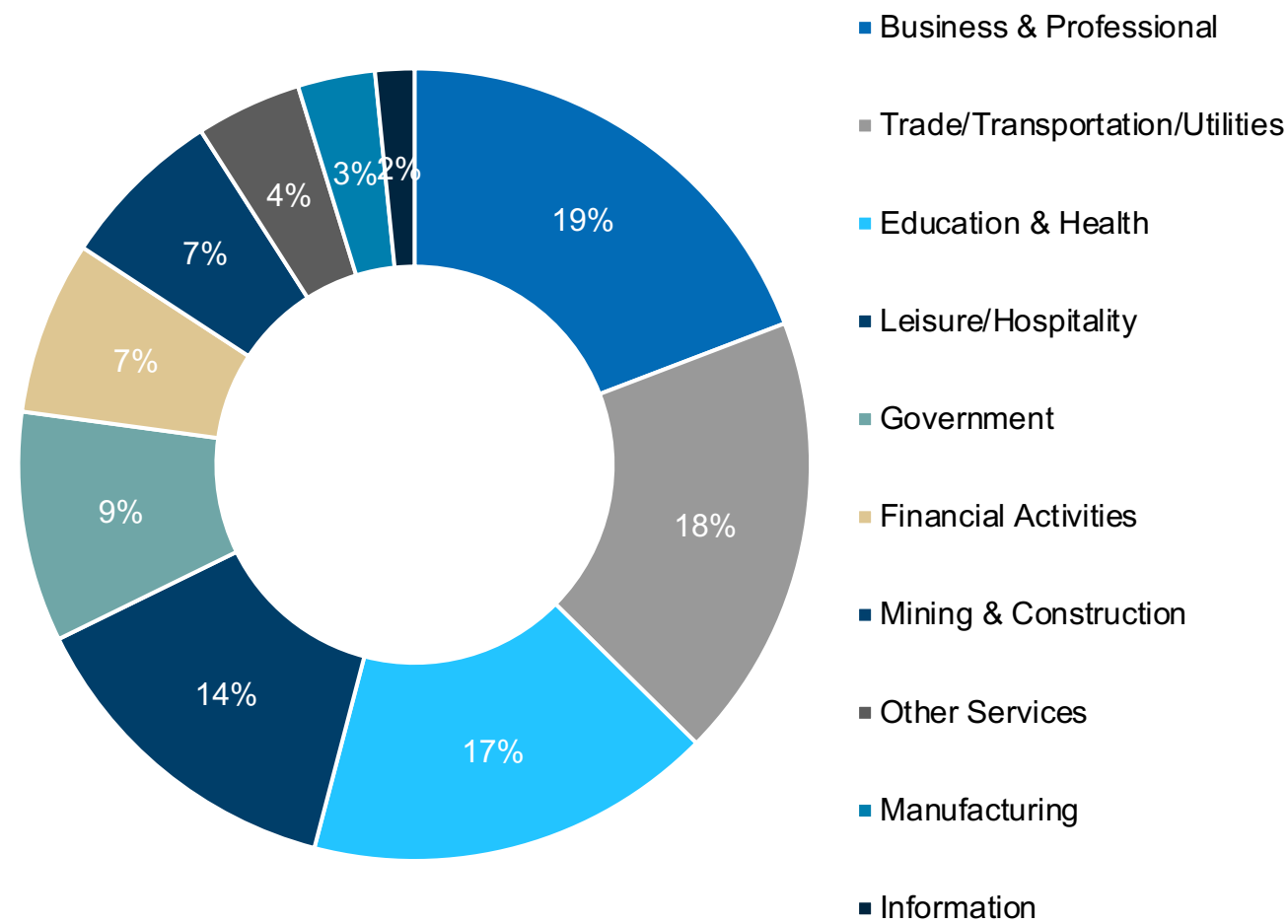


Source: U.S. Bureau of Labor Statistics, Palm Beach County

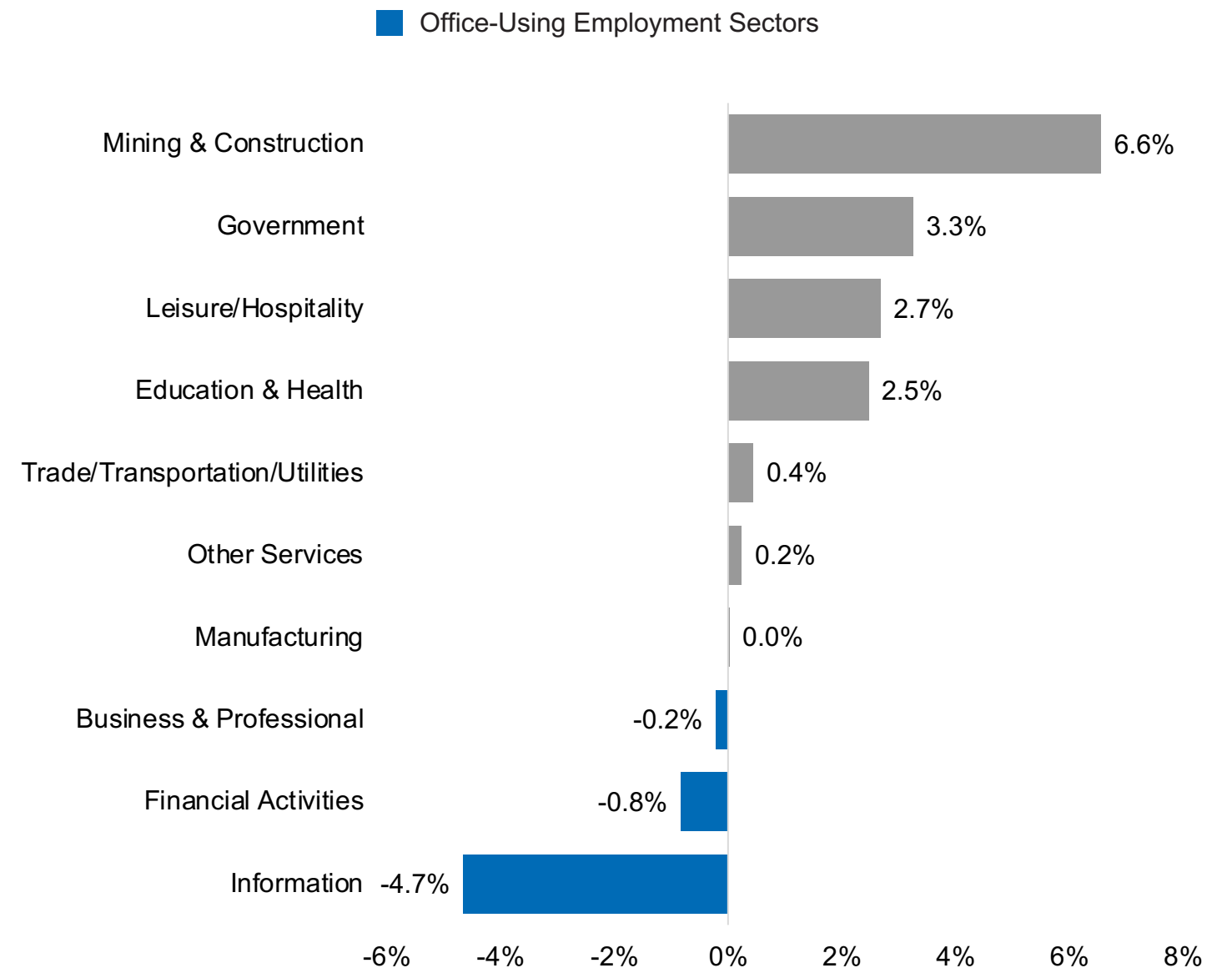
All Office-Using Employment Sectors Experience Continued Negative Growth

Palm Beach's top two employment industries account for 37.4% 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 office-using sectors, which reported year-over-year contractions ranging from a decrease of 0.2% to 4.7%.

