



AVISON
YOUNG

West Palm Beach Office Insight Report

Q3 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- South Florida's economy showed continued resiliency with the unemployment rate declining to **5.6%** as of July 2021, a substantial drop from 13.7% in May 2020.
- Office-using job losses in South Florida have totaled **5.0%**, with the strongest recovery being in the financial activities sector, which has seen a job gain of 0.2% since February 2020. Across all job sectors, the leisure and hospitality sector continues to be the most affected by the pandemic, recording job losses of 17.5% in July 2021.



Recovery rate

- Florida's GDP has grown by **7.0%** as of the most recently released data from the U.S. Bureau of Economic Analysis, placing it among the top 10 states in the U.S. with the strongest GDP growth.
- South Florida's openness of business and lower tax environment has fueled a large migration of people and businesses to the region, which has helped to mitigate some of the potential downsides of the pandemic that other markets have been experiencing.



Office demand

- Pent-up demand has propelled leasing activity in Palm Beach County during 2021, with year-to-date leasing volume exceeding total 2020 leasing volume by **8.7%** with another quarter still left in the year.
- Increased activity from new-to-market tenants, particularly financial services firms, is fueling demand in the CBD. As a result, banking and finance tenants have accounted for **25.9%** of post-COVID leasing activity.
- Several leases were signed above 10,000 sf during the third quarter in Palm Beach County, the largest of which was Infinity Sales Group's lease for **77,340 sf** in Boca Raton.

Key takeaways



Office supply

- Overall vacancy in West Palm Beach began to decline substantially in 3Q21. Vacancy fell below pre-COVID levels to **13.9%**, a 140 basis-point decrease from year-end 2020 and the lowest point since year-end 2018.
- West Palm Beach has been the least negatively impacted market among the South Florida region since the onset of the pandemic. Sublease space has remained low throughout 2021 with sublease vacancy rising to **1.2%** of total office space.



Pricing trends

- Base rents have increased by an impressive **11.2%** since year-end 2019 as landlords in the CBD continue to raise rates in class A buildings, flowing the uptick in activity from new-to market tenants in the banking and finance industries who are accustomed to paying a premium on rents.



Capital markets

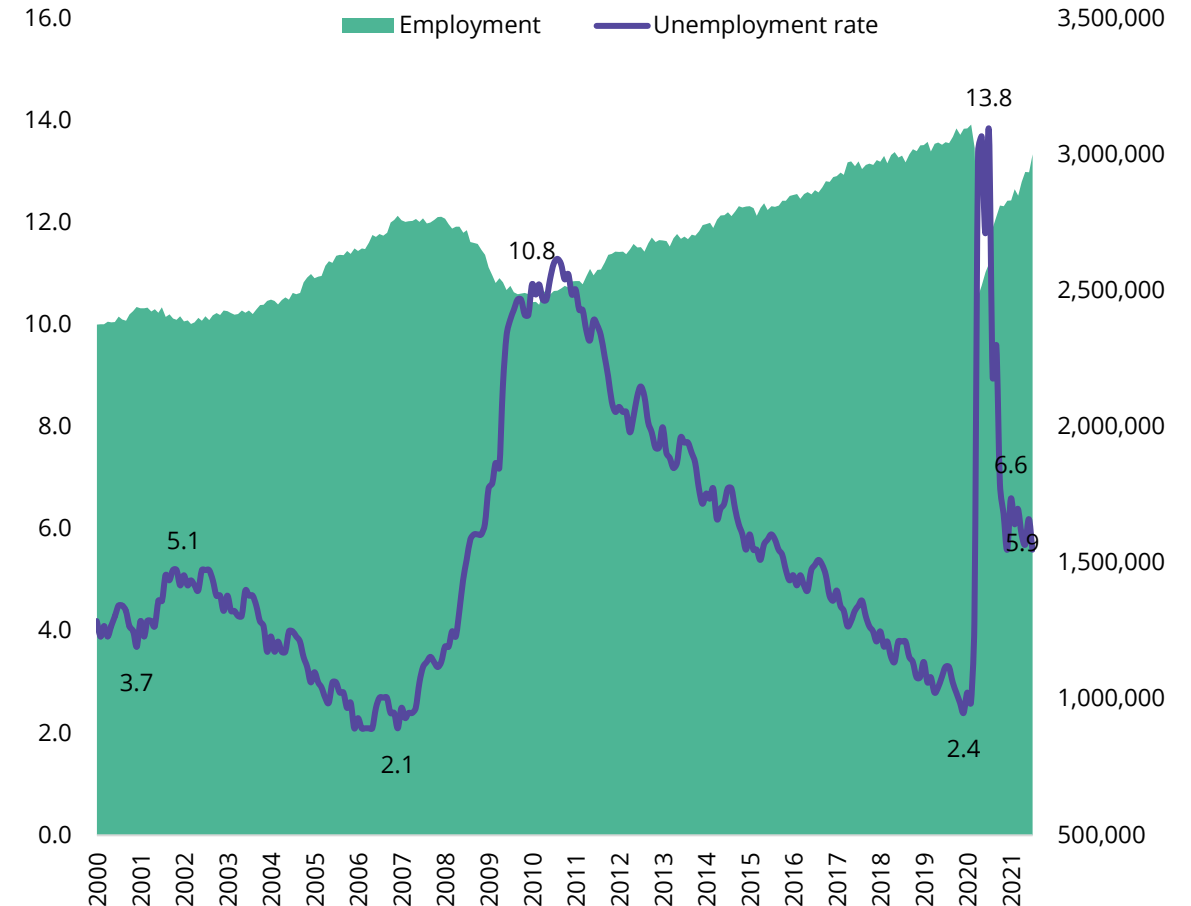
- Office investment sales activity has continued to soar during 2021 in West Palm Beach with total investment volume of **\$843.9M** for the year-to-date, outperforming the previous five-year average by **32.6%**.
- Asset pricing has grown by **14.2%** from November 2019 to present due to several key trades of trophy assets in the CBD throughout 2021. The Related Companies has bet hard on Downtown West Palm during the pandemic and now owns 48% of the existing class A office stock downtown.

