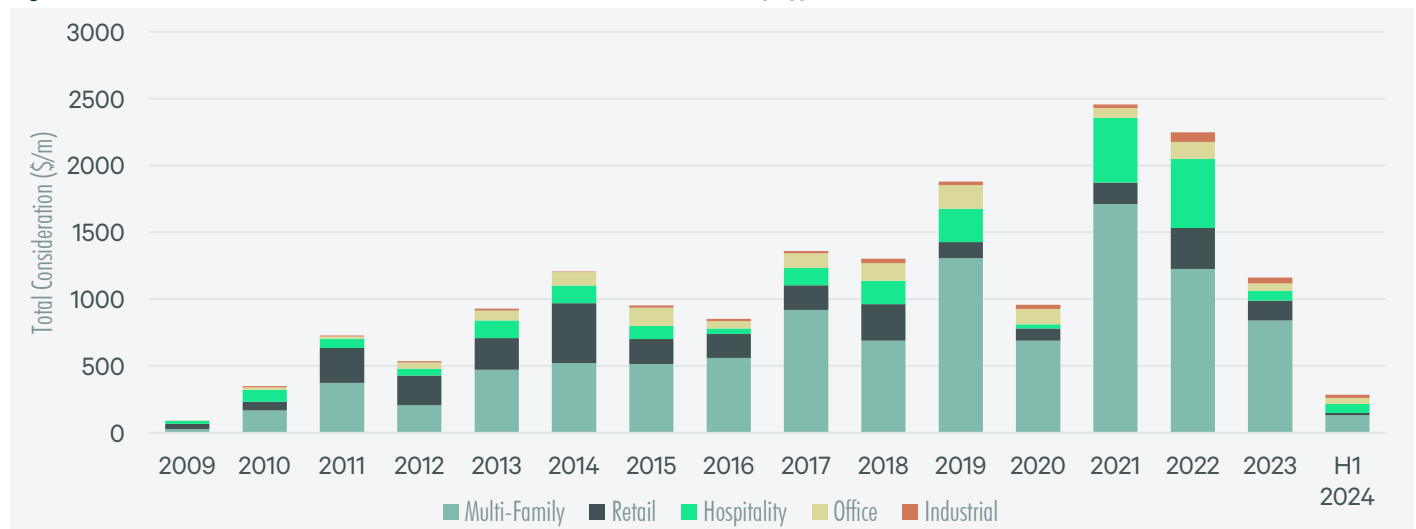


Florida Panhandle Report



Industrial and Retail Development Cycle Heating Up; Investment Sales Activity at Cyclical Low Point

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



Source: Real Capital Analytics, August 2024.

Market Overview

We have witnessed a notable uptick in new development throughout the Florida Panhandle in 2024, with emerging submarket areas reflecting the region's strong overall economic growth and northward expansion from the dense coastal markets. New industrial distribution and flex space is under way, including what we believe to be the largest spec industrial project ever developed in the FL Panhandle, the 550,000 Sf, multi-building Emerald Coast Logistics Center in Mossy Head, where the first two buildings (105,000 Sf each) topped out recently. Several other large projects are anticipated to break ground soon, including several build-to-suits for food & beverage distributors in the emerging Interstate 10/SR 87 interchange in Milton.

Retail development is also very healthy, following the region's continued population and housing growth,

and supported by still healthy consumer demand. Our FL Panhandle advisory team is reporting significant retail tenant demand in their pipeline, much of which remains unsatisfied due to the lack of availability – a great recipe for a continuation in the new development cycle in the retail segment.

Market conditions remain strong throughout Northwest Florida, with tight vacancy across most segments, continued demand for space from an expanding tenant base, and good rental economics for landlords. However, reflecting the volatile capital markets environment, investment sales volume in the region reached a low in H1 2024 not seen since the beginning of the last decade. With expectations for the beginnings of some interest rate relief in H2 2024, the strong fundamental market conditions should support a recovery in capital markets as we enter 2025. CBRE's mid-year cap rate survey revealed some compression from the prior period, another good sign for value recovery over the next year.

