

FIGURES | BROWARD INDUSTRIAL | Q3 2023

Broward still a landlord's market despite normalizing demand



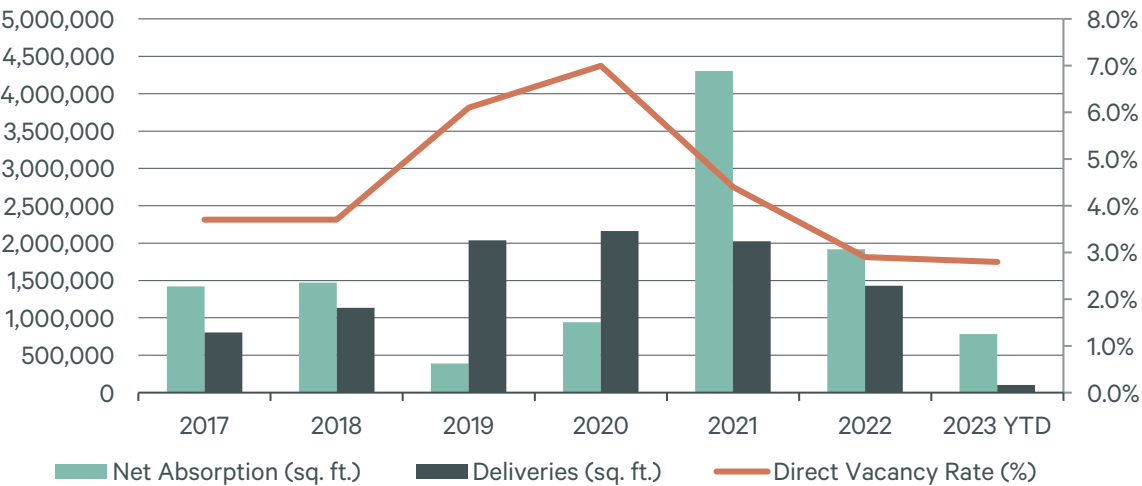
Note: Arrows indicate change from previous quarter.

Overview

- Under construction pipeline continued to remain steady, with 1.2 million sq. ft. in progress. Some notable projects include Osprey Logistics Park and Prologis Seneca Commerce Center.
- Vacancy grew to 2.8% but still sits well below the long-term historic average. As new premium quality industrial space is delivered over the next few quarters, vacancy and rents are expected to experience some further upward pressure in the near term.
- The overall asking rate grew at a slight pace during the third quarter of 2023 to \$15.45 NNN. Asking rates in Broward's industrial market have increased by 22% since last year.

The third quarter of 2023 had 64,874 sq. ft. of negative absorption, making it only the first quarter since the start of the pandemic to have negative absorption. In addition, the construction pipeline is currently 1.2 million sq. ft. which is down from the peak of 3.4 million sq. ft. in Q1 2020. Though conditions have started to normalize, the industrial asset type continues to outperform many others in the Broward market. Good tenant demand and the overall tightness of the region's industrial market should help bolsters fundamentals in the short to medium term.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

DEMAND

Year-to-date net absorption in 2023 totaled 784,566 sq. ft.; a 51% decline year-over-year as the Fed continues its attempt to cool the economy and curtail inflation. Despite the slowdown in absorption, Broward industrial market has still maintained a strong occupancy level of over 97%.

Demand has been spread throughout Broward with five submarkets reaching more than 500,000 sq. ft. of leasing activity year-to-date. Large-sized transactions propelled the leasing total upwards this quarter, as four logistics firms secured spaces greater than 100,000 sq. ft. each – CTS Engines (216,317 sq. ft.), Stanley Black & Decker (150,000 sq. ft.), Alleghney Technologies (131, 683 sq. ft.), and Monster Energy (104,392 sq. ft.). Still, smaller requirements continued to dominate the count.

VACANCY & PRICING

The vacancy rate is expected to rise further in the upcoming quarter as the wave of under construction projects are scheduled to deliver and more available space become vacant. Under construction figures are expected to slow, given the few new construction projects slated to break ground in 2023 and 2024, allowing for existing new development to be absorbed. Developable land is also becoming scarce in certain parts of the region thus limiting new supply in the next few years.

