Economic Development Incentives Bring New Firms to West Palm Beach, Spurring Rapid Net In-Migration

Influx of new residents drive unprecedented rent gains. Since 2019, West Palm Beach has led all major South Florida markets in population growth, gaining more than 55,000 new residents. Initiatives from the Business Development Board of Palm Beach County spurred many corporate relocations and expansions from firms like Citadel and Kru-seCom, which, in turn, strengthened in-migration to the region. The recent surge in apartment demand sparked an unprecedented stretch of rent growth, with the average effective rate increasing by more than 40 percent since the onset of the pandemic. Leasing activity slowed in response, as this rapid appreciation occurred during a time when consumers were tightening their budgets due to widespread inflation. Moving forward, market conditions will likely soften more in the near term, as a slowing economy is set to further temper the rate of household formation. However, the metro's large renter-by-choice baby boomer population should provide a bit of stability during times of economic uncertainty. Additionally, the region's warm climate and favorable tax rates are expected to draw more young adults to the area. This will create more diversity in the local renter pool, helping bolster long-term apartment demand in the metro.

Local assets provide upside potential. Robust rent gains over the past two years have elevated investor interest for apartment assets in West Palm Beach, with transaction velocity rising above historical levels in 2022. Climbing interest rates also put a spotlight on the market, as the average first-year return is at least 30 basis points higher than any other major Florida metro. Class C apartments in West Palm Beach proper and Boynton Beach are common targets, with average yields that are 60 basis points above the market mean. Higher-tier assets also change hands in these locales, and may garner heightened interest moving forward if the metro continues to attract corporate relocations. Entry costs for apartments in this segment generally exceed $350,000 per unit.

2023 Market Forecast

NMI Rank 10 — A wide affordability gap merges with continued recruitment and household formation to create a top-10 outlook for rentals.

Employment up 0.7% — Employers will add 5,000 new jobs in 2023, with gains most pronounced in the leisure and hospitality sector.

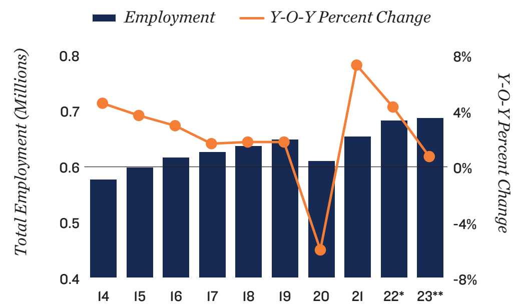
Construction 4,400 units — Annual supply additions surpass the 4,000-unit threshold for the first time in more than two decades, as developers increase apartment inventory by 3.5 percent.

Vacancy up 90 bps — A slowing rate of household formation due to widespread inflation, coupled with a record supply wave, will place upward pressure on vacancy. The rate will rise to 6.6 percent by year-end.

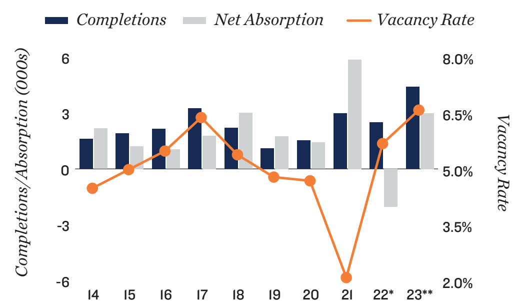
Rent up 2.3% — Rent growth returns to more sustainable levels, following two consecutive years of robust gains. The average effective rate is projected to reach $2,455 per month.

Investment — Class C assets will likely continue to be highly sought after, as rents in this sector have grown by nearly 25 percent in the past year, compared to the national average of 13.3 percent.

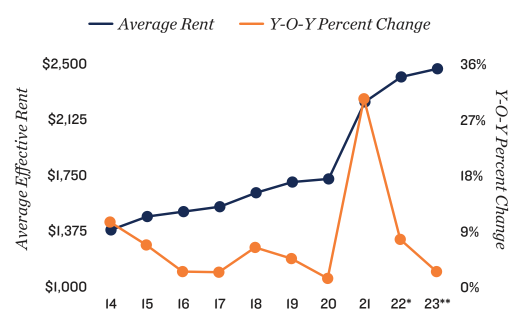
Employment Trends



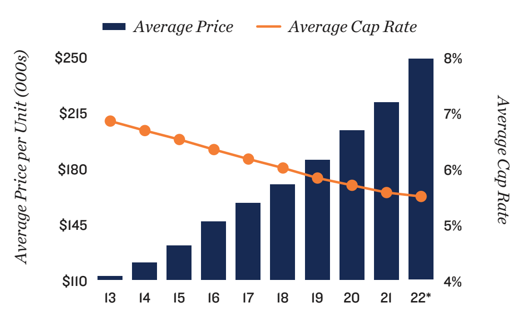
Supply and Demand



Rent Trends



Sales Trends



* Estimate; ** Forecast

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