



AVISON  
YOUNG

# West Palm Beach Office Insight Report

Q2 2021

**AVANT**  
by AVISON YOUNG

# Key takeaways



## Economic conditions

- Reopening efforts and higher vaccination rates have allowed South Florida’s unemployment rate to rebound from a high of 13.8% to **5.9%**.
- Office-using job losses in South Florida have totaled **4.0%** compared with 9.2% for other industries’ job losses, underscoring the disproportionate impact the pandemic had on the discretionary segments of the local economy.
- The bulk of the business in-migration is coming from the Northeast and moving to the CBD, which more closely mirrors the bigger cities that they are relocating from.



## Recovery rate

- Florida was ranked **#4** in a WalletHub study of the top U.S. states for their rates of recovery, with industries gaining the most jobs over the year including leisure and hospitality, professional and business services, and trade, transportation and utilities.
- While the pandemic has had a considerable effect on Florida’s population, its effect on the business economy was lessened (compared to markets like New York and California) as the state has been largely open for the last few quarters, enabling the business base to return to work and begin to move deals forward.



## Office demand

- Leasing activity has been very brisk so far in 2021 and has already reached **74.2%** of all volume recorded in 2020.
- Tenants have been more focused on preserving capital and asking landlords for more in the way of additional TI dollars and are willing to provide more term as a result.
- Some tenants are seeking move-in ready turn-key space that can provide the flexibility of shorter lease terms, but many deals are now averaging between 5-10+ years, while others in the CBD feeling pricing pressure are eyeing space in suburban areas to save significantly on rent and shorten commutes.

# Key takeaways



## Office supply

- Direct and sublease vacancy are at their highest point in six years, totaling **16.1%**.
- While the availability of sublease space is at a 12-yr high, it remains the lowest in South Florida and is substantially below the amount currently on the market in other Florida metros. For example, it's less than half of total sublease availability in Orlando, and less than a third of what's being marketed in Tampa.



## Pricing trends

- Base rents have increased notably by **9.2%** from peak-to-trough as landlords continue to secure new tenant commitments, with several key deals taking place in class A buildings in the CBD at record-high rents. Those deals are driving up pricing pressure downtown, leading some landlords to increase rents across the board.
- Demand is starting to increase as the economy gains momentum and tenants that postponed their long-term occupancy strategies re-enter the market.



## Capital markets

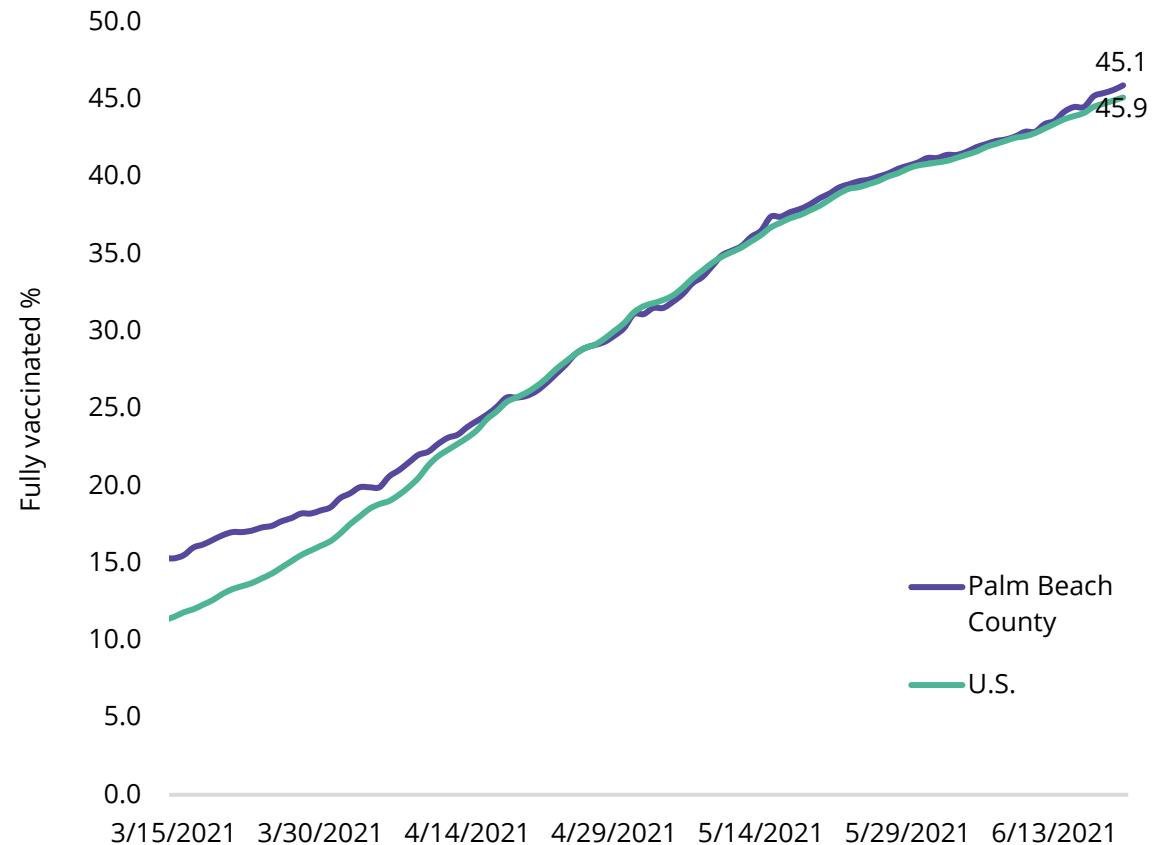
- There is significant investor appetite for West Palm Beach, with a lot of institutional and private equity and high-net worth investors chasing investment opportunities. Office investment activity has been steady in West Palm Beach, with total transaction volume of **\$488.9 million** for the period from Jan 2020 through Jun 2021.
- While much of the sale activity has been focused on class A premium properties, we're now seeing a rush of capital seeking to acquire class B and C office properties in West Palm Beach with an eye toward improving them at a discount to class A rates.

# Vaccination rates

# 45.9%

**Share of total Palm Beach County population that is fully vaccinated**

The vaccination rate in Palm Beach County is trending alongside the U.S. average, which is important given that South Florida was one of the hardest hit regions in the country.