Employment by Industry, August 2024



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

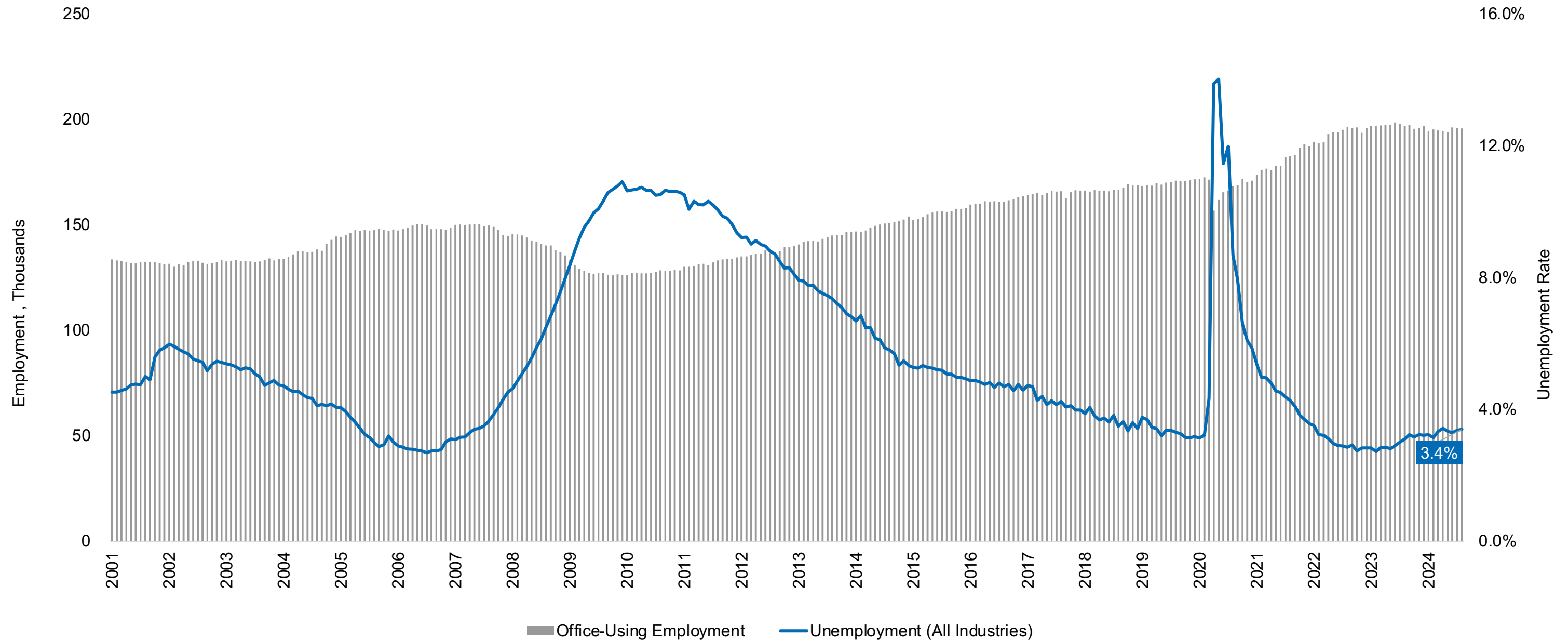


Source: U.S. Bureau of Labor Statistics, Palm Beach County

Overall Office-Using Employment in Decline

Office-using employment in Palm Beach declined 1.5% from an all-time historical high in June 2023 to 195,765 employees as of the end of August 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.

