

# Palm Beach

## Palm Beach County's office market shows some resiliency despite negative absorption

After two solid quarters of positive net absorption, Palm Beach County's office market is beginning to feel the effects of the pandemic, although less severely than its other South Florida counterparts with net absorption ending the quarter in negative territory. The market saw 180,486 sf of supply come back online during the third quarter, most of which occurred within class B assets located in Boca Raton and Downtown West Palm Beach.

Overall vacancy rose by 112 basis points (bps) to nearly 14% during the third quarter, however the rise in sublease space has minimally impacted Palm Beach County so far, accounting for only a 9-bps increase over the quarter. While there were no major move outs during the third quarter, much of the space that has come back online has been from smaller tenants closing operations or companies downsizing in the market, an example being Proskauer Rose, which gave back 10,000 sf upon renewal at One Boca Place. The jump in vacancy is partly attributable to the delivery of the 111,971-sf North Tower at the Divosta Towers in Palm Beach Gardens, which was almost completely available at delivery.

### Leasing activity beginning to rebound

Following a stagnant second quarter, leasing activity has begun to rebound, up by 39% at the close of the third quarter. The largest new lease was InCapital's 18,066 sf deal to take the

entire fourth floor at The Offices of 4th & 5th Delray. An in-market move, the company will be expanding and relocating from its headquarters location in Boca Raton. The Delray Beach submarket has performed well in 2020, boasting the strongest positive net absorption for the year-to-date. Delray's smaller boutique-style office buildings may present an attractive alternative to other densely populated office parks in a post-COVID environment.

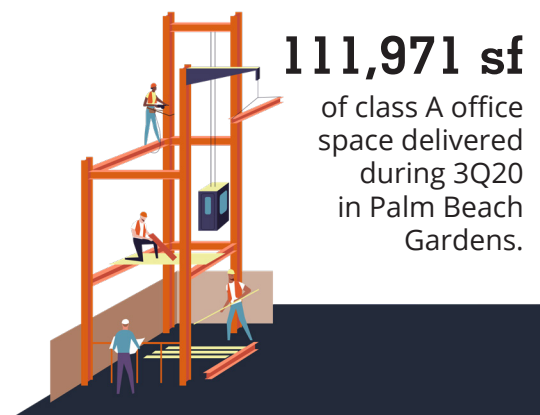
### Investment activity recovering fairly well

Palm Beach County's investment sales have recovered fairly well when compared with all of South Florida. Year-to-date sales volume is down only 18% from year-to-date sales in 2019, largely due to the notable sale of the recently completed Divosta Towers to Gastby Enterprises for \$80 million during the third quarter.

### Looking ahead toward 2021

Following the reopening of the state, there is a greater sense of optimism as workers slowly trickle back into the workplace. Palm Beach County's labor market has also recovered faster than expected, adding back 39,000 jobs since April. The migration of firms from the Northeast will also continue to fuel activity in Palm Beach. In a recent announcement, Elliot Management Corp, a major New-York-based hedge fund, plans to relocate its headquarters to Downtown West Palm Beach.

