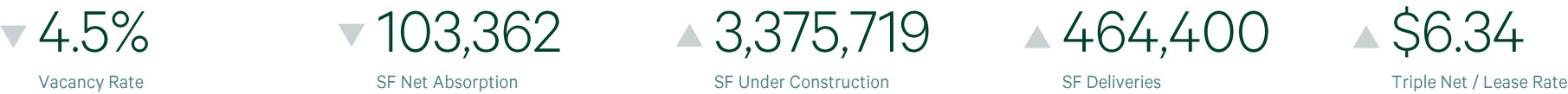


FIGURES | POLK COUNTY INDUSTRIAL | Q1 2023

Headline vacancy increases but fundamentals remain strong



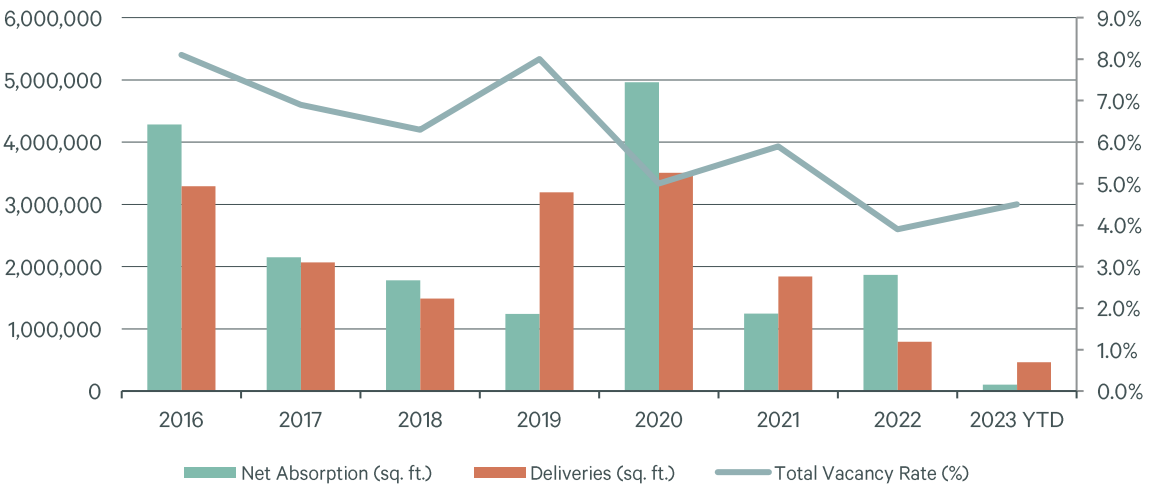
Note: Arrows indicate change from previous year.

OVERVIEW

- Total vacancy experienced its first rise since Q2 2022, largely due to the cross-dock delivery at Pace Logistics Center which is 63% pre-leased but awaits a second quarter move-in.
- Nearly 300,000 square feet of small bay, single load product broke ground in the current quarter, following recent tenant demand for this product type. An additional 3.5 million square feet of recently delivered or under construction speculative space remains available.
- Average asking rents continued trending upwards, increasing 6.5% year over year, at around half the pace of neighboring infill submarkets in Orlando and Tampa.

Fundamentals in Polk County exhibited another sound quarter despite headline vacancy experiencing a quarter over quarter increase. In fact, year over year vacancy dropped 120 bps and rental rate growth in Q1 2023 is on pace with that of the best quarters in previous years. The market is also displaying its versatility after a new small-bay project broke ground in West Polk with the aim of capitalizing on increased tenant demand for this smaller single-load product. Absorption cooled a bit to kick off 2023, however this follows a pattern of relatively slower first quarters over the past handful of years.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

The year kicked off with slightly lower absorption than that observed in the latter half of 2022 but still registered an important move-in of over 200,000 square feet at Key Logistics Center. Over 600,000 square feet of space have pending occupancies for the second quarter, including Hyundai who will occupy a majority of the newly delivered phase I at Pace Logistics Center. Additionally, slightly over 3 million square feet of tenant in the market requirements focused solely on Polk County lie in the pipeline signaling healthy demand in quarters to come.

VACANCY

The first delivery of the year at Pace Logistics Center was the main contributor to a rise in vacancy during the current quarter. This is the first of four other projects scheduled to deliver in 2023 which will add another 1.8 million square feet of inventory to the market and undoubtedly have an impact on vacancy in future quarters. Importantly, over 60% of active projects will deliver in Eastern Polk County, where vacancy has been driven to near-zero levels. Pending move-ins at existing projects will also alleviate the impact of these deliveries but current tenant in market interest on some lingering vacancies will also play an important role in the supply-demand balance going forward.

