

FIGURES | POLK COUNTY INDUSTRIAL | Q4 2022

Rent growth pace quickens with slowed deliveries and record-low vacancy



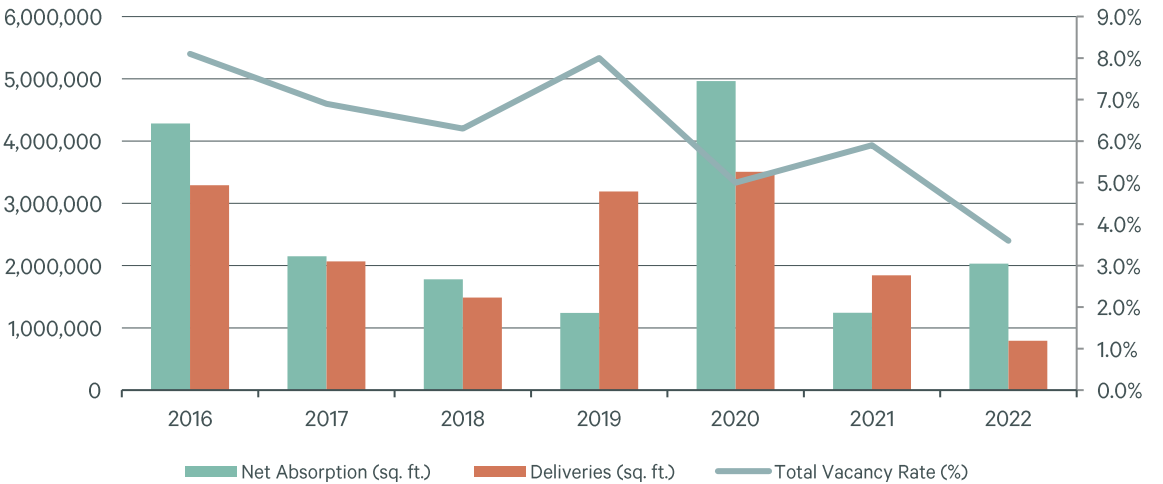
Note: Arrows indicate change from previous year.

OVERVIEW

- Total vacancy fell another 80 basis points over the fourth quarter, now at a record low 3.6% after nearly halving over the last 12 months.
- While 2022 deliveries of 793,600 square feet were a seven-year low and just 1/4th the level of additions we saw during our 2020 peak, 3.5 million square feet of additional speculative product is underway and fully available.
- Average asking rents rose another 2.7%, the biggest quarterly increase since Q2 2021. This brings year over year growth to 6.1% overall and 7.3% for warehouse/distribution space.

Continued demand for industrial space in Polk County has been evident through multiple new occupancies at Key Logistics Center, the backfilling of Premier Transportation’s Pipkin Road property, and a full building lease at a project newly delivered by the Ruthvens. This activity has resulted in limited availability across the market, that will be shortly rectified by an active construction pipeline aiming to bring 3.5 million square feet online next year. Higher construction costs for these projects paired with historically low vacancy could create an environment for continued, and perhaps more aggressive, rent growth into 2023.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

The second half of the year saw far more absorption than the first, with 1.8 million square feet absorbed over the last six months compared to just 223,000 square feet over the first two quarters. With this renewed activity, the 2022 total surpassed 2 million square feet - exactly in line with the market's 5-year annual average.

VACANCY

A few small-to-midsize move-ins in western Polk County this quarter contributed to an 80 basis point decline in vacancy, now down 230 basis points from a year ago. Current vacancy of 3.6%, while a historical low, is also still rather inflated. A single project, CenterState East, is responsible for more than half of all unoccupied space, making the rest of the market's genuine vacancy rate less than 2%.

New construction will shortly have a corrective effect on falling vacancy, with 3.5 million square feet scheduled to deliver in 2023. This pipeline is mostly made up of 400,000 square feet and larger cross-dock facilities, leaving availability of small bay, rear-load product very limited across the market.