Employment and unemployment rate

5.6%

South Florida unemployment rate as of July 2021, 820 basis points below the height of the pandemic

After reaching near full employment levels in 2019 and early 2020, unemployment soared to a record high due to the pandemic with nearly 591,083 job losses between February and May 2020. However, the labor market has begun to recoup its strength during the last half of the year, adding back 19.1% jobs since May 2020.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

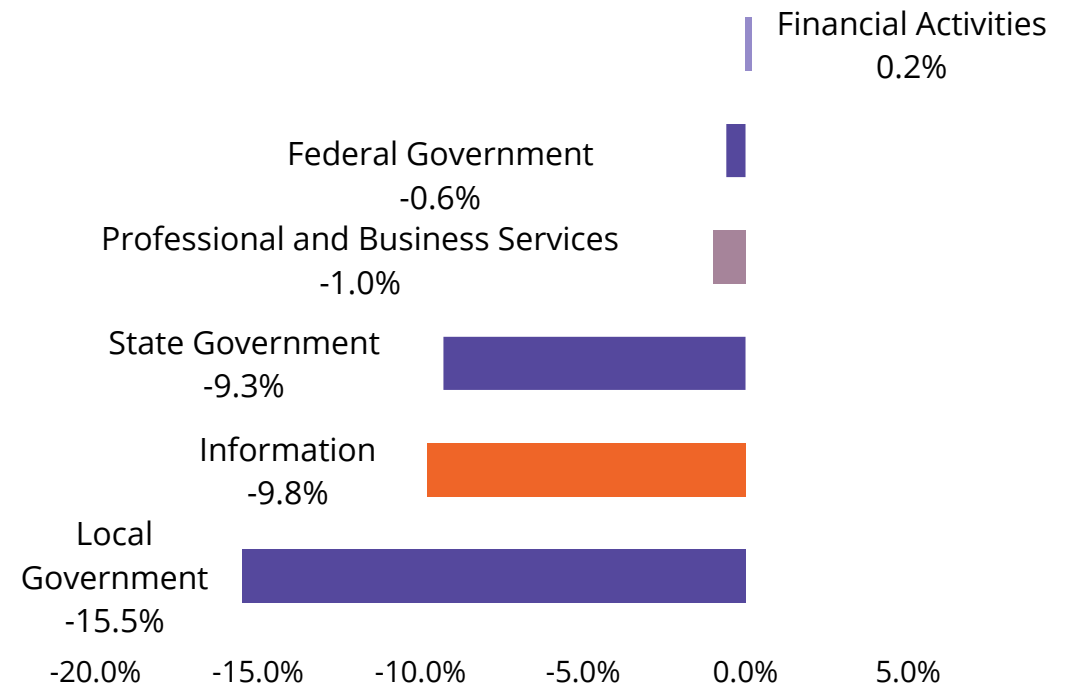
-5.0%

Change in office-using employment during the pandemic

South Florida MSA job losses have declined by 6.8% since the start of the pandemic, though office-using jobs contracted by just 5.0%. This recession's impact on the office-using labor market has been less severe than the global financial crisis, when financial activities job losses totaled 13.9%.

[VIEW DASHBOARD](#)

Total change in South Florida MSA* job gains/(losses) February 2020 to July 2021



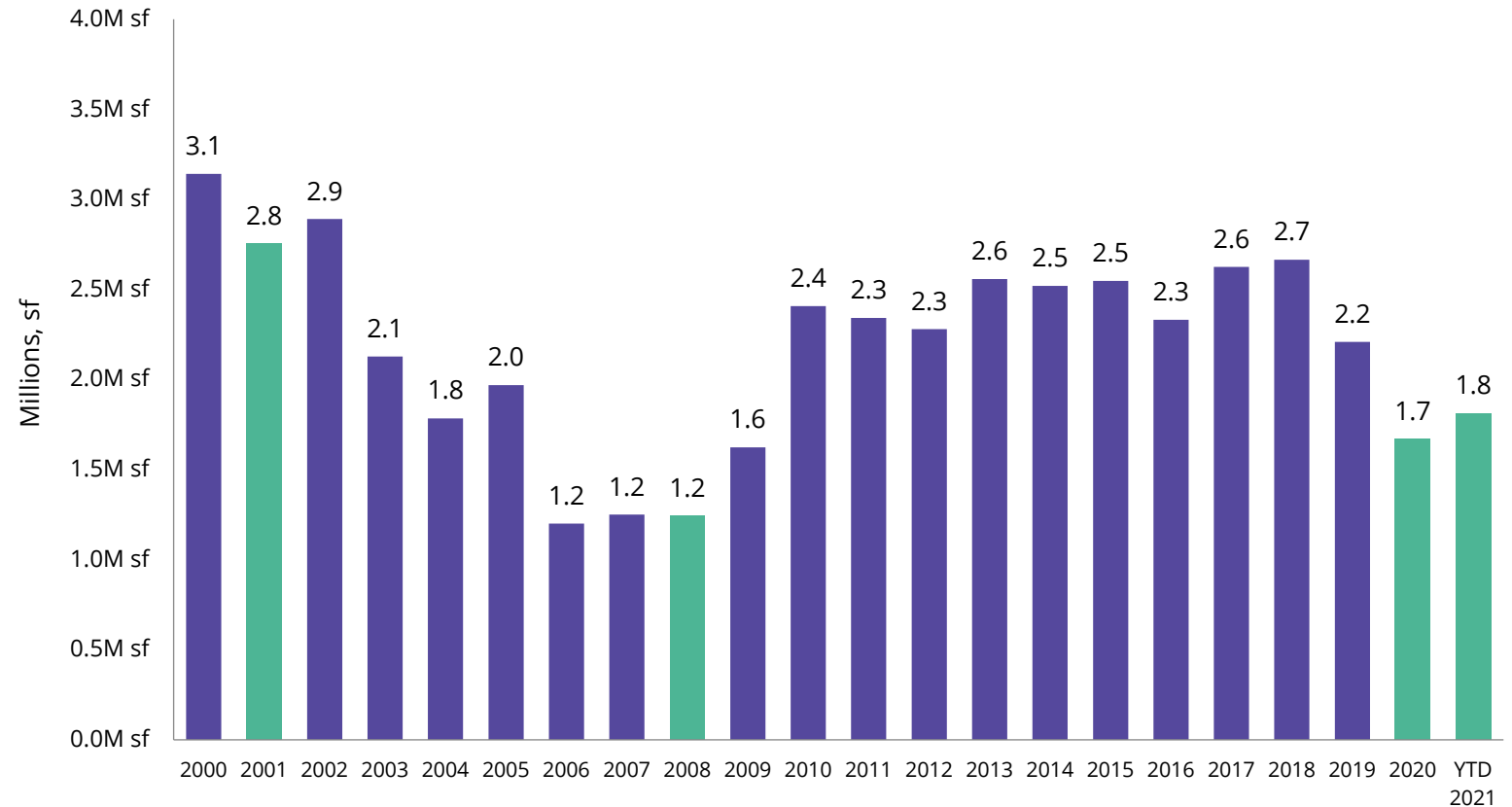
Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Office leasing activity

+8.7%

**Year-to-date 2021
leasing activity
compared to 2020**

Pent-up demand and strong migration from new-to-market tenants in the banking and finance industries has fueled leasing activity which has surpassed 2020's total volume by 8.7% with one quarter still left in the year.

