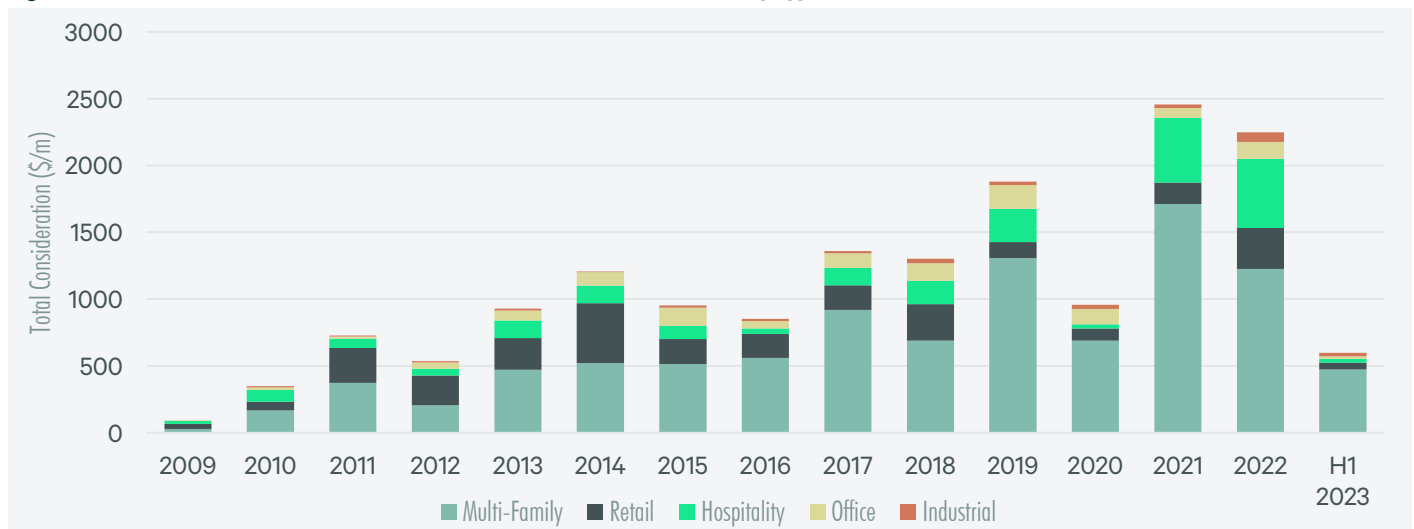


Florida Panhandle Report



“A Tale of Two Markets” - Market Fundamentals versus the Investment Climate

Figure 1: Total Consideration of Real Estate Trades in Florida’s Panhandle by Type and Year



Source: Real Capital Analytics, August 2023.

Market Overview

Fundamental market conditions remain very healthy throughout Northwest Florida, with strong absorption, historically low vacancies, and rising rental rates defining the industrial and retail sectors, and the office segment just trudging along and staying relatively reserved as normal. On the other hand, the rising interest rate environment, potential recessionary headwinds, banking sector turmoil and a general freezing up of the capital markets have conspired to create the first signs of a potential distressed asset cycle. As a result of capital markets conditions, overall investment activity has declined significantly in the Panhandle. But strong positive leasing continues, and along with continued reports from the brokerage community of brimming pipelines filled with unsatisfied demand, it truly is a “A Tale of

Two Cities” type of market – a great time to be a low-leveraged, long-term income oriented owner of stabilized assets, and not so great to be an owner facing near term debt maturity in an unfriendly interest rate and capital markets environment.

Fundamentals in the Florida Panhandle commercial real estate market support new development in the retail and industrial segments, and while there are new projects underway, the growth in supply is still too constrained to satisfy demand in the region. There may still be some rough roads ahead until conditions stabilize enough to support further supply expansion at a meaningful level, but it is comforting to know the Panhandle is entering a potentially soft period with fundamental market conditions as strong as they’ve ever been, and it should be poised for a quick snap-back into an accelerated development cycle.

Office Sector

Similar to conditions in core office markets, recent economic uncertainties and the trend toward hybrid schedules/work-from-home have combined to stall office demand in the FL Panhandle. Negative absorption of over 171,000 sq. ft. during H1 2023 was spread throughout the Panhandle markets, and overall vacancy has risen to 6.7% as of end of the period. Positive highlights in the market can be found in the medical office segment, with new developments related to Baptist Health Care's new campus in Pensacola and Tallahassee Memorial Hospital's expansion to the Panama City market, yet another sign of the region's growing population and need for services.

