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### Experts: West Palm Beach has Class A office space glut as new towers start to rise

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Real estate brokers are growing concerned that top tier office buildings have too much shadow sublease space.

Even as another project is up for consideration, West Palm Beach's downtown office market is loaded with empty space, and there is little demand from tenants outside the area wanting to lease large offices, real estate professionals say.

Interviews with real estate developers and brokers indicate that the city's Class A office buildings, which typically attract the top tenants, have plentiful space available directly from the buildings, or from office tenants that are trying to sublease their space.

These subleased offices are a shadow market that indicates the real supply of office space is much larger than thought. In fact, the top Class A buildings are at about 80 percent to 85 percent occupancy, meaning office vacancies are at least 10 percent to 15 percent in each building.

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"There are major holes in all the buildings," said one real estate broker who asked not to be named. "Where's the demand?"

The revelation of the space glut comes as two new office buildings are rising in downtown West Palm Beach, and a third tower is set to be approved by a city committee.

On Wednesday morning, the Downtown Action Committee will vote whether to allow the One Flagler office tower to rise 25 stories on land once zoned for five stories, near South Flagler Drive and Okeechobee Boulevard. The tower would feature 261,000 square feet of office space for lease.

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These buildings add to the existing supply of top-tier space downtown. That space includes Class A buildings such as Phillips Point, Esperante and CityPlace Tower.

"As far back as June, I showed a 17 percent vacancy factor before the new buildings," said Neil Merin, chairman of NAI/Merin Hunter Codman in West Palm Beach.

If you add in Rosemary 360 and One West Palm, both now under construction and set to open in 2021, the vacancy rate jumps to 35 percent, Merin said.

With 360 Rosemary, One West Palm and possibly One Flagler, "you're talking 750,000 square feet of space," Merin said. "But even in the best of years, we can only absorb 100,000 square feet a year."

Not only will the space take years to fill, it will drive down rents at other office buildings, Merin said.

One Flagler's developer, Related Cos., in arguing for the tall tower, has said there is a dearth of Class A space with the amenities and water views sought by private equity firms and hedge funds from the Northeast eager to take space downtown.

But downtown commercial real estate brokers and developers say there's plenty of upscale office space available right now.

That's because the market experienced flat to negative net absorption during the past two years, as some firms left and others signed new deals for smaller space, experts said.

Real estate sources say the space glut, and new office buildings coming to the market, are starting to spook some buildings owners who want out. In fact, word is the Phillips Point office complex might go on the market for sale next year, as might other buildings. "The market is getting nervous," one source said.

Phillips Point is a Class A office tower at 777 S. Flagler Drive. The twin-tower complex features water views, luxury finishes and a top tenant roster. Among them: AMG, a global asset management company.

AMG is seeking to sublease the east tower's entire 11th floor, which has 16,000 square feet of space and soaring water views.

Also available is prime waterview space on the east tower's 10th floor, once occupied by the Arnold & Porter law firm, which still has a lease on the space. The 8,000 square foot space is available for sublease.

In fact, of the 460,000 square feet of space at Phillips Point, about 84 percent is occupied, brokers said.

Over at Esperante at 222 Lakeview Avenue the 255,000-square-foot tower has 48,000 square feet of space available for lease, broker say, meaning the building's occupancy also about 82 percent.

Even when sought-after hedge funds and private equity firms lease space, they do not take a lot. Instead, they typically look for small offices, sometimes as small as between 800 to 1,200 square feet, according to one commercial leasing expert.

Brokers said the downtown's Class A office buildings were fully leased up to more than 95 percent for a brief time, but have settled back to their historic occupancy rates of between 80 percent to 85 percent occupied.

"There haven't been a lot of major new deals in downtown West Palm Beach," agreed Peter Reed, managing partner of Commercial Florida Realty Services. "It's still a shuffle" of existing tenants downtown.

For example, one new tower under construction, 360 Rosemary at Rosemary Square, snared Comvest from nearby CityPlace Tower. It also lured law firm Lewis, Longman & Walker law from the Northbridge Centre, where the firm leased 16,000 square feet of space.

Now both Cityplace Tower and Northbridge will have to fill that soon-to-be empty space in their buildings.

At CityPlace Tower at 525 Okeechobee Boulevard, the last new tower completed downtown since 2008, the building's occupancy is only 72 percent, according to leasing information available on its website and broker data.

Brokers are marketing a 21,160 full-floor sublease on the 9th floor. The rental rate is \$39 per square foot net, below the market price of more than \$50 per square foot for space in the building.

In addition, the 300,000 square foot building has another 64,127 square feet of space available for lease, according to the building's website. This includes the top two floors formerly home to Intech, which moved over to One Clearlake Centre on Australian Avenue,

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