

Palm Beach County Office, Q2 2020

Despite uncertainty, market continued tightening in Q2

▼ Total Vacancy
12.0%

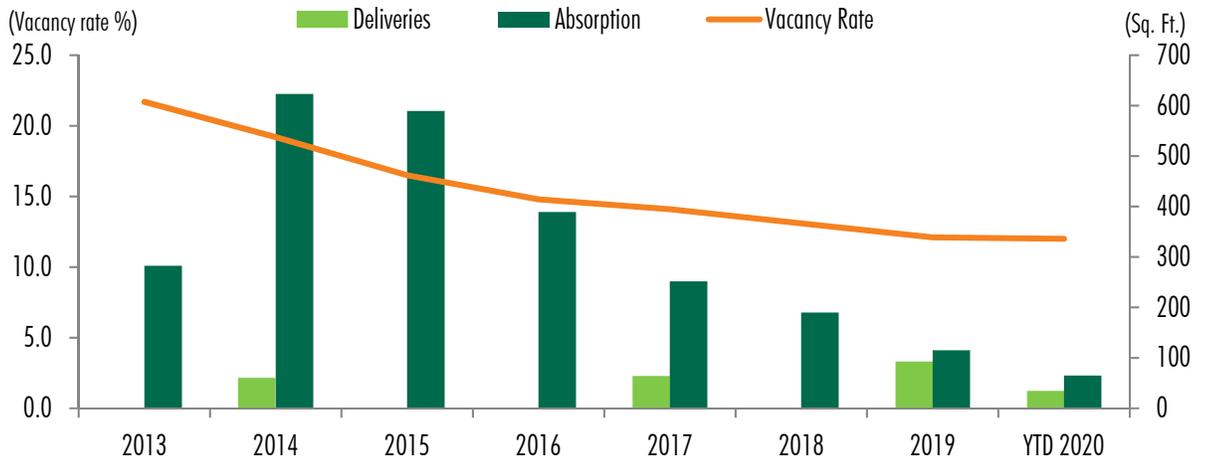
▲ Lease Rate
\$24.48 PSF

▼ Net Absorption
41,959 SF

▼ Under Construction
836,566 SF

*Arrows indicate change from previous year.

Figure 1: Under Deliveries, Absorption, and Vacancy



- Vacancy sits at 12.0%, a slight decline of 50 basis points year-over-year. Class A vacancy is slightly lower at 11.7%.
- Tenants took occupancy of over 42,000 sq. ft. of space this quarter, which is in-line with the markets 3-year average for quarterly absorption.
- Leasing activity has expectedly slowed this quarter, but bread-and-butter demand is still active, which indicates the market is operating at some semblance of normalcy.
- Golden Bear Plaza in Palm Beach Gardens was the most significant sales transaction of the quarter. The four building portfolio, totally 243,000 sq. ft., was purchased by Waterfall Asset Management for \$49.75 million, or \$205 per-square-foot.

