VIEWPOINT
SOUTH FLORIDA OFFICE MARKET

What to Expect from the Impact of COVID-19 on the South Florida Office Market

CBRE

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While there is uncertainty over how long the COVID-19 pandemic will last, it is inevitable that there will be many hardships and challenges ahead. CBRE shares in the concerns and sorrows of those in our communities who are currently suffering. But we are also inspired by the resiliency of our city and the power of our nation to endure through difficult times. CBRE is committed to helping our people, our clients and our communities weather the challenging times ahead.

EXECUTIVE SUMMARY

The COVID-19 pandemic has thrust the world into a monumental public health crisis. Local, regional and national governments are racing to slow the spread of the virus and protect human life. The response has included widespread restrictions on mobility and personal interaction, resulting in severe constraints on commerce and economic activity. A global recession appears inevitable.

"But a strong recovery is expected to kick in during the second half of 2020, as the impact of a massive government stimulus package helps revive consumer spending and return businesses to healthy footing".

With dire warnings about potential loss of life, the immediate focus is on shoring up the health-care system to treat the sick and on taking actions to limit the spread of the virus. Local and state governments likely will maintain tight restrictions on mobility, including prohibiting workplace access for most of the region's workforce. For its part, the South Florida real estate community is taking steps to maintain safety in the workplace and to support the healthcare and public sectors by providing supplies and spaces to combat the crisis.

Measuring potential impacts on the South Florida real estate market remains somewhat nebulous, relying on predictive modeling and the wait-and-see approach. The hotel, cruise line, and retail sectors, which employ a considerable share of residents, are expected to experience significant disruption. CBRE and others forecast heavy job losses and more than 30% contraction of U.S. GDP in Q2 2020. But a strong recovery is expected to kick in during the second half of 2020, as the impact of a massive government stimulus package helps revive consumer spending and return businesses to healthy footing.

THE ISSUE

NATIONALLY/INTERNATIONALLY

CBRE is closely monitoring the global, national and local impacts of the COVID-19 pandemic to anticipate the South Florida office market's performance in the years ahead.

These indicators include:

- Potential job losses, especially in major office-using sectors
- Changes in office demand and leasing velocity, with a shift to renewals and fewer relocations
- Repricing of existing space
- Dispositions and sublease inventory
- Changes to the development pipeline
- Performance of the flexible-space market

On a macro level, the health of the corporate debt market and the overall stability of the financial system should be closely monitored, as well as the strength of the ongoing Chinese economic recovery and whether a second outbreak occurs there.

Longer term, new considerations for promoting health and safety in the workplace will likely emerge in the wake of COVID-19. Conversations are already taking place about stepping back on workplace densification and desk sharing, improvements to HVAC and air filtration systems, and contactless security systems as potential future responses to the current crisis. More discussion will likely follow as the industry works through the impact of COVID-19 and processes the lessons learned from this crisis to become more prepared and resilient to future occurrences.

SIGNPOSTS

WHAT CHINA'S RECOVERY FROM COVID-19 TELLS US ABOUT THE FUTURE

Hotel
It took about six weeks for hotel demand to stop falling. The U.S. currently is about five weeks into its crisis.

Retail
80% of shopping centers are re-opened, including 95% of Starbucks.

Malls have regained 50% of previous foot traffic.

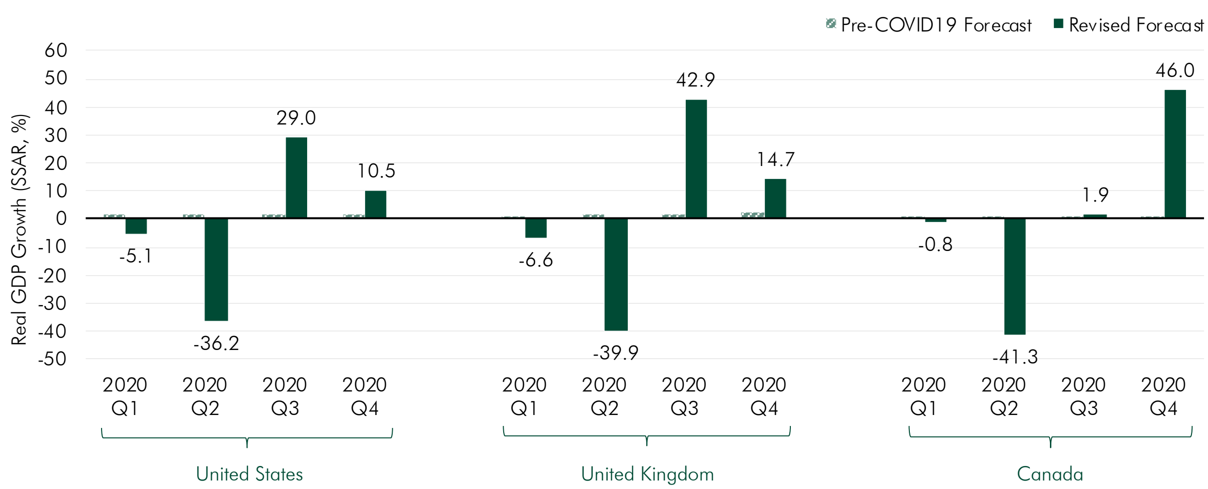
Industrial
As of the first week of March, more than 80% of manufacturing companies that export goods from China have resumed operation.

Most importantly, e-commerce (shipping) came back after near total shutdown, and is almost 100% operational today.

COVID-19 ECONOMIC OUTLOOK

A brutal Q2 awaits, but we anticipate a considerable recovery beginning in Q3. As of April 21st, CBRE forecasts that GDP will contract by 5.1% in Q1 and by 36.2% in Q2, before returning to growth of 29.0% in Q3 and nearly 10% in Q4.

Figure 1. GDP Quarterly Profile 2020 Annualized Q-o-Q GDP Growth



Source: CBRE House-View, April 2020.

