

FIGURES | PALM BEACH INDUSTRIAL | Q4 2023

# Rent stability maintained despite rising supply



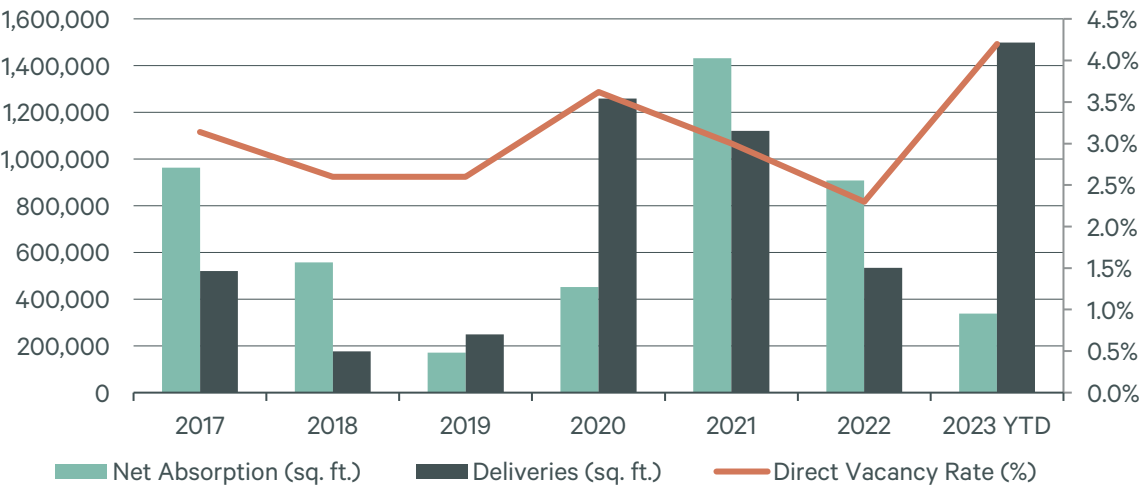
Note: Arrows indicate change from previous quarter.

Overview

- Palm Beach's trailing 12-month industrial net absorption has slowed to 340,000 sq. ft., down from elevated levels of 1.4 million sq. ft. reached during early 2022.
- Concurrently, a substantial influx of new completions introduced an additional 1.5 million sq. ft. of new supply to the market, propelling the direct vacancy rate to 4.2% from 2.3% during the past 12-months.
- The average asking rent remained steady throughout Palm Beach this quarter, reaching \$15.75 per sq. ft. This historic high figure showcases the market's resilience despite minimal quarterly fluctuations.

Recent trends in leasing activity have further emphasized the abnormal surge in 2021, as the industrial market transitioned back to a state of relative equilibrium following the peak of activity in that year. Nevertheless, the rate of under-construction projects is anticipated to decelerate, enabling the absorption of existing new developments. Strong underlying fundamentals are expected to continue in 2024, as asking and taking rents remained at record highs.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

DEMAND

As new lease totals stabilize and the available space increases, the Palm Beach industrial market experienced a gradual slowdown during 2023. Although this trend is not exclusive to Palm Beach and reflects a broader slowdown in absorption levels across the U.S industrial sector in 2023, it is worth mentioning that Palm Beach maintains positive absorption levels.

Despite recent construction activity being concentrated in large warehouses exceeding 100,000 sq. ft., more than 85% of leases in the market were signed for spaces under 30,000 sq. ft. since 2022. Only two deals for spaces over 100,000 sq. ft. were signed this year, Chep and SSB Manufacturing, with 133,000 sq. ft. and 225,000 sq. ft., respectively. Chep was the only new major transaction for the year, set to occupy the newly constructed Palm Beach Airport Logistics Center in early 2024. Other notable deals this year include Latrice International (47,000 sq. ft. ), Bush Brothers Provisions (43,000 sq. ft.), Gateway Classic Cars (31,000 sq. ft.), Southwest Surplus (30,000 sq. ft.) and GT Motor Cars (29,500 sq. ft.). Several of these deals were signed in newly built assets located in WPB.