Office Sector

The FL Panhandle office segment is relatively stable and seeing some encouraging growth, as our advisory team is reporting expanding occupier pipelines. The market is experiencing overall positive absorption - 57,275 sq. ft. during H1 2024 and a trailing 12-month total of 124,370 sq. ft., with vacancy at a healthy 6.3% at the end of H1 2024 – well outperforming core markets in Florida. As usual, the primary office markets of Pensacola and Tallahassee lead the way in activity. During the first half of 2024, 18 leases over 5,000 sq. ft. and four leases over 15,000 sq. ft. occurred. If that trend continues, the office market will be in store for a more active finish to 2024.

Industrial Sector

The region's industrial market conditions remain very healthy with a trailing 12-month absorption of positive 864,173 sq. ft. resulting in vacancy rates at just 2.7% for the Panhandle overall. Having recognized the unsatisfied demand in the market, developers have kicked off several projects and there is now more than 352,900 Sf of space under construction. This includes the aforementioned Emerald Coast Logistics Center, which has two 105,000 Sf buildings slated to be completed by year-end, and more to come as this project (and others) come to fruition in the coming months.

Retail Sector

Northwest Florida's retail segment remains very healthy, with low vacancy, strong absorption of new inventory, and development under way throughout the region. Trailing 12-month positive absorption of over 516,850 sq. ft. is a clear indicator of the market's growth and support of newly developed space. The historically low vacancy rate of 2.1% at end of H1 2024 is further evidence of healthy conditions and provides market support for rent appreciation and continued development. The grocery anchored sector remains a key component of this development cycle, and single-tenant outparcel demand from both traditional tenants and emerging concepts is keeping retail developers busy.

Capital Markets

Total investment sales of \$284 million during the first half of 2024 represent a 53.5% drop from the same period in 2023. All segments have been impacted in the slowdown of capital markets activity. Counter to recent history, the Multi-family sector suffered the largest decline in the Panhandle (46% of the total and a 73.2% decline). The product type with the second biggest drop was Retail (63.6% decline) followed by Industrial (13.5%). 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. Investment sales are expected to remain subdued until the Fed lowers interest rates starting in September. Expectations are that investment sales activity will start to improve during the second half of 2024.

Following a year of expectation-busting growth, which has given us interest rates higher for much longer, it seems we will get a "soft landing" in 2024. Last year's expansion was almost certainly driven by fiscal stimulus that far exceeded other western countries. Today, stimulus effects are fading, and higher interest rates continue to bite. There is evidence of this on the consumer front, wherein delinquency rates are trending upward, and credit growth is quickly slowing. The latter signals that consumption—a key driver of GDP growth in recent quarters—is poised to slow further. This partly explains why we believe growth will settle at the mid-1% range this year.

A more severe contraction in consumption would require the labor market to contract. Presently, conditions are merely softening. Both job openings and hours worked are falling. Also, most of the job growth is clustered in sectors that are immune to higher interest rates and receive at least some public funding, such as education, healthcare and government jobs. Leisure & hospitality has been a growth sector, but these cooling trends are evident here too.

A soft landing in consumption and hiring point to further disinflation. Labor-intensive service costs are poised to soften and falling rents across the Sun Belt suggest weaker housing inflation is on the horizon. Fed rate cuts are downstream of disinflation, and a most welcome outcome within the commercial real estate space where higher financing costs and devaluations are triggering distress. The prospect of a rate cut this fall will at least help ease rate volatility, put cap rates on a slight downward trajectory, and generate more common ground between buyers and sellers in coming quarters.