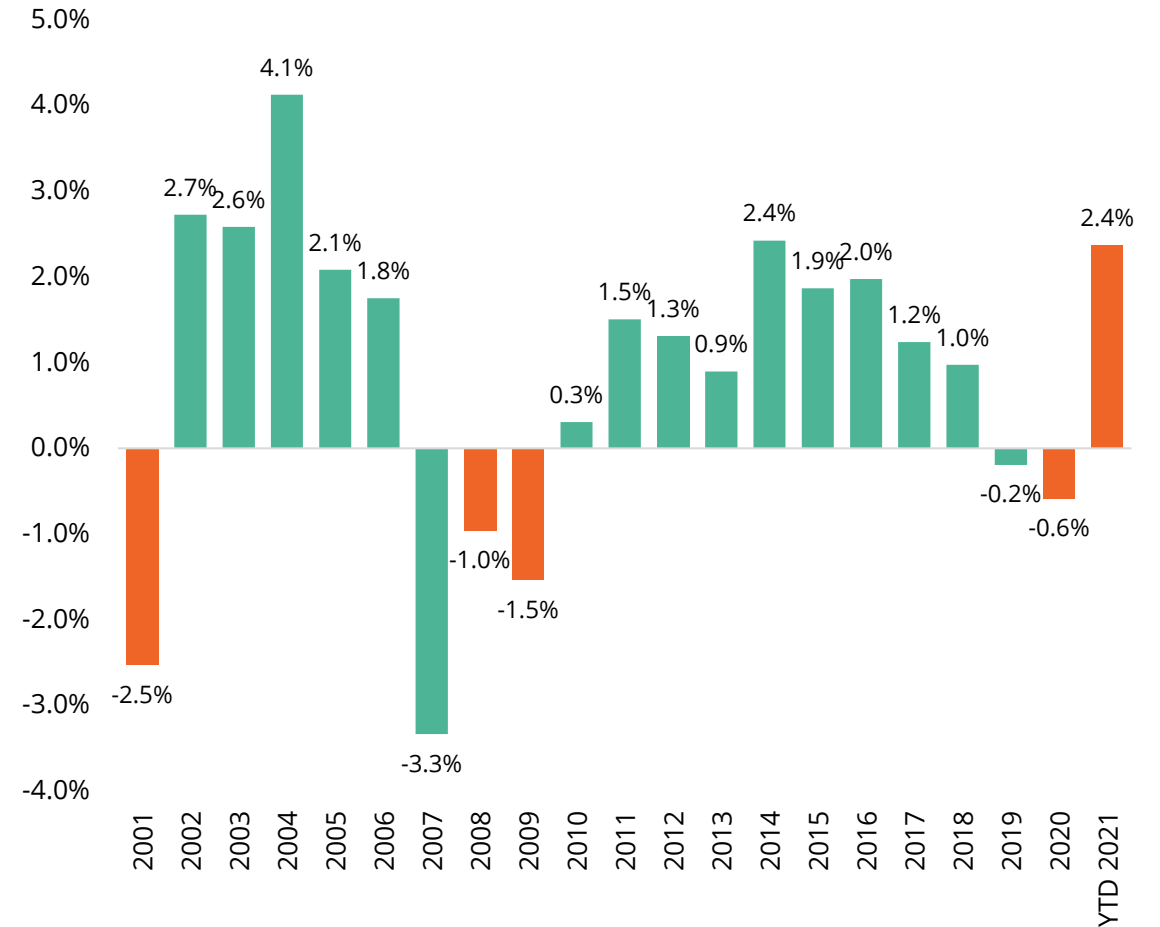


Source: AVANT by Avison Young

+1.8%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Robust demand and strong leasing activity has brought positive net absorption to its highest point since 2014. From 2020 through 3Q21, net absorption was positive 515,727 sf, which accounts for 1.8% of the existing stock. West Palm Beach's office market is navigating the current recession much differently than that of the Great Recession or the early 2000s recession.



