

MARKETVIEW

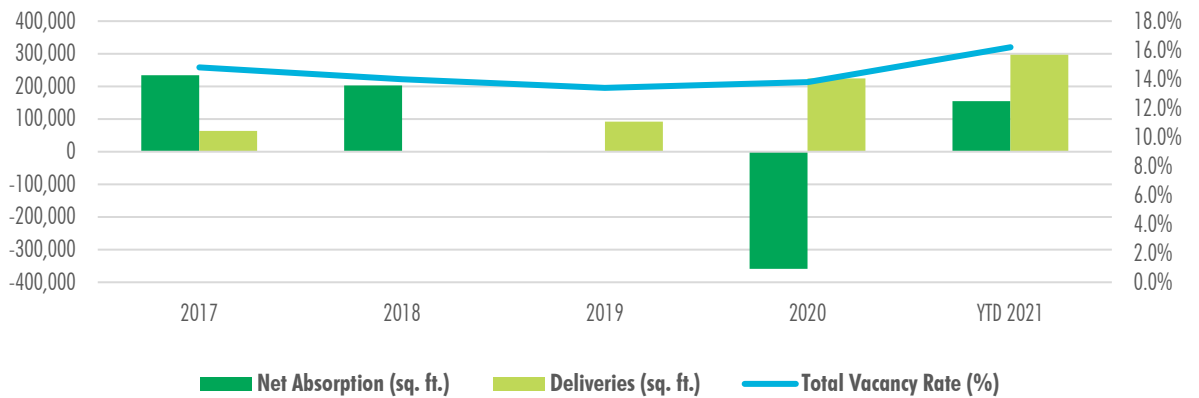
Q2 2021

Palm Beach Office

Demand for office space continues to soar

▲ Inventory 19.8M SF
▲ New Deliveries 297,000 SF
▼ Under Const. 184,00 SF
▲ Total Vacancy 16.2%
▲ Net Absorption 90,200
▲ Lease Rate \$27.51/SF

Historical Absorption, Deliveries and Vacancy



- 360 Rosemary delivered late in the second quarter nearly fully pre-leased. New-to-market tenants accounted most of the pre-leasing as they remain a driving factor in the market.
- Sublease space is not impacting Palm Beach County like most markets in the state with limited spaces coming on-line.
- Asking rents in the county continue to rise, predominantly driven by landlords in the West Palm Beach CBD. Class A rents in the CBD are up 14.2% year-over-year to \$45.93/sq. ft.

OVERVIEW

Palm Beach County is coming out of the pandemic strong, as demand for office space soars. New-to-market tenants continue to drive the narrative as numerous transactions were completed in the second quarter. This demand can be clearly validated by the lease up of 360 Rosemary. The tower, which had minimal pre-leasing 12-months ago, delivered late in the second quarter nearing 100% leased; and nearly 80% of leasing (total sq. ft) was done by new-to-market tenants.

The record demand has led to one of the strongest quarters on record for leasing activity. On the heels of that activity there is still a strong pipeline of future deals; there are currently more than 750,000 sq. ft. of active requirements.

Additionally, the second quarter saw a considerable increase in requirements in South County (Boca Raton, Delray and Boynton). Currently, CBRE is tracking 250K sq. ft. of requirements that are focused on the South County submarkets.

