

Market & Economic Analysis

Palm Beach Gardens TOD Station Area Master Plan

EXECUTIVE SUMMARY EXCERPT FOR PRESENTATION TO CITY COUNCIL



Prepared for:
Treasure Coast Regional Planning Council

On behalf of:
City of Palm Beach Gardens, Florida
June 2018

1 Executive Summary

Introduction

WTL+a, a national real estate and economic development consulting firm based in Washington, DC, with significant project experience throughout Florida, was retained by the Treasure Coast Regional Planning Council (TCRPC) to prepare a real estate market and economic analysis of transit-oriented development (TOD) potentials for the area surrounding a proposed rail station in Palm Beach Gardens.

In 2016, the Federal Transit Administration (FTA) awarded a \$1.2 million planning grant to the South Florida Regional Transportation Authority (SFRTA) to conduct comprehensive transit-oriented development (TOD) planning associated with potential Tri-Rail Coastal Link (TRCL) station areas, as part of region-wide Tri-Rail expansion onto the Florida East Coast (FEC) Railway corridor. According to the SFRTA, the TRCL project is planned to introduce new commuter rail service along 85 miles of the FEC rail corridor and provide new regional and intercity mobility, economic development and transportation choices. TRCL is planned to fully integrate its existing system with the FEC rail corridor and connect South Florida's most populous eastern cities between downtown Miami and Jupiter.

Numerous public agencies are partnering with SFRTA in support of TRCL, including the Miami-Dade, Broward, and Palm Beach MPOs; FDOT; the Southeast Florida Transportation Council (SEFTC); the South Florida and Treasure Coast Regional Planning Councils; and several local governments along the FEC corridor. We understand that the Council is assisting SFRTA in administering the planning grant.

The planning grant is focused on several key objectives, including:

- Guide and manage development or redevelopment activities within designated station area(s) or along transit corridors;
- Integrate transit facilities and mobility improvements into a municipality's land use plans and land development regulations;
- Support economic development, ridership and multi-modal connectivity;

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- Increase transit access for pedestrian and bicycle traffic and other users; and
 - Promote mixed-use development near TRCL transit stations.

In early 2017, SFRTA/TCRPC invited municipalities in each of the three counties to submit applications for funding assistance to prepare station area master plans and guide the regulatory framework to advance TOD projects surrounding proposed TRCL stations.

SFRTA/TCRPC approved applications submitted by the cities of Delray Beach and Palm Beach Gardens (Palm Beach County); Hollywood, Oakland Park and Wilton Manors (Broward County); and North Miami Beach and Miami-Dade County (Miami-Dade County).

In Palm Beach Gardens, the primary site for the proposed TRCL station is currently identified as “Site 5B”, one of several development/redevelopment sites located along the FEC rail corridor either north or south of PGA Boulevard, east of I-95. The site is surrounded by major and secondary roadways and other potential redevelopment sites, several of which are currently being reconfigured, expanded or under consideration for future redevelopment.

In its application for a station area master plan, the City’s objectives include:

- Engaging public and private sectors through a series of public meetings and workshop sessions with key stakeholders;
- Evaluating road networks and potentials to increase connectivity between existing office/retail and residential developments;
- Preparing an overview of market and real estate conditions as a benchmark for comparison against current and pending development plans (including requested square footages of land uses such as hotels, residential, retail and office uses);
- Exploring station-area implementation options which will maximize revenues to the City of Palm Beach Gardens to offset estimated future operating and maintenance costs for train service to the Palm Beach Gardens station; and
- Suggesting appropriate implementation strategies for key development sites that reflect market forces in the greater market area.

The primary focus of the TOD station area market analysis will be on several key sites located within a ¼ and ½ mile “area of influence” surrounding the proposed station location south of PGA Boulevard along the FEC tracks (with the primary site identified as “Site 5B”). These

include: the areas surrounding The Gardens Mall; “Downtown at the Gardens” (to be re-branded “The District” by ownership); the FP&L site; Parcel 5A; the former Loehmann’s Plaza site; Legacy Place, located south of PGA Boulevard and east of the FEC tracks; and Parcel 5B. These parcels are located on both sides of PGA Boulevard to the east of I-95 and generally within a one-mile radius of the proposed TRCL station. To further inform the station-area analysis, this study also considers key citywide demographics, economics and land use patterns.