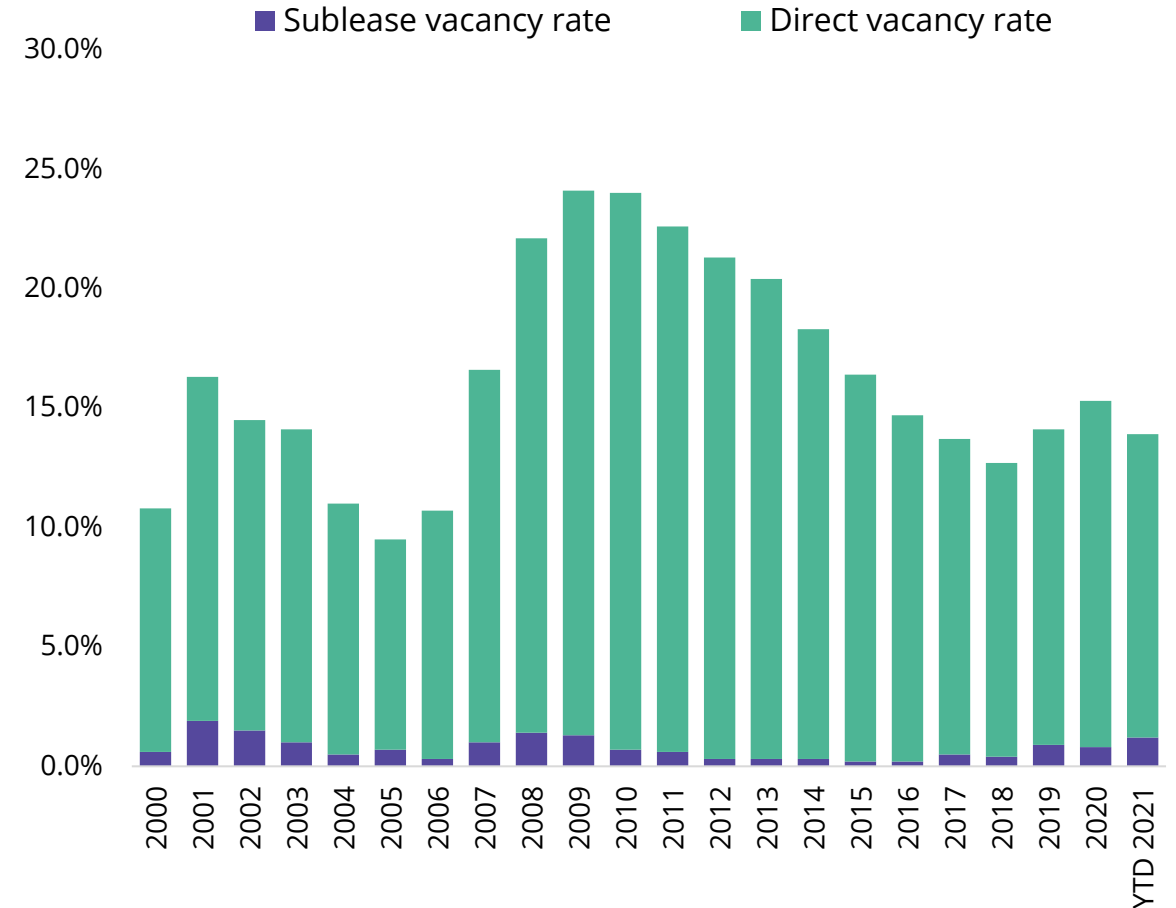
Source: AVANT by Avison Young

Vacancy rate

13.9%

Declining office vacancy in West Palm Beach in Q3 2021

Vacancy in West Palm Beach declined below pre-COVID levels in 3Q21 to 13.9%, which is the lowest vacancy recorded among the South Florida markets. Sublease vacancy inched up to 1.2%, but remains comparatively low to other markets in Florida.



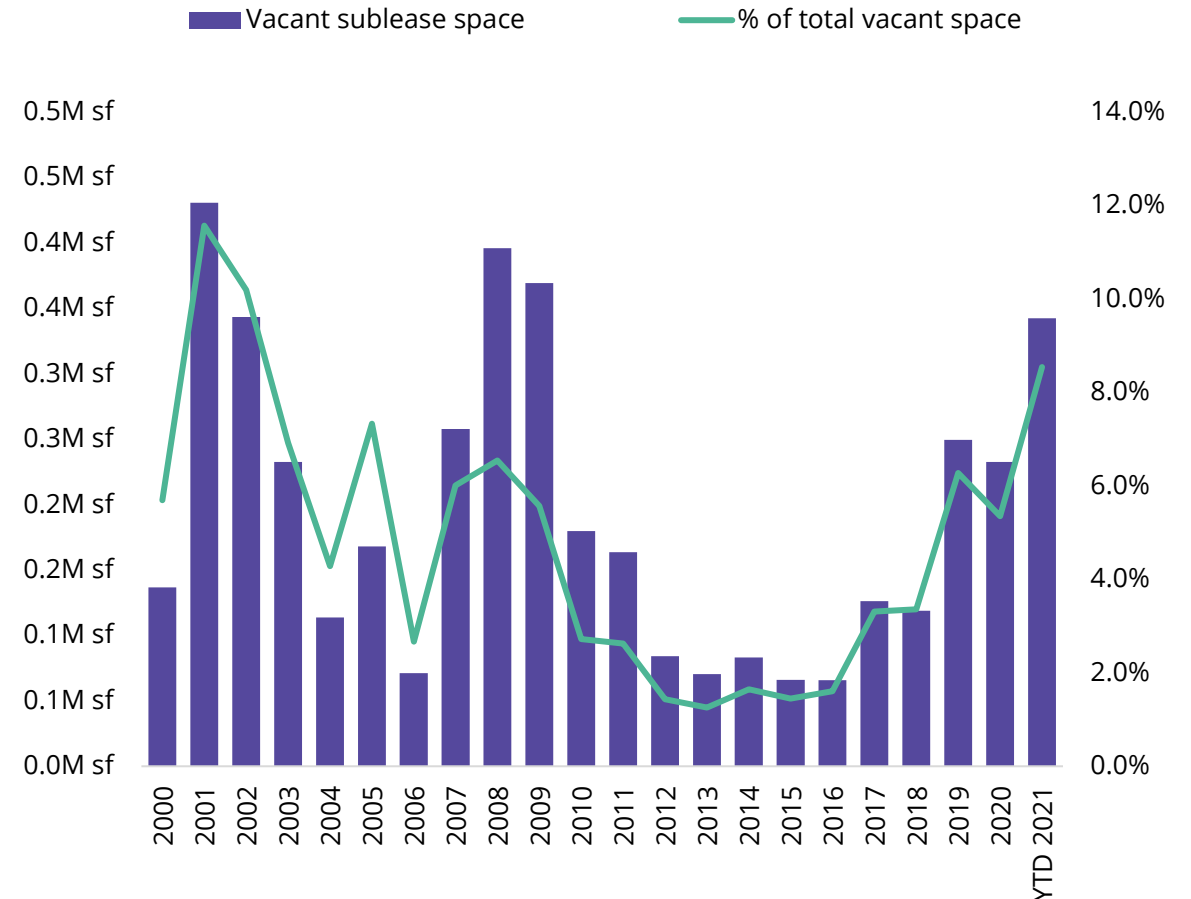
Source: AVANT by Avison Young

Vacant sublease space

0.3 msf

Record levels of sublease vacant space

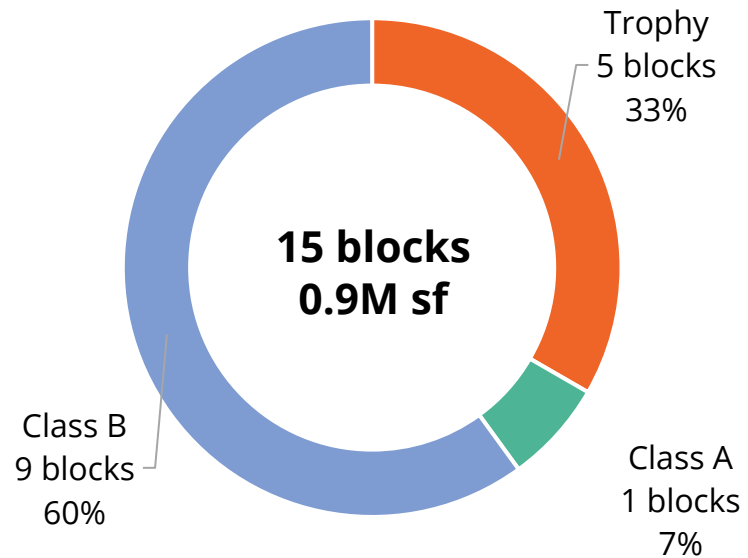
The share of sublease-to-total vacant space of 8.5% has surpassed the peak of the global financial crisis levels (6.5%), however it has not yet reached the level seen during the early 2000s recession (11.6%).