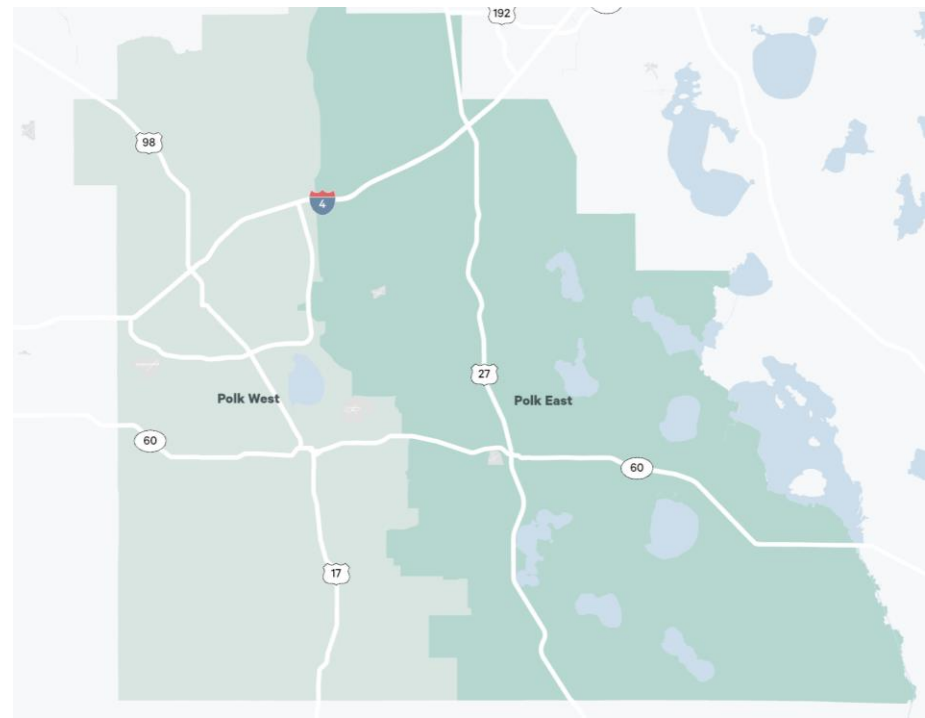
PRICING

Average asking rates continued to experience an upward pull, rising 1.6% from the previous quarter and 6.4% year over year. Given that demand for space remains steady and that the average asking rates for the remaining projects delivering this year sit at \$6.85 per square foot, average market-wide rents remain on a path to new heights.

FIGURE 2: Statistical Snapshot Q1 2023

| Submarket | Total Inventory (Sq. Ft.) | Direct Vacancy (%) | Total Vacancy (%) | Q1 2023 Net Absorption (Sq. Ft.) | YTD Net Absorption (Sq. Ft.) | Under Construction (Sq. Ft.) | Avg. Asking Lease Rate (\$/SF/NNN) |
|------------------------|---------------------------|--------------------|-------------------|----------------------------------|------------------------------|------------------------------|------------------------------------|
| Polk East | 16,840,599 | 0.3% | 0.3% | 5,600 | 5,600 | 2,113,599 | \$8.05 |
| Manufacturing | 2,078,749 | 0% | 0% | 5,600 | 5,600 | 0 | N/A |
| Warehouse/Distribution | 14,761,850 | 0.4% | 0.4% | 0 | 0 | 2,113,599 | \$8.05 |
| Polk West | 39,830,794 | 6.0% | 6.3% | 97,762 | 97,762 | 1,262,120 | \$6.08 |
| Manufacturing | 4,818,807 | 0.0% | 0.0% | 0 | 0 | 0 | N/A |
| Warehouse/Distribution | 34,516,541 | 6.9% | 7.3% | 85,678 | 85,678 | 1,262,120 | \$6.08 |
| R&D/Flex | 495,446 | 0.4% | 0.4% | 12,084 | 12,084 | 0 | \$12.00 |
| Polk County Total | 56,671,393 | 4.3% | 4.5% | 103,362 | 103,362 | 3,375,719 | \$6.34 |
| Manufacturing | 6,897,556 | 0% | 0% | 5,600 | 5,600 | 0 | N/A |
| Warehouse/Distribution | 49,278,391 | 4.9% | 5.2% | 85,678 | 85,678 | 3,375,719 | \$6.33 |
| R&D/Flex | 495,446 | 0.4% | 0.4% | 12,084 | 12,084 | 0 | \$12.00 |

Market Area Overview



ECONOMIC OUTLOOK

Downstream consequences of the Fed’s tightening program are surfacing and signaling slower growth ahead. Specifically, trouble in the banking sector will likely weigh on even the strongest feature of the economy—the consumer—as banks limit lending to increase their own liquidity. This will erode demand for big-ticket items, such as housing and autos, but could also impede spending on services, which has been a key driver of job growth in recent months.

Meanwhile, other corners of the labor market, especially technology and corporate functions, are under pressure as hiring far exceeded revenue growth in recent years. Other operating challenges, such as inflation and cost of capital, are causing firms to shelve expansion plans and business investment is stalling. Like households, firms will certainly feel the pinch of constrained credit flows.

This risk-off environment points to a moderate recession this year. The impact on commercial real estate will be two-pronged—a weaker economy will slow NOI growth and tighter bank lending will limit investment activity. These conditions will likely accelerate and crystalize value loss in the office sector, but losses elsewhere will be less severe due to stronger fundamentals. The silver lining is that a faster slowdown in the economy will reduce inflation pressure later this year and allow the Fed to ease monetary policy, providing greater clarity to the real estate sector.

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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