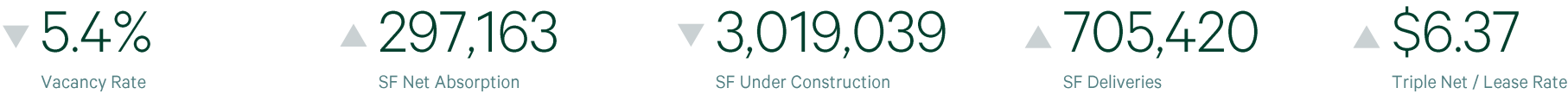


FIGURES | POLK COUNTY INDUSTRIAL | Q2 2023

# Growing, diverse inventory of options for tenants signals a maturing market



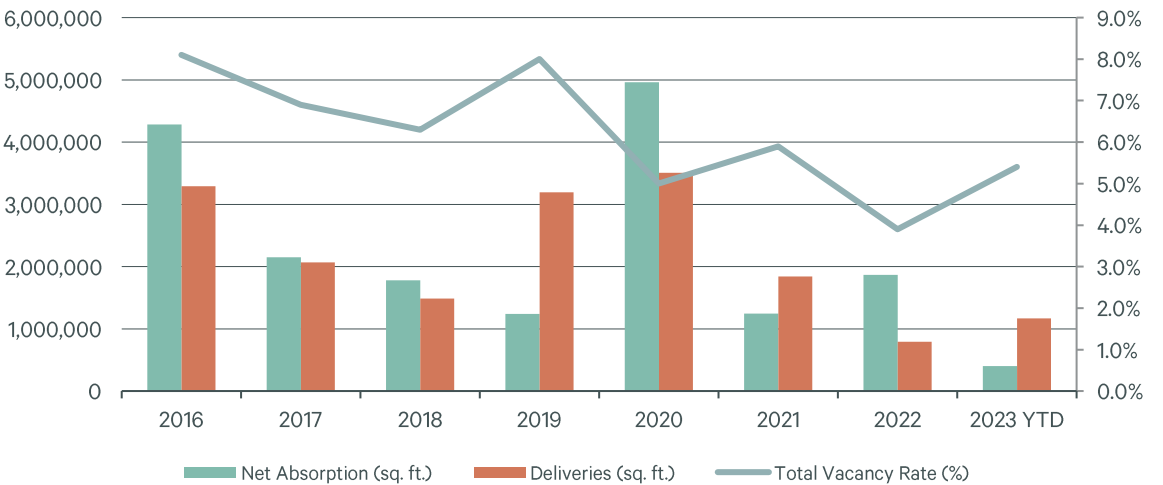
Note: Arrows indicate change from previous year.

## OVERVIEW

- Despite positive net absorption vacancy increased for the second consecutive quarter, up 60 basis points as 705,000 square feet delivered vacant in West Polk County.
- Groundbreakings have slowed with a single building starting work this quarter, but the construction pipeline still has over 3 million square feet active and aiming for 2023 delivery.
- Even among relatively muted activity so far this year, annual rent growth posted a two year high of 7.4%.

Polk County is experiencing a relatively quieter year than usual but also has a wider range of options for tenants than it has historically had. Recent and upcoming deliveries range from 100,000 to 1.2 million square feet and are also more geographically diverse. The current concentration of new construction in East Polk County, for example, will increase inventory there by 13% as three cross dock facilities ranging from 400,000 to 1.2 million square feet move forward. These class A assets provide the backdrop for additional net absorption this year while also promoting Polk County as a feasible market for big box and small bay product alike.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

Positive net absorption of nearly 300,000 square feet over the last 90 days represents a three-fold increase over the first quarter and is more in line with typical quarterly trends. However, the slower first half of the year puts the year-to-date total at around 25% the levels we saw in 2022, which included a strong fourth quarter. Now that East Polk County is seeing it’s highest concentration of new construction since 2016, totaling 2.1 million square feet, there will be new opportunity for firms. Opportunities that have been missing for the better part of two years as the submarket consistently trended below 2% vacancy.

VACANCY

The vacant delivery of a 705,000 square foot cross-dock facility at Lakeland Central park has resulted in a second consecutive quarter of increased vacancy, rising to 5.4%. This is still 40 basis points lower than a year ago and 300 basis points lower than Q1 2020, at the onset of the pandemic. A construction pipeline 3 million square feet strong that remains fully available for lease adds looming upward pressure but could be partially offset through continued tenant demand.