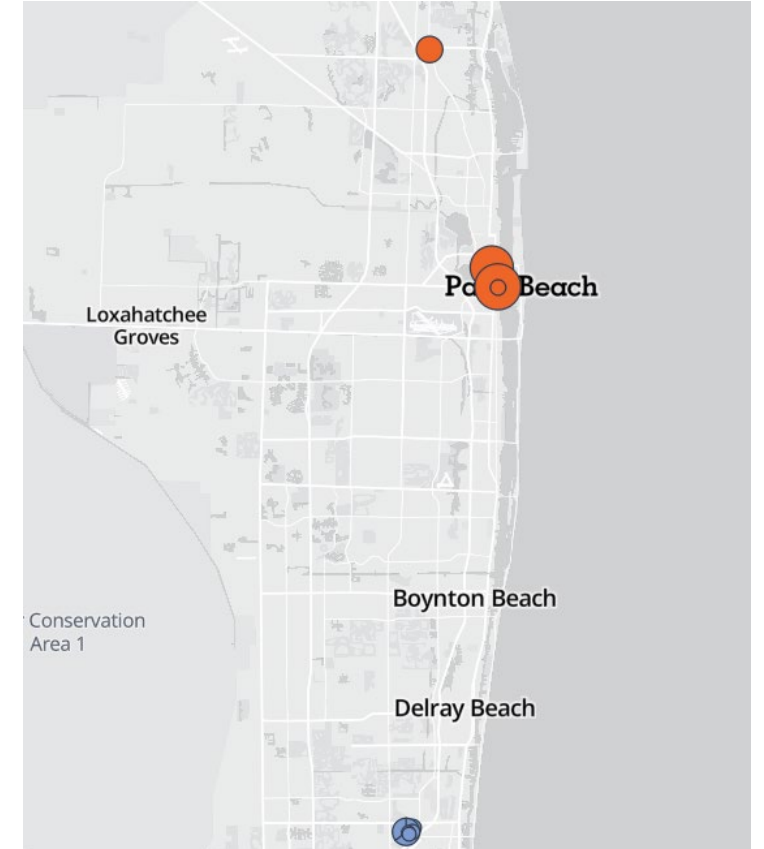
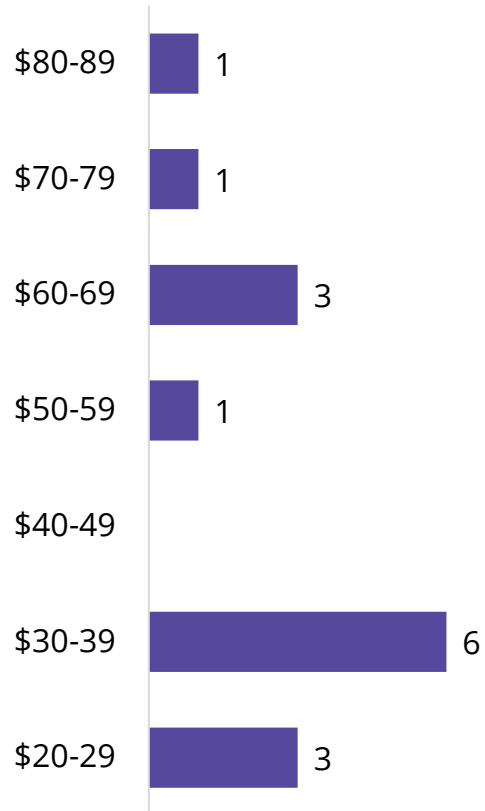
Source: AVANT by Avison Young

Large block supply pipeline

Building classification



Asking rent per square foot



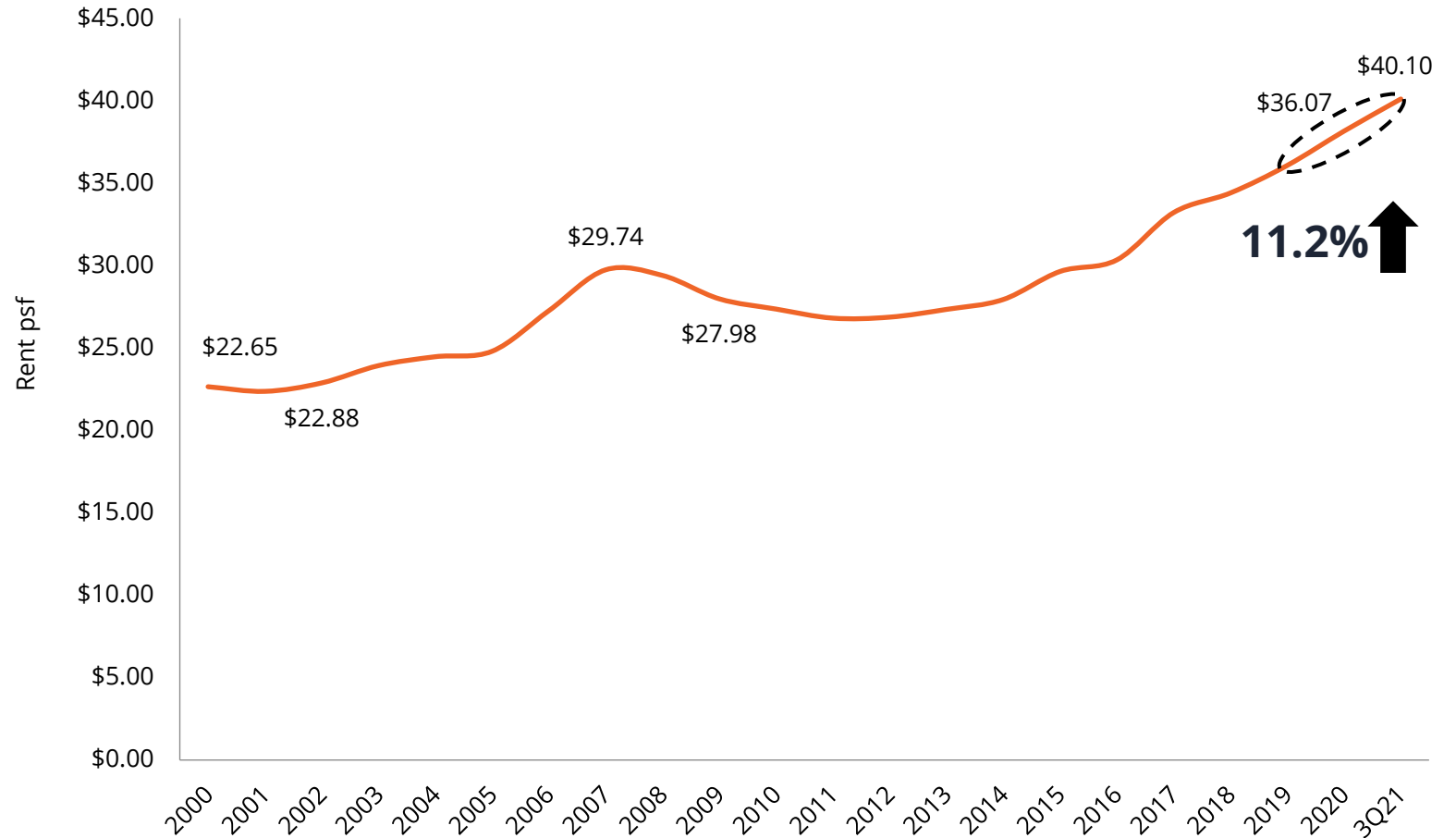
Source: AVANT by Avison Young

Base rents

11.2%

Increase in base rents since the onset of the pandemic

Base rents have continued to increase since the onset of the pandemic as new-to-market demand from the Northeast continues to fuel rent growth. Rents have not been subjected to the type of negative impacts that they were during the Great Recession (-8.0%).