Industrial Sector

The region's industrial market conditions remain very healthy with 90,938 sq. ft. of positive absorption during the first half of 2023 and trailing 12-month absorption totaled 343,443 sq. ft, resulting in vacancy rates at just 2.6% for the Panhandle overall. An acute lack of supply continues to plague the market, and demand remains very strong. There are a couple of modest flex industrial projects under development and a couple of larger distribution projects in the planning stages that might kick off in the next 6 months, and it will be telling to see whether market rents that have appreciated so significantly in the past 12 months are strong enough to overcome the elevated cost of capital. If projects can be reasonably underwritten, it will be in the banks' collective hands to make deals happen.

Retail Sector

Retail market conditions in Northwest Florida remain as strong as the industrial sector, with rapid absorption of new inventory, continued rent appreciation and a healthy level of tenant-driven new development under way. Publix continues to expand in the region, and with Aldi's already expanding presence in the Panhandle plus their acquisition of Winn Dixie, the grocery anchored sector is one to watch. Newly emerging submarket areas and growth corridors are prime hunting for retail developers and tenants, as the region's population expands northward from the denser coastal areas in the central and western Panhandle. Trailing 12-month positive absorption of over 925,000 sq. ft. demonstrates the segment's expansion, and the historically low vacancy rates of 2.4% at the close of H1 2023 remain supportive of appreciating rents.

Capital Markets

Total investment sales of \$599 million during the first half of 2023 represent a 56% decrease from the same period in 2022. All segments have been impacted in the slowdown of capital markets activity. Consistent with recent history, the Multi-family sector remains by far the leader in investor activity in the Panhandle (79% of the total), as there is simply more institutional quality product in the market, and a recent development cycle that continued to see assets converted from merchant developers to longer-term owners. The Multi-family market has essentially seized up with the recent economic and interest rate turbulence, and it appears that the overall investment market in the Panhandle is poised to see one of its slowest years in the past decade. Conversely, and in keeping with our "Tale of Two Cities" theme, land sales remain relatively active, pointing to a willingness of risk capital to bet on strong fundamental market conditions, in anticipation of a recovery in weak capital markets.

For at least the last six months the consensus among economists has been that H2 would bring the United States to the brink of recession and possibly push it over the edge. However, this narrative continues to be challenged by a surprisingly resilient consumer and labor market. GDP growth in Q2 2023 is poised to hit the mid-2% range (p.a.). But beneath this veneer of health lies a somewhat fragile economy due in large part to a weakness in the banking sector, with certain commercial real estate sectors in a few core market areas underlying some of the financial market woes. There's a good probability that the US will lapse into recession by end of 2023 or during the first part of 2024, and this will certainly trickle down to affect smaller markets.

The anchors of Northwest Florida's economy – military bases, tourism, government, healthcare and education – are all strong, and are now being supplemented by a growing aerospace and light manufacturing sector. Regional distribution needs for food & beverage, general business services and construction trades are further promoting an expanding industrial real estate sector throughout the Panhandle. The retail segment is maturing and responding to new growth areas within the market. Unemployment rates of 3% and less point to a region essentially at full employment. All in all, the Northwest Florida economy and commercial real estate markets remain in great shape, and seem positioned very well to not only weather any coming downturns, but also have a solid foundation on which to recover quickly.

Market Statistics

Figure 7: Office Market Statistics

Market	Total Inventory (SF)	Direct Vacancy (%)	Total Vacancy (%)	H1 2023 Net Absorption (SF)	Trailing 12 Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/FSG)
Pensacola	6,165,250	4.8	5.0	(72,769)	(83,282)	-	22.38
CBD	1,852,338	4.6	4.8	(12,634)	33,412	-	23.18
Suburban	4,312,912	4.9	5.0	(60,135)	(116,694)	-	16.71
Destin/Fort Walton/Okaloosa	2,999,322	6.3	6.5	(25,572)	(16,545)	-	20.30
Destin	791,908	12.8	12.8	(2,077)	257	-	20.30
Fort Walton Beach	1,349,380	6.6	6.6	(22,152)	(30,009)	-	26.86
S Walton/Miramar Beach	415,524	0.0	1.2	(1,343)	(2,043)	-	31.75
Niceville/Freeport/Crestview	400,583	-	-	-	15,250	-	15.00
Panama City	3,065,087	4.1	4.5	(34,436)	19,084	-	18.31
Panama City Beach	505,085	1.3	1.7	24,246	28,477	-	20.10
Panama City	2,350,409	5.1	5.5	(60,189)	(11,901)	-	18.00
Tallahassee	13,223,663	8.3	8.5	(38,509)	(5,474)	-	20.99
CBD	2,851,684	5.4	6.0	14,792	19,158	-	27.27
Suburban	10,371,979	9.0	9.2	(53,301)	(24,632)	21,716	20.20
Total Panhandle	25,453,322	6.7	6.9	(171,286)	(86,217)	21,716	21.02