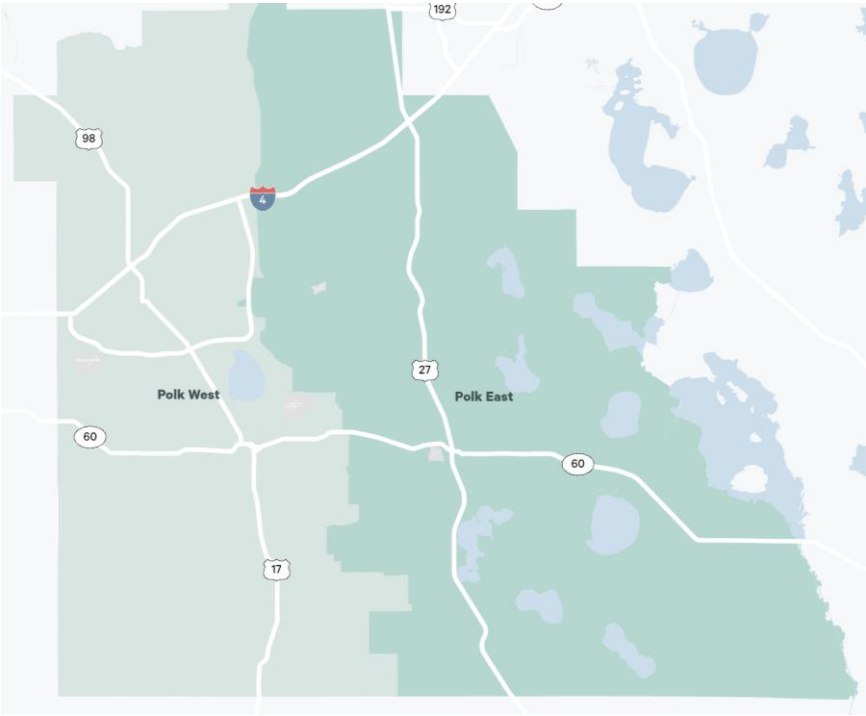
PRICING

Although average asking rents saw minimal movement this quarter, they are still up 7.4% since this time last year. This has been influenced, in part, by new, small bay product introduced over the last 24 – 36 months to complement the typical big box delivery in the market. This shift has also started to match current demand trends, which have moved towards these shallower, single-load assets.

FIGURE 2: Statistical Snapshot Q2 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q2 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	1.4%	1.4%	(198,512)	(192,912)	2,113,599	\$7.64
Manufacturing	2,078,749	0%	0%	0	5,600	0	N/A
Warehouse/Distribution	14,761,850	1.7%	1.7%	(198,512)	(198,512)	2,113,599	\$7.64
Polk West	40,536,214	7.0%	7.1%	495,675	593,437	905,440	\$6.25
Manufacturing	4,818,807	0.0%	0.0%	0	0	0	N/A
Warehouse/Distribution	35,221,961	8.1%	8.2%	498,175	583,853	905,440	\$6.25
R&D/Flex	495,446	0.9%	0.9%	(2,500)	9,584	0	\$12.00
Polk County Total	57,376,813	5.4%	5.4%	297,163	400,525	3,019,039	\$6.37
Manufacturing	6,897,556	0%	0%	0	5,600	0	N/A
Warehouse/Distribution	49,983,811	6.2%	6.2%	299,663	385,341	3,019,039	\$6.36
R&D/Flex	495,446	0.9%	0.9%	(2,500)	9,584	0	\$12.00

Market Area Overview



ECONOMIC OUTLOOK

For the last six months the consensus amongst economists has been that H2 would bring the United States to the brink of recession and possibly push it over the edge. Recently, this narrative has been challenged by a surprisingly resilient consumer and labor market. Indeed, GDP growth in Q2 2023 is poised to hit the mid-2% range (p.a.). Beneath this veneer of health lies a fragile economy, which will probably lapse into recession, albeit a little later than previously expected.

The chief concern is credit conditions tightening at a magnitude that typically precedes a recession. The consequences are already manifest in the housing market, and particularly across the Western U.S. where valuations are most disconnected from local incomes. Other rate sensitive sectors, such as manufacturing, are also under pressure—both domestic and abroad—exemplified by cooling capital goods orders and PMI data. And while the labor market is objectively tight, it is softer than one year ago when we saw higher quit rates and stronger wage growth. Tighter credit conditions are also likely to catch up with Americas small and medium sized industries (restaurants, cafes) in the service sector in the next two quarters.

Perhaps the key question is: Will the inflation slow fast enough to avert further rate hikes? CBRE’s baseline view is that there is no need for further rate hikes because inflation is coming under control, but because of strong recent data the Fed will make one more rate hike, just to make sure the job is done. This will slightly exacerbate the coming slowdown and lead the Fed to begin cutting rates at the end of the year. The long expected slowdown in the U.S. economy is still on track but will start in earnest at the end of Q3 and last through to the end of Q1 2024 by which time inflation will have slowed up and rates will be falling.

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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