Source: AVANT by Avison Young

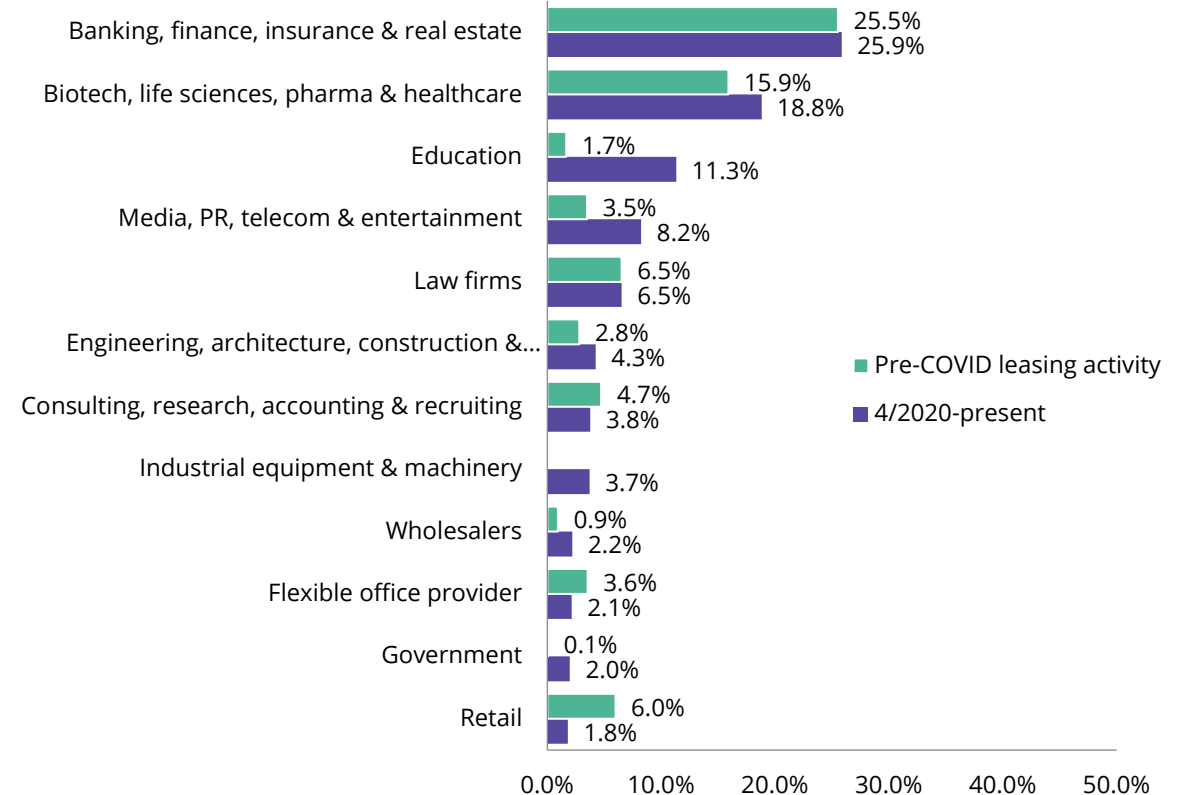
Leasing activity trends

25.9%

of post-COVID leasing activity was from banking, finance, insurance and real estate tenants.

Remaining in line with pre-COVID levels, a majority of the post-COVID leasing activity came from banking, finance, insurance and real estate tenants. Biotech, life sciences, pharma & healthcare tenants also saw an increase of 2.9%.