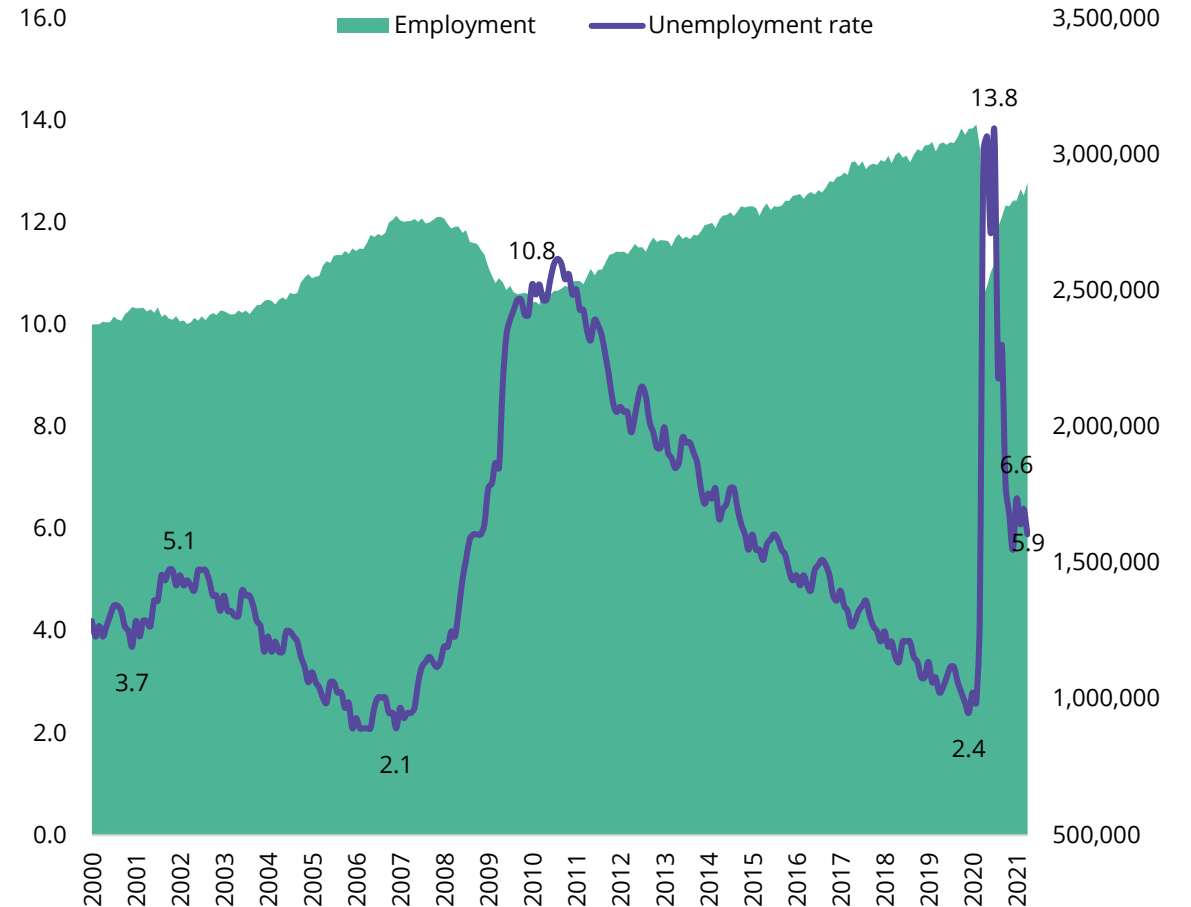
Source: CDC

# Employment and unemployment rate

# 5.9%

**South Florida's unemployment rate as of April 2021, 790 bps below the height of the pandemic**

Historically tightened labor market conditions were halted by the pandemic with 629,600 job losses between February and April 2020. However, reopening efforts in the months since have enabled the economy to add over 417,000 jobs since May 2020.



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

# Office-using job gains and losses

# -4.0%

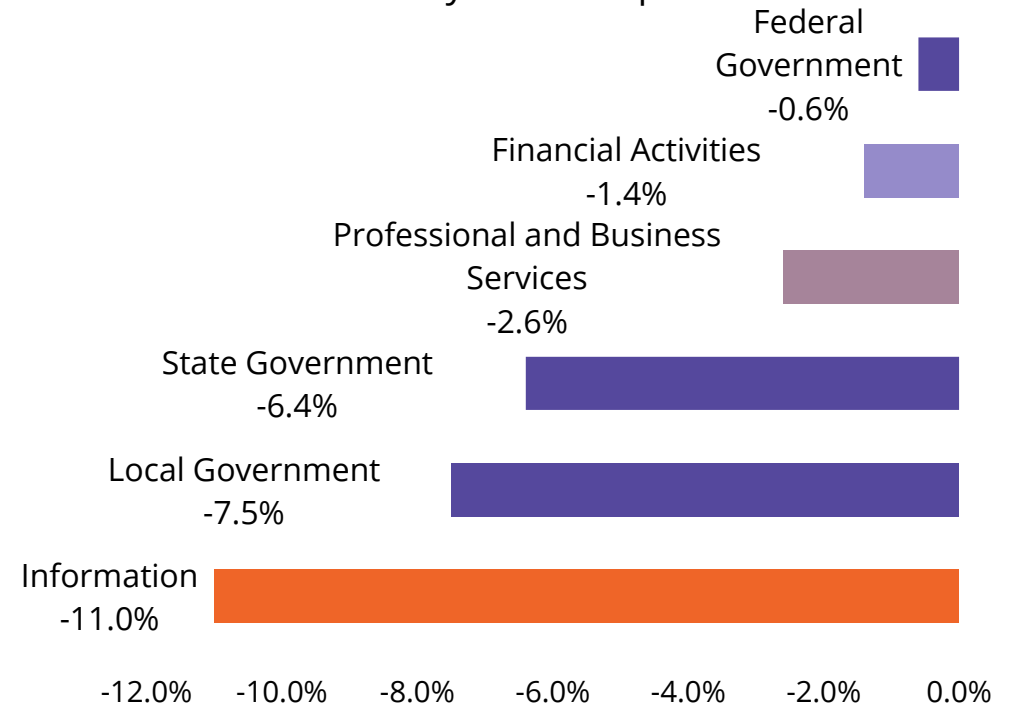
## Change in office-using employment during the pandemic

Job losses in South Florida have declined by 7.2% since the start of the pandemic, though office-using jobs contracted by just 4.0%. As was the case with the global financial crisis over a decade ago, the impact of this recession will be felt in South Florida's office markets to some degree for years to come.