SUPPLY

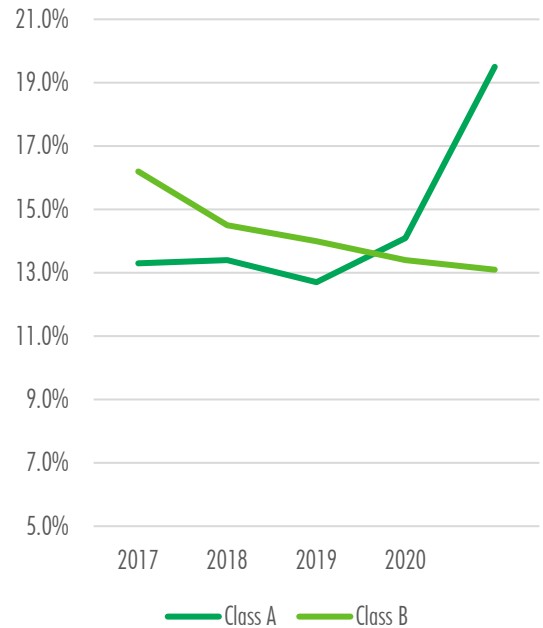
Sublease space, which has been a major story for other markets across the state, and the country, has remained relatively stable in Palm Beach County. Current sublease availability sits under half-a-million square feet (460,000 sq. ft.) and is in line with the 24-month pre-pandemic average. The largest sublease in the county is 54,000 sq. ft. block in BRIC (sublessor is Conifer Health Solutions) which has been on the market for more than 2-years. This further validates the strength of the market as it confirms the post pandemic commitment to office space by existing tenants.

Additionally, while direct vacancy has increased 200 basis points year-over-year to 15.2%, much of that is a result of 360 Rosemary. The building was delivered earlier than expected leaving much of vacant space encumbered with tenants expected to occupy over the next 6-12 months. The building accounts for 9% of the vacancy in the county and 44% of vacancy within WPB CBD (Class A). This artificial inflation of vacancy should decline quickly as tenants occupy space.

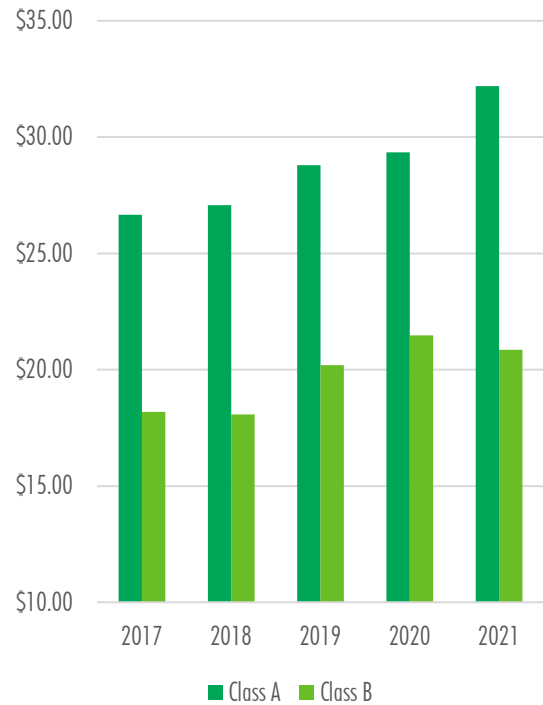
PRICING

The average asking rent continues to eclipse record highs propelled by rent growth in the West Palm Beach CBD. Palm Beach County average rent sits at \$27.51/sq. ft.; up 8.3% year-over-year. Among Class A properties within the West Palm Beach CBD rents are up 14.2% year-over-year to \$45.93/sq. ft. While rents are unlikely to continue to increase at the current pace, market demand for office space should keep rents elevated for the foreseeable future.

Vacancy Rate



Asking Rates (\$/sq. ft. NNN)



OUTLOOK

2021 will exhibit the highest economic growth since the early 1980s, with GDP growth hitting 7% as the pandemic fades and society and commerce normalize. The key impediment to greater growth is a shortage of key inputs, such as labor, microchips, and raw materials. The housing market is the posterchild of this imbalance, as increased sales during 2020 caused prices to surge and inventories to shrink. But limited supply of labor and materials is preventing homebuilders from fully responding to price signals.

Housing market momentum ultimately reflects the strong position of U.S. consumers and particularly those who increased their savings amid the pandemic. Although spending on consumer goods remained steady during 2020 households are now shifting their consumptions to services.

Today, restaurant and travel demand is surging faster than establishments can match with workers, bringing relief to a hard-hit corner of the labor market. Average hourly earnings for leisure & hospitality workers surged 8% from late 2020, compared to about 2% for the broader workforce.