Historical 5-Year Vacancy Trend



**27.0 MSF**

Total office inventory in the Palm Beach office market

**(149,103) SF**

Direct Y-T-D net absorption as of 3Q-2020

**13.96%**

Overall vacancy

**\$47.24/SF/FS**

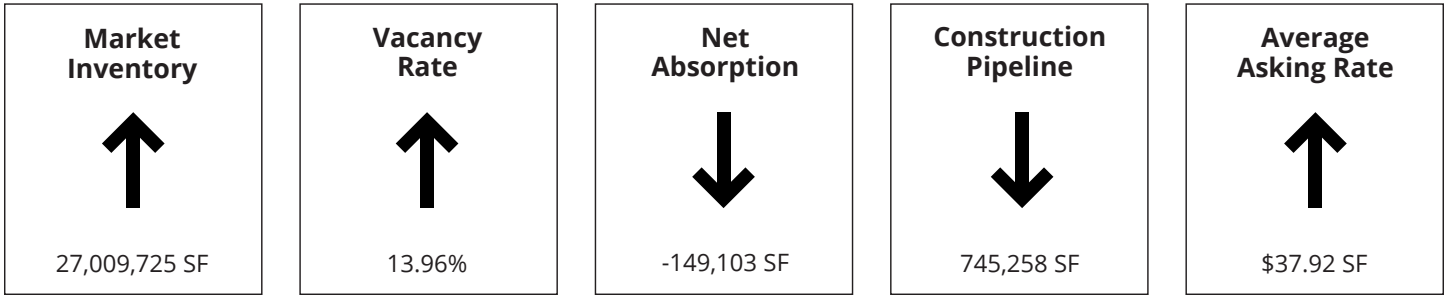
Average rental rate for class A space

Market by the numbers

Palm Beach County										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	8,441,663	1,203,414	94,990	\$47.24	85.74%	14.26%	1.13%	15.38%	745,258	5,361
Class B	18,568,062	2,264,915	208,457	\$32.96	87.80%	12.20%	1.12%	13.32%	0	(154,464)
<b>Total</b>	<b>27,009,725</b>	<b>3,468,329</b>	<b>303,447</b>	<b>\$37.92</b>	<b>87.16%</b>	<b>12.84%</b>	<b>1.12%</b>	<b>13.96%</b>	<b>745,258</b>	<b>(149,103)</b>
CBD										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	1,656,861	237,977	26,147	\$65.45	85.64%	14.36%	1.58%	15.94%	503,950	(19,457)
Class B	1,619,687	270,105	3,449	\$37.59	83.32%	16.68%	0.21%	16.89%	0	(47,138)
<b>Total</b>	<b>3,276,548</b>	<b>508,082</b>	<b>29,596</b>	<b>\$50.64</b>	<b>84.49%</b>	<b>15.51%</b>	<b>0.90%</b>	<b>16.41%</b>	<b>503,950</b>	<b>(66,595)</b>
Non-CBD										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	6,784,802	965,437	68,843	\$42.76	85.77%	14.23%	1.01%	15.24%	241,308	24,818
Class B	16,948,375	1,994,810	205,008	\$32.33	88.23%	11.77%	1.21%	12.98%	0	(107,326)
<b>Total</b>	<b>23,733,177</b>	<b>2,960,247</b>	<b>273,851</b>	<b>\$35.73</b>	<b>87.53%</b>	<b>12.47%</b>	<b>1.15%</b>	<b>13.63%</b>	<b>241,308</b>	<b>(82,508)</b>
Boca Raton										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	4,450,714	585,590	64,901	\$41.84	86.84%	13.16%	1.46%	14.62%	0	(18,984)
Class B	7,284,971	918,645	116,710	\$33.61	87.39%	12.61%	1.60%	14.21%	0	(146,547)
<b>Total</b>	<b>11,735,685</b>	<b>1,504,235</b>	<b>181,611</b>	<b>\$36.82</b>	<b>87.18%</b>	<b>12.82%</b>	<b>1.55%</b>	<b>14.37%</b>	<b>0</b>	<b>(165,531)</b>
Boynton / Lantana										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	280,593	7,972	1,433	\$29.61	97.16%	2.84%	0.51%	3.35%	0	0
Class B	604,841	65,473	0	\$25.02	89.18%	10.82%	0.00%	10.82%	0	7,315
<b>Total</b>	<b>885,434</b>	<b>73,445</b>	<b>1,433</b>	<b>\$25.52</b>	<b>91.71%</b>	<b>8.29%</b>	<b>0.16%</b>	<b>8.46%</b>	<b>0</b>	<b>7,315</b>
Delray Beach										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	88,280	10,431	0	\$59.90	89.30%	10.70%	0.00%	10.70%	65,308	37,283
Class B	941,093	82,651	6,735	\$27.39	91.22%	8.78%	0.72%	9.50%	0	5,280
<b>Total</b>	<b>1,029,373</b>	<b>93,082</b>	<b>6,735</b>	<b>\$31.04</b>	<b>91.05%</b>	<b>8.95%</b>	<b>0.65%</b>	<b>9.60%</b>	<b>65,308</b>	<b>42,563</b>
Downtown West Palm Beach										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	1,656,861	237,977	26,147	\$65.45	85.64%	14.36%	1.58%	15.94%	503,950	(19,457)
Class B	1,619,687	270,105	3,449	\$37.59	83.32%	16.68%	0.21%	16.89%	0	(47,138)
<b>Total</b>	<b>3,276,548</b>	<b>508,082</b>	<b>29,596</b>	<b>\$50.64</b>	<b>84.49%</b>	<b>15.51%</b>	<b>0.90%</b>	<b>16.41%</b>	<b>503,950</b>	<b>(66,595)</b>
Jupiter										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	135,033	0	0	\$0.00	100.00%	0.00%	0.00%	0.00%	0	5,918
Class B	1,319,632	78,386	1,000	\$29.62	93.97%	6.03%	0.08%	6.10%	0	(3,096)
<b>Total</b>	<b>1,454,665</b>	<b>78,386</b>	<b>1,000</b>	<b>\$29.62</b>	<b>94.53%</b>	<b>5.47%</b>	<b>0.07%</b>	<b>5.53%</b>	<b>0</b>	<b>2,822</b>
North Palm Beach / Palm Beach Gardens										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	761,291	191,915	2,509	\$50.16	74.79%	25.21%	0.33%	25.54%	0	11,273
Class B	3,493,672	453,413	32,522	\$29.51	87.02%	12.98%	0.93%	13.91%	0	7,396
<b>Total</b>	<b>4,254,963</b>	<b>645,328</b>	<b>35,031</b>	<b>\$35.65</b>	<b>84.83%</b>	<b>15.17%</b>	<b>0.82%</b>	<b>15.99%</b>	<b>0</b>	<b>18,669</b>
Palm Beach										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	146,133	19,236	0	\$63.24	86.84%	13.16%	0.00%	13.16%	0	18,859
Class B	411,182	66,021	1,607	\$69.50	83.94%	16.06%	0.39%	16.45%	0	(2,400)
<b>Total</b>	<b>557,315</b>	<b>85,257</b>	<b>1,607</b>	<b>\$68.09</b>	<b>84.70%</b>	<b>15.30%</b>	<b>0.29%</b>	<b>15.59%</b>	<b>0</b>	<b>16,459</b>
Palm Springs / Lake Worth										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	414,045	56,171	10,624	\$24.10	86.43%	13.57%	2.57%	16.13%	0	7,660
<b>Total</b>	<b>414,045</b>	<b>56,171</b>	<b>10,624</b>	<b>\$24.10</b>	<b>86.43%</b>	<b>13.57%</b>	<b>2.57%</b>	<b>16.13%</b>	<b>0</b>	<b>7,660</b>
Royal Palm Beach / Wellington										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	35,038	23,342	0	\$38.75	33.38%	66.62%	0.00%	66.62%	0	11,696
Class B	688,060	60,525	15,846	\$32.21	91.20%	8.80%	2.30%	11.10%	0	(37,933)
<b>Total</b>	<b>723,098</b>	<b>83,867</b>	<b>15,846</b>	<b>\$34.03</b>	<b>88.40%</b>	<b>11.60%</b>	<b>2.19%</b>	<b>13.79%</b>	<b>0</b>	<b>(26,237)</b>
West Palm Beach										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	887,720	126,951	0	\$32.85	85.70%	14.30%	0.00%	14.30%	176,000	(41,227)
Class B	1,790,879	213,525	19,964	\$28.68	88.08%	11.92%	1.11%	13.04%	0	54,999
<b>Total</b>	<b>2,678,599</b>	<b>340,476</b>	<b>19,964</b>	<b>\$30.24</b>	<b>87.29%</b>	<b>12.71%</b>	<b>0.75%</b>	<b>13.46%</b>	<b>176,000</b>	<b>13,772</b>

