After pandemic boom, construction starts are starting to fade

▲ 5.5%
Total Vacancy (Q3 2024)

▼ 59,225
SF Net Absorption (Q3 2024)

▼ 3,877,761
SF Construction (Q3 2024)

▲ 5,477,864
SF Delivered (Q3 2024)

▲ $15.72
NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

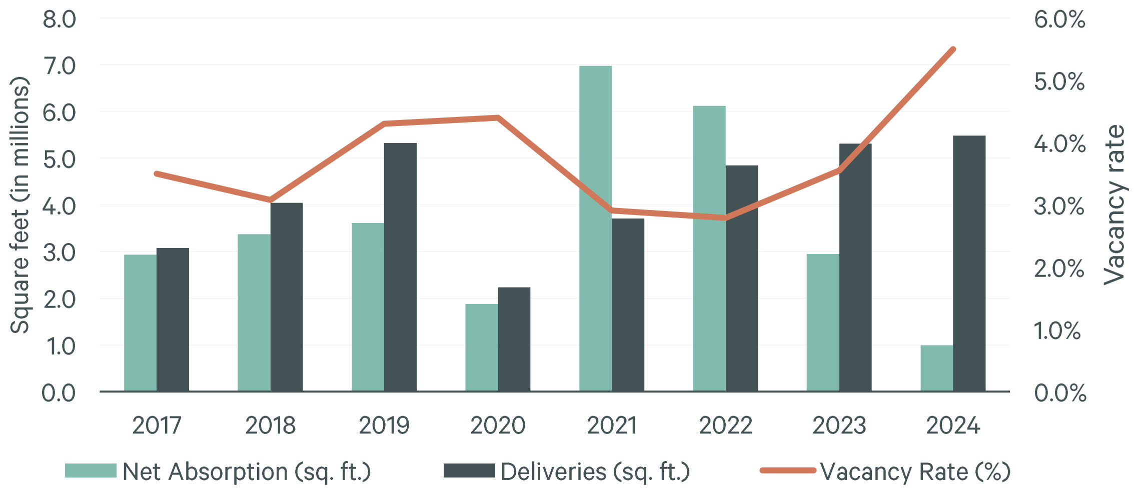
Market highlights

- Miami's industrial market remains strong but is softening compared to its pandemic-era bull run. The vacancy rate of 5.5%, has more than doubled over the past two years. This increase is driven primarily by the delivery of new speculative buildings, with almost 40% of space delivered since early 2023 currently vacant and available.

- While this new supply will continue to weigh on the market through 2024, the pipeline has thinned considerably. About 3.9 million sq. ft. remains underway, and new construction starts are down more than 60% year-over-year. This will mean fewer deliveries by 2025, giving the market time to absorb the overhang of new supply.

- Looking ahead, demand is expected to remain positive, but because of Miami's active construction pipeline, vacancies will likely trend upward. The rising vacancies are expected to put downward pressure on rent growth, which will likely continue to decelerate to pre-pandemic levels.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

Demand

Despite a rapid expansion in supply, Miami is poised to end the year on a strong note. Industrial demand remains robust in key submarkets like Medley and Miami Lakes, contributing to over 1.0 million sq. ft. of positive net absorption in 2024. Notably, MD Turbines and All Florida Paper accounted for more than 400,000 sq. ft. of absorption this quarter. Another significant move-in came from DP World, which occupied 107,939 sq. ft.at GLP Logistics Center in the Airport/Doral submarket. Looking ahead, the second largest move of 2024 is expected next quarter, with Iberia Foods set to occupy 397,167 sq. ft.at Bridge Point Commerce Center.

Despite significant move-ins, large vacancies have heavily impacted absorption figures over the past six months. Notable move-outs this quarter include USPS (179,634 sq. ft.) and Archive America (133,230 sq. ft.). Relocations have also influenced the market, with Imperial Dade occupying over 500,000 sq. ft. last quarter, while placing 226,000 sq. ft. on the sublease market, which is expected to be vacated by year-end.