For full-year 2020, U.S. GDP will decline by 4.9%, with the rest of the G7 economies contracting as well. Unemployment in the U.S. will rise to 15.2% in Q2 from 8% currently and then gradually fall below 9% by year-end. This reflects an estimated net loss of 14.7 million jobs. Employment sectors with the most job losses will be tourism/ hospitality, retail/restaurants/personal services, entertainment and oil & gas. The hit to the overall economy and the declining stock market likely will lead to additional losses in other sectors, including office-using employment.

CBRE's economic forecast for 2021 is for 6% annual growth, up from the 1.9% that was expected before the COVID-19 crisis. The lack of consumer spending during this crisis will result in an unleashing of pent-up demand once it is resolved. Recent fiscal stimulus, interest rate cuts and measures to ensure the flow of credit will support both business and consumer spending. The recently passed CARES act will provide total support equivalent to one-quarter of U.S. GDP or $5.6 trillion, an unprecedented amount of stimulus. Fiscal measures in Europe and Asia will also be historic and help fuel a global economic recovery.

LOCALLY/SOUTH FLORIDA

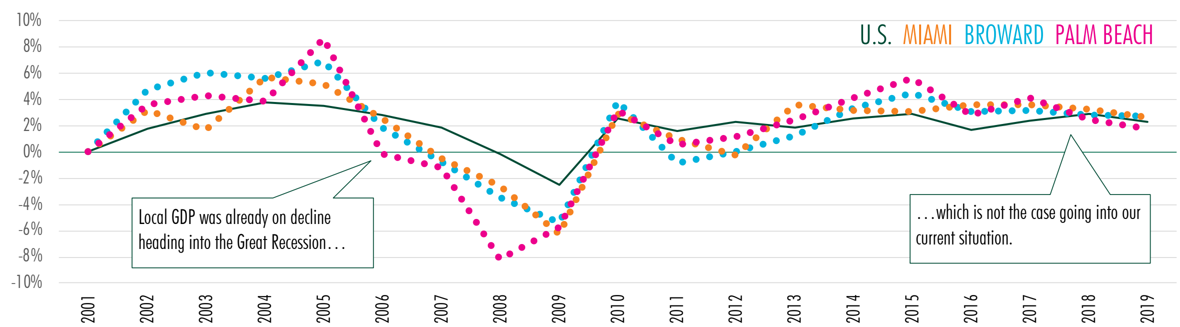
Both the U.S. and South Florida economies were in good shape before COVID-19 reached North America shores. The U.S. ended 2019 with annual GDP growth of 2.1% and a near historic-low unemployment rate of 3.5%. Similarly, South Florida finished 2019 with annual gross city product (GCP) growth of 2.5%, and office-using employment at a record high of more than 693,000. Overall job growth in 2019 exceeded expectations with more than 40,500 positions added, providing continued support for both office occupier expansion and the development of new speculative office buildings.

It is no secret that South Florida is known best for tourism. However, due to the diversification of the economy over the last couple decades, it is no longer the only factor that drives the economy. Impacts of this crisis have already impacted the restaurant, retail, cruise line, and hotel business, but as far as office-using industry sectors go, they should be relatively insulated. As of February 2020, the unemployment rate for South Florida had reached the lowest level on record, of 2.3%. This was also the lowest level of all metro areas in the U.S.

Local GDP follows the U.S. GDP closely, but when broken down by individual county, the peaks and valleys are even more visible within the metro area economy. Miami has the closest connection with the U.S. GDP, with the strongest correlation.

Since 2001, Palm Beach had the sharpest gain in 2005, when the GDP for the county rose 8.6%. Just three years later, Palm Beach had the sharpest decline in GDP, falling 8.1%. These extremes are likely due to the wealth of the residents of Palm Beach, where total investment income for residents is the 4th highest of any U.S. county, and the 3rd highest per capita, and will be more affected by the rise and fall of the stock market and real estate rents than most others.

Figure 2: South Florida GDP vs. US GDP



Source: Oxford Economics, April 2020.

Similarly, the U.S. economy was in a weakened state prior to the Great Recession of the late 2000s. In South Florida, the downturn was primarily felt in the housing market, where some properties didn't attain their previous price index for many years.

Figure 2 illustrates how local GDP growth was already on the decline as the Great Recession began to build stream. In a market where a significant segment of GDP is driven by real estate, the signals were clear. Regarding this recession, similar signposts were not present. GDP growth has been positive, all the way up to the black swan event of the COVID-19 pandemic.

THE RESPONSE

GOVERNMENT RELIEF MEASURES TO ADDRESS THE ECONOMIC FALLOUT OF THE COVID-19 CRISIS

The COVID-19 stimulus bill passed by Congress in late March, formally called the CARES Act, provides resources for people, businesses, states and hospitals that are dealing with the spread of COVID-19. The stimulus package provides support directly and indirectly to all sectors of the economy.

The CARES Act will inject $2.1 trillion (9% of U.S. GDP) directly into the U.S. economy, and the new credit facilities created by the law brings the total relief aid to $5.6 trillion. At almost 25% of U.S. GDP, the scale of this intervention is unprecedented.

WORKERS & FAMILIES

- $250 billion was allocated for enhanced unemployment benefits. This will provide an additional $600 per week for up to four months.
- $300 billion for direct payments of $1,200 sent to all adults who filed tax returns in 2019 and made less than $75,000 per year ($150,000 for couples) and $500 per child. Smaller amounts will be distributed to people making up to $100,000 a year or couples earning less than $200,000.

LARGE BUSINESSES

- $500 billion in assistance for large businesses that have been particularly hard hit, such as $32 billion in grants for airlines.
- Credit facilities backed by approximately $471 billion of the $500 billion allocated for large businesses will allow for up to $4 trillion in liquidity support for large businesses. This means easy access to cheap loans.