Reporting Methodology: This report includes all class 'A' and 'B' office buildings and parks 20,000 SF and greater in Palm Beach County that are not owner occupied, office medical, or government owned. All rents are reported on a full-service gross basis and are direct weighted averages calculated on total available space. The information in this report has been collected by the Avison Young research team via sources that are deemed reliable but is not guaranteed.

Leading Indicators (Y-O-Y Q3-2019 to Q3-2020)



Significant Third Quarter 2020 Lease Transactions - Sorted by SF

Tenant	Property	Type	SF	Submarket
Proskauer Rose	One Boca Place	Renewal	22,737	Boca Raton
InCapital*	Offices at 4th & 5th Delray	New	18,066	Delray Beach
Hyper Network Solutions	Golden Bear Plaza - North Tower	Renewal	13,319	North Palm Beach / Palm Beach Gardens
Media Direct*	750 @ Park	New	11,882	Boca Raton
Planhub	Forum II	Renewal	9,463	West Palm Beach
Playwire	Boca Village Corporate Center	New	8,632	Boca Raton
Confidential Tenant	One Clearlake Centre	New	7,305	Downtown West Palm Beach
Hidden Harbor Capital	Boca Village Corporate Center	New	7,084	Boca Raton

\*Avison Young handled this transaction

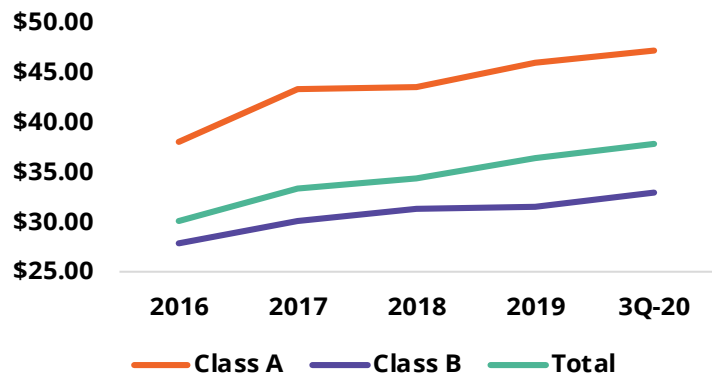
Significant Third Quarter 2020 Sales Transactions - Sorted by SF