Market Statistics

Figure 7: Office Market Statistics

| Market | Total Inventory (SF) | Direct Vacancy (%) | Total Vacancy (%) | H1 2024 Net Absorption (SF) | Trailing 12 Absorption (SF) | Under Construction (SF) | Avg. Asking Lease Rate (\$/SF/FSG) |
|------------------------------|----------------------|--------------------|-------------------|-----------------------------|-----------------------------|-------------------------|------------------------------------|
| Pensacola | 6,666,056 | 4.2 | 4.2 | 4,813 | 38,338 | - | 26.67 |
| CBD | 2,020,119 | 3.1 | 3.4 | (42,311) | (19,707) | - | 28.29 |
| Suburban | 4,645,937 | 4.6 | 4.6 | 47,124 | 58,045 | - | 25.66 |
| Destin/Fort Walton/Okaloosa | 2,806,513 | 7.9 | 7.9 | (7,628) | (27,826) | 123,500 | 19.17 |
| Destin | 901,289 | 10.5 | 10.5 | 12,248 | 11,298 | - | 19.17 |
| Fort Walton Beach | 1,106,323 | 11.3 | 11.3 | (18,460) | (36,308) | 123,500 | 26.86 |
| S Walton/Miramar Beach | 362,481 | 0.8 | 0.8 | 3,381 | (1,981) | - | 25.84 |
| Niceville/Freeport/Crestview | 493,868 | - | - | - | - | - | 15.00 |
| Panama City | 2,847,065 | 8.1 | 8.1 | (64,559) | (51,973) | - | 16.89 |
| Panama City Beach | 551,557 | 14.4 | 14.4 | (62,687) | (70,828) | - | 17.82 |
| Panama City | 2,247,420 | 6.7 | 6.7 | (1,872) | 18,855 | - | 16.71 |
| Tallahassee | 13,501,641 | 6.4 | 6.6 | 124,649 | 165,831 | - | 20.60 |
| CBD | 3,115,682 | 2.7 | 3.0 | 25,157 | 49,504 | - | 25.01 |
| Suburban | 10,385,959 | 8.0 | 8.1 | 99,492 | 116,327 | - | 20.40 |
| Total Panhandle | 25,821,275 | 6.2 | 6.3 | 57,275 | 124,370 | 123,500 | 20.75 |

Source: CBRE Research, H1 2024.

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 2024 Net Absorption (SF) | Trailing 12 Absorption (SF) | Under Construction (SF) | Avg. Asking Lease Rate (\$/SF/NNN) |
|------------------------------|----------------------|--------------------|-------------------|-----------------------------|-----------------------------|-------------------------|------------------------------------|
| Pensacola | 16,478,917 | 1.8 | 1.8 | 245,428 | 367,178 | - | 7.89 |
| Escambia County | 15,090,971 | 1.2 | 1.2 | 210,428 | 331,831 | - | 8.10 |
| Santa Rosa County | 1,387,946 | 8.3 | 8.3 | 35,000 | 35,347 | - | 6.95 |
| Destin/Fort Walton/Okaloosa | 4,947,877 | 4.0 | 4.4 | (75,950) | (70,700) | 352,930 | 12.72 |
| Destin | 180,933 | 5.6 | 5.6 | (3,000) | 24,800 | - | 14.18 |
| Fort Walton Beach | 2,497,835 | 5.0 | 5.0 | (16,700) | (12,500) | - | 8.37 |
| S Walton/Miramar Beach | 508,076 | - | - | 8,750 | 2,600 | 25,430 | 14.20 |
| Niceville/Freeport/Crestview | 1,118,747 | 5.8 | 5.8 | (65,000) | (63,000) | 327,500 | 12.00 |
| Panama City | 6,767,052 | 0.7 | 0.7 | 78,589 | 97,745 | - | 11.08 |
| Panama City Beach | 804,290 | 1.9 | 1.9 | (6,000) | 10,500 | - | 10.64 |
| Panama City | 5,182,528 | 0.6 | 0.6 | 84,589 | 87,245 | - | 11.15 |
| Tallahassee | 12,540,044 | 3.8 | 4.2 | (307,508) | 469,950 | - | 9.33 |
| Total Panhandle | 40,733,890 | 2.5 | 2.7 | (59,441) | 864,173 | 352,930 | 8.84 |