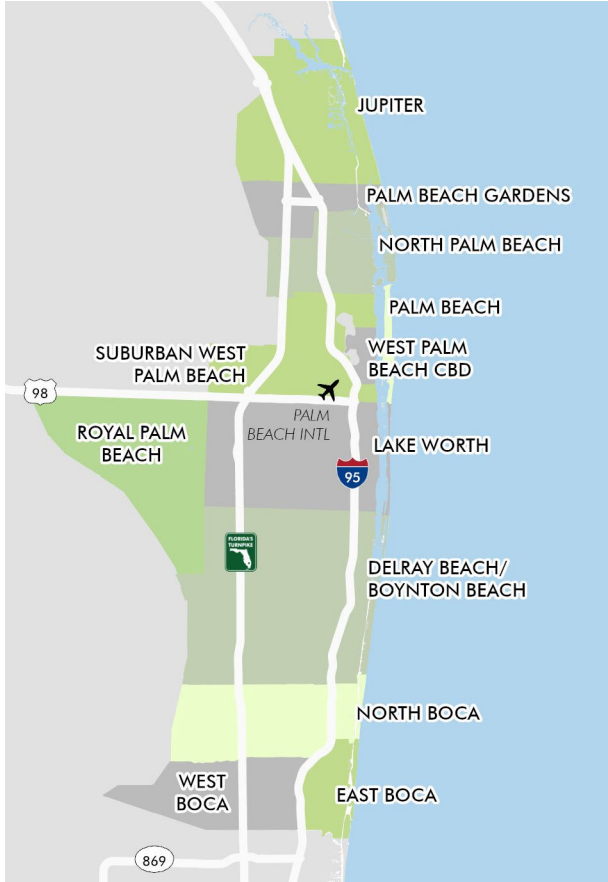
Wage and price escalations have driven inflationary fears. In May, core CPI grew at its fastest annual pace since the early 1990s, at 5%. Many of the drivers behind the May figure are transitory, such as a shortage of autos (both for-sale and rentals) and base effects from the drop in prices last year. The upshot is that inflation will fall from current levels but remain above the Fed's traditional 2% target through 2022. The Fed is likely to retain its 'dovish' stance but could begin to curtail its asset purchase program earlier than expected.

Q2 2021 Statistical Snapshot

Submarket	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q2 2021 Net Absorption (SF)	2021 YTD Net Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/NNN)
Delray Beach/Boynton Beach	660,200	20.1%	20.9%	40,800	59,300	44,400	\$19.23
East Boca	2,318,110	12.8%	18.9%	200	5,000	0	\$23.92
North Boca	5,144,600	13.8%	21.2%	(1,500)	39,400	0	\$21.16
West Boca	3,137,100	12.3%	19.1%	4,200	(4,300)	0	\$29.66
Jupiter	450,200	14.5%	16.6%	0	14,300	0	\$19.93
Palm Beach	541,300	11.2%	15.5%	1,800	(7,100)	0	\$42.42
Palm Beach Gardens	2,383,200	16.8%	21.8%	26,600	78,500	0	\$28.48
Suburban West Palm Beach	1,941,700	16.3%	21.8%	14,300	(8,600)	140,000	\$17.49
West Palm Beach CBD	3,211,600	26.0%	24.0%	3,900	(22,000)	0	\$42.15
Total	19,758,000	16.2%	20.9%	90,200	154,600	184,400	\$27.51

Q2 2021 Notable Leases

Tenant	Submarket	Property Name	Class	Lease Type	Size (sq. ft.)
Goldman Sachs Group	West Palm Beach CBD	360 Rosemary	Trophy	New-to-market	39,800
Elliot Management	West Palm Beach CBD	360 Rosemary	Trophy	New-to-market	26,600
Sanders Capital	West Palm Beach CBD	Phillips Point East	Trophy	New-to-market	16,800



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.

Note: Tracked inventory was audited to reflect prevailing perception of the market. Class C product was removed from the tracked set, and Class changes were implemented where necessary to better capture current status. All changes are reflected historically in the data and analysis but cannot be compared to previously released Research reports

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