In its application for a station area master plan, the City’s objectives include:

- Engaging public and private sectors through a public charrette process;
- Evaluating potential design options for community preference;
- Measuring the financial feasibility of those options; and
- Preparing a targeted market analysis.

Based on these objectives, WTL+a prepared an analysis of real estate market potentials and preliminary economic benefits of several development scenarios prepared by the TCRPC planning team. Our market study focused on two (of four) core uses—housing and workplace/office. In addition, we prepared a *preliminary* analysis of the potential economic benefits generated in these scenarios. We also worked collaboratively with Retail & Development Strategies, LLC, which focused on two other core uses—TOD-related retail and lodging/hospitality and preliminary implementation strategies. While WTL+a and RDS were contracted separately by TCRPC, we have prepared a single, fully-integrated market and economic analysis report for the Palm Beach Gardens TOD Station Area Master Plan.

Analytical Timeframe & TOD Precedents

In considering the economic and market implications of Transit-Oriented Development (TOD) projects, it is noteworthy that the data time-periods used to establish market trends and forecast development potentials are typically shorter than the time required for markets to adjust (and fully reposition) in response to newly-introduced transit systems. A 10-year timeframe is an industry standard for market and economic analyses.

For our analysis of TOD opportunities in Palm Beach Gardens, a 10-year forecast period was utilized as the basis for evaluating real estate market potentials for new housing (and hotel)

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uses—by extrapolating five-year population and household forecasts for this 10-year period. For workplace/office uses, WTL+a utilized employment projections prepared by the Florida Department of Economic Opportunity (DEO), the state agency that prepares job forecasts by industry sector for jurisdictions across the state. Notably, DEO projections are provided only in eight-year increments; for Palm Beach County this forecast period is 2016—2024.

Another critical factor in understanding TOD potentials is the recurring and changing cycles of real estate/land uses, which respond to levels of supply and demand, available capital based on likely returns and other national macro-economic forces. Because these cycles do not follow consistent time patterns, economists generally do not consider econometric forecasts beyond 10 years to be reliable, as unforeseen events in the future may significantly alter trend-based analysis. For these reasons, WTL+a and RDS do not generally complete market-based economic models beyond 10 years from the base year of available data.

This is in contrast with the time periods related to transit-oriented development. In established markets with more recent development of extensive transit systems (such as the Washington, DC, San Francisco and Atlanta metropolitan areas), two factors make it very difficult to forecast beyond a 10-year period. The first is the length of time needed to plan and implement the transit systems themselves, a process which oftentimes requires significantly longer than 10 years. Even in a situation like the SFRTA, in which track right-of-way exists (which can be expected to greatly reduce the overall timeframe required if the system's route required land acquisition), engineering, environmental and financial requirements consume years of time. This is in addition to the time required for development of rail equipment, installation of safety gates, switching and other route/system management requirements. At a minimum, it is acknowledged that it will still be several years before all planned elements are in place to initiate rail service in Palm Beach Gardens, including extension of the system north to Jupiter.

In terms of real estate implications, our experience in other markets across the United States suggests additional time beyond implementation of transit service is required to realize TOD development potentials around the most marketable transit stations. For example, in the Washington, DC region, the 103-mile WMATA Metrorail system began planning in the 1950s, adopted a specific route plan in 1968, and opened the system's first phase in downtown Washington in 1976. Notably, metropolitan Washington has had unprecedented growth over the past 30 years and is considered a very strong market for real estate development. Now,

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fully 40 years after the first stations opened, the Metrorail system is the second most heavily used in the U.S., after New York City.

Figure 1: Aerial of Metrorail Orange Line—Arlington, VA



Source: <http://kaidbenfieldarchive.com/20080623-transit-oriented-development-in-arlington-stunning-succ.html>

Figure 1 above illustrates TOD patterns of development in Arlington, VA, adjacent to Washington, DC, along the Metrorail's Orange Line that materialized over 30 years with strategic planning and TOD-focused land development regulations.

Despite these market and economic strengths (and substantial Federal, state and local government support to complete the rail system), it took fully 10 years for developers and investors to recognize that proximity to Metrorail added real estate value in specific locations. The example of one high-growth corridor—the Orange Line from Rosslyn to Ballston in neighboring Arlington, VA—is telling. A Corridor Sector Plan was created in the early 1980s; this plan envisioned concentrating new development density around Metro stations and up-zoning allowed densities in a three-block wide corridor along the line. Densities would taper/reduce to single-family housing and lower building heights two blocks beyond the core. While that vision was well-received by both residents and local government, it still required 25 years after adoption of the Corridor Sector Plan for the real estate market (and developers) to

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“catch up” to the original vision. Similar patterns (and timetables) for TOD potentials have been required in multiple stations/submarkets in both the Atlanta and San Francisco systems.