Figure 9: Retail Market Statistics

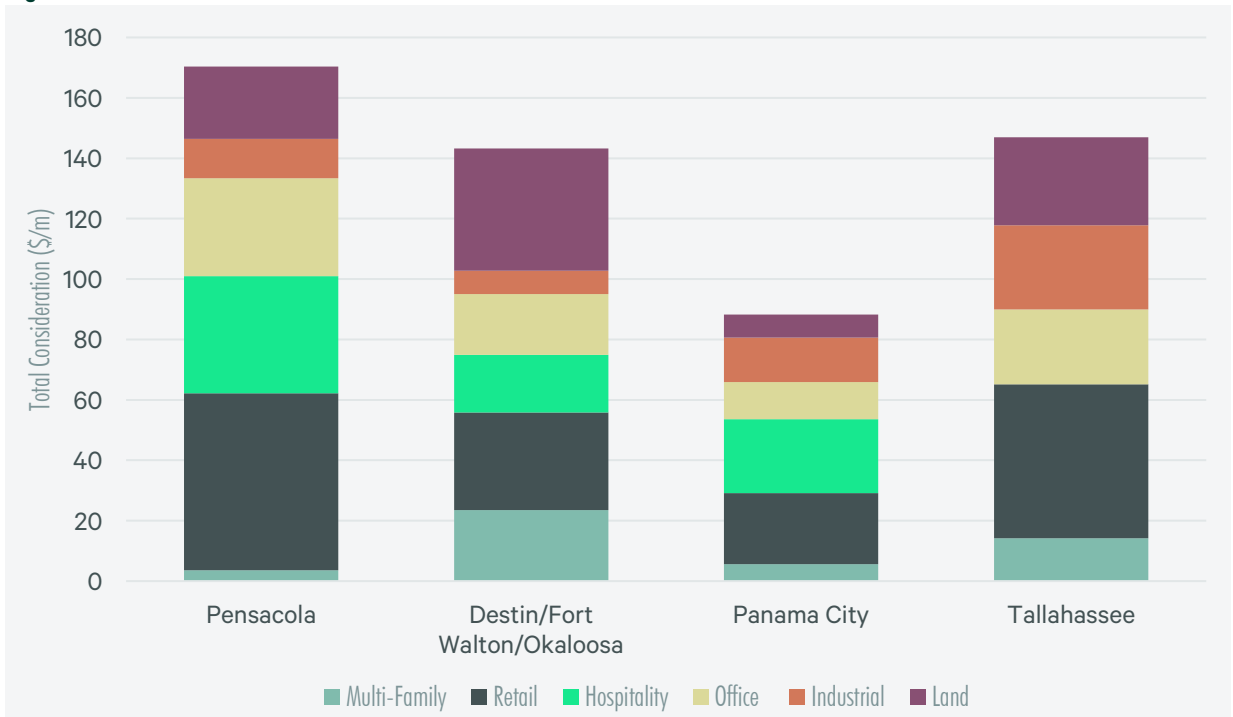
| Market | Total Inventory (SF) | Direct Vacancy (%) | Total Vacancy (%) | H1 2024 Net Absorption (SF) | Trailing 12 Absorption (SF) | Under Construction (SF) | Avg. Asking Lease Rate (\$/SF/NNN) |
|------------------------------|----------------------|--------------------|-------------------|-----------------------------|-----------------------------|-------------------------|------------------------------------|
| Pensacola | 30,276,699 | 2.8 | 2.9 | (85,190) | 176,238 | 69,848 | 15.72 |
| Destin/Fort Walton/Okaloosa | 19,811,793 | 1.5 | 1.5 | 135,724 | 311,633 | 122,671 | 19.12 |
| Destin | 4,890,441 | 2.1 | 2.1 | 1,675 | 8,361 | 68,644 | 25.96 |
| Fort Walton Beach | 7,323,166 | 1.4 | 1.5 | 113,713 | 115,552 | - | 14.25 |
| S Walton/Miramar Beach | 3,093,107 | 1.5 | 1.6 | 41,197 | 61,035 | 32,999 | 24.18 |
| Niceville/Freeport/Crestview | 3,480,957 | 0.7 | 0.7 | 20,680 | 108,365 | 21,028 | 18.20 |
| Panama City | 16,648,327 | 0.6 | 0.6 | 38,896 | 59,990 | 72,914 | 14.52 |
| Panama City Beach | 5,063,507 | 1.1 | 1.1 | (10,923) | (12,493) | - | 19.72 |
| Panama City | 10,261,269 | 0.4 | 0.4 | 49,819 | 71,688 | 72,914 | 13.57 |
| Tallahassee | 23,620,666 | 2.8 | 2.9 | 3,780 | (31,011) | 15,000 | 15.93 |
| Total Panhandle | 90,357,485 | 2.1 | 2.1 | 93,210 | 516,850 | 280,433 | 16.16 |

Source: CBRE Research, H1 2024.