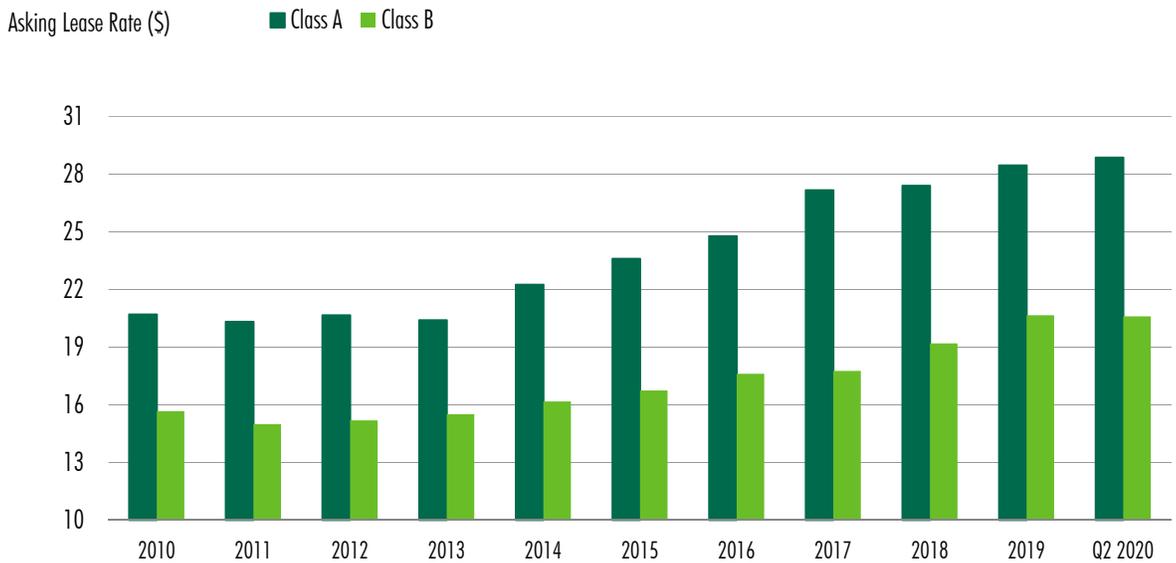
DEMAND

The markets slow but steady pace of declining vacancy continued in the second quarter, as tenants occupied nearly 42,000 sq. ft. amongst the economic uncertainty. The market vacancy rate is now at 12.0%, its lowest level since prior to the Great Recession. However, and not unexpected, leasing velocity has slowed in the second quarter and many tenants that were touring the market before the lockdown have put their requirements on hold until more economic clarity emerges. In response to the sputtering demand, the One West Palm development in downtown is looking to repurpose the office tower, which is nearly topped off, into multifamily. On the positive side, bread-and-butter demand from smaller tenants, particularly in Boca Raton, has continued and inquiries and tours have picked up during the final stages of the quarter.

FUNDAMENTALS

The doom-and-gloom scenario expected by many at the start of the quarter has not come to fruition as yet. Rental rates have remained steady – actually increasing ever slow slightly – and only one landlord is known to have actually lowered rates; however, this was not directly related to the economic situation. Tenants who were expected to move in still took occupancy, and few tenants have actually closed up shop, which has helped keep the vacancy rate stable. Furthermore, there was not a significant uptick in sublet space coming to the market. On a quarter-over-quarter basis, available sublease space declined by 2.0%, falling below the 500,000 sq. ft. mark for the first time since mid-2019.

Figure 2: Average Direct Asking Lease Rate (NNN)



OUTLOOK

Virology, not the business cycle, has dictated the course of the world’s economy this year. COVID-19 forced a nationwide shutdown of most economic activity in March, with the largest economic centers, especially the Northeast and Pacific coast, facing the strictest lockdowns. The economic fallout proved severe, pushing unemployment to over 15% and likely causing the economy to contract by more than 30% per annum in the second quarter.

These morbid economic conditions inspired many governors to ease lockdowns, especially in Sunbelt states where the case count was less severe than in more densely populated regions. These re-openings have energized activity. Several high-frequency indicators, such as hotel occupancies, restaurant traffic and hours worked, suggest the US economy bottomed in April and has been trending slightly upward since. This has renewed demand for labor as many hard-hit sectors, such as hospitality and healthcare, began to bring back furloughed workers in May.

On the downside, COVID-19 is ramping-up in states that were quick to reopen. Political commentary suggests authorities in these states have little appetite to re-impose stricter lockdowns. Although a significant uptick in cases that pummels consumer confidence is a risk, it is quite plausible that a mild escalation of COVID-19 can coincide with pent-up consumer demand that restrains economic losses this year to a fall in GDP of just over 6%.