3Q24

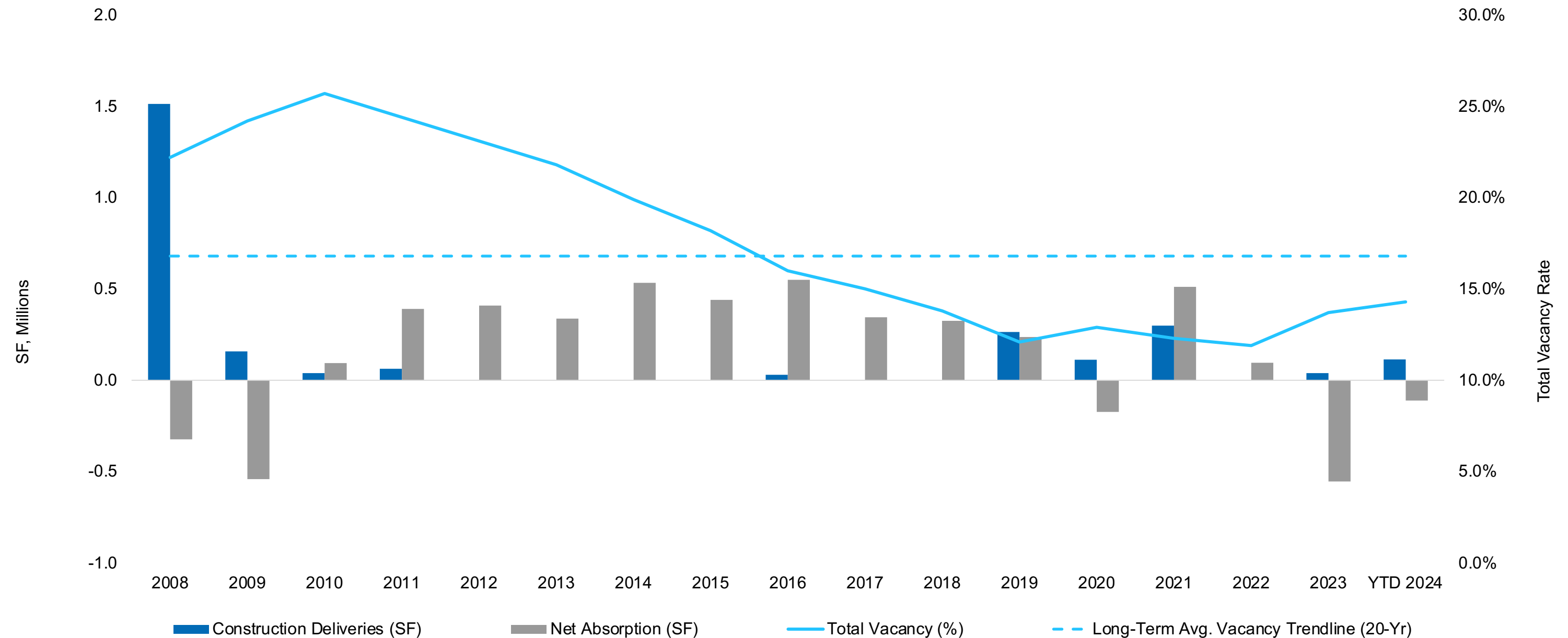
Leasing Market Fundamentals



Office Demand Ends Slightly Negative for Third Quarter of 2024

Palm Beach's office vacancy rate increased by 40 basis points quarter over quarter and by 50 basis points year over year to 14.3% in the third quarter of 2024. Office vacancy continued to remain below the long-term average of 16.8%. Third quarter net absorption was negative 52,873 SF. The fourth quarter of 2024 is expected to bring a positive uptick of absorption with the delivery of the 84.1% preleased One Flagler project as well as move-ins for the recently completed Banyan & Olive project, which was 46.0% pre-leased at delivery.