[VIEW DASHBOARD](#)

## Total change in South Florida\* job gains/(losses)

February 2020 to April 2021



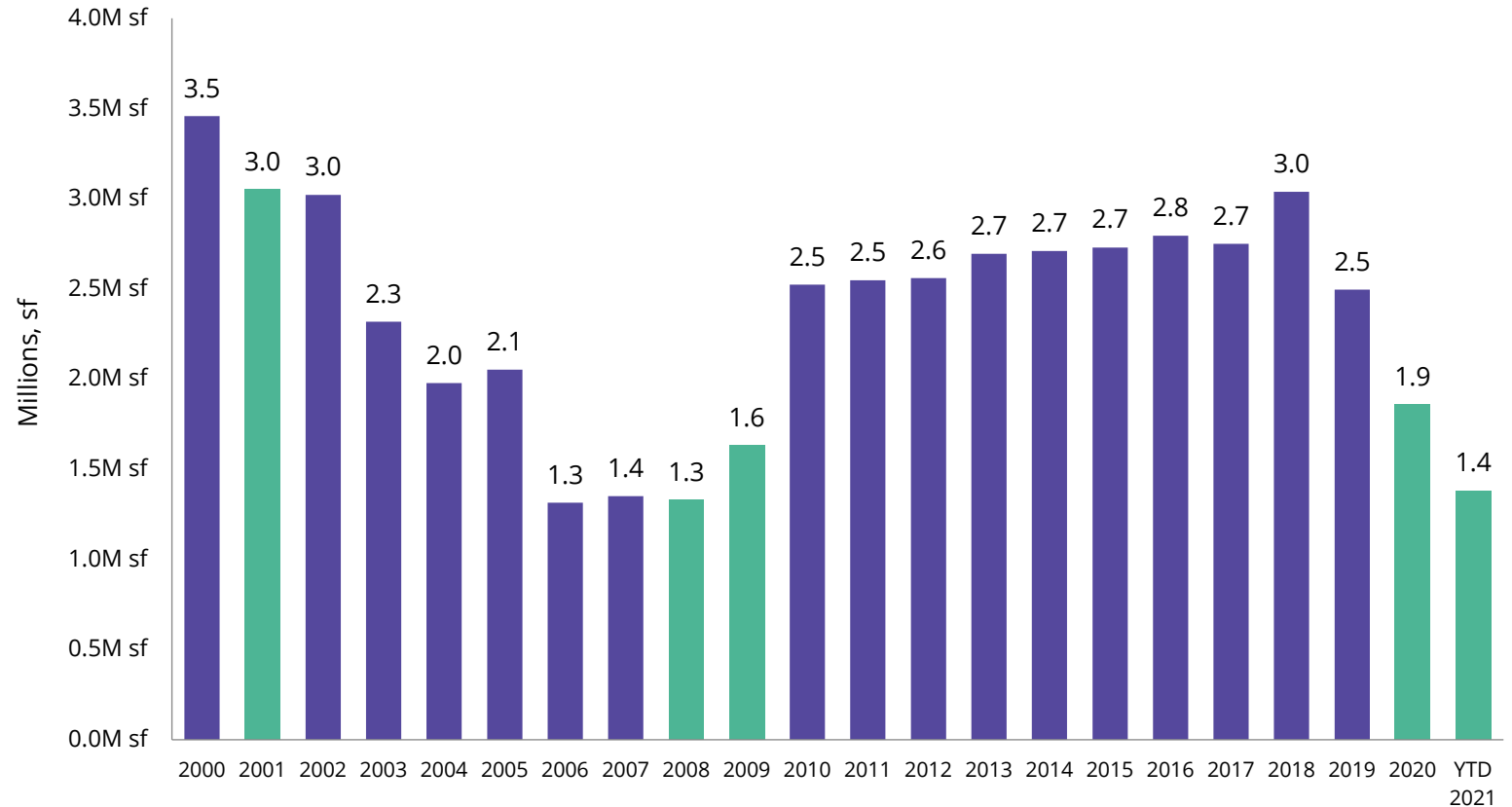
Note: Not seasonally adjusted data. \*Metropolitan statistical area.  
Source: Bureau of Labor Statistics

# Office leasing activity

# 74.2%

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

Brisk leasing activity has taken place over the first half of 2021 to firms in the financial and tech sectors, with notable leasing occurring in Downtown West Palm Beach.

