Demand remains strong despite a surge in new construction

▼ 6.8%
Total Vacancy (Q4 2024)

▼ 41,681
SF Net Absorption (Q4 2024)

▲ 727,179
SF Construction (Q4 2024)

▲ 1,926,707
SF Delivered (Q4 2024)

▼ $14.49
NNN / Lease Rate

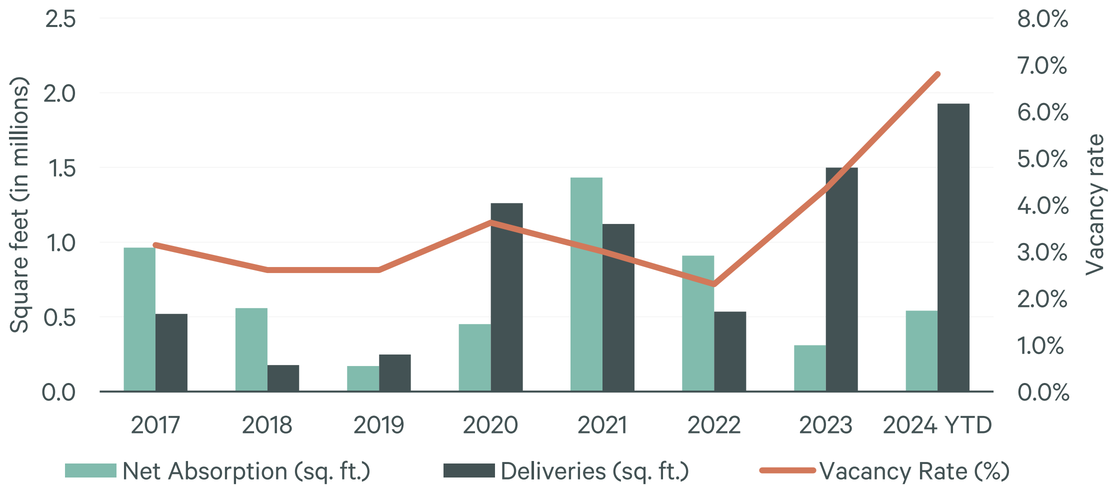
Note: Arrows indicate change from previous quarter.

Market highlights

- The year ended with positive net absorption, surpassing last year's figure. The bulk of the demand came from the West Palm Beach submarket, which registered 477,951 sq. ft. of positive net absorption in 2024. A key factor influencing the market is the preference for Class A buildings, which have consistently seen positive net absorption since late 2020.

- Currently, large vacant spaces remains the market's biggest challenge, and the combination of normalizing demand and record levels of big-box construction has lifted the vacancy rate to 6.8%, 450 basis higher than two years ago. Developers have delivered 3.4 million sq. ft. since 2023, and an additional 727,179 sq. ft. remains underway. The bulk of new space has been in speculative distribution centers larger than 200,000 sq. ft. in the Palm Beach Park of Commerce, a park that is located outside of the core market.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

DEMAND

Net absorption in 2024 recorded its strongest performance in over a year, driven by a slowdown in move-outs and significant move-ins at previously leased big-box spaces, particularly during the first half of the year. Among these, Cook and Boardman took over 100,000 sq. ft. at Turnpike Logistics Center, while Chep occupied 133,075 sq. ft. at Palm Beach Airport Logistics Center. In addition, Canik and Century Arms took a combined 163,000 sq. ft. at Southern Way Business Center, underscoring healthy tenant demand for Class A properties in the core market.

Notable deals this quarter include Exel Padel (65,763 sq. ft.) and Beacon Sales Acquisition (29,058 sq. ft.). For now, industrial space winners are still outpacing the losers. Absorption should stay in positive territory through mid-2025, while vacancy should rise moderately as over 5 properties or 727,179 sq. ft. with no tethered tenants deliver during this period.

VACANCY & PRICING

While the market for smaller buildings than 100,000 sq. ft. remains tighter, the moderation in new leasing activity has been pronounced among tenants larger than 100,000 sq. ft., which is also where development has been concentrated. In combination with occupancy loss, the development of buildings from 100,000- to 250,000-sq. ft. has elevated vacancy in that size range to almost 10%, from under 4.0% at the beginning of 2023. Of the 10 buildings in this range delivered between 2023 and 2024, plus two more currently underway, only six are fully leased.

