

FIGURES | POLK COUNTY INDUSTRIAL | Q2 2022

# Recent tenant in market activity poised to take down some lingering vacancies



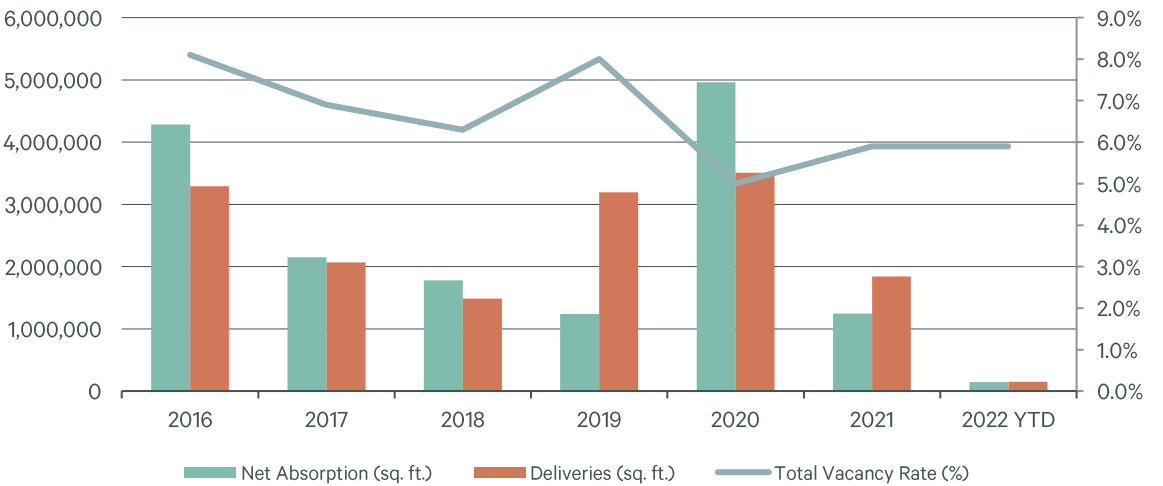
Note: Arrows indicate change from previous year.

## OVERVIEW

- Total vacancy remained relatively stable for the third straight quarter, posting 5.9%, as the market continues to sit on a handful of lingering vacancies. Activity in the market promises more movement in that category in the next 90 days.
- The construction pipeline swelled to over 3.3 million square feet with multiple groundbreakings this quarter. This translates to the greatest level of construction activity seen since Q3 2020.
- Average asking rent growth has been minimal amidst those remaining cross-dock vacancies. Opportunity for additional rent growth stems from spurred tenant in market activity within that larger size segment and the introduction of additional rear-load product.

Polk County has historically been a market where net absorption is strongly tied to the construction pipeline, something that has rung true so far this year. Just 150,000 sq. ft. worth of deliveries has resulted in net absorption of only 145,000 sq. ft. Currently, over 70% of market vacancy is made of just three large, cross-dock projects. It is interest in these assets that will drive absorption, reduce market vacancy and provide opportunity for rent growth in the near-term until additional product, including new rear-load options, can come online.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

Tenant demand that has fallen outside of the size segments currently accommodable within the market may have worked to hold vacancy rates relatively flat, but 450,000 sq. ft. of pending move-ins puts that figure closer to 5.1% for the second quarter. This shift in demand for more rear-load product has not only enticed new construction within that category at projects like Lakeland Commerce Center and Pace Logistics Center but is evident in the recent lease up of Lakeland North Business Center.

That said, a few new tenant in market requirements are looking to take some of the larger blocks of space down. Currently, well over a dozen tenants are exploring Polk County for space needs in the 400,000 sq. ft. - 1.2M sq. ft. size range.

VACANCY

As we progress through the rest of 2022 and into next year movement in vacancy will be driven by lease up of existing and upcoming vacancies alike. 95% of the 3.3 million sq. ft. under construction is speculative with 2.9 million sq. ft. available for lease. This includes the first spec project in Eastern Polk county since 2019 – a 1.2 million sq. ft. building underway at Central Florida Integrated Logistics Park in Winter Haven.