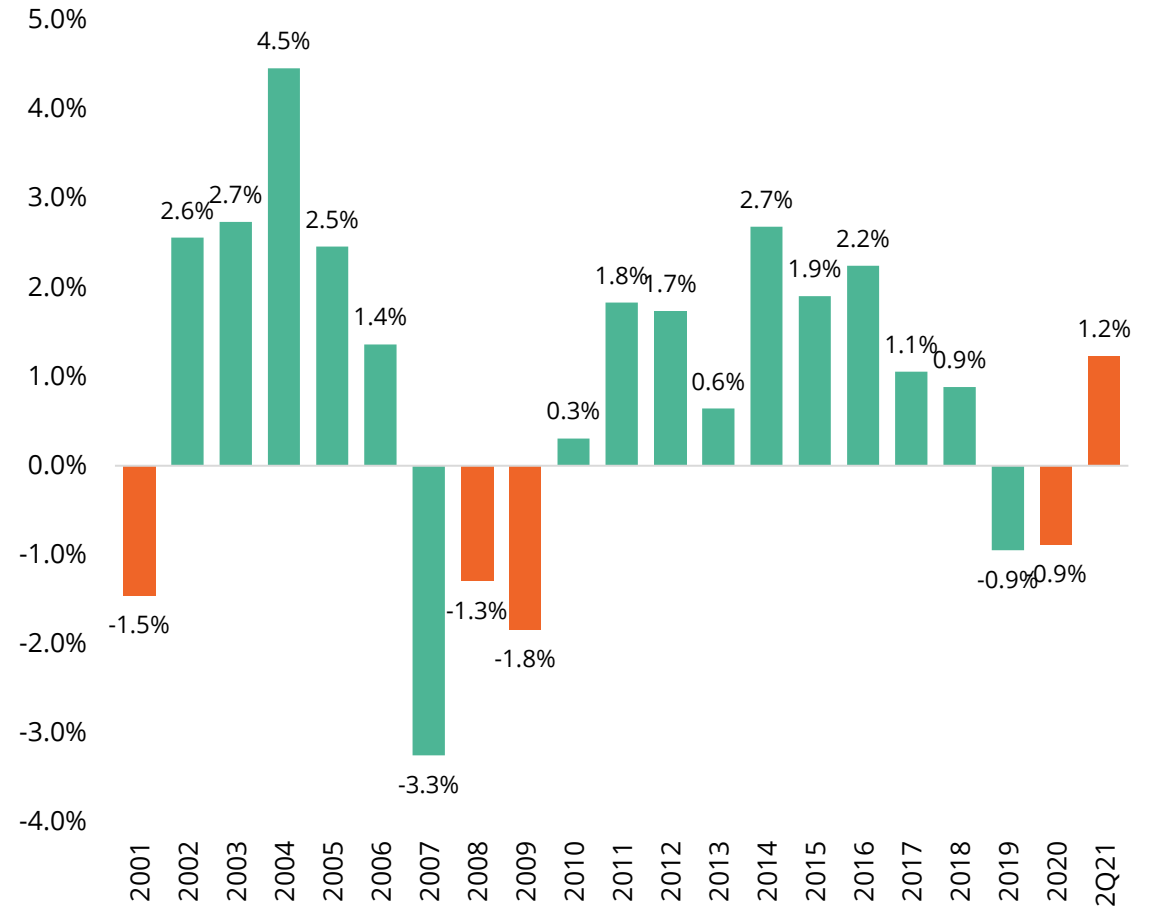


Source: AVANT by Avison Young

# 0.3%

## Net absorption as a percentage of inventory, 2020 through Q2 2021

Strong leasing activity propelled net absorption into positive territory in the first half of 2021, making West Palm Beach the only office market in Florida to record positive net absorption in 2Q21. From 2020 through 2Q21, net absorption was positive 102,791 sf, which accounts for 0.3% of the existing stock.



Source: AVANT by Avison Young

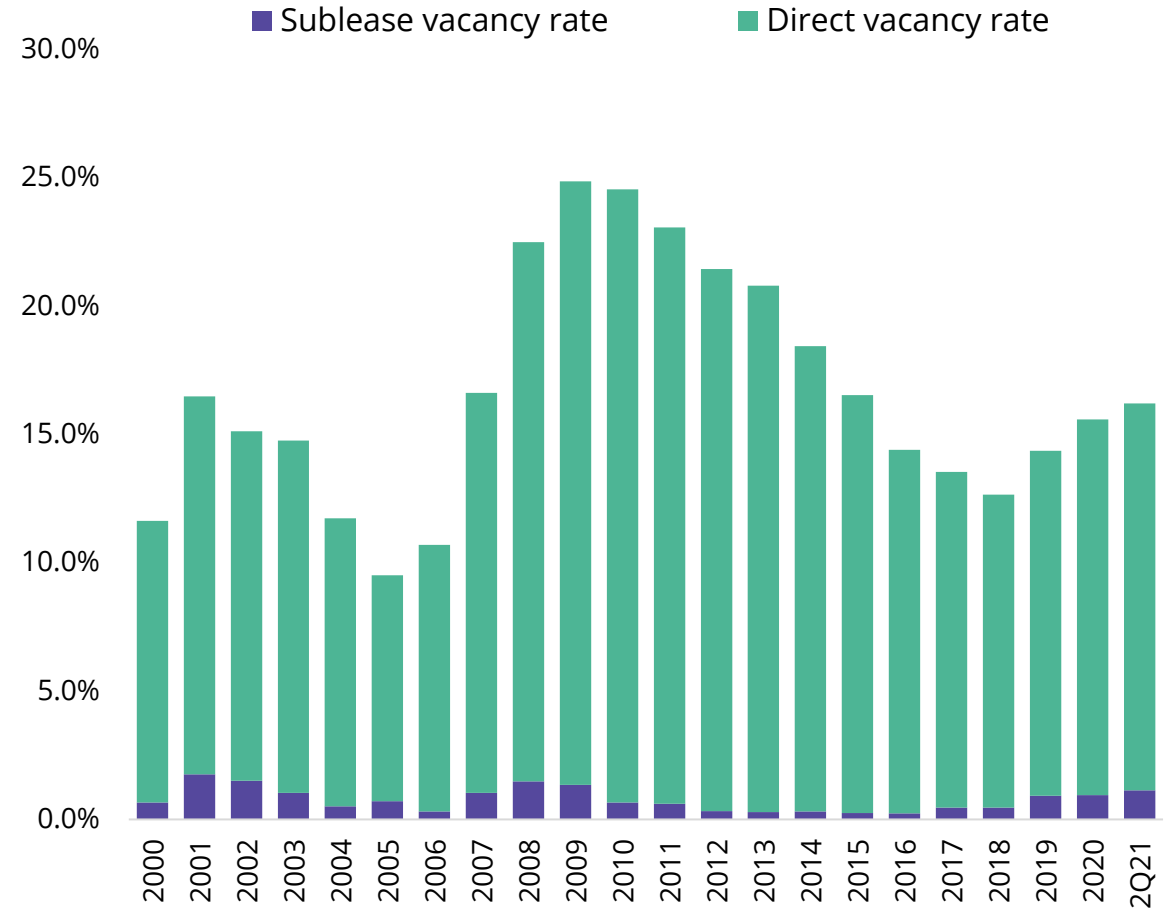


# Vacancy rate

# 16.1%

**Current vacancy at the highest level in 6 years**

The Q2 2021 vacancy rate is at its highest point since 2015 but remains well below the 24.9% recorded in 2009, which was the highest rate in the previous 20-yr period. Overall rents for the current quarter have declined slightly by 3.0% Y-o-Y.