Leasing activity



Source: AVANT by Avison Young

West Palm Beach's construction pipeline

14 properties

proposed or under construction

1.8 msf

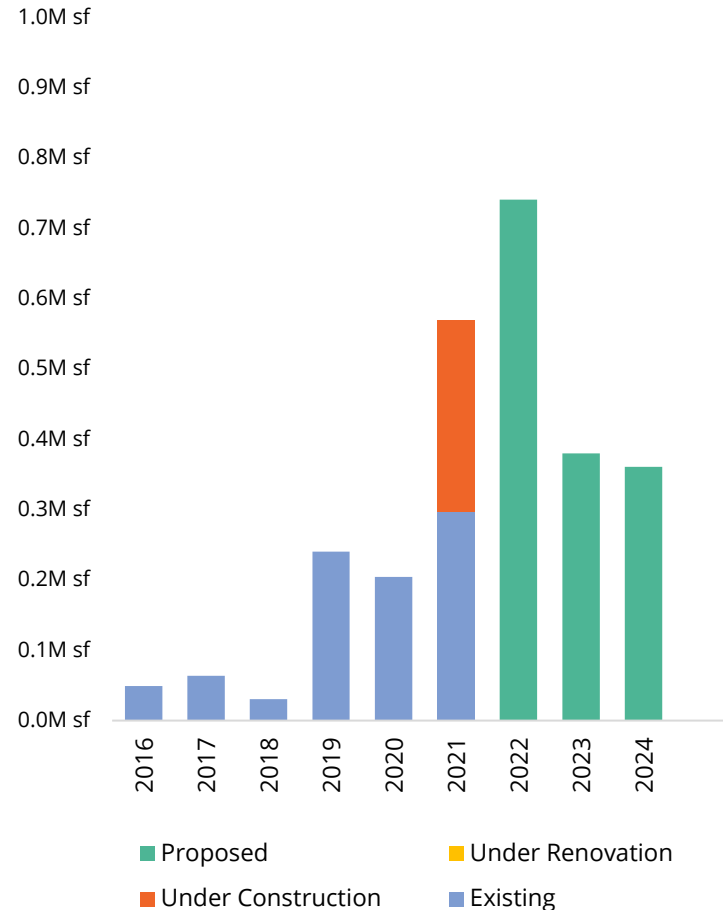
proposed or under construction

4.9%

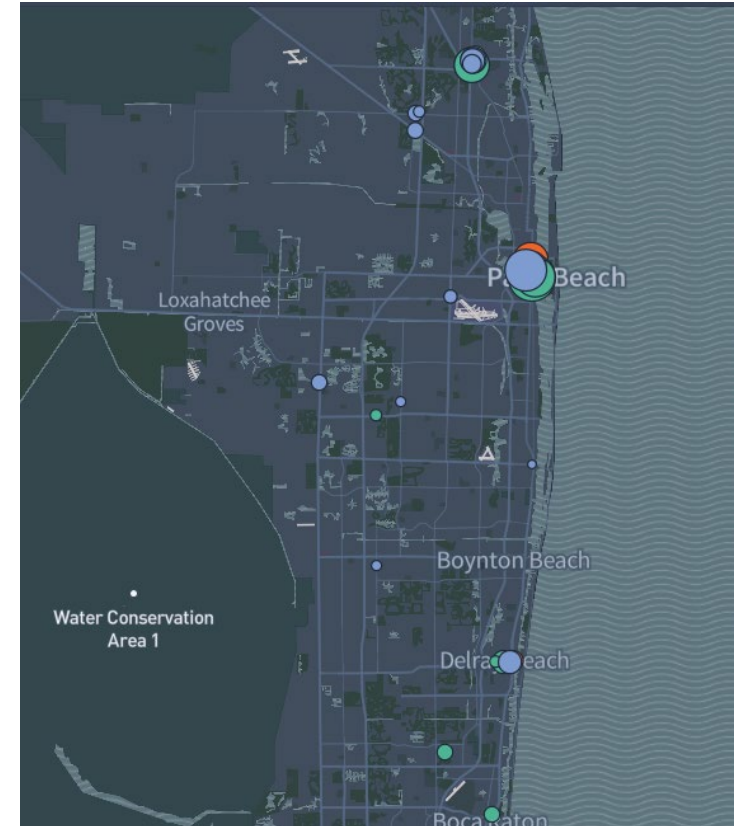
share of office inventory

0.9 msf

new construction deliveries
in West Palm Beach since
2016



Source: AVANT by Avison Young

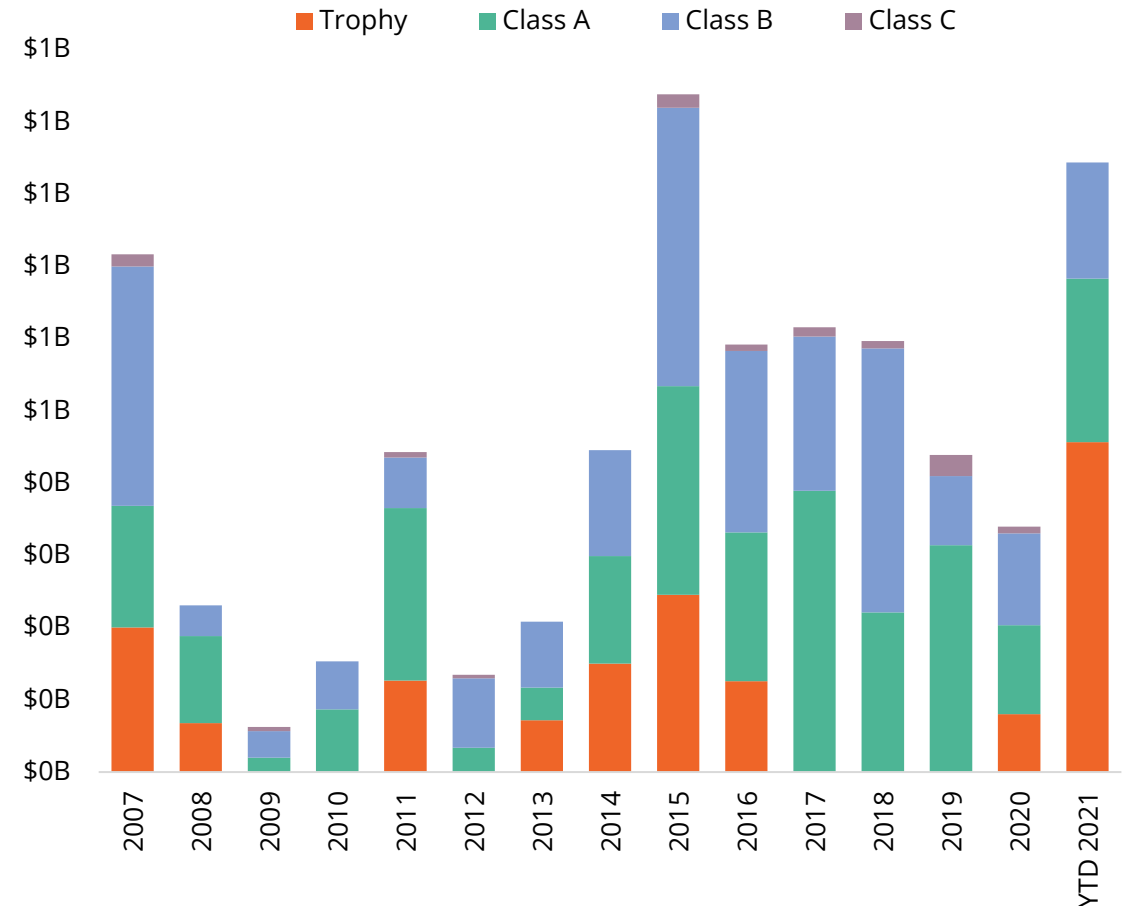


Office investment dollar volume

\$1.2B

West Palm Beach office dollar volume 2020 to present

Office sales activity temporarily paused during the pandemic but has rebounded intensely in 2021. Total sales volume was \$1.2B from the beginning of 2020 through year-to-date 2021, up by a substantial 86.0% when compared to the prior five-year average dollar volume.