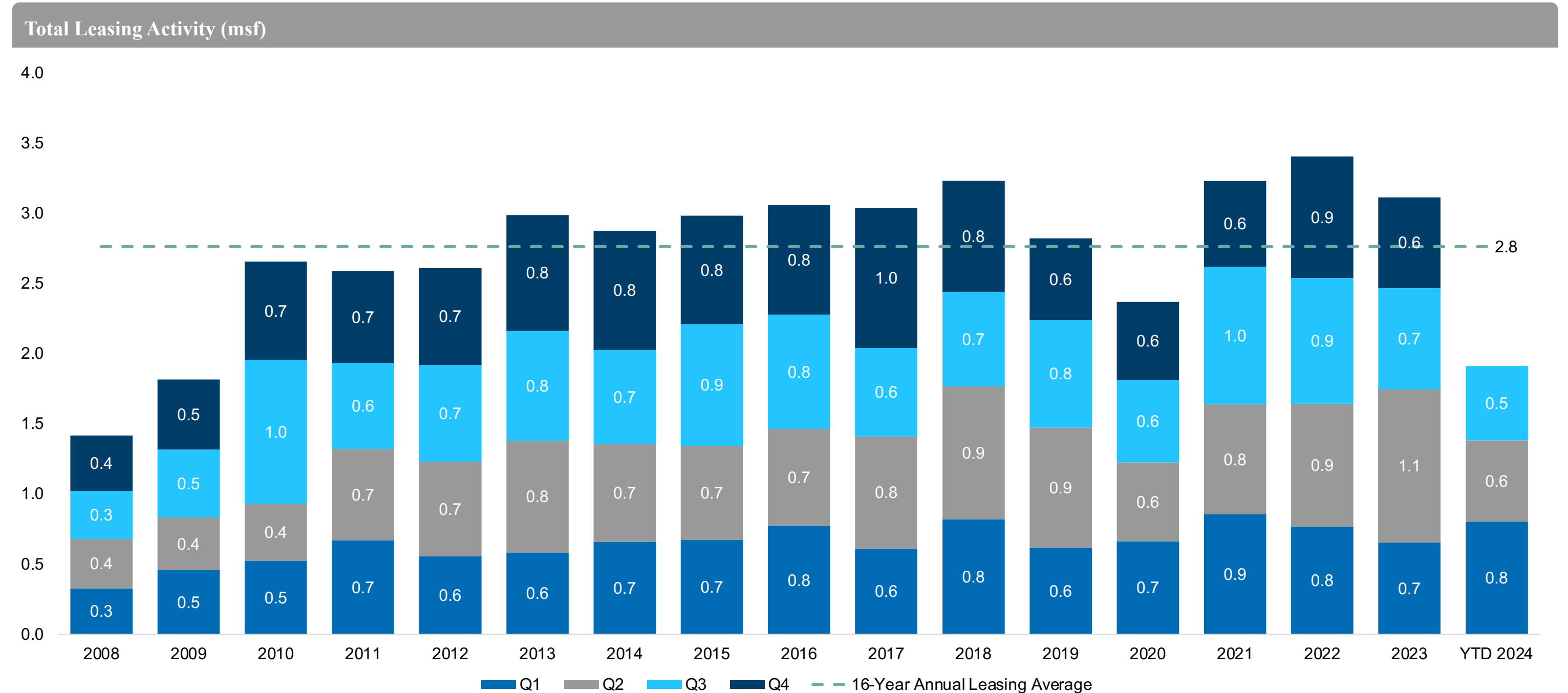
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Leasing Activity Remains Below Historical Averages

Leasing activity was weaker in the third quarter 2024, ending at 529,375 SF and falling below the 16-year third quarter average of 690,892 SF. Deal size averaged 2,224 SF in the third quarter of 2024, an average of 935 SF less than a year ago. The decrease in leasing activity, which is down 4.4% 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 fourth quarter is expected to improve slightly as debt liquidity environment improves.

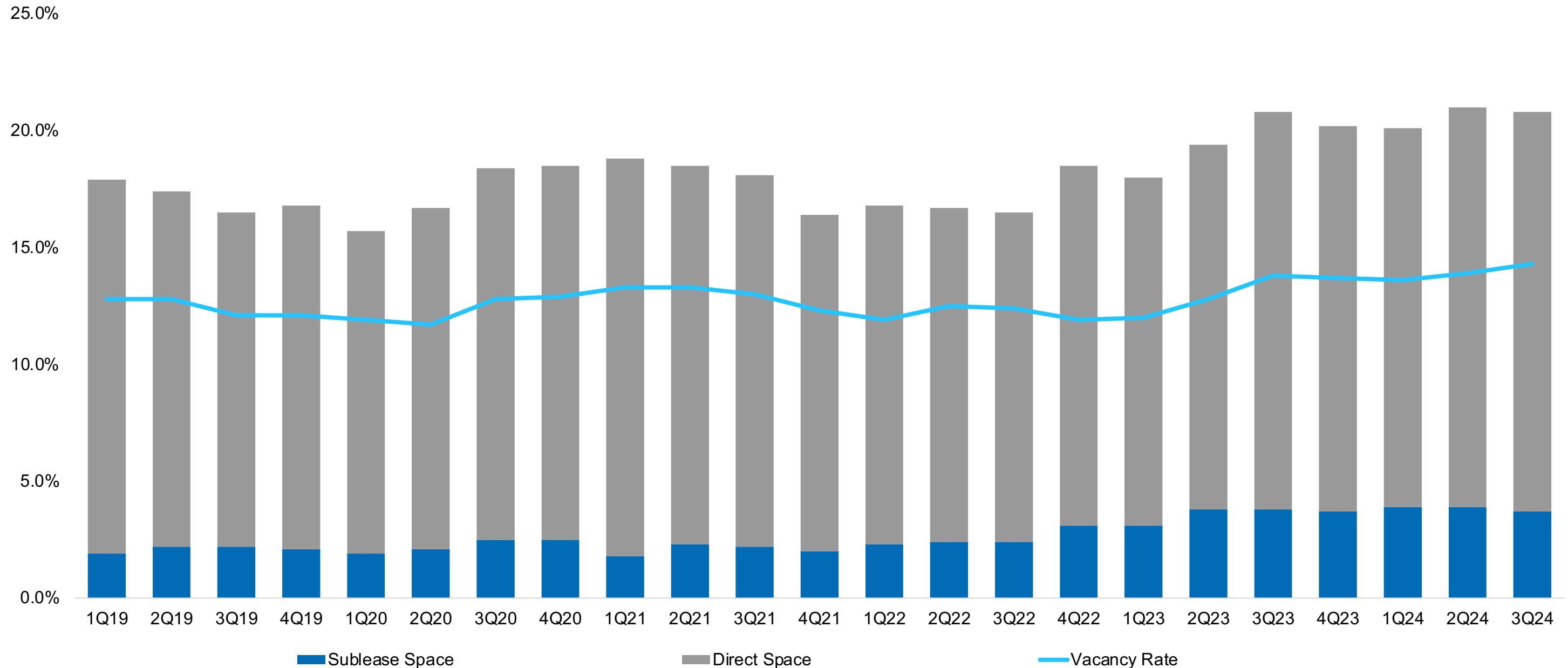


Source: Newmark Research, CoStar

Sublet Availability Declines From 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 third quarter of 2024, sublease availability in the market was at 3.7%, declining from the record high 3.9% in the previous quarter. Direct availability remained flat quarter over quarter, closing the quarter at 17.1%. Vacancy increased by 40 basis points quarter over quarter and by 50 basis points year over year, closing the quarter at 14.3%. The vacancy increase can be partially attributed to the delivery of Banyan & Olive, which was 46.0% preleased upon delivery and should see tenants begin taking occupancy in the fourth quarter of 2024.