SMALL BUSINESSES

- Small businesses will receive direct help via $350 billion for loans from Small Business Administration (SBA) to help small businesses retain employees. The program will use an expedited process—administered by private financial institutions—to cover payments for rent/mortgage, utilities and payroll. These loans will be converted into grants at the end of the year if used for intended purposes.

PUBLIC SECTOR & OTHER AID

- $150 billion for states
- $25 billion for public transportation
- $117 billion for hospitals
- $198 billion for "other"

Much of the aid for commercial real estate will be in liquidity support for tenants. Occupiers of all sizes across the office, retail, industrial and hotel sectors may qualify for aid.

A key component is SBA loans for small companies—particularly food & beverage (F&B) operators, who have been severely impacted by mandatory closures. For businesses with less than 500 employees, loans will be forgiven by the government at the end of the year if funds are used as intended. Loan amounts can be up to $10 million and will be calculated as 2.5 times the pre-crisis monthly payroll amount. More government guidance on this will be forthcoming.

Beyond fiscal policy, additional crisis measures by the Fed will help ensure that property market fundamentals and capital markets for commercial real estate are supported through this turbulent period. Enacted less than one month ago, there will be a lag of up to two more months before certain parts of the stimulus are fully deployed.

The U.S. Congress is considering additional stimulus funding now. An interim bill addressing the Paycheck Protection Act would potentially provide an infusion of additional funds in support of the Paycheck Protection Program. Congress is also considering a second CARES Act to provide additional support and relief for Americans.

In Florida, both state and local resources have been launched, to aid businesses at the local level. This does not represent all potential sources, but some of them include:

- Governor Ron DeSantis activated the Florida Small Business Emergency Bridge Loan Program to support small businesses impacted by COVID-19. The bridge loan program will provide short-term, interest-free loans to small businesses that experienced economic injury from COVID-19. The application period runs through May 8, 2020.

- Reemployment assistance has been offered through the state to employees who are quarantined by a medical professional or a government agency, who are laid off or sent home without pay for an extended period by their employer due to COVID-19 concerns, or who are caring for an immediate family member who is diagnosed with COVID-19.

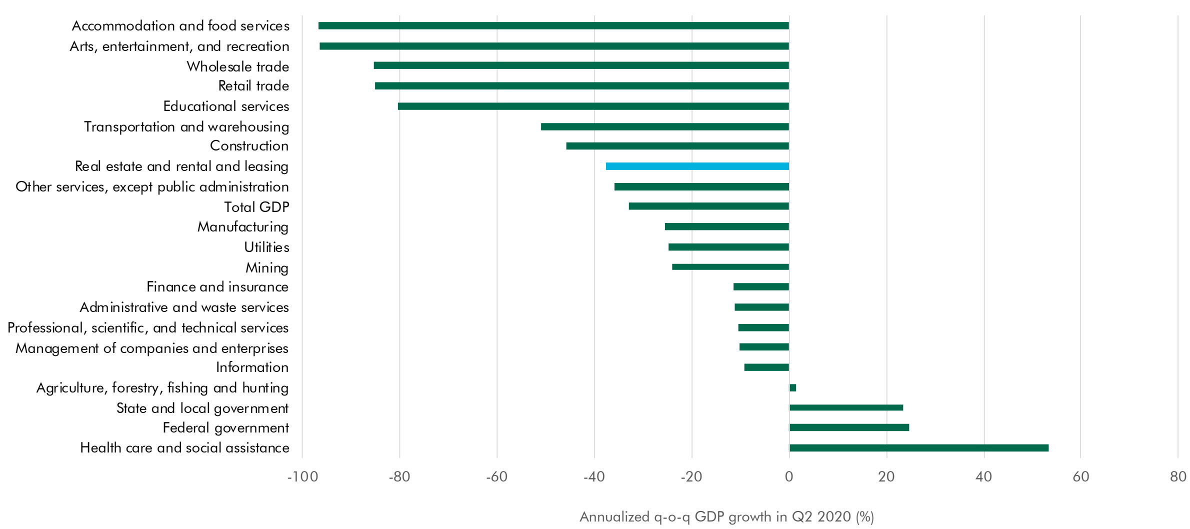
THE OFFICE MARKET

NATIONALLY

A significant slowdown in the U.S. economy is occurring. On Thursday, April 23rd, the BLS reported that another 4.4 million unemployment claims were filed in the U.S. This brings the five-week total to about 26 million, a number which has effectively wiped out all job growth since the Great Recession. While the stratification of job losses by industry is not fully understood due to a lack of granular labor data, the relationship between job growth and office demand remains strong. As such, the loss of overall employment will negatively impact office properties, but the depth and length of the impact will become clearer over coming weeks and additional data becomes known.

As of April 17, although many industries have lost jobs month-over-month, the office-using industries have remained relatively stable. Of the 701,000 job losses in nonfarm employment in the U.S., the heaviest shares were in the leisure and hospitality and education and health services sectors, with 459,000 and 76,000 lost jobs, respectively. Of office-using jobs, professional and business services lost 52,000 jobs, but 49,500 of those are attributed to temporary help services. The financial activities sector has only lost 1,000 jobs nationally, month-over-month.

