

FIGURES | PALM BEACH INDUSTRIAL | Q2 2023

# Warehouse construction hits a new record-high



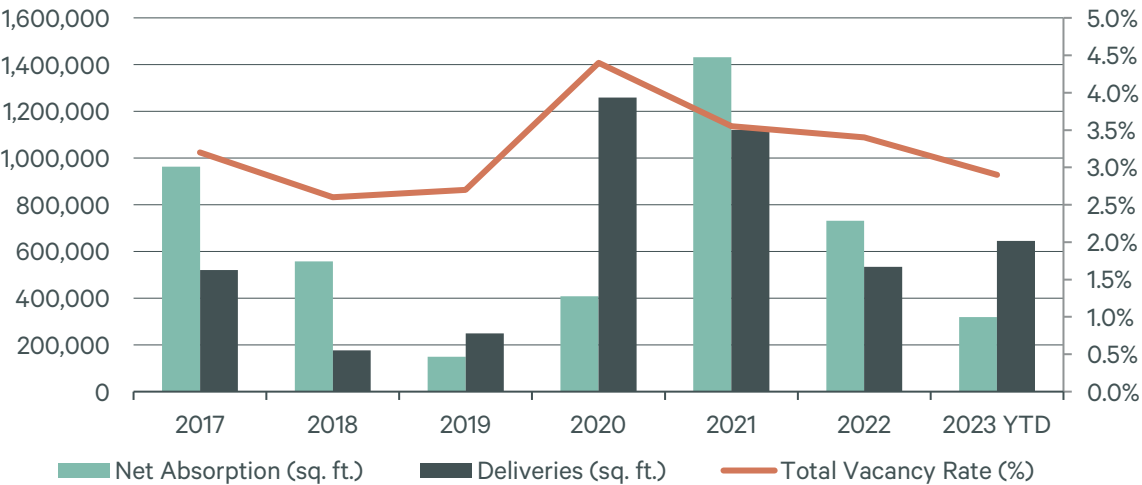
Note: Arrows indicate change from previous quarter.

## Overview

- The direct vacancy rate dropped 30 basis points during the second quarter to 2.9%.
- Absorption in the second quarter totaled 114,016 sq. ft. This was on pace with the first quarter, but 10% less than the five-year historical quarterly average.
- There is more than 2.0 million sq. ft. of industrial inventory under construction – the highest on record. Some notable projects include Prologis Airport Center (bldg. 5), Beeline Logistics Center, and Southern Way Business Center.

The Palm Beach market strengthened in the second quarter of 2023, to date there is over 300,000 sq. ft. of positive net absorption. This was aided by deals in the 5,000 to 10,000 sq. ft. range. The industrial market in Palm Beach remains on of the most favored property types. However, strong demand has created a tight market with rent surges. This in turn has limited demand potential, but not due to lack of tenant demand, rather lack of available and affordable quality space. We expect the construction pipeline to expand in the remaining quarters of 2023 as demand for industrial space remains high across South Florida and pre-leasing levels remain healthy.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

DEMAND

The largest move-in this quarter was Century International Arms with 81,000 sq. ft. at Southern Way Business Center located in the West Palm Beach submarket. The West Palm Beach submarket remains the most active submarkets in the region with over 200,000 sq. ft. of positive net absorption in 2023. Net absorption was also shaped by move-outs and move-ins in the sub-4,000-square-foot range this quarter.

In addition, total leasing activity ended the quarter with more than 500,000 sq. ft, representing 40 transactions across the market. This is 100,000 sq. ft. more than the previous quarter and 200,000 sq. ft. less than the previous year. Leasing activity this quarter was aided by a 225,000 sq. ft. renewal located in the Riviera Beach submarket. Other notable deals include UMI (46,000 sq. ft.), Rexel USA (22,000 sq. ft.), and Dealers Pro Choice (21,000 sq. ft.).

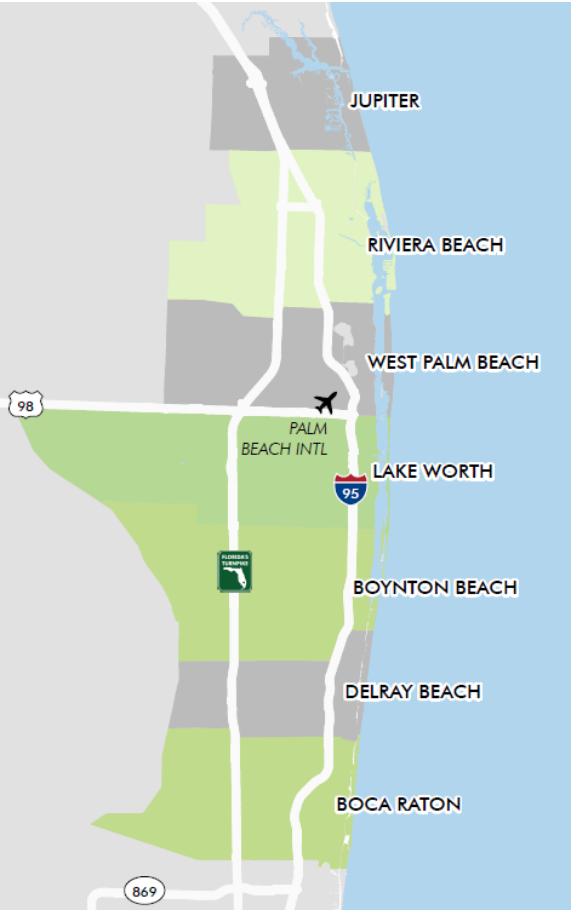
VACANCY & PRICING

Widespread demand, led mostly by logistics firms, has pushed vacancies to record lows in the Palm Beach market. Such low vacancy has driven asking rental growth to a record pace, currently sitting at \$15.40 per sq. ft, a 2.0% increase since the previous quarter. While rent growth in 2023 should slow from 2022's scorching pace, it will stay elevated. With such strong demand, new properties are increasingly getting larger to capitalize on market strength. Roughly 30% of projects under construction are larger than 200,000 sq. ft., compared to roughly 2% of existing inventory. Consequently, construction activity will remain elevated but should moderate over the next couple of quarters. New deliveries will bring some relief to submarkets with vacancy rates less than 1%, although such tightness may push some tenants outside of Palm Beach to markets with greater availability.

FIGURE 2: Statistical Snapshot Q2 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Direct Availability (%)	Q2 2023 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/SF /NNN)
Boca Raton	7,455,058	3.64 %	5.39 %	24,079	65,345	0	\$17.00
Boynton Beach	4,431,245	3.64 %	5.04 %	-10,584	-16,050	0	\$13.50
Delray Beach	2,907,748	1.92 %	2.99 %	-7,420	19,691	0	\$15.70
Jupiter	1,682,839	1.76 %	1.6 %	1,750	1,671	0	\$14.80
Lake Worth	3,771,457	0.98 %	0.9 %	1,635	5,363	206,000	\$15.55
Out of Submarket	3,695,870	0.65 %	0.65 %	0	0	1,178,900	\$14.25
Riviera Beach	12,329,435	2.27 %	5.1 %	38,344	33,531	184,880	\$16.00
West Palm Beach	14,467,014	4.43 %	5.28 %	66,212	209,317	563,992	\$17.00
Total Palm Beach	50,740,666	2.9%	4.3%	114,016	318,868	2,133,772	\$15.40

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.

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