Available Space as Percent of Overall Market

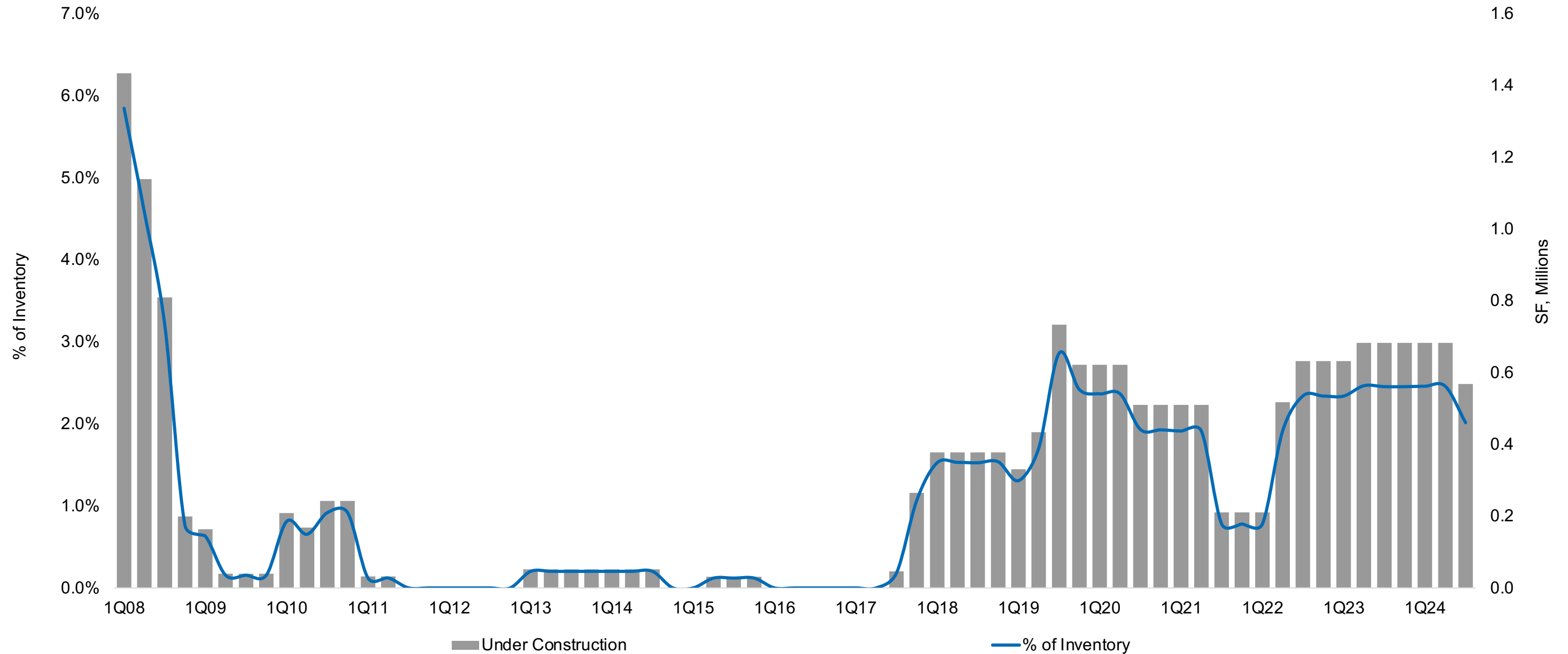


Source: Newmark Research, CoStar

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 568,223 SF under construction. As of the third quarter of 2024, the under-construction pipeline accounted for 2.0% 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

