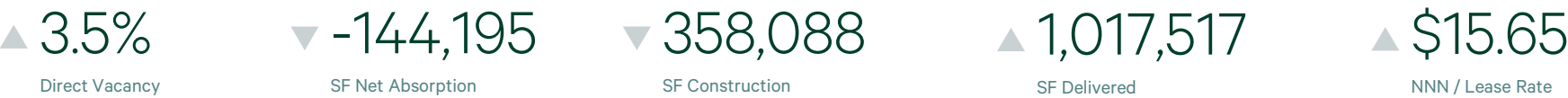


FIGURES | BROWARD INDUSTRIAL | Q4 2023

# Rents on the rise as newer product comes to the market



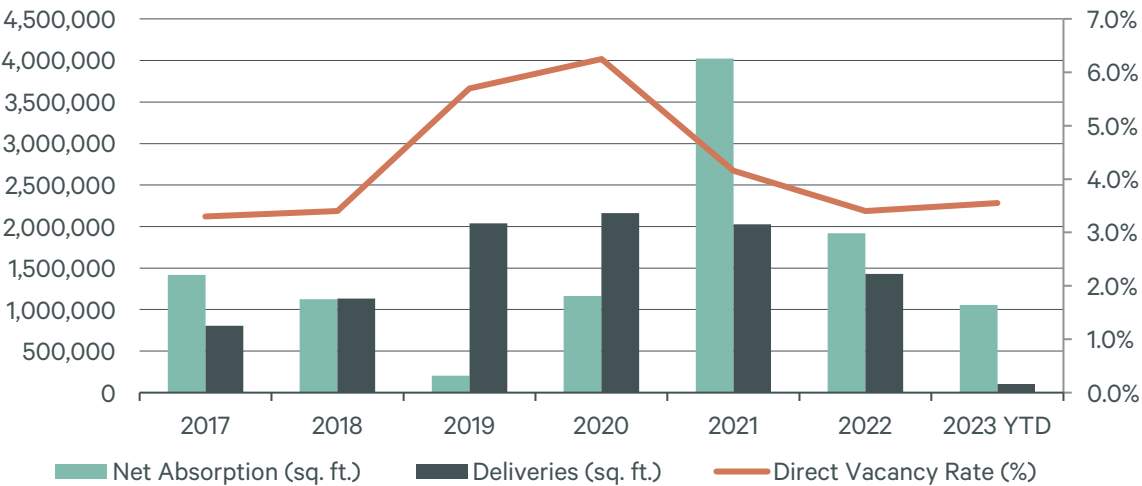
Note: Arrows indicate change from previous quarter.

## Overview

- Construction activity has slowed in the last few quarters, with only around 360,000 sq. ft. underway as of Q1 2024. This is down from a peak in construction activity seen in the first half of 2020 when there was over 3.1 million sq. ft. underway.
- Limited supply additions have resulted in a softer vacancy expansion relative to the national average, rising 20 basis points relative to a 110 basis points rise in the national industrial vacancy rate since last year.
- Market rents exceed \$15.65 per sq. ft., ranking among the highest in all Florida markets. Broward rents have surged 55% since 2019, surpassing the U.S. average rent gain of 35%, with Class A assets predominantly fueling this rent growth.

Strong demand from 3PL's and local-serving small businesses, along with a scarcity of new industrial space, is anticipated to maintain market vacancies below 4% in the next year. The relationship between absorption and lease deals has been increasingly tied to new supply entering the construction pipeline, and it seems to be stabilizing after robust activity observed in the past few years.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

DEMAND

Demand for industrial space in Broward was relatively weak in the latter half of 2023 following a robust Q2 2023 that saw more than 1.1 million sq. ft. of absorption. Tenant move-outs, including Kehe, and ProCare RX closing 200,000 sq. ft. and 81,000 sq. ft. warehouses in Southwest Broward respectively during 2023, heavily impacted net absorption figures.

Currently, there is a notable demand for high-quality industrial properties in various submarkets, specially for modern distribution buildings ranging from 100,000 sq. ft. to 150,000 sq. ft. Despite this demand, the supply is limited. In 2023, eight deals in that size range were completed, depleting the available inventory. Five of these deals were new leases with tenants such as All Glass production (249,000 sq. ft.), CTS Engines (216,000 sq. ft.), and Pepsi Bottling (215,400 sq. ft.). Two of the largest move-ins for early 2024 include the CTS Engines deal and US Postal Service with 136,000 sq. ft. at Rock Lake Business Center, where Amazon dropped its plans to move-in and subleased the location.