In short, TOD is a much longer process than that of conventional real estate analysis and market projections. In locations in which sufficient time has passed, there has consistently been a substantial increase in land values, and developers now market rail station proximity as a key amenity across multiple land uses, but it takes decades for market forces to be fully realized.

For this reason, there is a special consideration required for the Palm Beach Gardens SFRTA Station Area Plan. We believe that—even with the pace of growth in Florida, the relatively strong economy of Palm Beach County and its competitive position as a residential destination—the impacts of TOD market potentials will not be fully realized within the first 10 years (i.e., the period for which reasonable market and economic projections can be made). In our professional opinion, TOD in Florida, by necessity and experience in other markets, will require 20 to 30 years or longer to be realized.

This does not suggest that nothing could/should happen within this 10-year timeframe. Instead, it adds emphasis to the City’s opportunity to begin establishing transit-supportive patterns of development/redevelopment that will enable transit funding to be secured in the competitive Federal framework and establish improved mobility patterns and travel behavior that will be supportive of transit over the long-term. There are major development/redevelopment opportunities in Palm Beach Gardens that will occur as a result of creating a rail-based transit system and other market forces (such as market demand for, and the City’s deficit of, “essential services” housing”). But realistically (and in contrast with more rapid investment return expectations in the real estate industry), the full investment benefits of TOD along the SFRTA system should not be expected to be realized for at least 20 years.

In conclusion, WTL+a and RDS LLC suggest that market opportunities that fall within the real estate industry’s standard 10-year forecast period should not be used to determine longer-term outcomes. Concurrently, industry standards for real estate economics are not conventionally accepted for longer-term statistical projections and may not be a firm basis for 20-year (or longer) forecasts regarding pricing, product types and/or the pace of absorption (i.e., leasing and sales). Historical patterns in other transit-based markets suggest that there will be sustained growth related to TOD potentials, but conventional econometric analysis is not reliable beyond 10 years.

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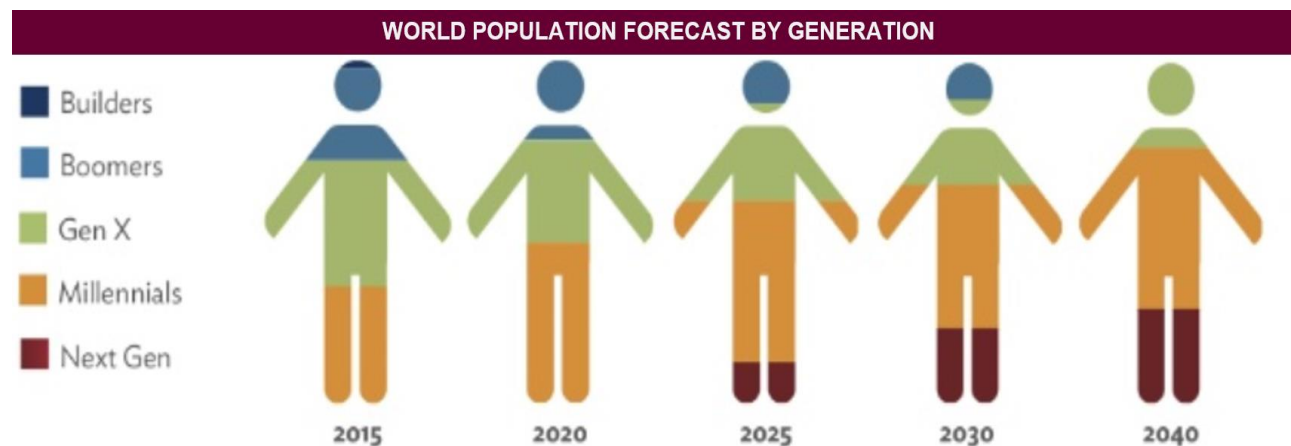
Key Findings

Demographic & Economic Profile (Section 2)