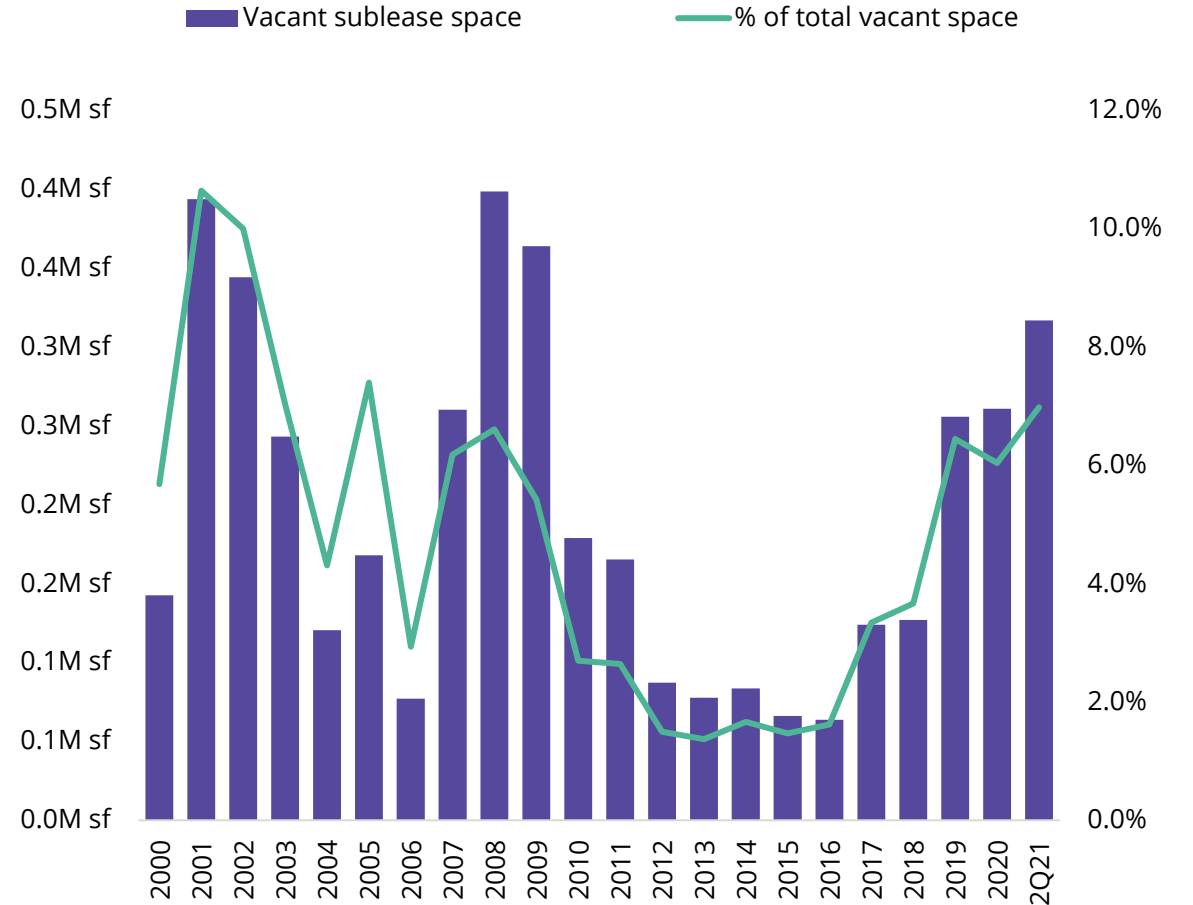
Source: AVANT by Avison Young

# Vacant sublease space

# 0.3 msf

**Sublease space is at the highest level since 2009**

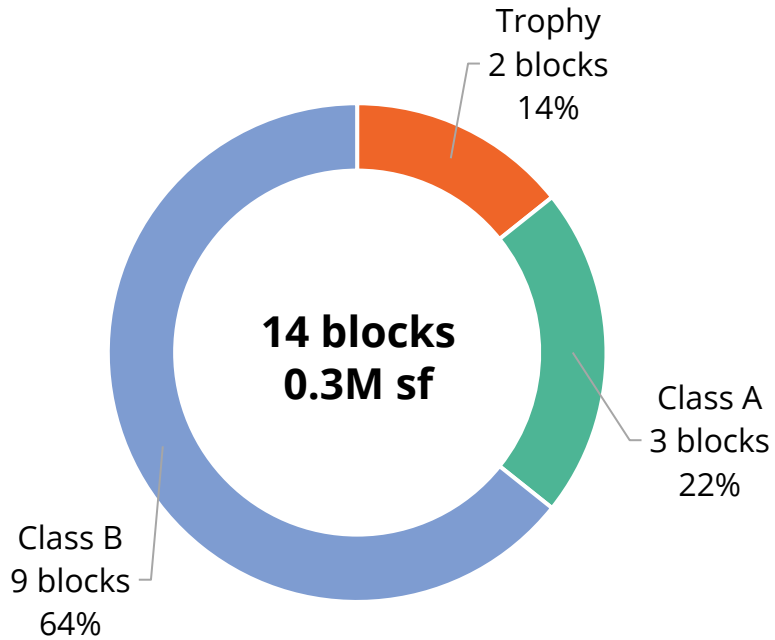
The share of sublease-to-total vacant space of 7.0% has surpassed the peak of 6.6% from the global financial crisis levels, however it has not yet reached the level seen during the early 2000's recession.



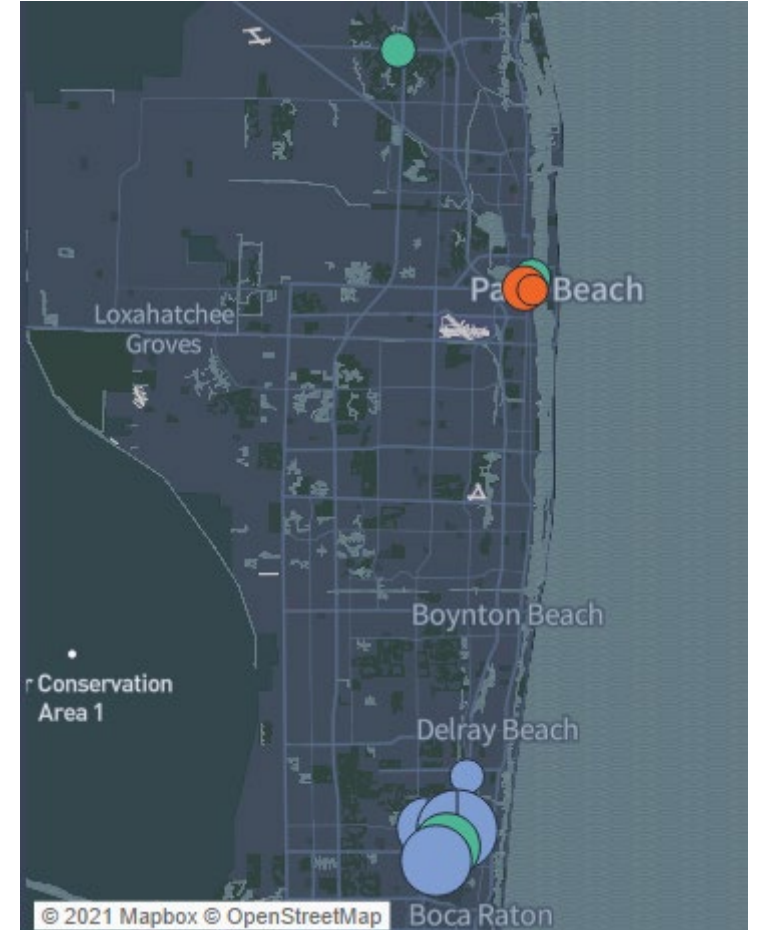
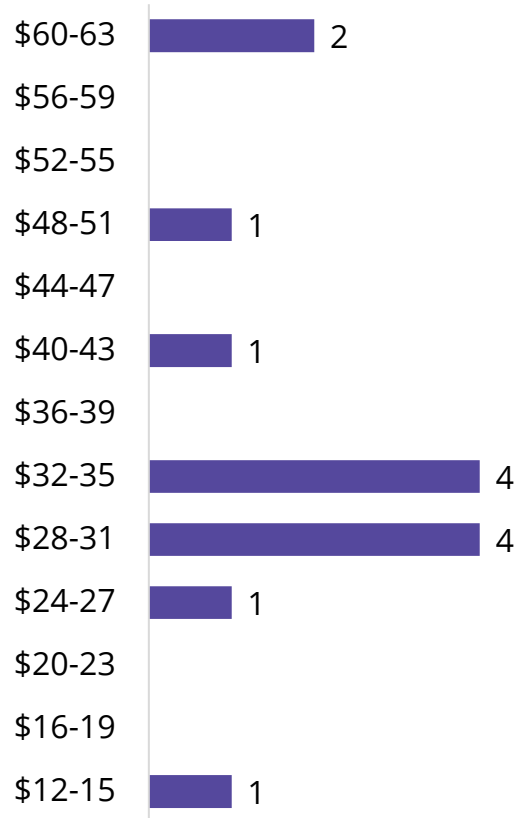
Source: AVANT by Avison Young