Source: CBRE Research, H1 2023.

Tracked Set: 10,000 sq. ft. and greater single and multi-tenant office buildings.

*Includes base data adjustments where previously untracked inventory is found.

**Does not include medical office buildings (MOB).

Figure 8: Industrial Market Statistics

Market	Total Inventory (SF)	Direct Vacancy (%)	Total Vacancy (%)	H1 2023 Net Absorption (SF)	Trailing 12 Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/NNN)
Pensacola	14,812,101	3.4	3.8	(118,477)	(20,750)	-	10.57
Destin/Fort Walton/Okaloosa	4,518,696	2.5	2.6	16,592	60,022	154,400	8.49
Destin	125,533	-	-	-	-	32,400	12.50
Fort Walton Beach	2,424,029	4.6	4.6	21,192	15,907	-	8.28
S Walton/Miramar Beach	508,076	-	0.5	(2,600)	11,050	-	14.20
Niceville/Freeport/Crestview	907,619	0.2	0.2	(2,000)	(2,000)	122,000	12.00
Panama City	6,342,440	0.9	0.9	219,882	373,375	10,000	9.51
Panama City Beach	769,394	1.4	1.4	41,700	44,700	10,000	12.00
Panama City	4,925,812	0.9	0.9	178,182	328,675	-	9.48
Tallahassee	11,628,346	1.6	2.0	(27,059)	(69,204)	630,000	9.92
Total Panhandle	37,301,583	2.3	2.6	90,938	343,443	794,400	10.28

Source: CBRE Research, H1 2023.

Tracked Set: 10,000 sq. ft. and greater single and multi-tenant industrial buildings.