Figure 3: Assumed Economic Impact by Industry

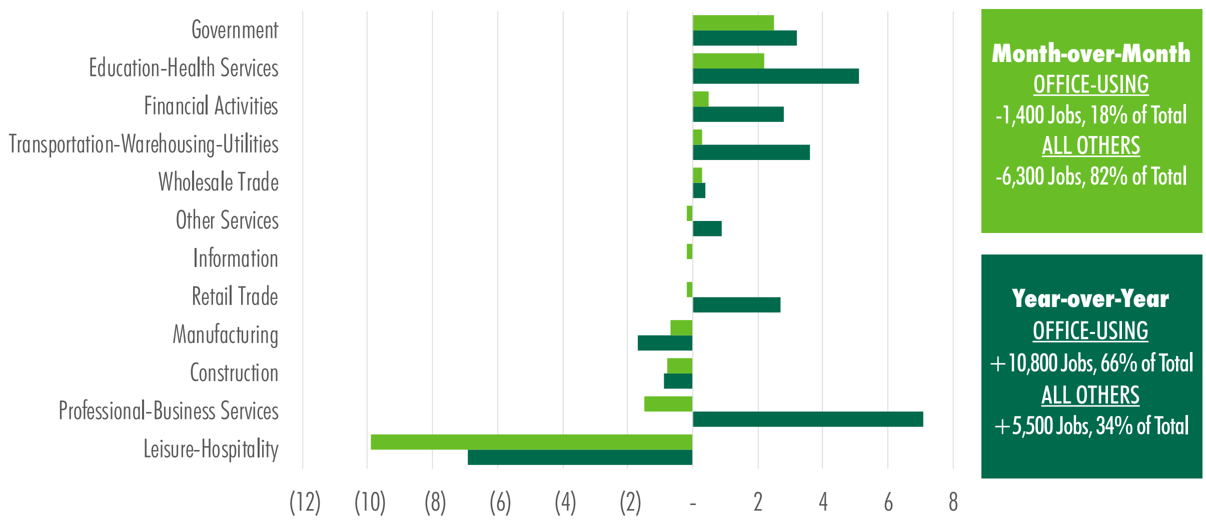


Source: BEA, Oxford Economics, CBRE Research, April 2020.

LOCALLY/SOUTH FLORIDA

Although the state lost 36,600 jobs over the month, Florida is remarkably up 126,000 jobs year-over-year, as of data pulled on April 17th. This is not to say that Florida will be immune to the issue, the point is to establish how strong of level the economy was at, going into this crisis. As of April 20th, Florida W.A.R.N. notices numbered over 18,000, with over 70% of the total within the leisure-hospitality and retail trade sectors. Under 13% of the notices were in industries which are typically office-using.

Figure 4: South Florida Employment Growth, in 000's of Jobs



Source: FDEO, April 17, 2020

In South Florida, the month-over-month job loss within the total metro area was 7,700 jobs. Heavy losses in certain industries were slightly offset by gains in others, such as government and the health services industries. Accommodation and food services have been hit the hardest, losing 10,400 jobs since February. Employment within professional and business services, one of the key office-using industries, has fallen by 1,500 jobs. However, financial activities jobs gained by 500, with Palm Beach adding the most at +300. However, year-over-year, South Florida remains up 7,100 jobs in professional and business services, over March 2019, and up 2,800 jobs in financial activities. For the moment, employment in the office-using industries has held up.

Average asking rents across South Florida were at historic highs, rising by 25.5% over the last five years. The vacancy rate ended 2019 at 11.9%, continuing the relative stability and equilibrium of the previous four years despite more than 1.8 million sq. ft. of new construction.

Overall office occupancy reached 89 million sq. ft. at year-end, an all-time high. Strengthening economic fundamentals continued to support tenant requirements well into the first quarter of 2020. Leasing activity in the Miami office market totaled 2 million sq. ft. of office space during the first three months of the year, led by the Downtown and Airport/Doral submarkets in Miami. Combined, these two submarkets accounted for nearly 54% of the leasing volume. Boca Raton and West Palm Beach led the Palm Beach market with 73% of the lease transactions and SW Broward and Sawgrass Park led the Fort Lauderdale market with 43% of the lease transactions.

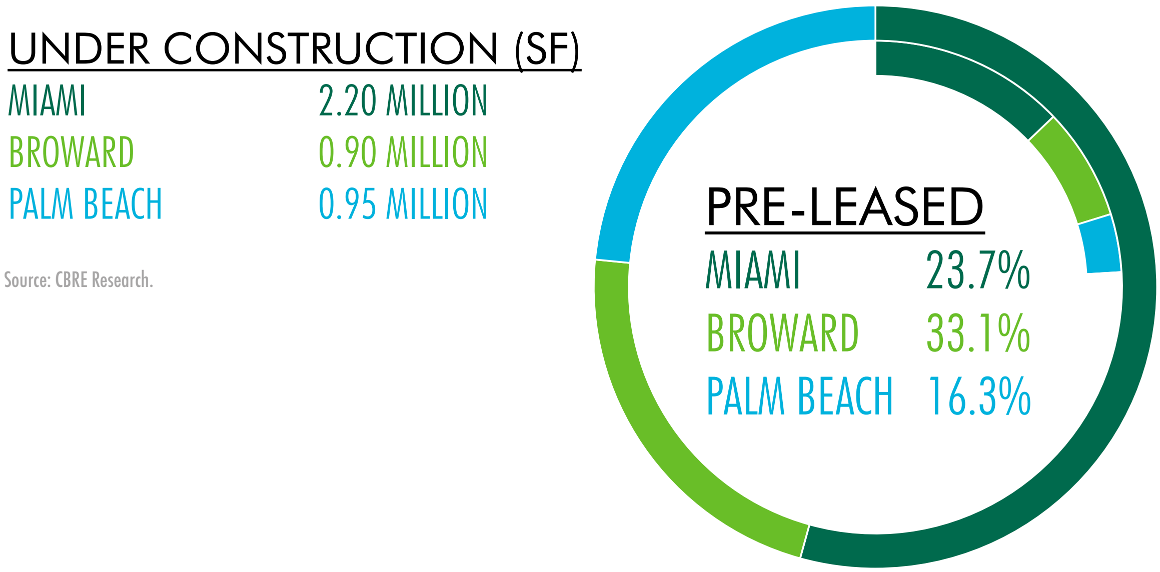
Figure 5: South Florida Office Occupancy Share by Industry

Industry	% of Total
Legal Firms	17.0
Financial Institutions	15.7
Business Services	9.9
Real Estate (Includes Flexible Workspace)	8.7
Accounting/Personal Services	8.3
Government	7.1
Transportation	6.3
Medical	5.1
Retailers/Wholesalers	3.3
Insurance	3.1
Manufacturing	2.8
Communications	2.7
Engineers/Architects	2.4
Accounting Firms	2.1
Computers/Data	2.0
Agri/Mining/Utilities	1.4

Source: CoStar, CBRE Research.