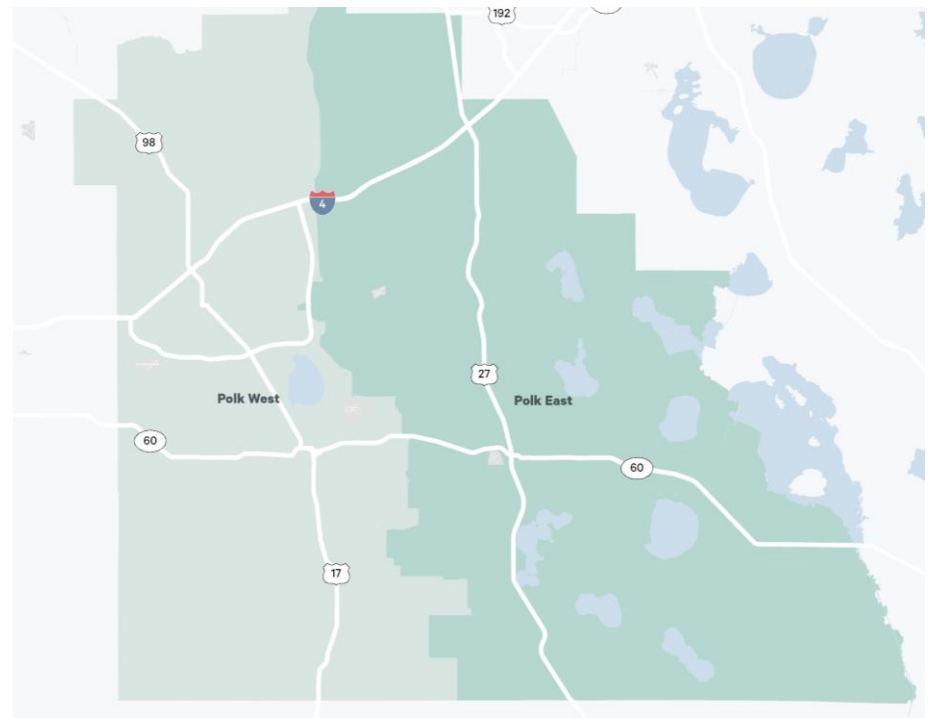
PRICING

Room for asking rent growth is tied to a combination of existing spaces coming offline in conjunction with the delivery of top-tier product, particularly smaller bay assets. As a market with very limited, 2<sup>nd</sup>+ generation product, average rates are almost entirely tied to this new construction.

FIGURE 2: Statistical Snapshot Q2 2022

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q2 2022 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/SF/NNN)
Polk East	16,840,599	0.7%	0.7%	54,058	146,058	1,216,800	\$8.89
Manufacturing	2,078,749	0.3%	0.3%	(5,600)	(5,600)	0	\$8.00
Warehouse/Distribution	14,761,850	0.7%	0.7%	59,658	151,658	1,216,800	\$9.00
Polk West	38,722,794	5.7%	8.2%	35,086	(1,049)	2,089,395	\$5.87
Manufacturing	4,818,807	0.0%	0.0%	15,356	15,356	0	N/A
Warehouse/Distribution	33,408,541	9.0%	9.4%	44,889	(3,246)	2,089,395	\$5.82
R&D/Flex	495,446	10.2%	10.2%	(25,159)	(13,159)	0	\$9.13
Polk County Total	55,563,393	5.7%	5.9%	89,144	145,009	3,306,195	\$5.93
Manufacturing	6,897,556	0.1%	0.1%	9,756	9,756	0	\$8.00
Warehouse/Distribution	48,170,391	6.5%	6.7%	104,547	148,412	3,306,195	\$5.87
R&D/Flex	495,446	10.2%	10.2%	(25,159)	(13,159)	0	\$9.13

Market Area Overview



ECONOMIC OUTLOOK

Economic conditions have changed considerably from just a few months ago. Persistently high inflation that is increasingly being driven by higher food and energy prices, sparked by supply-demand imbalances and Russia’s invasion of Ukraine, has greatly impacted conditions. The U.S. is particularly vulnerable to higher gasoline prices, which directly impact consumption. As of late June, gasoline is more than \$5 a gallon, up 50 percent from the beginning of the year. Meanwhile, consumer sentiment has declined to levels reminiscent of periods of economic stress, suggesting consumers are very concerned despite a tight labor market and wage growth.

The Federal Reserve’s attention is now centered on fighting inflation, evidenced by a 75-basis-point rate hike in June that rattled credit markets. We expect this will be followed by at least two 50-basis-point hikes through September. Our baseline view expects the Fed will be able to restrain inflation to roughly 7 percent by year-end 2022, but this will come at the cost of economic growth and a recession is expected in coming quarters. Already, rate hikes are filtering down to ‘Main Street’ via falling home sales and more cautious business expansion plans. The labor market will also soften, with the unemployment rate increasing to the mid-4-percent range. Once inflation is tamed, both capital and real estate markets should become more predictable again.

Survey Criteria: Includes all competitive industrial buildings 10,000 sq. ft. and greater in size in Polk County. East Polk includes Auburndale, Davenport, Dundee, Eagle Lake, Fort Meade, Frostproof, Haines City, Highland Park, Hillcrest Heights, Lake Alfred, Lake Hamilton, Lake Wales and Winter Haven. West Polk includes Bartow, Lakeland, Mulberry and Polk City.

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