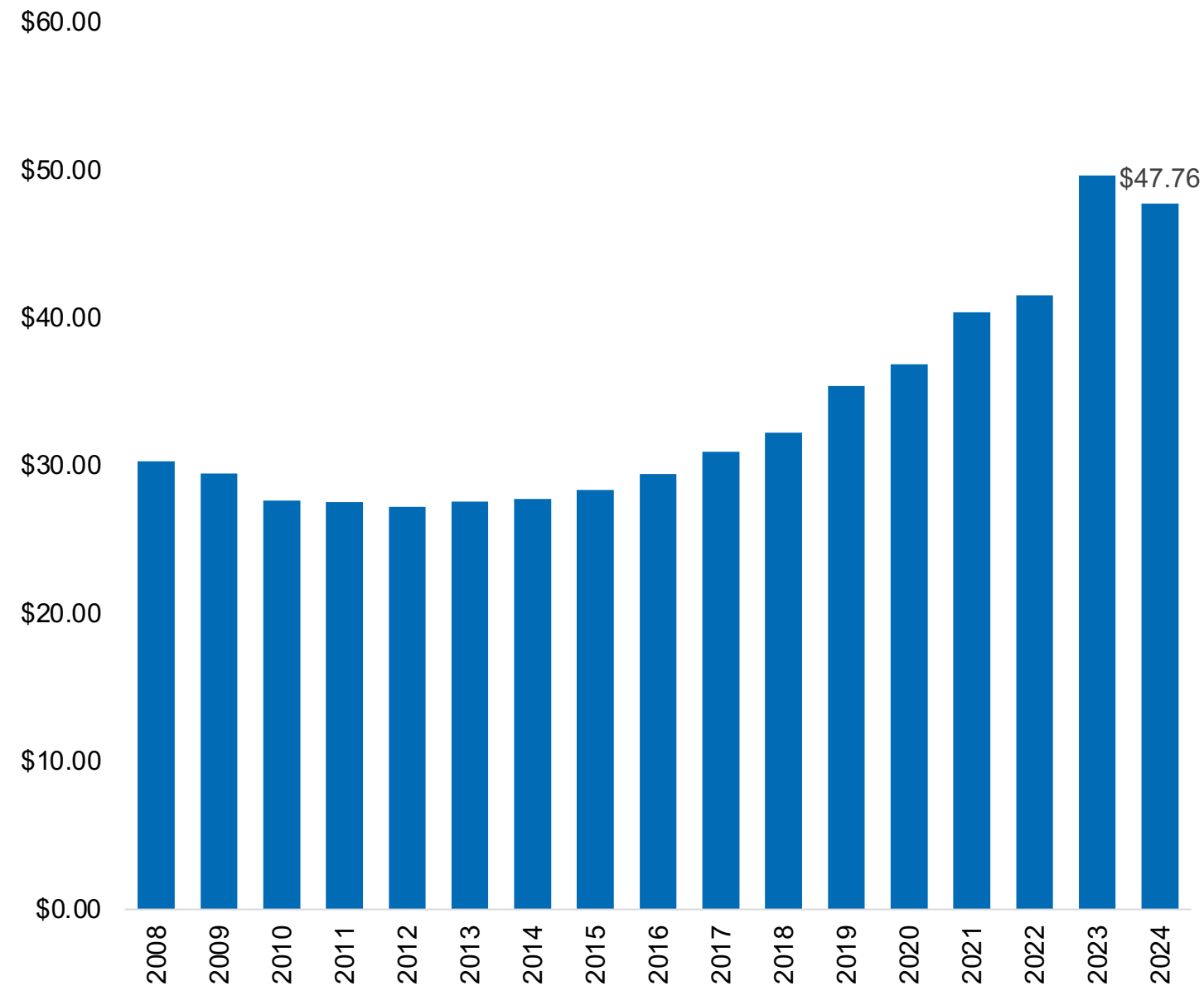


Source: Newmark Research, CoStar

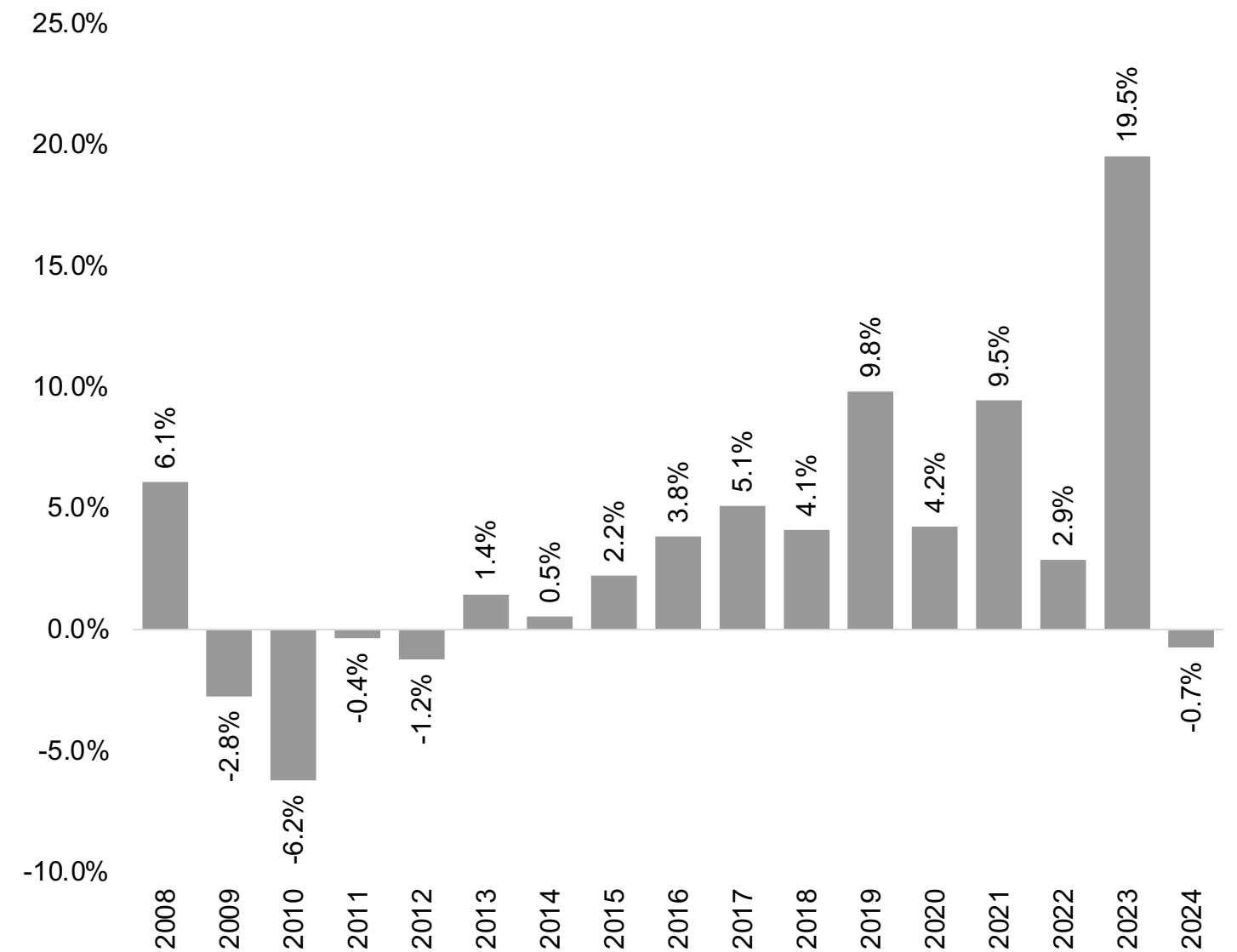
Rents Dip From All-Time High

Rents fell in the third quarter of 2024 to \$47.76/SF. Year over year, asking rents are down by 0.7%. 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 medium 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