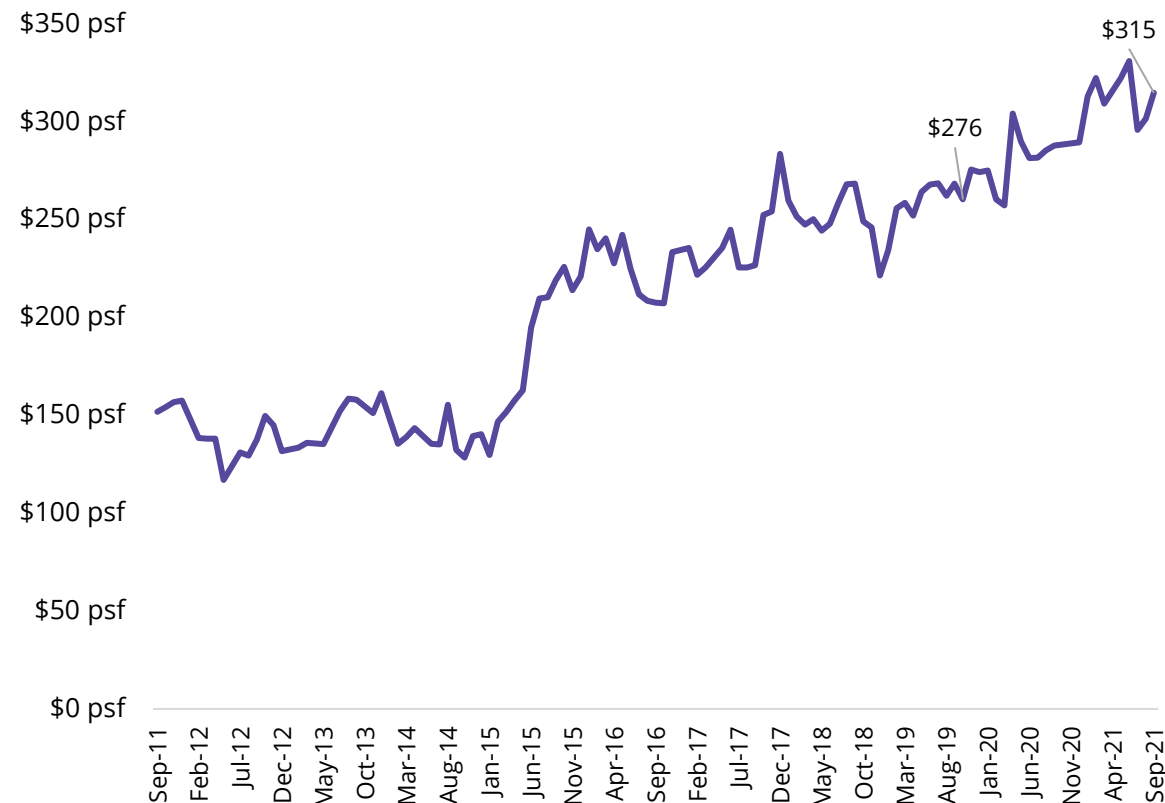
Source: AVANT by Avison Young

Office asset pricing

14.2%

West Palm Beach office pricing from November 2019 to present

Despite a slowdown in office investment during the pandemic, pricing has seen a significant increase during 2021 due to a handful of key office investments in class A and trophy assets in Downtown West Palm Beach. Pricing increased from \$276 psf in November 2019 to \$315 in September 2021.



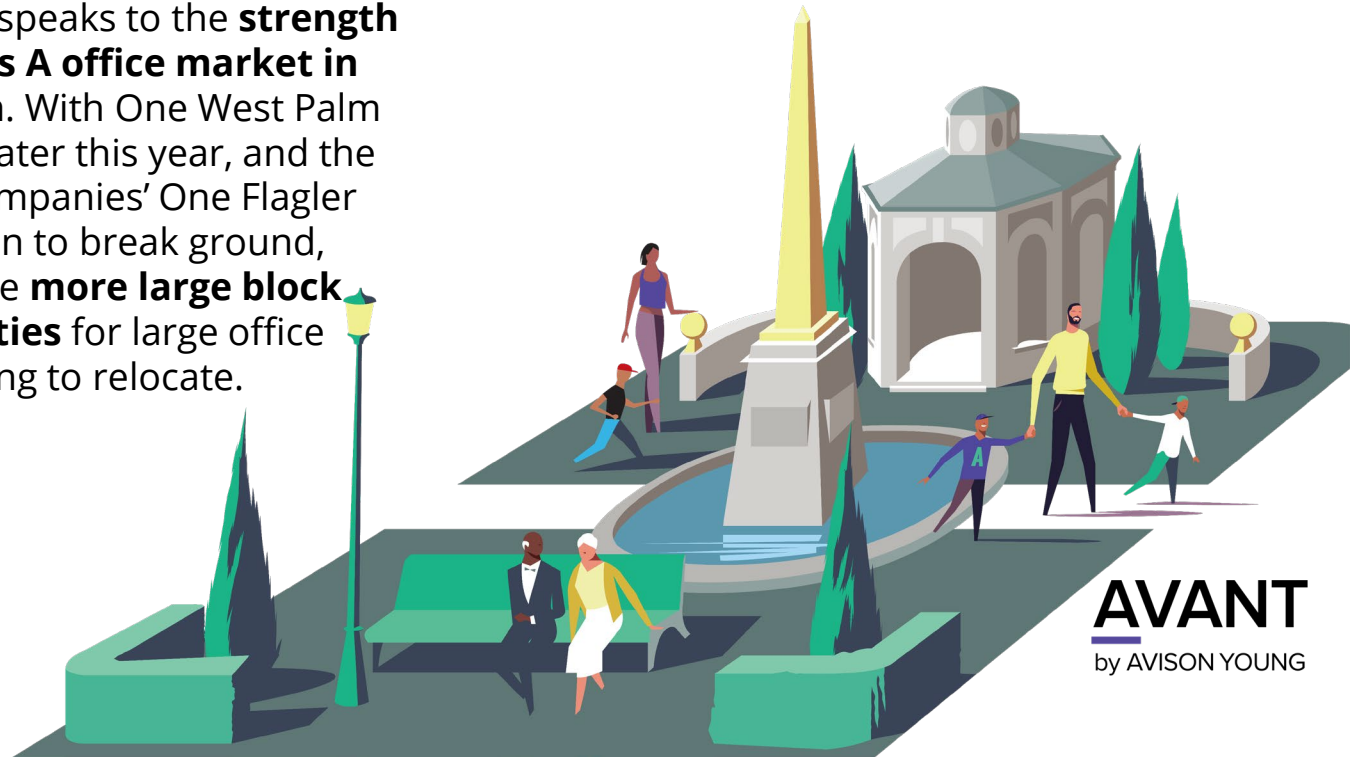
Source: AVANT by Avison Young, RCA

Looking forward



Here's what we can expect

- **Positive leasing momentum** and strong market fundamentals have allowed West Palm Beach to recover past pre-COVID levels. Palm Beach County's **business friendly environment** and attractive incentive packages will continue to fuel migration from new-to-market tenants and translate into further growth in net absorption at year-end and early 2022.
- **Demand from biotech, life sciences, pharmaceutical and healthcare companies** will continue to rise in the coming quarters. These tenants have been particularly active in the Boca Raton and North Palm Beach/Palm Beach Gardens submarkets.
- **Downtown West Palm Beach will continue to perform well** amid the activity coming from the Northeast. The recent delivery of 360 Rosemary at the end of 2Q21, which delivered almost entirely preleased, speaks to the **strength of the class A office market in downtown**. With One West Palm delivering later this year, and the Related Companies' One Flagler project soon to break ground, there will be **more large block opportunities** for large office users looking to relocate.



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Let's talk

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