- Since 2000, the City's population has increased significantly—with **more than 19,600 new residents and more than 10,100 new households**, reflecting average annual growth rates of 2.65% and 2.99% per year, respectively;
- In 2017, data from ESRI Business Analyst suggests that Palm Beach Gardens **contains over 54,700 residents in 27,600+ households**;
- Five-year forecasts prepared by ESRI Business Analyst through 2022 suggest that Palm Beach Gardens' growth will moderate slightly from the 2010—2017 period, with a forecast population gain of more than **4,300+ new residents in 1,960 new households**. ESRI forecasts suggest that **population growth will be greatest in two age cohorts**: ages 65-74 and 75+. The City's median age of 50.6 is projected to rise to 51.8 years by 2022 as compared to Palm Beach County, which has a younger median age of 45.5 that is forecast to increase to 46.2 years by 2022;
- After 57,000 job losses during the 2007—2009 recession, the economy of Palm Beach County has significantly recovered—with **110,300 new jobs since 2011**. DEO forecasts suggest the County will gain **81,600 new jobs between 2016 and 2024** (10,200 jobs per year);
- Dun & Bradstreet, Inc. estimates there are more than **39,600 jobs in 3,129 registered businesses in Palm Beach Gardens**, accounting for 5.6% of the 668,800 full-time jobs in Palm Beach County. If the City maintains its fair share, this would translate into **4,600 new jobs citywide over the next eight years**;
- Palm Beach Gardens has *not* fully recovered the jobs lost in the recession. In fact, **2015 citywide employment (latest data available) suggests 2,550 fewer jobs** in the City than in 2005 (a contributing factor in this decline is the relocation of the G4S/Wackenhut headquarters to Jupiter); and
- **One of the most striking findings of our analysis of citywide employment trends is a decline in the number of employees in two age cohorts—ages 29 and younger and 30 to 54 years of age**. Census data indicate that the number of **employees 29 and younger declined by 2,400 citywide**, a decrease of 3.1% per year; and

- As illustrated in Figure 2 below, the decline in younger employees in Palm Beach Gardens contrasts with the forecast increase of Millennials in the workforce in the future, which could create a challenge to the City’s desired job growth and sustainability. **Millennials are a growing demographic segment that are expected to constitute more than 60% of the world’s total population by 2040.**

Figure 2: World Population Forecast by Generation, 2015—2040



Real Estate Market Conditions (Section 3)

- The 2017 average unit value of all housing units in Palm Beach Gardens is over \$429,800;
- There are 2,700 units that are seasonally-owned (i.e., occupied for only a portion of the year, such as by snowbirds who vacation in Florida). When these “unoccupied” units (including sold but not yet occupied) are removed from the unoccupied category, the City’s *true vacancy* in 2010 was 5.1%, or 1,404 units. The **2015 American Community Survey (ACS) suggests that true vacancy increased slightly in 2015—to 5.2%** (1,589 units). In effect, the City’s housing market is stabilized, as 5% vacancy is considered industry-standard;
- According to HUD data, there were 2,196 housing units built in the City over the past 10 years, resulting in housing starts averaging 220 units per year;
- Data suggests that the City’s **multi-family rental market is generally stabilized, with generally high occupancies** and achieved monthly rents (\$1.50 per sq. ft.) characteristic of a suburban submarket in South Florida;

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- Palm Beach Gardens contains **1,625 hotel rooms** in nine properties, accounting for a 9.6% share of the County's hotel room inventory. The larger competitive market contains 15 properties and 2,219 rooms. Over the past six years, **average annual occupancies have increased from 67.8% in 2011 to 74.7% in 2016;**



- Hotel performance metrics meet the threshold required by the capital markets of sustained annual occupancies ranging from 65% to 72% to warrant capital market-based financing of new hotel construction. In fact, **the**

citywide hotel market appears robust, with potential demand for up to 3—4 new hotel properties over the next 10 years;