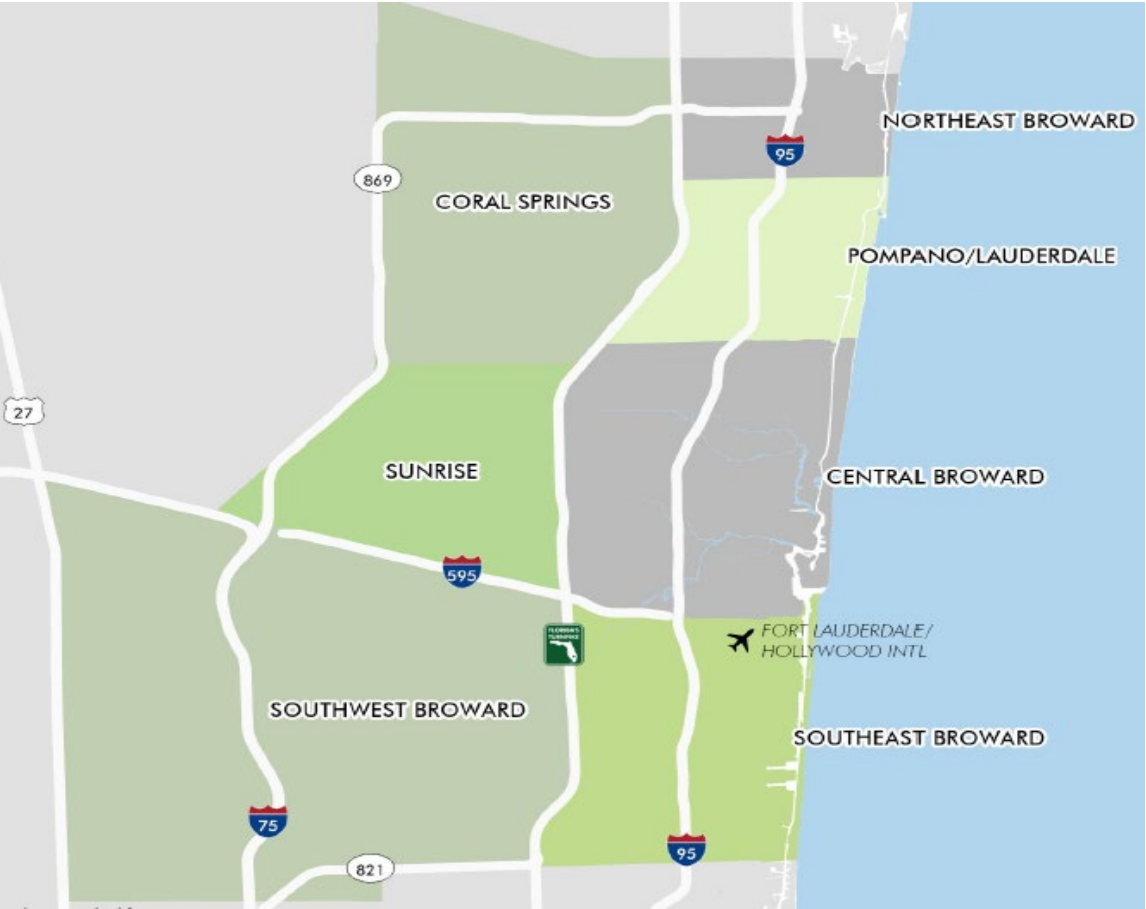
The Broward market registered significant rent growth over the last year due to tightening market conditions and rising inflation. The overall asking rent averaged \$15. 45 per sq. ft. on a triple net basis, up 22% year-over-year and almost unchanged quarter-over-quarter. Despite the annual increase, rent growth is decelerating on an annual basis following 2022’s record-breaking year. That said, rent growth is expected to slow further as vacancy continues to rise into 2023.

FIGURE 2: Statistical Snapshot Q3 2023

Submarket	Total Inventory (SF)	Direct Vacancy Rate (%)	Direct Availability Rate (%)	Q3 2023 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/NNN)
Central Broward	18,576,151	3.07 %	4.27 %	-91,021	-106,644	0	\$15.63
Coral Springs	8,691,515	1.38 %	2.44 %	143,296	343,559	627,385	\$15.50
Northeast Broward	11,765,671	4.18 %	3.81 %	73,170	363,135	0	\$15.40
Pompano/Lauderdale	25,312,333	3.48 %	7.22 %	-211,030	-229,414	0	\$14.50
Southeast Broward	16,102,963	2.72 %	4.91 %	-24,639	277,701	576,237	\$15.10
Southwest Broward	17,518,956	2.18 %	7.79 %	-59,885	26,268	0	\$15.00
Sunrise	5,932,697	1.41 %	5.03 %	105,235	109,961	0	\$16.56
Grand Total	103,900,286	2.8 %	5.5 %	-64,874	784,566	1,203,622	\$15.45

Source: CBRE.com

Market Area Overview



Economic Outlook

The U.S. economy has defied expectations for a slowdown and has even exhibited some signs of acceleration despite sharp tightening of credit conditions and ongoing write-downs in the banking sector. This resilience due to a number of factors: 1) the Chips and IRA Acts have stimulated the construction sector; 2) the Fed. and the FDIC have provided prompt and effective support for the banks, and: 3) consumers are in good shape from a balance sheet and income perspective.

Nevertheless, headwinds are intensifying such as higher oil prices, resumption of student loan payments, and a weakening global economy. These headwinds, not serious in themselves, will hit home at a time when the squeeze from elevated interest rates is at its maximum. The upshot for real estate is that the Fed is likely finished with its tightening cycle, allowing a clearer path for real estate capital markets to unfold. Although we expect economic growth to deteriorate it is likely that valuations will stabilize during 1H 2024

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