VACANCY & PRICING

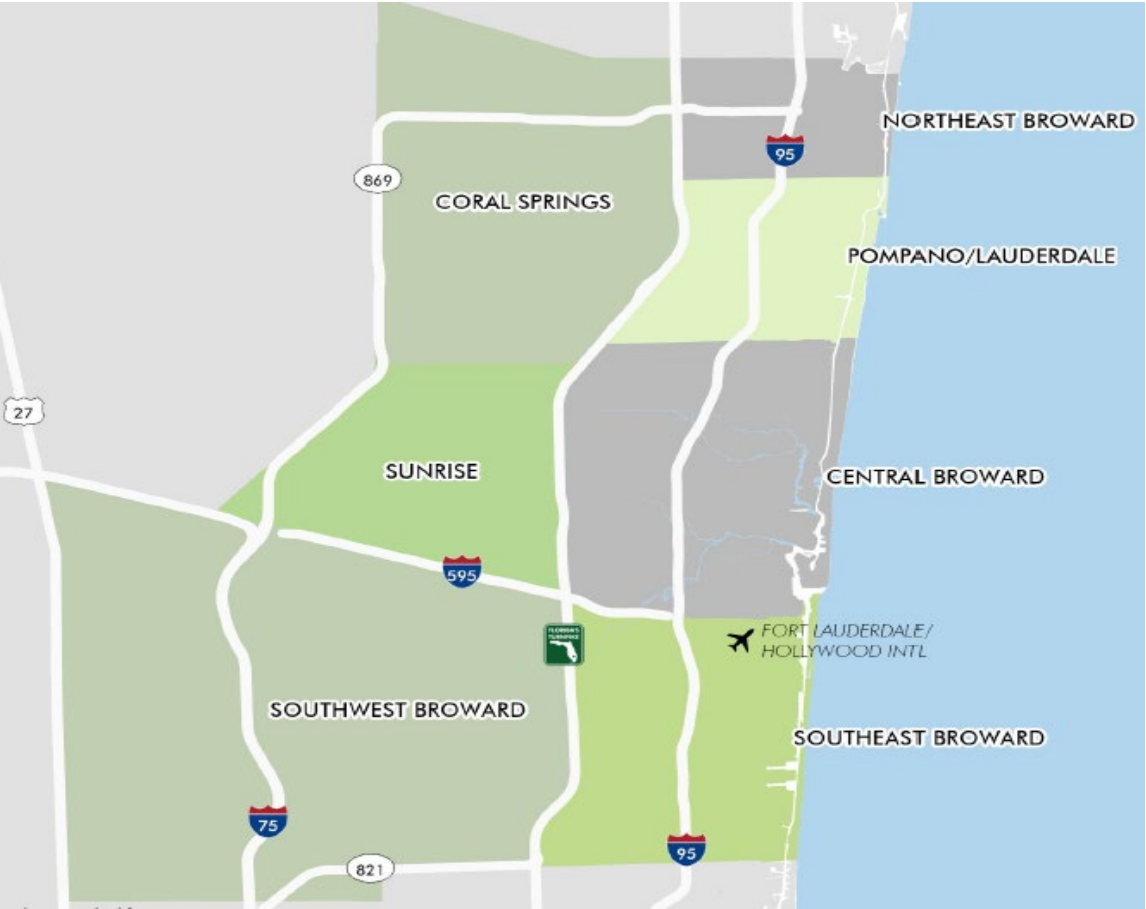
Despite the influx of over 1.0 million sq. ft. in new deliveries in 2023, direct vacancy rates have only increased by 20 basis points since last year, remaining relatively steady. Currently, there are seven existing properties exceeding 100,000 sq. ft. available in the market, albeit this size range only accounts for 10% of the total leasing activity. This scarcity in Broward’s market has continued to empowered landlords, enabling them to raise rents by 10% over the past 12 months. Despite these recent gains, a slowdown in tenant demand and an increase in vacancies during this quarter have led to a moderation in rent increases, compared to the peak levels of a 20% year-over-year surge recorded in the Q4 2022. Further deceleration is anticipated in 2024, influenced by higher interest rates impacting economic growth.

FIGURE 2: Statistical Snapshot Q4 2023

Submarket	Total Inventory (SF)	Direct Vacancy Rate (%)	Direct Availability Rate (%)	Q4 2023 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/NNN)
Central Broward	18,576,151	2.88 %	3.69 %	-32,812	-139,456	0	\$15.00
Coral Springs	9,318,900	5.94 %	5.17 %	130,102	689,147	0	\$15.00
Northeast Broward	11,596,543	4.89 %	6.02 %	-37,946	386,583	0	\$16.50
Pompano/Lauderdale	25,312,333	2.86 %	6.3 %	14,856	-164,508	0	\$15.00
Southeast Broward	16,493,095	4.42 %	7.04 %	-16,551	340,598	358,088	\$17.00
Southwest Broward	17,743,606	3.02 %	5.93 %	-233,807	-172,169	0	\$16.50
Sunrise	5,932,697	1.31 %	4.27 %	31,963	116,278	0	\$14.00
Grand Total	104,973,325	3.55 %	5.64 %	-144,195	1,056,473	358,088	\$15.65

Source: CBRE.com

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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