These healthy fundamentals spurred a wealth of new development activity, with nearly 4.1 million sq. ft. of new office space under construction by Q1 2020, marking the highest total in more than ten years. This activity persisted despite the rapidly rising cost of new construction. The rising expense of labor, materials and regulation fueled a rapid increase in construction costs, a significant contributor to rent inflation. Most newly constructed and planned office buildings are now commanding gross rents in the mid-$50's to low-$70's per sq. ft. In Miami-Dade, Wynwood will be adding over 639,000 sq. ft. of office between 2020-2021, followed by Brickell with 533,000 sq. f. delivering in 2022. In Palm Beach, West Palm Beach will deliver 683,000 sq. ft. over the next two years, and Downtown Fort Lauderdale will add 357,000 sq. ft. in 2020 in Broward County.

Figure 6: South Florida Office Under Construction

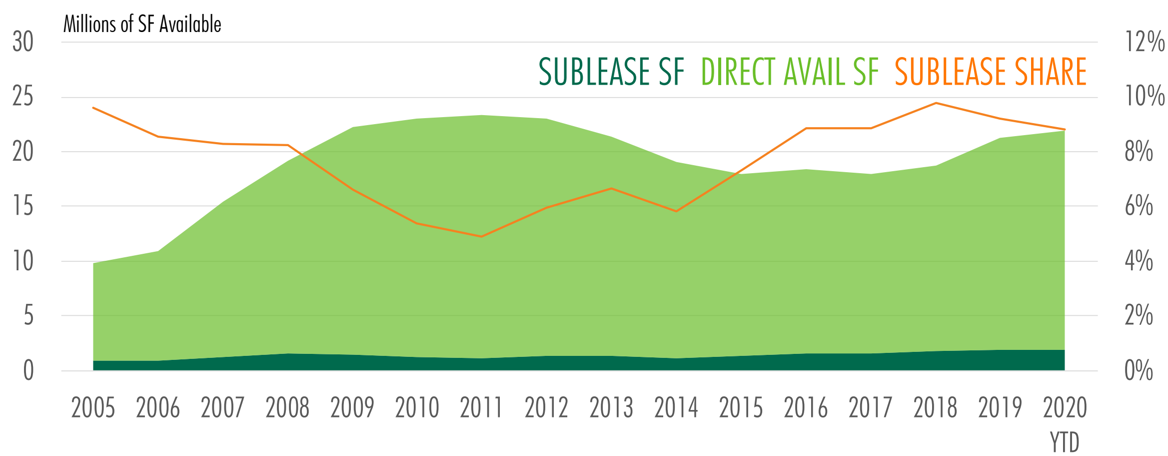


Source: CBRE Research.

AN INCREASE IN SUBLEASE SPACE: A LEADING INDICATOR OF RENT DECLINE?

Available sublease space can be an indicator of a loss of office-using jobs within a market. If firms begin to furlough or lay off employees, obviously their space needs will change, many offering their excess space for sublease. The greater the amount of sublease space on the market, the more likely that market rents will fall. Yet unlike the retail or hospitality sectors, immediate changes might not surface. There will likely be a lag before a measurable impact can be observed.

Figure 7. South Florida Sublease Space as Share of Total Space Available



Source: CBRE Research.

NEWS FROM THE FIELD

WHAT CBRE IS SEEING ON THE GROUND FIVE WEEKS INTO SOUTH FLORIDA'S COVID-19 RESPONSE

While is it too soon to determine the full impact of COVID-19 on the South Florida office markets, some useful insights can be gleaned from what's happened during the first several weeks. CBRE professionals have been in constant communication with our clients—including occupiers, landlords, investors, property managers and project managers—which has formed the basis for following insights on the current state of the market.

1. While some transactions well underway prior to the crisis have proceeded to close, most are on hold as tenants take a "wait and see" approach to real estate decisions. Tenants are revisiting underlying assumptions about future space needs, considering capital preservation, and watching for price adjustments. That said, very few tenants have altogether cancelled their searches.

2. Given the severity of the economic shock to the broader capital markets, it was not surprising that many offerings were suspended or postponed in early to mid-March. In recent days we have seen signs of the markets opening and transactions moving forward. There is considerable equity capital eager to make purchases, and debt markets - which seized up in mid-March - are becoming liquid. Private capital investors have drawn against held assets to free up cash for any potential discount opportunities.

3. That said, those who are waiting for heavily discounted assets to come to market have so far come up empty. There have been few if any panic-sales within the office market.

4. No CBRE agency properties have adjusted rents on available space at this time, but several landlords seem willing to increase concessions if a tenant will proceed to execution.

5. Occupiers have presented CBRE with very little surplus office space for disposition at this time. The "vast majority" of tenants are paying rent. Travel and hospitality office occupiers are those which remain at the largest risk and could be most likely to give back space.

6. While tenants have been reviewing their leases to determine the extent, if any, to which the provisions might afford them a right to a rent abatement, market have reported that some landlords are saying it is "too early" for that. Landlords who have been receptive to abatement have been primarily exploring deferrals for up to three months, with payback plans to commence in 2021.

7. Tenants with lease expirations on the immediate horizon are considering short-term lease extensions as a temporary solution.

8. Governor Ron DeSantis deemed construction an essential business and the great majority of office buildings underway pre-COVID-19 are progressing. Some jobsite challenges have been reported, including fewer subs present at jobsites, physical contact concerns and the availability of masks.