Figure 9: Retail Market Statistics

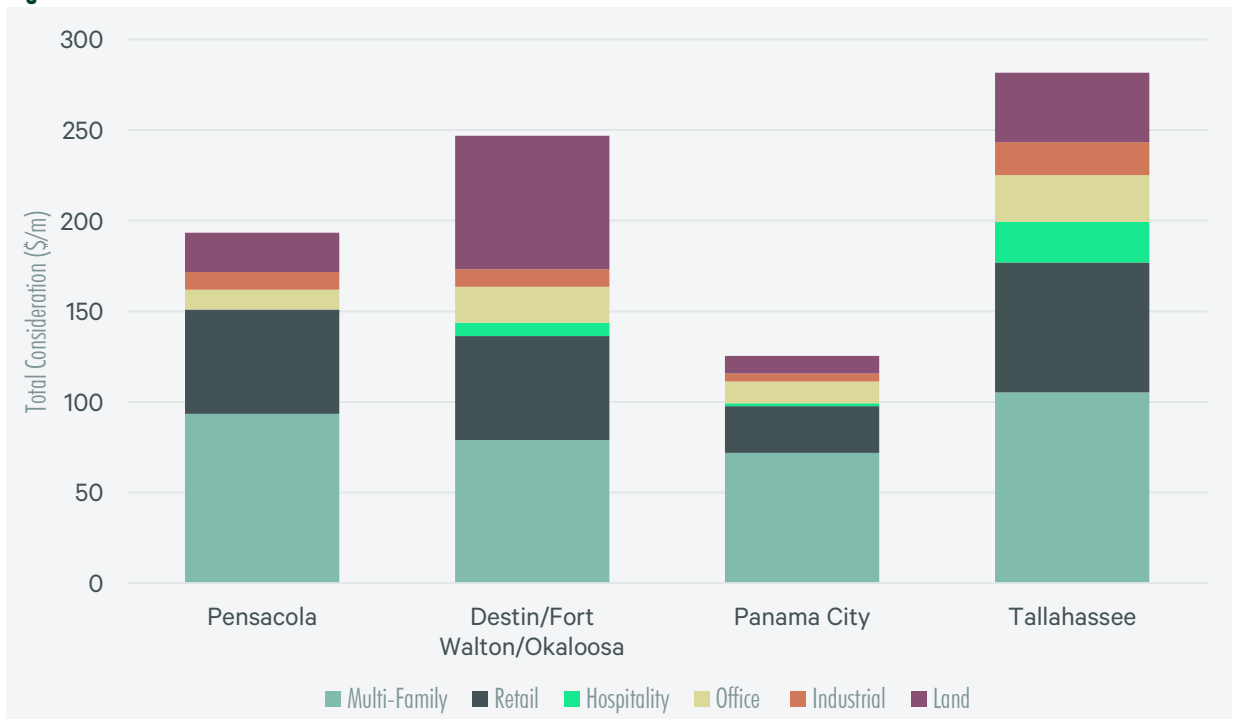
Market	Total Inventory (SF)	Direct Vacancy (%)	Total Vacancy (%)	H1 2023 Net Absorption (SF)	Trailing 12 Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/NNN)
Pensacola	29,836,983	3.3	3.3	42,817	112,247	156,000	15.25
Destin/Fort Walton/Okaloosa	19,480,160	2.2	2.2	164,135	179,639	173,890	17.24
Destin	3,969,025	1.5	1.5	10,044	(3,717)	-	23.79
Fort Walton Beach	7,245,983	2.8	2.8	80,930	70,310	20,890	12.84
S Walton/Miramar Beach	2,951,722	2.7	2.9	9,372	(20,419)	44,000	20.95
Niceville/Freeport/Crestview	3,126,393	1.6	1.6	4,625	21,302	109,000	20.12
Panama City	16,907,722	0.8	0.8	59,402	147,241	81,104	17.34
Panama City Beach	4,975,646	0.8	0.8	4,109	23,375	-	20.05
Panama City	10,447,207	0.9	0.9	48,162	116,905	81,104	14.47
Tallahassee	23,448,806	2.7	2.7	142,783	486,941	-	15.92
Total Panhandle	89,673,671	2.4	2.4	409,137	926,068	,994	16.08

Source: CBRE Research, H1 2023.

Tracked Set: 2,500 sq. ft. and greater retail buildings

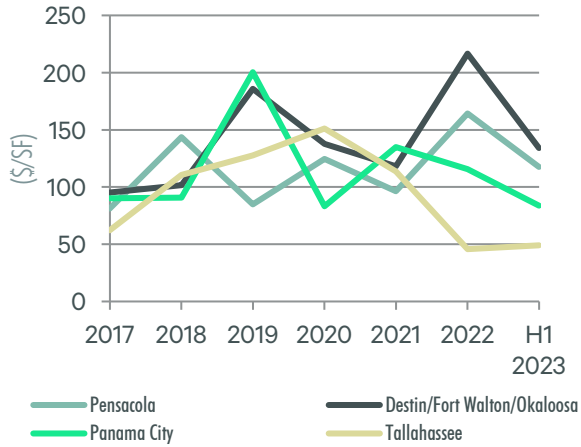
Capital Investment Overview

Figure 10: Sales Volume Totals H1 2023



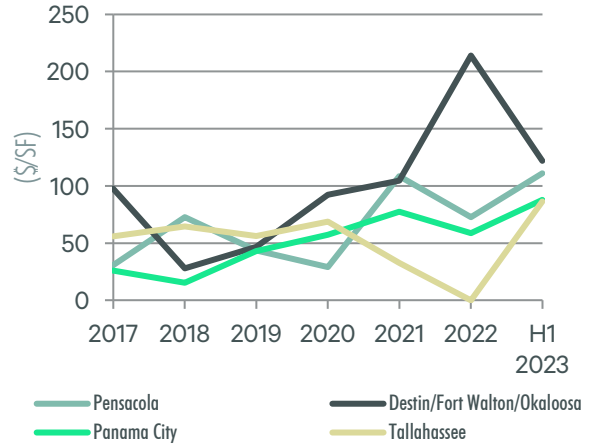
Source: CBRE Research, H1 2023.

Figure 11: Office Avg. Sale Price Per Sq. Ft.