Vacancy & Pricing

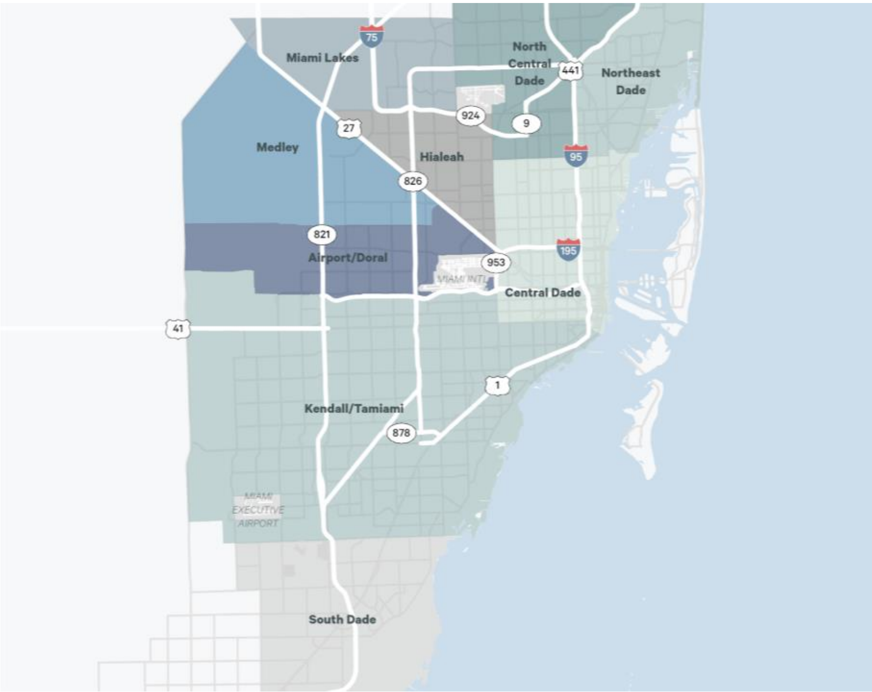
Normalizing demand, combined with a surge in new deliveries, has driven Miami's vacancy rate up to 5.5%, an increase of over 300 basis points from its recent low in early 2022. The primary factor behind this rise is the big-box segment, as several large, unleased distribution centers have recently come online, with more expected to be completed in early 2025. In addition, annual gains are still expected to meet the region's historical norm of 3% to 4%.

FIGURE 2: Statistical Snapshot Q3 2024

Submarket	Total Inventory (SF)	Vacancy Rate	Q3 2024 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Q3 2024 Deliveries (SF)	Avg. Asking Lease Rate ($/NNN)
Airport/Doral	60,824,327	4.91 %	-182,317	-263,052	1,528,640	0	$20.00
Central Dade	39,677,152	3.92 %	-109,867	-116,605	107,632	0	$14.50
Hialeah	16,611,629	4.35 %	53,627	-9,347	409,189	0	$13.60
Kendall/Tamiami	14,387,515	2.79 %	89,678	45,339	0	0	$13.00
Medley	47,402,112	5.78 %	73,025	388,503	372,460	558,099	$18.00
Miami Lakes	18,338,411	7.92 %	425,909	1,156,349	1,107,421	935,437	$17.00
North Central Dade	40,290,770	8.52 %	-277,945	-191,917	374,419	0	$16.10
Northeast Dade	2,686,371	2.81 %	-3,960	-19,880	0	0	$14.50
Out of Submarket	1,389,117	0.54 %	-5,000	-5,000	0	0	N/A
South Dade	4,728,569	4.69 %	-3,925	9,912	0	169,053	$15.00
Grand Total	246,335,973	5.52 %	59,225	994,302	3,899,761	1,662,589	$15.72

All stated rents are estimates subject to size, credit, TI, and term.

Market Area Overview



CBRE Economic House View

Soft landings are rare, but recent data suggest that this outcome for the economy is increasingly likely. Business investment is holding its own and consumer distress is confined to a few vulnerable segments. Discretionary spending, such as travel, is generally on a par with last year although many signs indicate the post-pandemic spending boom is over. The key threat to consumption is a rollover in the labor market although the recent bump in unemployment appears benign, mainly driven by an increase in participation. A reason for concern is the decline in the share of private industries that are creating jobs. On the other hand companies are not shedding workers at a particularly high rate. The labor market has slowed, but it is not slumping.

While many are focused on November's election the most consequential policy lever has already been pulled via the FOMC's 50 bps September cut and signaling another 50 by year-end. This easing of financial conditions combined with continued economic growth should support modest hiring and consumption that precedes tighter commercial space market fundamentals. This backdrop will breathe fresh wind into real estate transactions markets and coincides with other signals that cap rates have peaked and may be starting to fall in some sectors.

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