9. The pandemic continues to encourage innovation. At least one agency brokerage team is conducting active virtual tours of their property, complete with views and interior spatial references, including furniture.Many local jurisdictions have adapted to challenges with planning and

The ratio of sublease space as a percentage of the total available space is a telling metric of the effect of layoffs on the market. Over the last two years, South Florida has been on a positive trend, since reaching a 15-year high in 2018, at 9.8%. What is interesting is that during the Great Recession, the sublease ratio was improving, despite what was happening with Wall Street and the housing market. This would suggest that the South Florida office market is relatively immune to market conditions that affect gateway markets. However, this could also be an indicator of a lack of new construction of office assets during this time. As of now, the construction pipeline for office real estate is robust, with new product going vertical in each of the three separate markets. This will be a trend to observe over the next several months.

PAST PRECEDENT

WHAT WE CAN LEARN FROM PREVIOUS CRISES: SARS, SEPTEMBER 11 AND THE GREAT RECESSION

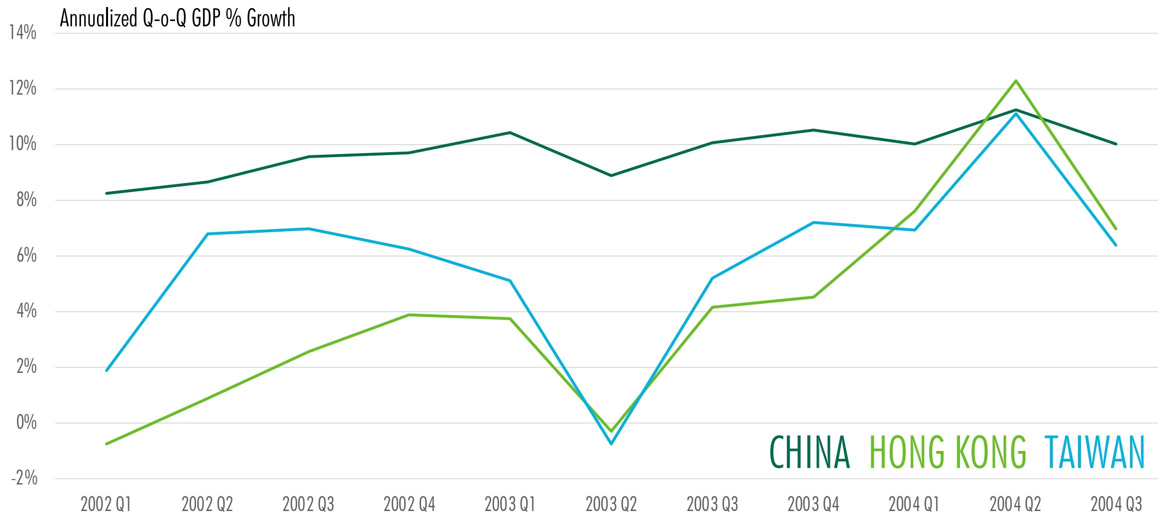
SARS

While the U.S. emerged largely unscathed from the SARS pandemic of the early 2000s, the nature of the crisis and its economic consequences offer perhaps the most analogous glimpse of how the COVID-19 crisis might unfold. Both cases involve a highly contagious virus that threatened public health and led to social isolation measures that impacted economic activity. Although the COVID-19 crisis likely will result in greater economic losses than occurred under SARS, there is cautious optimism that a strong public response to slow the spread and provide aid to affected households and businesses can lead to a relatively quick, robust recovery.

After originating in Guangdong Province, China in November 2002, SARS rapidly spread throughout Asia, Europe and North America before being contained in July 2003. All told, the disease infected roughly 8,000 people and claimed nearly 800 lives. The hardest hit areas were Mainland China, Hong Kong and Taiwan, which together accounted for 92% of the cases and 93% of deaths. The U.S. reported only 27 cases and no deaths.

The impact of SARS on the local economies of Hong Kong and Taiwan was severely negative in the short term, before a swift, sustained and strong bounce back once the virus was contained.

Figure 8: SARS Had a Short-term Impact on the Greater China Economy



Source: Oxford Economics, January 2020.

Taiwan's GDP growth peaked at around 7% and Hong Kong's at approximately 4% pre-crisis, before contracting to -0.7% and -0.3%, respectively, in Q2 2003. By Q2 2004, both returned to growth of more than 10%. To varying degrees, there were similar patterns of retail sales growth and office rent growth in those regions. Office demand also fell in Hong Kong and Taiwan during the crisis, with negative or very little positive net absorption through Q2 2003, before improving in subsequent quarters. Should the timing from inception to containment of the COVID-19 crisis in the U.S. follow suit, a similar economic recovery scenario could occur.