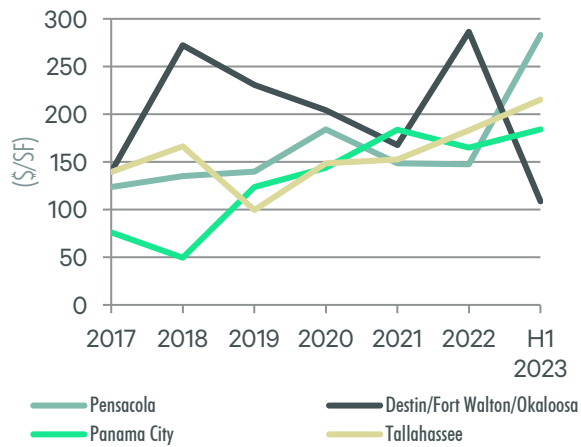
Source: CBRE Research, H1 2023.

Figure 12: Industrial Avg. Sale Price Per Sq. Ft.



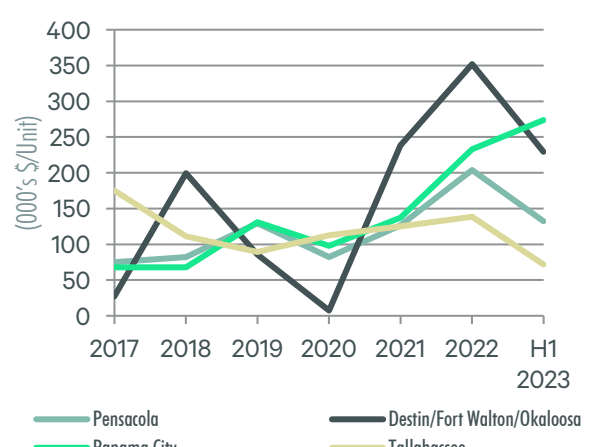
Source: CBRE Research, H1 2023.

Figure 13: Retail Avg. Sale Price Per Sq. Ft.



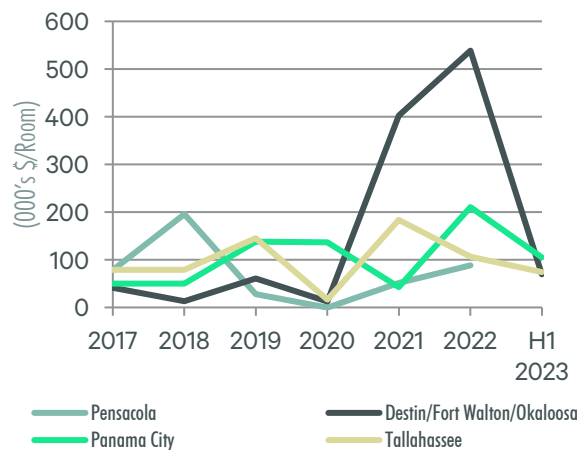
Source: CBRE Research, H1 2023.

Figure 14: Multi-Family Avg. Sale Price Per Unit



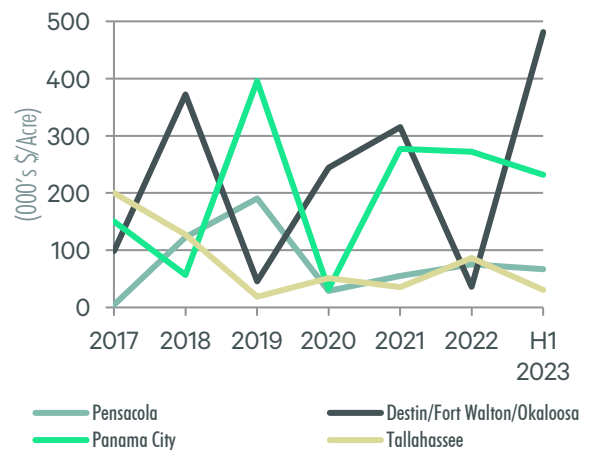
Source: CBRE Research, H1 2023.

Figure 15: Hospitality Avg. Sale Price Per Room



Source: CBRE Research, H1 2023.

Figure 16: Land Avg. Sale Price Per Acre



Source: CBRE Research, H1 2023.

