

Downtown West Palm Beach – *The Momentum is Building (Part 2)* *Opportunities to Participate in one of South Florida's Most Exciting Growth Markets*

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This is the second of a two-part series wherein Brad Capas, President of CapasGroup Realty Advisors, addresses the exciting real estate investment and development momentum that is building in downtown West Palm Beach. In this discussion, Capas identifies opportunities for investors and developers to enter this accelerating market and participate in its economic growth and expansion.

Timing is Everything

Most market experts agree we are in the early stages of an economic and real estate market recovery. This is certainly true of downtown West Palm Beach where momentum is building and opportunities to capitalize on this trend exist across most real estate sectors. We believe investors and developers who enter the downtown market today will be ideally positioned for exceptional growth. *Now is the time to invest in downtown West Palm Beach.*

The Office Conundrum

The Need: Downtown West Palm Beach needs several large employers to enter the market and help anchor the local economy. This high priority objective has been publicly expressed by City and County promoters who report increasing traffic and interest from new market entrants with large, Class A office requirements.

The Good News: Class A office space in downtown West Palm Beach is approximately 95% occupied. This underscores the strength and credibility of the downtown office market. Additional credibility is drawn from the significant level of institutional ownership here. Examples of major institutional stakeholders in downtown West Palm Beach include: Crocker Partners/Cornerstone (Esperante), Colonnade/Prudential (Phillips Point) and W.R. Berkley (new owner of CityPlace Tower).

The Challenge: Due to its low Class A vacancy, downtown cannot currently accommodate the large space requirements of the major employers the City seeks to attract. Moreover, conventionally financed, speculative office development is difficult to execute due to lenders' significant pre-leasing requirements.

The Opportunity: The downtown West Palm Beach office conundrum can be resolved with the confluence of: (1) One or two large space users, and (2) a developer with the vision, capital and willingness to place a bet on the downtown office market. Key reasons we think new Class A office could work downtown include:

- Development feasibility is supported by the recent sale of the CityPlace Tower office building in downtown West Palm Beach for a reported price of more than \$500 per square foot.
- Available vacant space in existing Class A office buildings is very limited.
- Two of the market's three Class A office buildings, Esperante & Phillips Point, are more than 25 years old.
- These older-vintage Class A buildings present functional and space planning constraints that could be avoided in a contemporary building.
- More than 400,000 square feet of Class A & B office leases are scheduled to expire in downtown West Palm Beach between 2015 and 2019. These tenants would represent "low hanging fruit" for a new, state-of-the-art building offering improved functional utility, superior LEED status potential and a more pedestrian-friendly location.

Luxury Condominiums

The downtown West Palm Beach condominium market is tightening and several developers are positioning to capitalize on the expected near term market growth. For example, Kolter and RAM recently announced joint venture plans to develop "3 Thirty-Three Downtown," consisting of 230+ condominium units along Fern Street. In addition, an entity affiliated with GOLUB is moving forward with the highly publicized Chapel-by-the-Lake development consisting of 70+ ultra-luxury condominiums. We expect other condo developers to follow suit as the market continues to build momentum. Downtown West Palm already offers the comprehensive array of amenities luxury buyers require. It is a truly desirable place to live and work, which will be reflected in growing condo prices.

Analysis of closed sale prices for existing luxury condominiums in downtown West Palm Beach suggests average sale prices have increased approximately 10% through July of 2014, relative to 2013. We expect this trend to continue.

Hotels

Downtown West Palm Beach is underserved by luxury hotels. Completion of the convention center Hilton (under construction) and Marriott Residence Inn (near completion) will begin to address today's pent-up demand but quality lodging opportunities remain scarce in the downtown core. Recognizing this, several developers have been in the market searching for suitable sites for quality, high-end boutique hotels. Considering the ongoing evolution of downtown West Palm Beach, the affluent clientele generated by nearby Palm Beach Island and the limited existing luxury alternatives, this market offers an excellent opportunity for a high-end, niche hotel.

Luxury Rental Apartments

During the mid-2000's boom cycle all of the large, Class A apartment communities in downtown West Palm Beach were converted to condominiums. Today many of these units are investor-owned and operated as rentals. We are aware of 800 to 900 new apartment units that are either under construction or imminently proposed in the downtown market. Opinions vary as to whether sufficient demand exists today to support apartment development beyond those units already in the pipeline. However, it is important to remember that today's rented condo units will likely sell to resident-owners as the housing market continues to improve, creating room for more rentals. Simultaneously, ongoing growth in the downtown commercial and hotel sectors is expected to fuel additional rental apartment demand. Rental apartments in downtown West Palm Beach have historically performed very well and we expect this trend to continue.

Retail

New commercial and residential development will generate retail demand, potentially creating opportunities for well-conceived, urban-style retail space in good locations. Some of these opportunities may be incorporated in mixed-use developments while others will crop up in new downtown growth corridors.

Now is the Time

Over the past several economic growth cycles, downtown West Palm Beach has continued to mature and has enhanced its stature as a credible, institutional caliber investment market. Today, we find ourselves at the beginning of a new market upswing and we believe the current market cycle will be transformational for downtown West Palm Beach. The momentum is building and the opportunities are still available for savvy investors to participate in one of South Florida's most exciting growth markets. *Now is the time to invest in Downtown West Palm Beach.*

About CapasGroup Realty Advisors

CapasGroup Realty Advisors is an investment sales organization specializing in the marketing and disposition of investment real estate in South Florida. CapasGroup President, Brad Capas has extensive experience in downtown West Palm Beach and the surrounding submarkets. Additional information about CapasGroup Realty Advisors and their current property listings can be viewed at: www.capasgroup.com