- The Palm Beach Gardens office submarket also includes Lake Park and North Palm Beach. The submarket contains **3.14 million sq. ft. of office space** (13% of the County). Netting these two communities out of the total suggests a **citywide office inventory of 2,489,000 sq. ft.** Between 2014 and 2017, net absorption in the submarket **averaged 76,700 sq. ft. per year;**
- A detailed survey of 25 office buildings located within or adjacent to the Core Area suggests an inventory of 1,115,900 sq. ft. in buildings ranging in size from 18,000 to 189,100 sq. ft. Vacancy rates have declined—from **20.4% in 2012 to 15.6% in 2017**, but there are uneven patterns of annual absorption. In fact, **overall absorption averaged only 13,925 sq. ft. per year between 2012 and 2017**, with several tenants shifting from building to building within the City; and
- According to the City, there are six unbuilt office projects approved (entitled) in the Core Area, which will **deliver 615,900 sq. ft. of new office space.** Only one of these projects, Gardens Corporate Center (formerly Gosman), was under construction at the time of this report. Anticipated delivery dates of the other projects are not known;

- **Outside the Core Area, there is another 2.67 million sq. ft. of approved, but unbuilt, projects elsewhere in the City, which includes substantial entitled inventory in the western portion of the City** (in addition to “Core Area” approvals dating back to the 1980s); and
- WTL+a notes that market response (in the form of pre-leasing, achieved rents and annual net absorption) in each project (particularly the Gardens Corporate Center when it is delivered) will indicate the overall depth of demand for new office space in both the Core Area as well as other locations in Palm Beach Gardens for the foreseeable future.

Real Estate Market Potentials (Section 5)

Market-rate Housing

As presented in detail in Section 5 of the full report, two scenarios of housing market potentials were prepared:

Scenario #1

- Between 2000 and 2017, the City’s population increased at a significant, sustained annual rate of 2.65% per year, generating 19,600 new residents and 10,100 new households;
- If the *pace* of growth continues at this historic rate, it yields **16,400 new residents in 7,700 new households (units)** if average household size of 2.12 remains unchanged. This translates into annual demand of 770 units per year;
- Future citywide growth in population/households was allocated to known/approved residential projects (595 units in the Core Area and over 3,000 units outside the Core Area). The City anticipates that up to 1,119 approved units will be built at Alton, with 1,265 units at Avenir (assuming 35% are built) over the next 10 years; and
- This leaves **4,100 “unallocated” units citywide from which proposed TOD residential uses could potentially “capture” over time.** Our analysis assumes 40% to 45% (855 to 960 units) of new housing in Scenario #1 is built within the 10-year forecast period. If so, this yields **potentially achievable capture rates of up to 23%** of future *unallocated* demand for new housing citywide during the forecast period. However, consistent with our national experience in TOD projects, buildout of TOD housing as illustrated in Scenario #1 could potentially take up to 20 to 25 years even under the higher population growth rates

assumed in this scenario. This is an example of the contrast between conventional 10-year absorption projections and the more realistic, longer timetable required for TOD projects.

Scenario #2

- Scenario #2 utilizes ESRI's annual (lower) growth rate of 1.55% per year, which yields **9,000 new residents in 4,280 new households** (units) citywide if average household size of 2.12 remains unchanged. This translates into annual demand of 420 units per year (within the 10-year projection period); and
- With growth allocated to known/approved residential projects in this lower-growth scenario, there are **650 “unallocated” units citywide from which proposed TOD residential uses could potentially capture**. Our analysis assumes that between 30% and 35% (665 to 720 units) of the housing component in Scenario #2 would be completed within 10 years (i.e., a lower citywide population growth rate during the 10-year forecast period translates into greater competition for market share among future residential projects). In this more conservative growth scenario, buildout of TOD housing as illustrated in the planning concepts could take 25 to 30 years or more.

Workplace: Office

- Under a “fair share” analysis, Palm Beach Gardens continues to capture 5.6% of future countywide job growth, or approximately 4,600 new employees by 2024. Assuming similar proportions of office-using jobs and occupancy factors translates into gross demand for 343,600 sq. ft. and **net demand for 282,600 sq. ft. of new office space citywide by 2024** after accommodating some growth in existing vacant space;
- The City has approved/entitled a significant amount of new office space totaling 3.3 million sq. ft. The analysis considers 615,908 sq. ft. of approved projects in the Core Area (only one, Gardens Corporate Center with 223,943 sq. ft. of space, is under construction) and 671,176 sq. ft. elsewhere in the City;
- Our analysis of office development potentials in the TOD district assumes that these approved/entitled office projects are delivered for market occupancy, thereby leaving no “unallocated” demand for new office space outside of these projects. (We recognize that the City has also approved 2.0 million sq. ft. of office space at Avenir and 913,000 sq. ft. of

owner-user office space as part of the FP&L campus. Due to uncertainties related to timing/phasing of both projects, these were excluded);