Figure 3: Market Statistics

Submarket	Total Inventory (SF)	Total Availability (%)	Total Vacancy (%)	Q2 2020 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/NNN)
Boca Raton	11,397,368	20.0	11.1	(26,894)	10,146	0	24.07
Boynton Beach	418,063	32.6	23.3	23,155	5,043	0	15.72
Delray Beach	885,415	18.4	14.3	1,072	(9,989)	41,500	26.74
Jupiter	491,140	19.0	14.3	3,357	3,357	0	23.65
Lake Worth	384,961	25.4	17.9	(1,436)	6,536	0	19.44
North Palm Beach	2,909,899	16.5	8.1	13,621	22,083	111,971	23.27
Palm Beach Island	541,306	17.9	13.2	0	0	0	38.12
Royal Palm Beach	248,578	12.7	4.5	0	35,000	0	27.09
West Palm Beach	5,625,097	23.0	14.4	11,773	(7,267)	683,095	25.80
Total Palm Beach County	22,936,827	20.8	12.0	41,959	64,909	836,566	24.48
Class A	10,392,278	20.1	11.7	6,674	19,649	836,566	28.86
Class B	11,001,994	21.8	12.7	11,712	33,503	0	20.60
Class C	1,542,555	12.9	9.4	6,262	11,757	0	24.48

Figure 4: Significant Q2 2020 Lease Transactions

Submarket	Property	Tenant	Transaction (SF)
Boca Raton	4800 T-Rex Ave	Conduent Patient Access Solutions	31,046
Boca Raton	3600 FAU Blvd	4Ocean	25,538
Delray Beach	25 SE 4 th St	International Materials	20,000
Delray Beach	1625 S Congress Ave	Reliable Solutions	12,797
Boca Raton	999 Yamato Rd	Accountable Healthcare Staffing	10,640

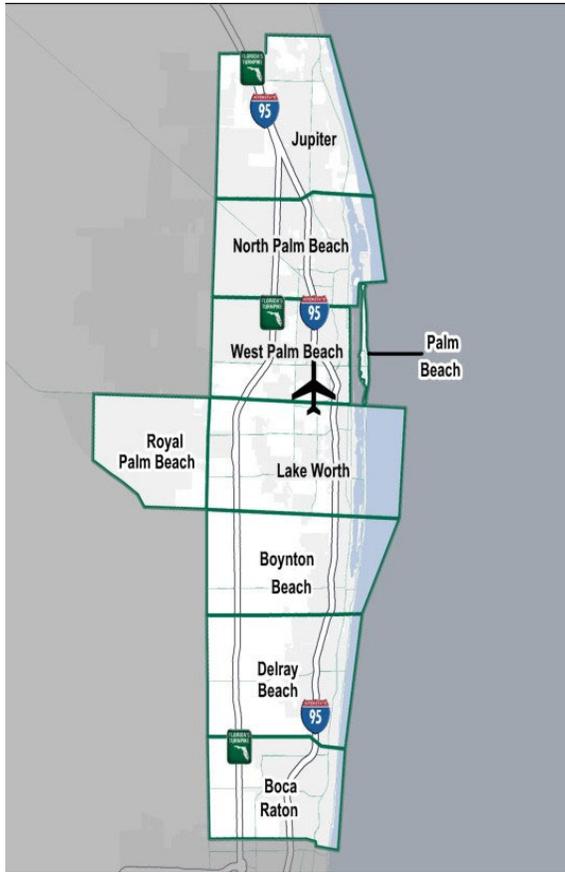
Figure 5: Significant Q2 2020 Sale Transactions

Submarket	Property	Buyer	Seller	Building (SF)	Sale Price (\$)
North Palm Beach	Golden Bear (4 bldgs.)	Waterfall Asset Management	Alliance Partners	243,0000	49,750,000
West Palm Beach	580/600 Village Blvd	King Real Estate	SF Partners	69,715*	11,380,000

*Size and price include 9,100 sq. ft. restaurant building.

Figure 6: Significant Projects Under Construction (SF)

Submarket	Property	Owner	Developer	Building (SF)
West Palm Beach	360 Rosemary	The Related Companies	The Related Companies	300,000
West Palm Beach	One West Palm	Florida Sunshine Investments	Florida Sunshine Investments	210,000
West Palm Beach	The Press	Corporate Service Company	Corporation Service Company	176,000



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Market Coverage: Includes all competitive office buildings 30,000 sq. ft. and greater in size in Palm Beach County.
 Excludes: single occupancy, government and medical buildings.