# Sublease supply pipeline

## Building classification



## Asking rent per square foot



Source: AVANT by Avison Young

# Base rents

# 9.2%

**Peak-to-trough change  
in rents since the onset  
of the pandemic**

Base rents have increased notably since the onset of the pandemic and the resulting recession due in part to an increased supply of class A space.



Source: AVANT by Avison Young

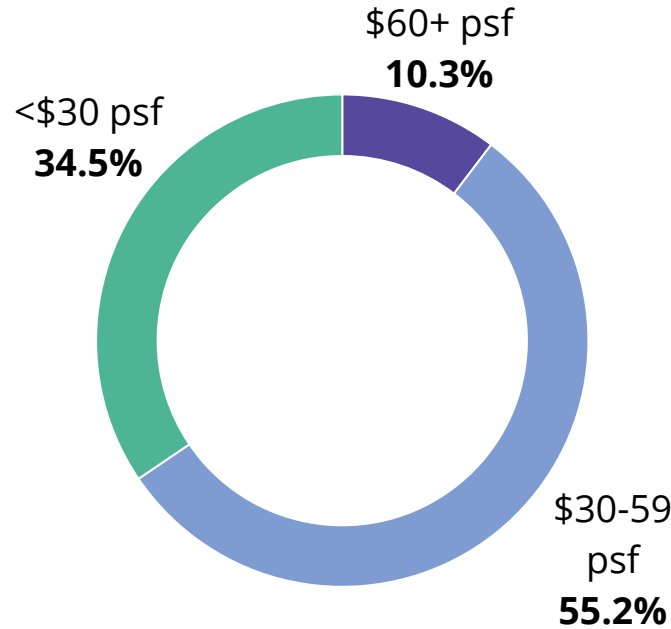
# Concession trends pre-COVID vs. post-COVID

# 11.1%

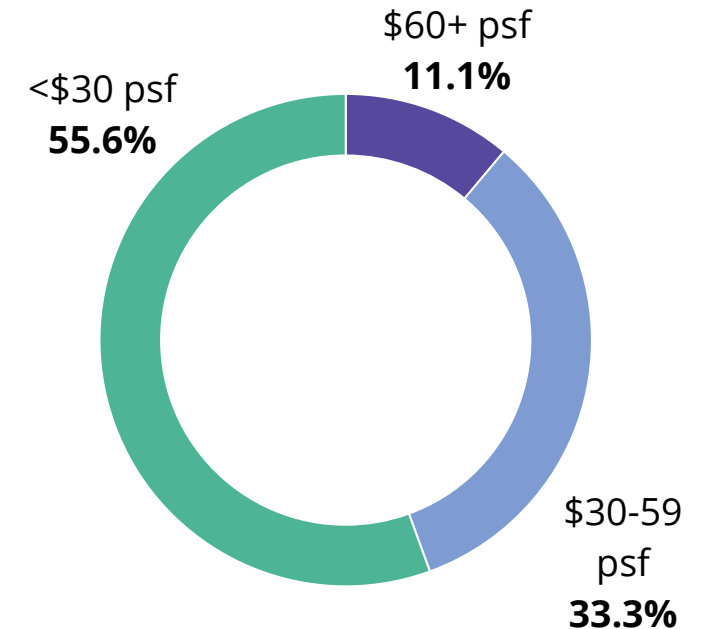
**Number of all class A deals since March 2020 with TI allowances above \$60 per sf**

While renewals are common and allow tenants time to evaluate their future floor plate needs, some tenants are searching for turn-key space with the flexibility of shorter lease terms.