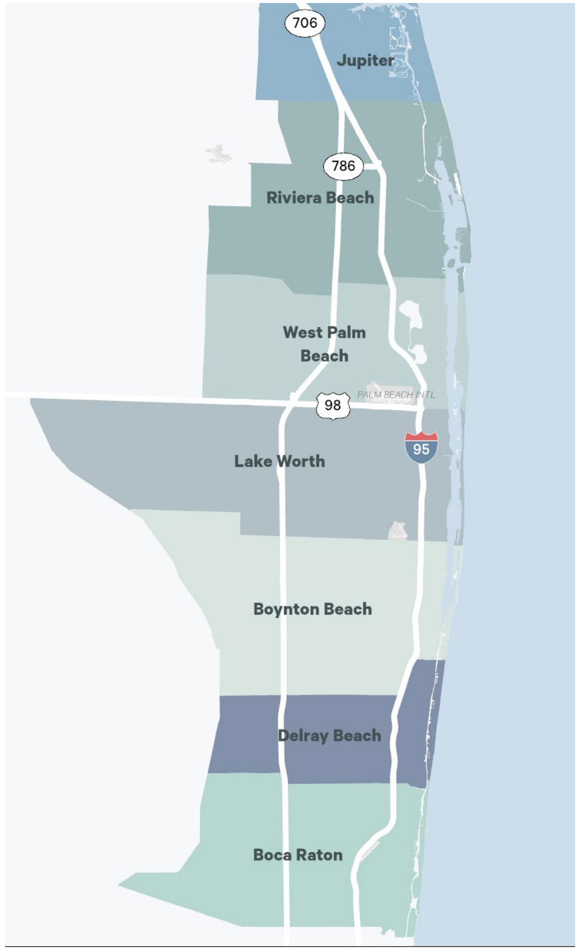
Overall, rent growth was hampered by large availabilities in Western Jupiter (Outlying Palm Beach), which are asking below the market average. However, when removing that submarket from the equation, rent growth in the remaining market proved strong at 8.9% year-over-year growth.

FIGURE 2: Statistical Snapshot Q4 2024

Submarket	Total Inventory (Sq. Ft.)	Total Vacancy	Q4 2024 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Q4 2024 Deliveries (SF)	Avg. Asking Lease Rate ($/SF /NNN)
Boca Raton	7,413,431	2.91 %	9,791	67,482	0	0	$16.28
Boynton Beach	4,431,245	1.94 %	-3,682	-11,813	457,396	0	$14.96
Delray Beach	2,907,748	3.86 %	-39,690	-60,395	269,783	0	$18.47
Jupiter	1,659,179	2.14 %	-6,080	-5,701	0	0	$18.99
Lake Worth	3,910,625	1.28 %	-8,119	179,549	0	0	$18.00
PB Outlying	5,154,632	32.48 %	-11,795	-105,999	0	0	$12.79
Riviera Beach	12,523,977	5.13 %	82,912	-668	0	0	$18.59
West Palm Beach	14,759,964	5.37 %	18,344	477,951	0	0	$15.32
Total Palm Beach	52,760,801	6.8%	41,681	540,406	727,179	0	$14.49

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

Market Area Overview



CBRE Economic House View

The U.S. economy continues to exceed expectations. Much of this is due to a sturdy consumer who is enjoying increased household wealth, real income growth, and a resilient labor market. Consequently, CBRE is revising its outlook upward for 2025 annual average GDP growth by 60 basis points to 2.3%.

Typically, sturdy economic growth alongside Fed rate cuts would be rocket fuel for commercial real estate (CRE) performance. The catch is capital markets have grown skeptical of just how low rates will go in 2025. The mix of sticky core inflation and future policy concerns are putting upward pressure on long-term rates. Nevertheless, real estate capital markets have made good progress in recent quarters. Lending spreads are tightening, and credit issuance is up. Lending conditions are easing a bit as multifamily LTVs are trending slightly upward. Stronger debt markets and balanced and/or recovering space market fundamentals should translate into a noticeable uptick in investment during the next several quarters

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