Figure 2: Pensacola Top 5 Jobs by Sector & Employers

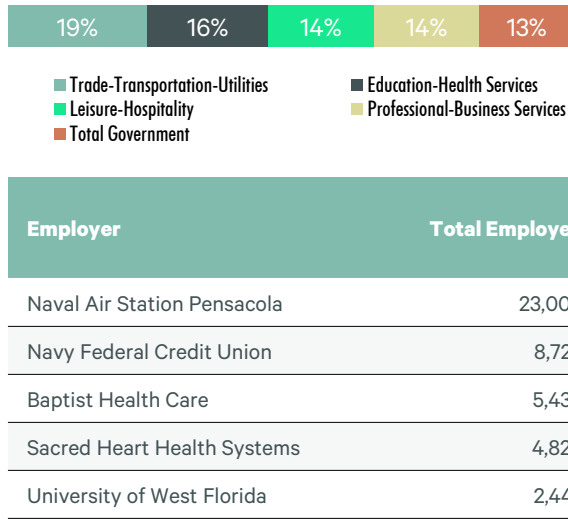
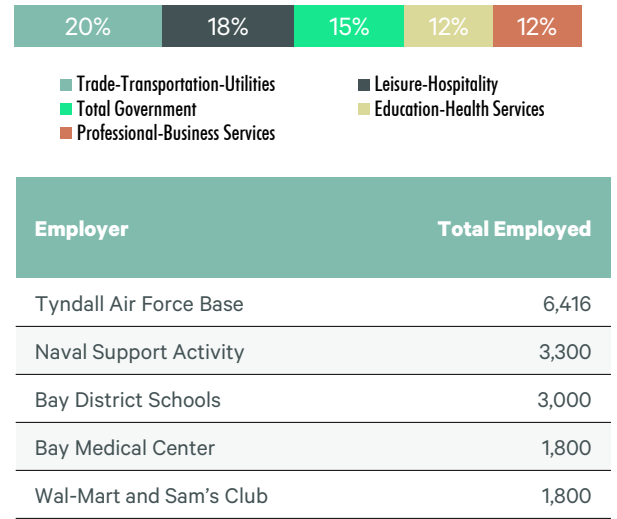


Figure 3: Panama City Top 5 Jobs by Sector & Employers



Source: U.S. Department of Labor, Bureau of Labor Statistics, August 2023 & Florida West Economic Development Alliance.

Figure 4: Destin Top 5 Jobs by Sector & Employers

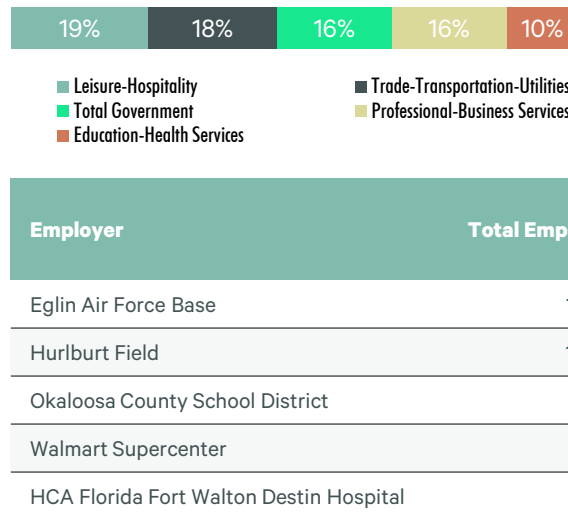
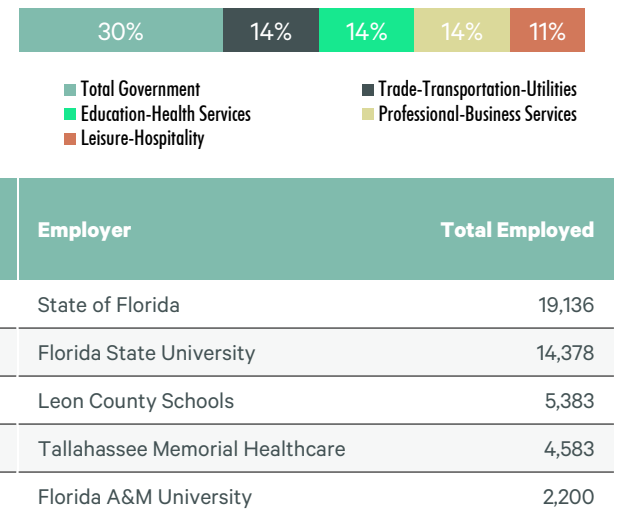