2018-3/2020



Post-COVID



Source: AVANT by Avison Young

# West Palm Beach's construction pipeline

**14 properties**

proposed or under construction

**1.6 msf**

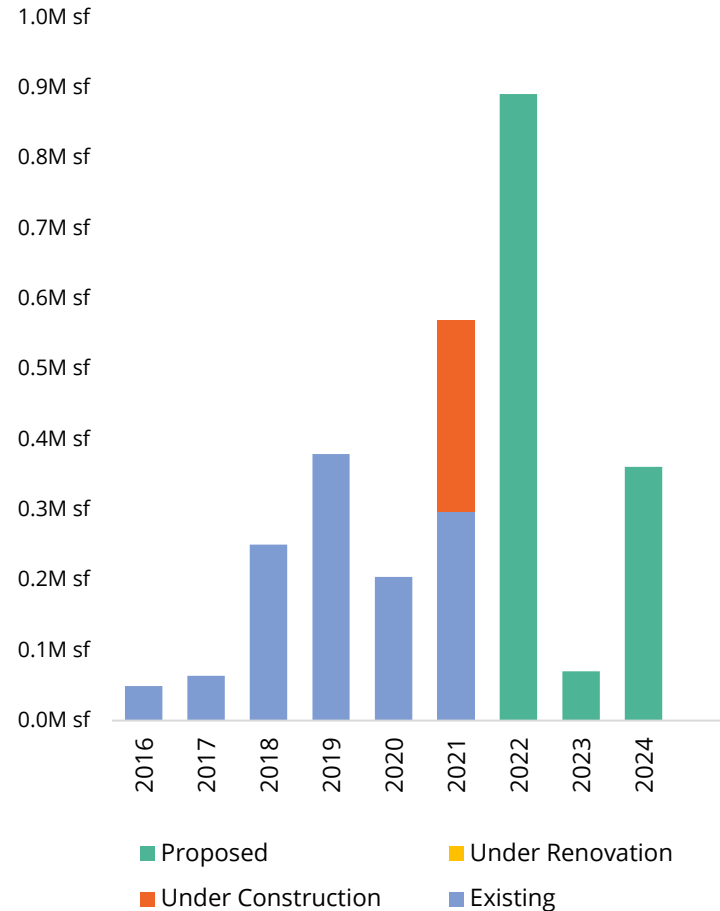
proposed or under construction

**5.6%**

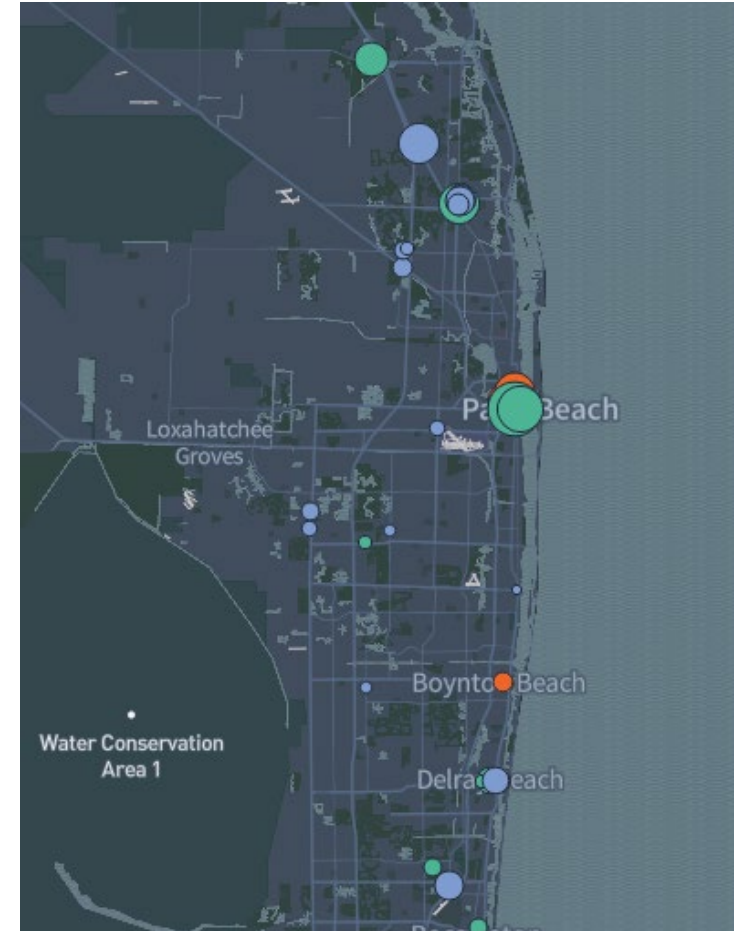
share of office inventory

**1.2 msf**

New construction deliveries in West Palm Beach since 2016



Source: AVANT by Avison Young

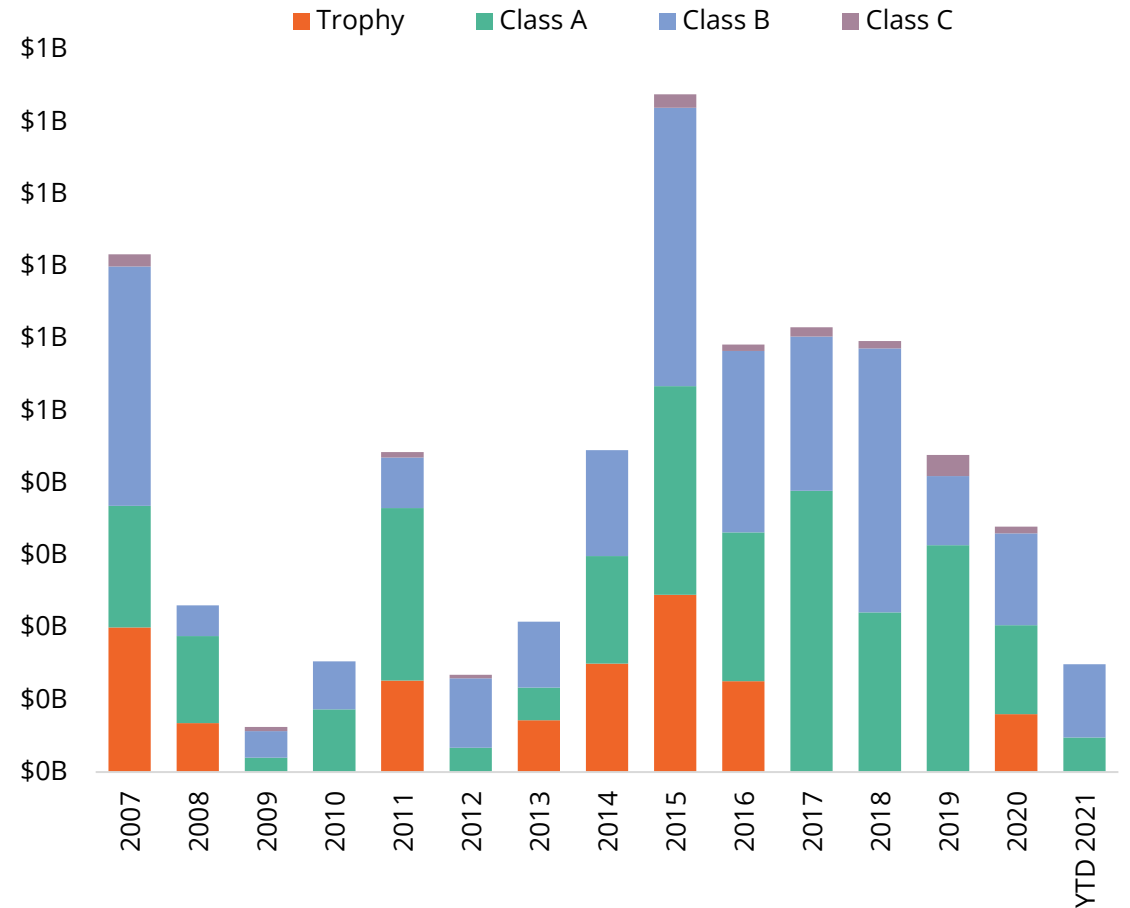


# Office investment dollar volume

# \$488.9M

## West Palm Beach office dollar volume 2020 to present

Office sales activity temporarily paused during the pandemic and, as a result, total sales volume from 2020 through year-to-date 2021 remains down 23.2% compared to the prior five-year average dollar volume.



