

West Palm Beach Holds Florida's Tightest Vacancy Rate; Regionally Elevated Yields Encourage Deal Flow

Growth of local consumer base underpins retail demand. Tax incentives and relocation assistance programs introduced by the local government have encouraged numerous business relocations and expansions, which has spearheaded net in-migration to the region since the onset of the pandemic. During the 2020-2022 span, the metro gained more than 50,000 new residents, growth that is supporting robust leasing activity in the retail sector. Last year, net absorption surpassed 1 million square feet for the first time since 2016, contracting vacancy to 3.5 percent – the lowest rate among all major Florida metros. Although headwinds like rising interest rates and widespread inflation pose a threat to the national economy, West Palm Beach is well-positioned to weather the storm. The metro will continue to draw new residents and visitors in 2023, promoting disposable and discretionary spending in growing submarkets and tourist corridors. Furthermore, the market faces minimal supply pressure, as roughly 75 percent of the construction pipeline was accounted for entering this year.

Relatively lower costs help stimulate buyer activity. Retail pricing in West Palm Beach is more than \$100 per square foot less on average relative to Miami. This comparatively lower price point is helping to sustain deal flow amid a challenging lending environment, as during 2022 transaction velocity remained robust. While macroeconomic headwinds are expected to slow near-term deal making, the metro is expected to remain an attractive destination for active retail investors. Average first-year returns in West Palm Beach are the highest among major South Florida markets. Additionally, strong population growth and tourism will help insulate the metro from upcoming economic challenges. Specifically, assets anchored by high-credit tenants in affluent areas, such as Boca Raton and North Palm Beach, should garner attention as buyers attempt to mitigate risk.

2023 Market Forecast

- Employment** up 0.7%

Job gains are projected to moderate this year, as local employers add roughly 5,000 new positions in 2023.
- Construction** 500,000 sq. ft.

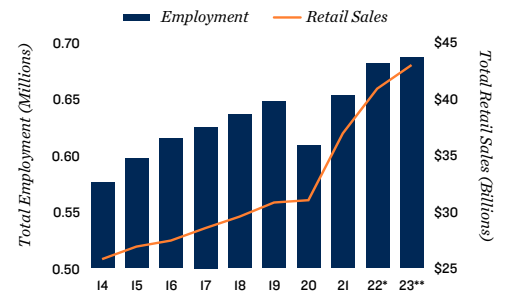
Completions will increase by 50,000 square feet relative to last year. Local inventory is projected to rise by 0.7 percent, with deliveries concentrated in the Palm Beach submarket.
- Vacancy** down 10 bps

Net in-migration and tourism will help sustain tenant demand, resulting in a third straight year of annual vacancy compression. The rate will inch down to 3.4 percent, an all-time low.
- Rent** up 5.1%

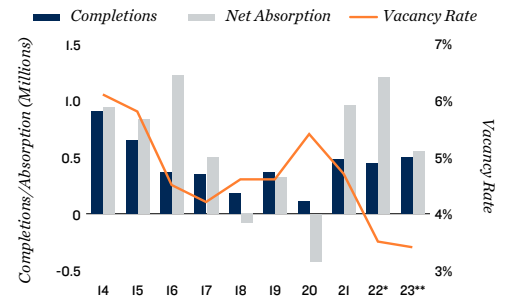
Amid tight conditions, annual rent growth this year remains strong, doubling the long-term average. The mean asking rate is expected to reach \$30.95 per square foot by year-end.
- Investment**

The lowest retail vacancy rate in the state and strong rent growth should continue to draw out-of-state and international investors to West Palm Beach during 2023.

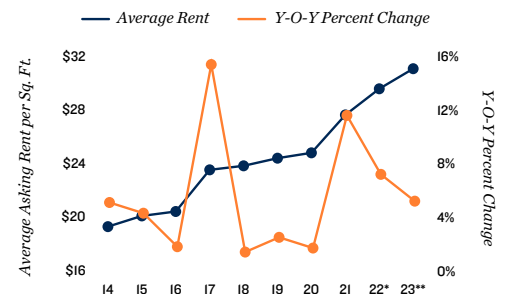
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of January 2023. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.