- Annual net absorption in the Core Area averaged **only 14,000 sq. ft. per year** over the last five years, noting the shift of some tenants from building to building within the study area. **Limited net leasing activity and the large amount of approved, unbuilt office space will necessitate a *significant* increase in market share of office-using jobs in Palm Beach Gardens** to support the large amount of office space approved by the City;
- Impacts of the proposed FPL development could possibly influence demand for additional office and other uses in the Core Area. However, there remains uncertainty as to the ultimate development program, timing and phasing for this important site; and
- A broader, carefully crafted set of public economic development strategies focused on business retention and recruitment, use of public regulatory and/or financial incentives, and/or targeted recruitment of office tenants as part of developer pre-leasing efforts may be critical in underpinning the availability of financing for these approved, unbuilt office projects.

Hotel/Lodging

- Over the past six years, **average annual occupancies increased from 67.8% in 2011 to 74.7% in 2016**. For the past three years, ***sustained* annual occupancies among competitive properties ranged from 74.4% to 74.8%** (with a six-year average of 72.5% between 2011 and 2016);
- These performance levels meet the threshold required by the capital markets of sustained annual occupancies ranging from 65% to 72% to warrant capital market-based financing of new hotel construction; and
- This performance analysis suggests that **there is sufficient demand/investment-level performance necessary to justify the addition of new hotel rooms in Palm Beach Gardens** (or its immediate surrounding trade area). Based on data provided by City staff, over 900 rooms are proposed in multiple new hotels in the city.

Preliminary Planning Concepts

The station area plan illustrates various infill development/redevelopment concepts for the key sites within the study area, with an emphasis on connectivity, mix of uses, and densities and intensities appropriate for TOD. The station's location west of the FEC rail corridor will require carefully crafted mobility solutions to enable productive connections to the destinations across A1A (e.g., Downtown/The District, The Gardens Mall, Legacy Place, Gardens Medical Center, Palm Beach State College), and special consideration should be given to meaningful connections that maximize the utility of the station for the City.

Several station area plans prepared by TCRPC are included below to illustrate these concepts.

Legacy Place

As illustrated in Figure 3 below, a redevelopment concept developed by the TCRPC team for the "Legacy Place" site depicts the potential to reconfigure the roadway network and existing retail uses to allow for infill housing. The future Tri-Rail station is depicted in the foreground.

Figure 3: Potential TOD Concept for Legacy Place



Parcel 5B & Loehmann's Plaza

Based on market demand, opportunities may also exist to infill the Parcel 5B and former Loehmann's Plaza sites with new housing, hotel, office, and/or retail uses to support the future transit station and potentially complement the proposed uses on the FPL site (located

immediately to the north). As illustrated in Figure 4 below, the future Tri-Rail station is indicated in the foreground.

Figure 4: Potential TOD Station & Parcel 5B Site Transformation



The TOD concepts for Parcel 5B include the hotel currently under construction (immediately east of RCA Boulevard) and are intended to support the continued utilization of office uses with buildings that maximize visibility of this location from I-95.

The Gardens Mall

The Gardens Mall represents the largest land owner and taxpayer in the City and comprises the site with the largest land area *potentially* available to accommodate infill redevelopment on portions of the Mall's 7,000 surface parking spaces. Taking cues from other successful national mall redevelopment projects near transit stations, the concepts prepared by TCRPC illustrate a long-term redevelopment strategy that could increase and significantly add to the City's tax base, provide a range of housing options, and strengthen the long-term competitiveness of this core site as well as those that surround it.

Figure 5: Potential TOD Concept for The Gardens Mall



Preliminary Economic Benefits (Section 6)

At buildout, the TOD concepts developed by TCRPC could potentially generate the following economic benefits:

- Between **500 and 600 one-time construction jobs** and **\$178 to \$197 million in construction wages**. These metrics are highly impacted by timing (i.e., years of construction). A shorter buildout period will generate a higher number of one-time construction jobs and wages;
- Over **300 permanent jobs** in the potential commercial/workplace uses and over \$9.9 million in annual permanent wages; and
- **\$7.9 to \$8.9 million in annual ad valorem/property taxes** for all taxing authorities based on current (2017) millage rates. This includes \$2.2 to \$2.5 million per year for the City of Palm Beach Gardens and \$5.6 to \$6.3 million per year for other taxing authorities.