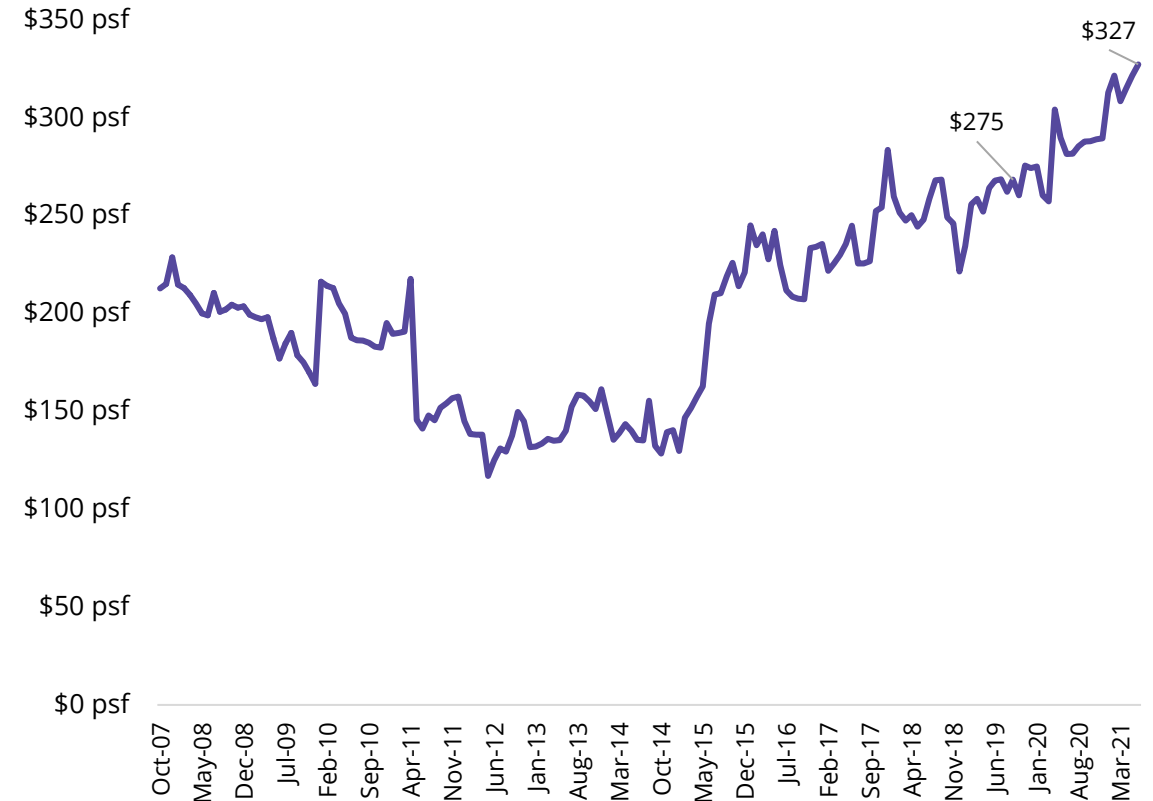
Source: AVANT by Avison Young

# Office asset pricing

# 18.8%

## West Palm Beach office pricing increase from November 2019 to present

Despite a slowdown in office investment during the pandemic, pricing saw a significant increase due to a handful of key office investments in class A and trophy assets by the Related Companies in downtown West Palm Beach. Pricing increase from \$275 psf in November 2019 to \$327 in June 2021.



Source: AVANT by Avison Young  
New York City Department of Finance, RCA



# Looking forward



## Here's what we can expect

- West Palm Beach's strong employment base, pro-business environment, deep talent pool, enviable quality of life, and expansive growth in the tech, health, and finance sectors will continue to attract the kind of **strong in-migration** that resulted in Florida winning an extra seat in the U.S. House of Representatives.
- Investment activity is expected to remain steady as a **strong flow of available capital** chases deals in Palm Beach County, and a seller's market will continue to prevail as the delta between the number of deals brought to market and the number of active investors will persist.
- The lion's share of business in-migration to West Palm Beach has been coming from the Northeast, a trend that is expected to continue moving forward. A **steady uptick in demand** for office-using medical providers is also anticipated.
- The passage of Florida Senate Bill 50 will have **positive implications for commercial real estate** as it will dramatically cut the state tax portion of the business rent tax from 5.5% to 2.0% once Florida's Unemployment Compensation Trust Fund is replenished to pre-pandemic levels. While every tenant will save on their overall business costs, considerable cost savings will be realized by larger occupiers in Florida, particularly in higher-rent markets like South Florida.



# Get in touch



## Greg Martin

Principal  
Managing Director  
+1 954 903 1815  
[greg.martin@avisonyoung.com](mailto:greg.martin@avisonyoung.com)



## Lisa McNatt

Director  
U.S. Insight Team  
+1 813 244 5618  
[lisa.mcnatt@avisonyoung.com](mailto:lisa.mcnatt@avisonyoung.com)



## Donald K. DeWoody, Jr., MAI, CCIM

Principal, Managing Director  
+1 561 721 7035  
[don.dewoody@avisonyoung.com](mailto:don.dewoody@avisonyoung.com)



## Evie Linger

Senior Data Analyst  
Innovation  
+1 954 903 3714  
[evie.linger@avisonyoung.com](mailto:evie.linger@avisonyoung.com)



**AVISON  
YOUNG**

# Let's talk

© 2021 Avison Young - Florida, LLC. All rights reserved. E. & O.E.: The information contained herein was obtained from sources which we deem reliable and, while thought to be correct, is not guaranteed by Avison Young.

**AVANT**  
by AVISON YOUNG