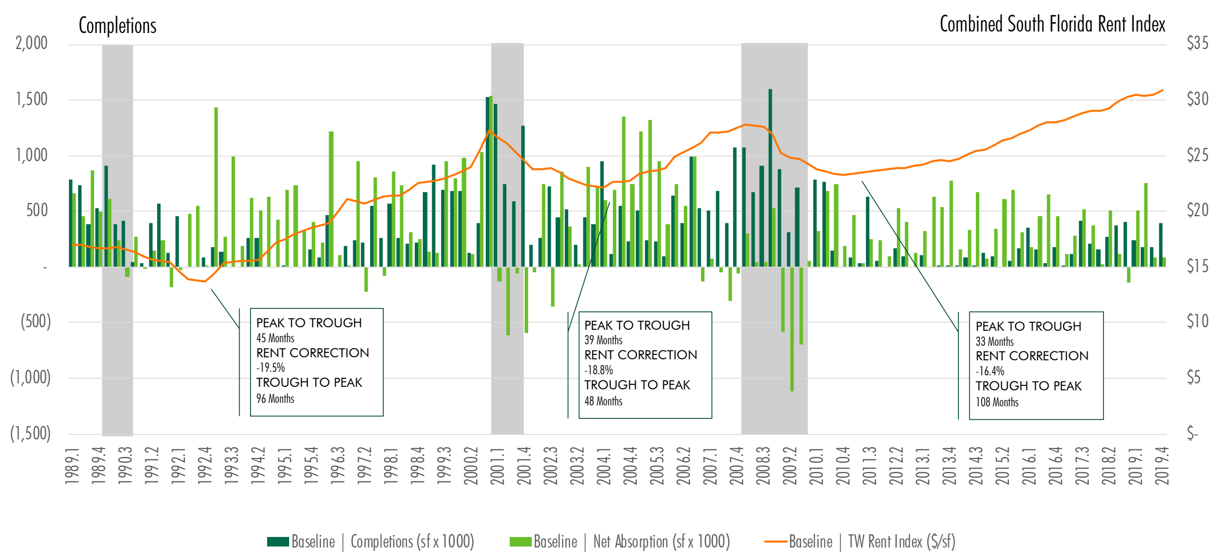
9/11 AND THE GREAT RECESSION

The COVID-19 crisis has generated fears about health, safety and livelihood that remind many of their experiences following 9/11 and from the Great Recession. While there are some similarities (economic slowdown, job losses, fear and uncertainty about the future), there are notable differences between this past crisis and the COVID-19 outbreak that suggest different economic and real estate outcomes for the South Florida office market:

1. The underlying fundamentals of both the U.S. and South Florida economies were on much better footing heading into this crisis than they were in either of the past two.
2. However, it has been theorized that what 9/11 did to office building security, COVID-19 will do for office building environmental controls and cleaning, a change that would be implemented in South Florida.
3. The Great Recession was characterized by a long period of decline and a slow recovery. By contrast, COVID-19's impact likely will be deep but short-lived, followed by a strong, relatively quick recovery.
4. A massive fiscal and monetary stimulus has been quickly implemented to restore consumer and business spending and to facilitate reemployment—more so than in both previous events.

Prior to the COVID-19 outbreak, the U.S. and South Florida economies were recording strong economic growth. Office rents were rising, and office demand was strong. Measures to slow the spread of COVID-19 will cause a significant drop in GDP in Q1 and Q2 of this year, but growth is expected to return sometime in Q3. Until then, steep job losses are expected. But as the virus recedes and households and business return to normal routines, the economy should begin to bounce back.

Figure 9: South Florida Historic Office Rent Index with Recessions



Source: Econometrics Advisors, CBRE Research.

FUTURE

SHORT-TERM

Most office-using businesses within South Florida fall within the general stay-at-home regulations that have been ordered by both local metro governments and by the State of Florida. They mandate that all non-essential businesses must remain closed, and general travel restrictions remain in place for entering the state by vehicle, and visitors from certain states are required to be quarantined for 14 days. In addition, several municipalities have implemented their own restrictions. These requirements are largely in place for 30 days but could be extended. For the time being, most employees at office-using businesses are working from home, or from another similarly agile situation. Traffic congestion in South Florida, which is considerable, has become a barely noticeable blip as fewer automobiles are on the road. Mass transit commuter traffic is down considerably, which has encouraged some of the regional lines to suspend service on certain routes and during low-volume hours. What other impacts will be felt in the short-term?

1. **Addressing Environmental Concerns**. Property managers will be preparing office buildings for re-entry of employees, by sanitizing common areas, restrooms, and elevators. Many will establish short-term social distancing measures such as place markers to help stagger building entry.
2. **Back to Work.** Occupiers will be establishing their own procedures, such as staggering office attendance by week, establishing a single point of entry where temperature-taking could be implemented, restricting side-by-side seating within the office, and enforcing clean desk policies.
3. **Office Cleaning.** Standards will be stricter than they were at the beginning of 2020. All areas will be sanitized thoroughly, such as kitchen areas, dining areas, and coffee stations.

LONG-TERM

The potential long-term effects of the COVID-19 pandemic are considerable, but most are positive, and were largely in the works before the pandemic surfaced. Recent thinking has emerged that less office space will be required in the future, as many workers are remaining productive working from home. However, recent surveys and studies do not support this recently devised theory. The office labor force works better, and is more productive, in the office. As office space has evolved from closed off executive suites into more fluid, agile workspace, productivity has increased. However, there will almost certainly be changes that will affect office-users in the future.

1. **Less Density in Space.** Trends within this past economic cycle had office space becoming more and more efficient, regarding total sq. ft. per employee. It is becoming clear that a reverse trend could emerge. This does not mean we will see a return to the corner office for each executive - but a decline in benching stations, and a rise in compartmentalized personal space for each worker is easy to imagine, especially if social distancing standards remain, in life and in the workplace.

2. **Upgraded Air Quality/HVAC Systems.** Office buildings are required to maintain a certain standard of environmental controls, and air cleanliness, supplied by OSHA, in order to operate. These standards could be elevated to levels closer to what medical facilities are required to have, in order to inhibit the spread of aerosol-transmitted viruses in the future.

3. **Elevated Occupancy Cost.** As firms head back to work over the next few months, it is quite likely that in-office facility management and cleaning will be more thorough than before. Landlords will eventually pass on these costs to tenants, which will increase occupancy costs.

4. **Working From Home.** Although the physical office will remain as a standard, easing of work-from-home restrictions can be imagined, as feedback from corporate leadership indicates a greater willingness to accelerate the adoption of flexible and home working policies in the future. However, face-to-face interaction remains critical for developing relationships, improving collaboration, and cultivating innovation.

5. **Flexible Workspace Operators.** Despite a recent theory that flexible workspace operators could see a near-fatal disruption in their business, CBRE does not share that sentiment. Enterprise clients of flexible workspace operators will continue to take advantage of the agility that these companies provide. What will likely occur is that the environmental standards of flexible workspace operators will elevate, and that they will format more of their space to accommodate enterprise clients, and dedicate less space for open benching stations, which is what most think when they come across the term “coworking”.

