

FIGURES | POLK COUNTY INDUSTRIAL | Q4 2023

# Largest lease of the year breaks up the market's biggest vacancy



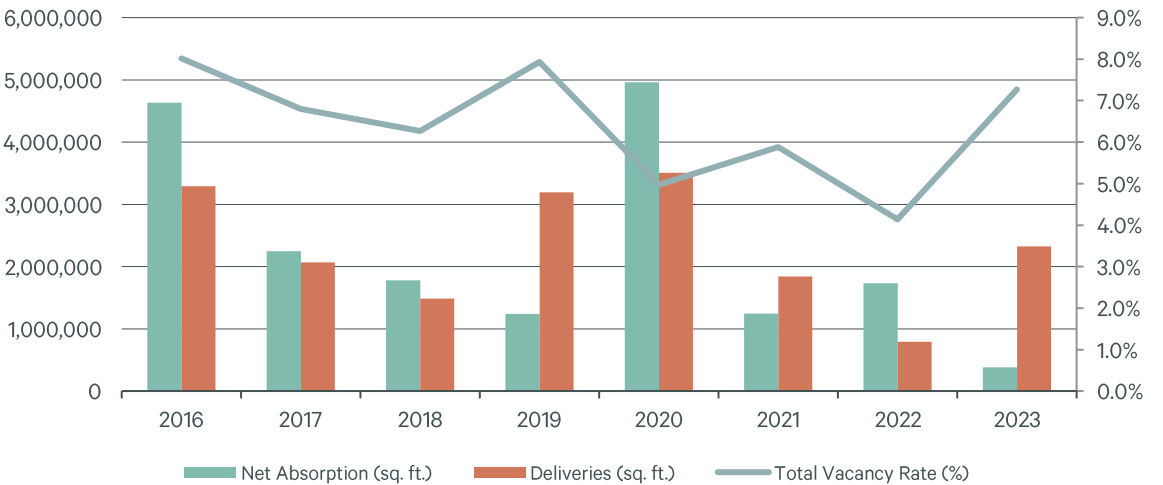
Note: Arrows indicate change from previous year.

## OVERVIEW

- 2023 deliveries significantly outpaced absorption, pushing vacancy to 7.3%. This figure is up 50 bps on the quarter and 320 bps year over year.
- Given some lingering large blocks of space, the construction pipeline has continued to narrow. Just 258,000 square feet delivered in the fourth quarter and only 156,000 square feet broke ground.
- Recently delivered product remains the target of tenant interest which has helped grow rents by nearly 17% over the course of the year.

Muted activity, particularly over the second half of the year, has had implications for absorption and vacancy figures in 2023 but some positive momentum in the last 90 days has broken up the largest vacancy in the market. Polk County's only 1 million square foot vacancy at CenterState Logistics Park East landed a 530,000 square foot tenant represented by CBRE, the largest lease of the year. Tratt Properties is delivering another 1.2 million square foot option in Winter Haven in early 2024, with signals for a better interest rate environment and continued growth in Florida supporting the potential for renewed activity next year.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

The year ended just shy of 400,000 square feet of net absorption, with most of that activity front loaded in the first two quarters of the year. In fact, second half absorption totaling -9,890 square feet resulted in an annual total that was just 22% of last years activity, and the lowest in 10 years. Shifting demand from bulk product in favor of small bay has led to longer lease up timelines for some of the market’s largest vacancies, although the fourth quarter brought some welcomed activity. The 530,000 square foot lease at CenterState Logistics Park East joins other large, new construction leases by Hyundai and Westlake Pipe earlier in the year.

VACANCY

2.3 million square feet in deliveries outpaced absorption 6 to 1 this year, causing vacancy to increase 320 bps over the last 12 months. Currently, 8 out of 10 buildings with vacancies larger than 100,00 square feet were built after 2021 and all of the 2.3 million that came online this year is still available for lease. With new groundbreakings totaling less than 250,000 square feet over the past 6 months, deliveries over the second half of 2024 will be scarce.

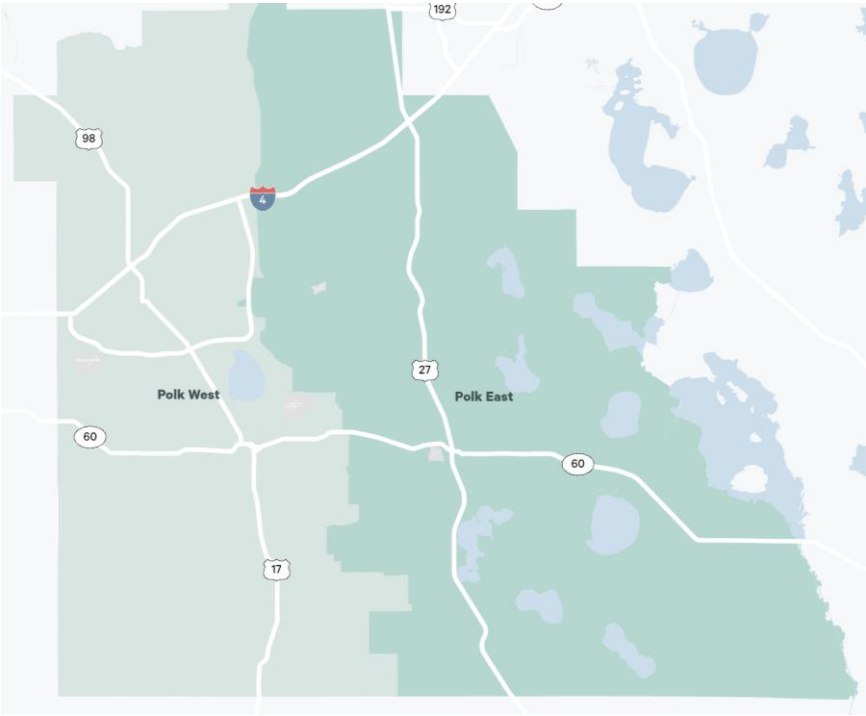
PRICING

Average asking rents are up 17% year over year as quality, newly delivered product remains the target of recent tenant interest, even as it’s been light. Bulk assets that have been forced to demise spaces are now pushing rents higher for the blocks that remain, with the shifting developer profile to small bay product also pulling up market averages.

FIGURE 2: Statistical Snapshot Q4 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q4 2023 Net Absorption (Sq. Ft.)	2023 Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/SF/NNN)
Polk East	17,737,398	6.5%	6.5%	0	(198,693)	1,296,800	\$7.49
Manufacturing	2,078,749	0%	0%	0	5,600	0	N/A
Warehouse/Distribution	15,658,649	7.3%	7.3%	0	(204,293)	1,296,800	\$7.49
Polk West	41,140,714	7.5%	7.6%	(16,857)	580,828	803,440	\$7.18
Manufacturing	4,818,807	0.2%	0.2%	(11,200)	(11,200)	0	\$10.50
Warehouse/Distribution	35,826,461	8.5%	8.6%	(8,157)	623,826	803,440	\$7.29
R&D/Flex	495,446	9.3%	9.3%	2,500	(31,798)	0	\$14.11
Polk County Total	58,878,112	7.2%	7.3%	(16,857)	382,135	2,100,240	\$7.40
Manufacturing	6,897,556	0.2%	0.2%	(11,200)	(5,600)	0	\$10.50
Warehouse/Distribution	51,485,110	8.1%	8.2%	(8,157)	419,533	2,100,240	\$7.36
R&D/Flex	495,446	9.3%	9.3%	2,500	(31,798)	0	\$14.11

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 lower 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.

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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