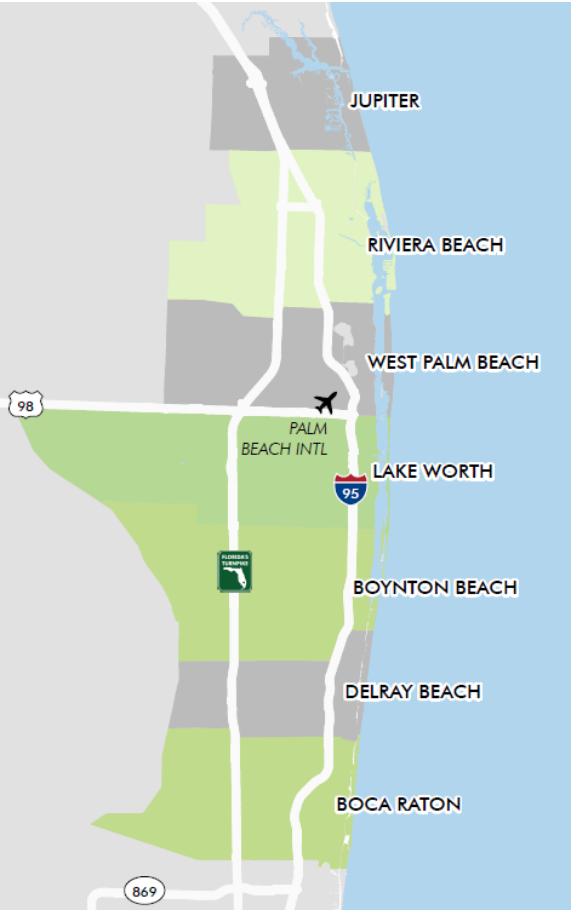
VACANCY & PRICING

The direct vacancy rate has increased for the fourth consecutive quarter to 4.2%. The 190-basis point rise from last year can be attributed to the inclusion of recent product delivered vacant. With the increase in vacancy and a decrease in leasing activity, landlords have eased up on asking rents slightly. As of Q4 2023, the market’s average asking rent has seen a 7.0% year-over-year increase. Although still higher than pre-pandemic levels, it’s a decrease from the peak of nearly 14% annually in mid-2022. Anticipated additional supply in the next six to 12 months is expected to intensify competition among industrial users, leading to a forecasted decline in asking rent growth.

FIGURE 2: Statistical Snapshot Q4 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Direct Availability (%)	Q4 2023 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/SF /NNN)
Boca Raton	7,455,058	3.37 %	5.15 %	-6,796	65,536	0	\$19.00
Boynton Beach	4,431,245	1.67 %	3.25 %	-5,763	-8,041	0	\$17.00
Delray Beach	2,907,748	1.74 %	2.94 %	-4,284	-2,133	0	\$17.50
Jupiter	1,682,839	1.86 %	1.59 %	0	-112	0	\$13.00
Lake Worth	3,910,625	5.06 %	2.33 %	88,379	56,532	0	\$13.00
PB Outlying	4,018,718	8.2 %	7.71 %	5,868	20,690	1,105,327	\$11.50
Riviera Beach	12,523,055	3.81 %	5.12 %	-2,698	72,675	0	\$14.50
West Palm Beach	14,665,605	4.98 %	6.65 %	-4,114	132,739	435,442	\$16.50
Total Palm Beach	51,594,893	4.15%	5.15%	70,592	337,886	1,540,769	\$15.75

Market Area Overview



Economic Outlook

The combination of continued economic momentum with a likelihood that the Fed’s dramatic tightening cycle is now complete makes a ‘soft landing’ appear more likely for early 2024 but the pace of growth will be more modest than in recent quarters. Foremost, lower and middle-income households no longer have the luxury of excess savings, and the pace of wage growth, whilst remaining elevated, is slowing. This nuance with wage growth is important. Higher wages are helping to maintain higher, albeit decelerating, core inflation. This backdrop will likely translate into the Fed only slowly lowering its target rate in 2024. (CBRE expects 75 – 100 basis points worth of rate cuts in 2024.) This outlook may deter some spending, but it does help illuminate a pathway forward for real estate capital markets. Indeed, the combination of healthy fundamentals for many sectors and thawing credit markets could provide some welcome upside surprises for real estate performance in 2024.

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