6. **International Migration.** South Florida is one of the prime beneficiaries of foreign migration, with over 40% of residents being foreign-born. Aside from San Francisco, the region holds the highest share of multilingual workers with a bachelor’s degree or higher than all other metro areas. A disruption in international migration will likely have a negative impact on the office-based labor market in the long-term.

MARKETS

MIAMI — LAW FIRMS

Miami is well known as a hub for legal firms, with one of the highest location quotients[1] for the industry of any metro area in the U.S., behind only the Washington-Arlington-Alexandria metro area, in terms of major legal markets[2]. In absolute numbers, the South Florida region is 3rd in the U.S. in total employees within the legal sector, with over 48,000 as per the CBRE report A Shifting Landscape: 2019 North American Legal Sector Trends. In addition, average salaries for the legal services industry in Miami are the lowest of the top 10 markets, granting large firms a bit more economy than their peers in New York City, Washington D.C., Los Angeles, or San Francisco.

1. Municipal work from home orders have caused many legal firms to re-think the benefits of implementing more broad-based telecommuting programs to reduce costs, which could result in the need for less space going forward.

2. According to the CBRE North America Fit-Out Cost Guide 2018, the legal sector, at 371 sq. ft., has the highest average footprint per employee of any other industry. Some law firms have embraced universal size offices more than others, so it remains to be seen what the long-term trends and implications will be. By way of example, dependent on firm culture and profitability, some firms may consider more advanced workplace strategy programs such as activity-based working (e.g. hoteling) that could drive greater operating efficiencies, which is a concept that historically has been met with stiff opposition.

[1] The location quotient is the ratio of the area concentration of occupational employment to the national average concentration.
[2] Markets with over 5,000 employees in the legal services sector.

FORT LAUDERDALE — TECH

Fort Lauderdale has quietly emerged as a tech hub over the past five years, exhibited by its growth in tech-talent workforce, which was the 4th highest rate of growth among North American markets from 2013-2018, at 46.8%[1]. In addition, tech talent in South Florida comes at a relatively low cost, for a high level of talent. This rise in talent will allow long-standing tech firms the ability to grow their businesses and expand their footprint.

1. Tech firms have often been tied to venture capital, and South Florida received $2.39 billion from venture capital, which ranked it 7th nationally for dollars invested. The beginning of 2020 has proven to be challenging to raise capital in an uncertain economic climate, and well-entrenched firms could hold an advantage for the next couple of years, as the economy slowly rebounds.

2. Biotechnology and healthcare technology companies won 30% of the total number of venture capital deals in South Florida in 2019, and healthcare technology will continue to be a strong growth sector especially with a heightened focus on health following the COVID-19 pandemic.

3. Companies that are tied to e-commerce could experience a boost in growth, as retail preferences adjust to a new reality, and more consumers grow comfortable with regular online purchases of goods. Stock of Chewy.com, a Dania Beach-based pet supply e-commerce company, has risen over 80% since November 2019.

MARKETS

PALM BEACH — FINANCIAL ACTIVITIES

As the number of affluent families in Palm Beach has continued to rise, so has the rise of family offices, which are private wealth management firms managing investments and estates of wealthy individuals and families. As previously mentioned, few areas in the U.S. generate the investment income that residents of Palm Beach County do. A favorable tax climate, incomparable weather, and a high quality of life should continue attracting high-net worth families and individuals to the area. The financial activities industry is responsible for 6.8% of Palm Beach County's GDP – higher than any other county in South Florida[1].

1. With almost every economic downturn follows a repricing of real estate assets. Holders of private capital-funded assets will be active in refinancing their portfolios to free up cash, to be in position to take advantage of any potential repricing opportunities. Family offices could experience a higher volume of activity during the economic recovery.

2. Although these firms are numerous, they often take up smaller, less conspicuous spatial footprints than larger, national firms. Boutique office buildings in affluent areas could benefit from the rise in family office activity.

[1] Source: Oxford Economics.

CONCLUSION

Office occupiers in South Florida are taking a wait-and-see approach regarding their immediate real estate decisions. They are focusing on their employees and business health and working to stabilize business and put themselves in the best position for growth in Q4. Although a decline in new leasing activity undoubtedly will occur in Q2, a rise in lease renewals is likely. The impacts this situation will have on office rents, absorption and occupancy remains unclear. However, considerations that are resurfacing when calculating for long-term occupancy include securing and promoting health and safety within the office workplace. This will no longer be a side event for firms. Trends across this past economic cycle such as workplace densification and shared spaces could be reconsidered, and it is quite likely that office-based employees will take advantage of more liberal work-from-home policies. However, look for these discussions to begin late 2020 and beyond, as the workplace as we know it will certainly evolve for the betterment of all.

The criteria for Class A and Class A+ product could be in for another addition. Property ownership and management will be even more focused on environmental maintenance and HVAC technology. Buildings may be expected to design more sterile public spaces, such as using materials that are naturally anti-microbial surfaces or upgrading ventilation systems to raise the level of common space air quality. These additions will come at a price – occupiers could see this passed to them by higher rents, or higher OPEX charges. New construction will have an advantage and could use their new standards as an attractor to draw occupiers away from their current buildings. Choices on these topics will likely be on pause in the near-term, as people remain focused on first stabilizing the COVID-19 situation.

The South Florida economy could be in for a rollercoaster ride. Employment within the retail trade and leisure and hospitality sectors, which accounts for about a quarter of the workforce, will decline sharply. Recovery could be quick, as pent-up demand could initiate a wave of commerce across the three-county area, but it is equally likely that people will be cautious and could take some time in restoring those industries into their usual dominance.

With that in mind, office-using employment was at an all-time high for South Florida at the end of 2019. Although retail trade and hospitality are certainly key industries within South Florida there are several other industries that are more significant regarding the overall economy. Many of those industries are projected to experience minimal impact from the COVID-19 pandemic and are still expected to show significant growth over the next decade.

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