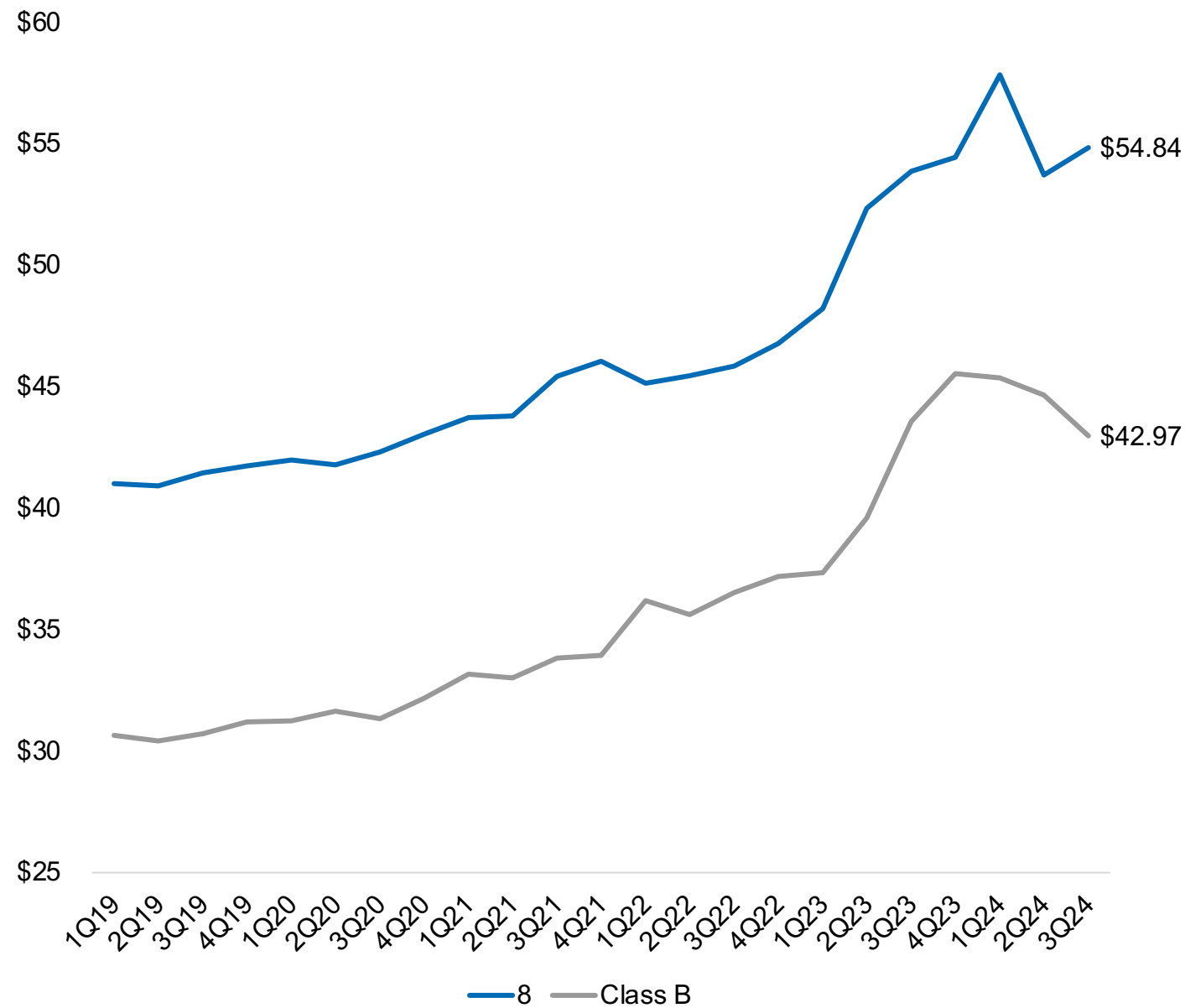


Source: Newmark Research, CoStar

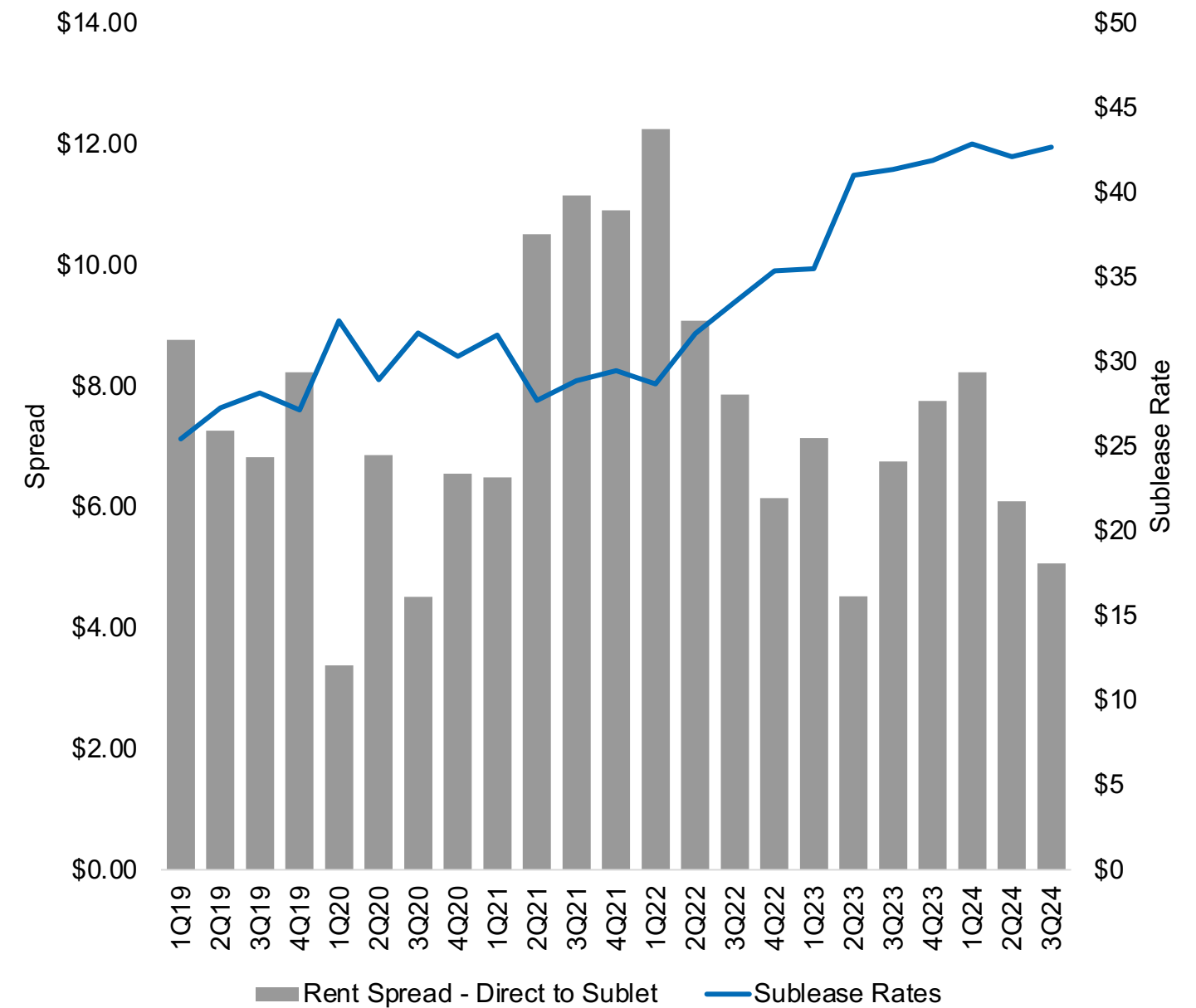
Asking Rents Fall in Reaction to Slower Leasing and Elevated Availability

The bifurcation in rent spread between Class A and Class B assets has remained relatively equidistant above the \$8.90/SF mark. As of the end of the third quarter of 2024, Class A rents ended at \$54.84/SF, while Class B reported \$42.97/SF. After a more robust first quarter of 2024, leasing for both Class A and Class B space became slower, declining by 28.5% year over year in the third quarter. Class A rents increased by 2.1% and Class B rents fell by 3.8% quarter over quarter. Sublease rents fell by 0.4% from their peak in the first quarter of 2024 to \$42.69/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 third quarter of 2024, Class A space accounted for 49.7% of the market's leasing activity by SF, but only 26.1% of the market's deal volume. Average leases signed in Class A space were 4,247 SF and continue to remain larger than the average market deal size at 2,224 SF. Of the 568,223 SF of Class A space under construction, 86.6% has been preleased.

Notable 3Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Venture X of Boca	Palmetto Central	Boca Raton	Direct New	28,959
<i>The largest lease of the third quarter belongs to Venture X, who took a long-term new lease for 28,545 SF on the top floor of Palmetto Central.</i>				
Digital Risk	North 40	Boca Raton	Renewal	26,756
<i>Digital Risk is a third-party provider of mortgage services, specializing in loan processing and underwriting services, as well as certain third party outsourced mortgage servicing activities.</i>				
Lytal Reiter Smith Ivey & Fronrath	PGA Professional and Design Center	North Palm Beach/Palm Beach Gardens	Direct New	19,593
<i>The third largest deal of the third quarter is a new lease by Lytal Reiter Smith Ivey & Fronrath, which is a personal injury law firm.</i>				
GoldenTree Asset Management	One Flagler	W Palm Beach CBD	Direct New	17,448
<i>GoldenTree Asset Management is an American asset management firm that was founded in 2000. One Flagler is scheduled to deliver in the fourth quarter of 2024.</i>				
Kimley-Horn	Palm Beach Gardens	N Palm Beach/Palm Beach Gardens	Direct New	13,640
<i>Kimley-Horn is one of the nation's premier planning and design consulting firms with more than 120 offices across the U.S.</i>				



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