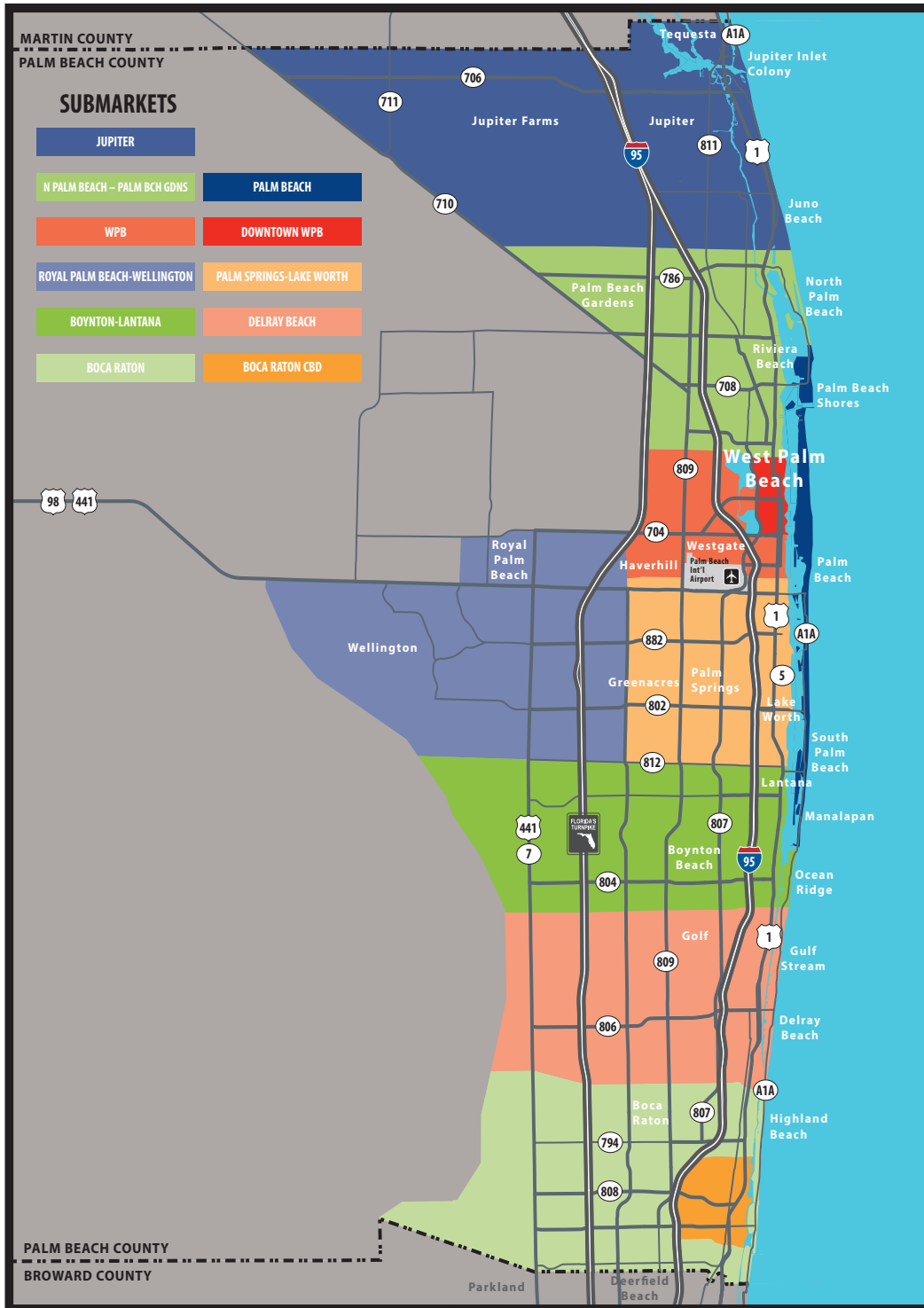
Property	SF	Sale Price	Price/SF	Buyer	Submarket
Divosta Towers	220,758	\$80,000,000	\$362	Gatsby Enterprises	North Palm Beach / Palm Beach Gardens
3501-3601 PGA Blvd	47,620	\$15,000,000	\$314	Diagnostic Centers of America	North Palm Beach / Palm Beach Gardens
Concept II Towers*	96,674	\$10,900,000	\$112	Allen Chelminsky	Palm Springs / Lake Worth

\*Avison Young handled this transaction

**Despite economic conditions, landlords continue to hold rates steady**

Landlords have been holding rates firm across South Florida as they wait to see the full affects of the virus. In Palm Beach, rents grew slightly by 1.7% over the quarter. The strongest growth occurred in North Palm Beach/Palm Beach Gardens (+12.5%) due to the delivery of the North Tower at Divosta Towers, which boasts the highest asking rate in the submarkt of \$52 full service gross.





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