Figure 5: Tallahassee Top 5 Jobs by Sector & Employers



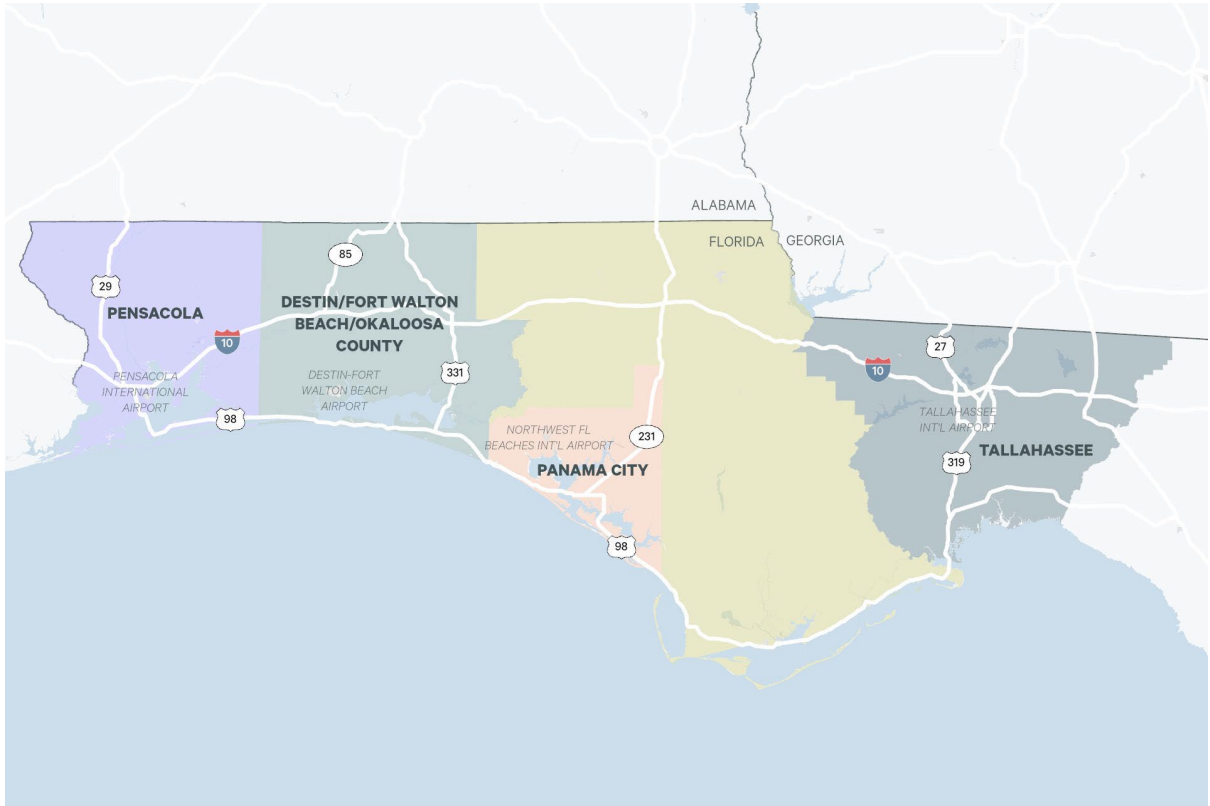
Source: U.S. Department of Labor, Bureau of Labor Statistics, August 2023 & Florida West Economic Development Alliance.

Figure 6: Demographic Stats

Market	Unemployment Rate	Daytime Employment	Avg. Household Income (\$)	Median Home Value (\$)	Population
Pensacola	3.1%	239,233	92,076	277,284	528,427
Destin/Fort Walton/Okaloosa	2.6%	169,136	102,427	344,898	303,414
Panama City	2.7%	94,917	87,158	285,667	182,599
Tallahassee	3.3%	203,662	87,155	268,135	390,180

Source: U.S. Department of Labor, Bureau of Labor Statistics & U.S. Census Bureau, August 2023.

Market Map



Research Market Coverage: Includes the following counties: (Pensacola) Escambia, Santa Rosa, (Destin/Fort Walton/ Okaloosa) Walton, Okaloosa, (Panama City) Bay, (Tallahassee) Gadsden, Jefferson, Leon, and Wakulla. The CBRE Northwest Florida office also covers the counties of Jackson, Gulf, Franklin and Calhoun, including the cities of Marianna, Port St. Joe and Apalachicola.

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