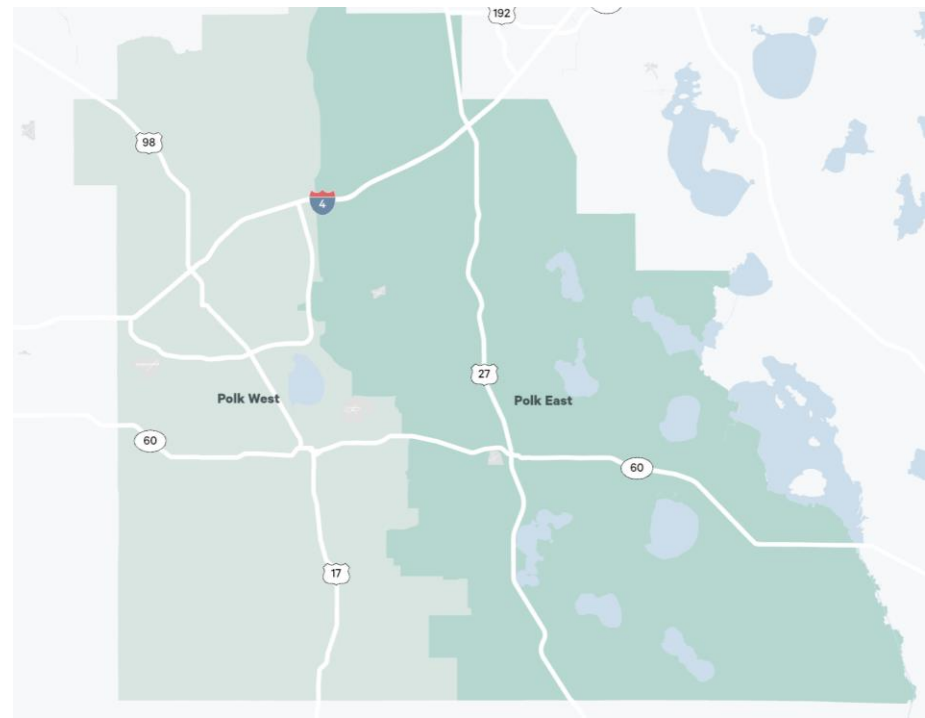
PRICING

Landlord's have been able to leverage falling vacancy rates and low deliveries in 2022 to push rental rates. This has brought average rates up 2.7% quarter over quarter to \$6.23 per square foot. Perhaps a bigger picture theme for Polk County is average asking rates surpassing the \$6.00 ceiling for the first time in 2022, four years after breaking into \$5.00 territory back in 2018.

FIGURE 2: Statistical Snapshot Q4 2022

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q4 2022 Net Absorption (Sq. Ft.)	2022 Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/SF/NNN)
Polk East	16,840,599	0.4%	0.4%	(13,265)	192,793	2,113,599	\$6.63
Manufacturing	2,078,749	0.3%	0.3%	0	(5,600)	0	\$8.00
Warehouse/Distribution	14,761,850	0.4%	0.4%	(13,265)	198,393	2,113,599	\$6.60
Polk West	39,366,394	5.0%	5.0%	767,754	1,838,336	1,427,820	\$6.17
Manufacturing	4,818,807	0.0%	0.0%	0	15,356	0	N/A
Warehouse/Distribution	34,052,141	5.7%	5.8%	757,154	1,799,864	1,427,820	\$6.17
R&D/Flex	495,446	2.8%	2.8%	10,600	23,116	0	\$12.00
Polk County Total	56,206,993	3.6%	3.6%	754,489	2,031,129	3,541,419	\$6.23
Manufacturing	6,897,556	0.1%	0.1%	0	9,756	0	\$8.00
Warehouse/Distribution	48,813,991	4.1%	4.1%	743,889	1,998,257	3,541,419	\$6.22
R&D/Flex	495,446	4.5%	5.0%	10,600	23,116	0	\$12.00

Market Area Overview



ECONOMIC OUTLOOK

Everybody from Jerome Powell to single parents and Wall Street banks have been laser focused on inflation during the past year. Thankfully, the increase in the CPI has been decelerating due to improved supply chains, lower energy prices, and higher interest rates, which are curtailing demand for housing and autos. Despite this good news inflation remains a menace. Food and shelter prices are heightened, and fears persist that inflation is embedded in the labor market.

Consequently, the Federal Reserve continues its aggressive tightening program. The pace of recent rate hikes has been the most dramatic in decades and this has increased volatility in the financial markets. Sharply reduced expectations of earnings growth in 2023 means that firms are looking to cut costs, helping to fulfill recessionary prophecies.

Some positive signals can be found in monthly payroll gains, but other labor market metrics are not so sanguine. Data from Challenger, Gray & Christmas shows that the current level of layoff announcements is consistent with past recessions. This is paired with business surveys exhibiting deteriorating activity and consumers grappling with eroding savings. The upshot is we believe the economy will face a moderate recession in 1H 2023.

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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