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

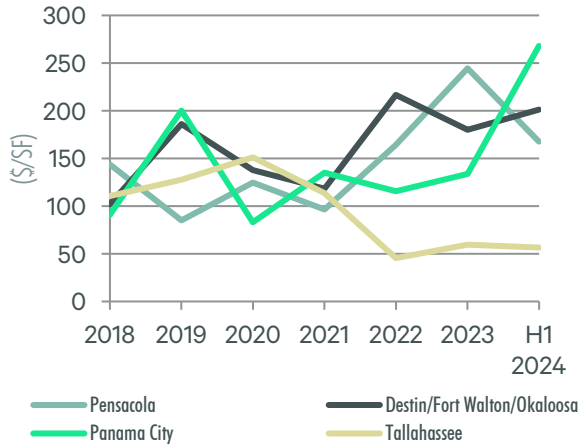
Capital Investment Overview

Figure 10: Sales Volume Totals H1 2024



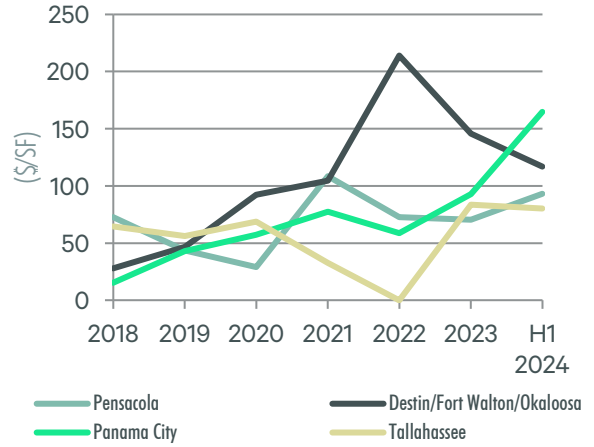
Source: CBRE Research, H1 2024.

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



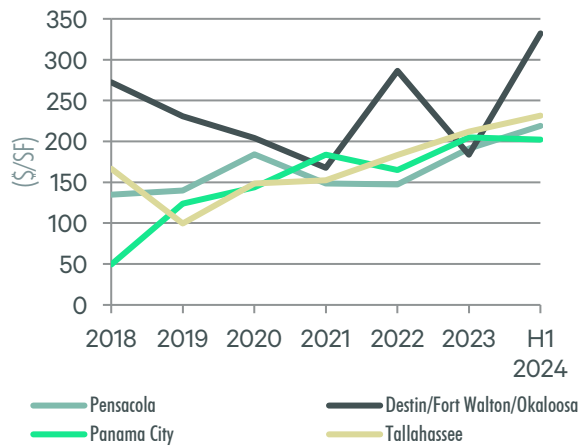
Source: CBRE Research, H1 2024.

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



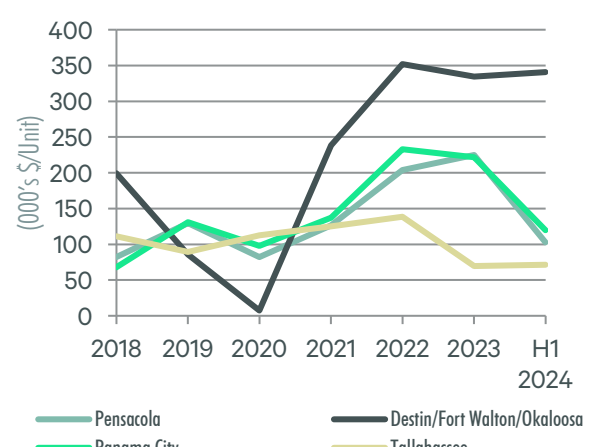
Source: CBRE Research, H1 2024.

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



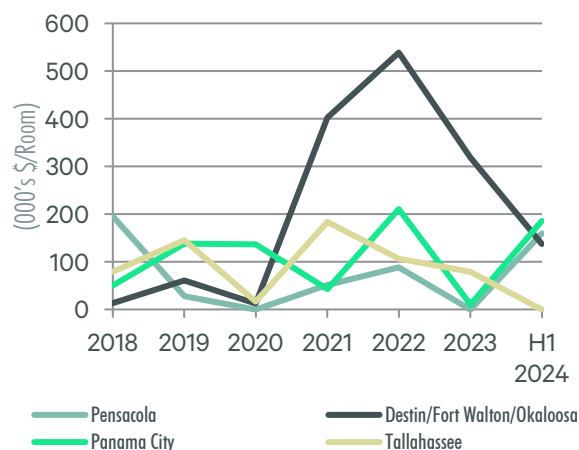
Source: CBRE Research, H1 2024.

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



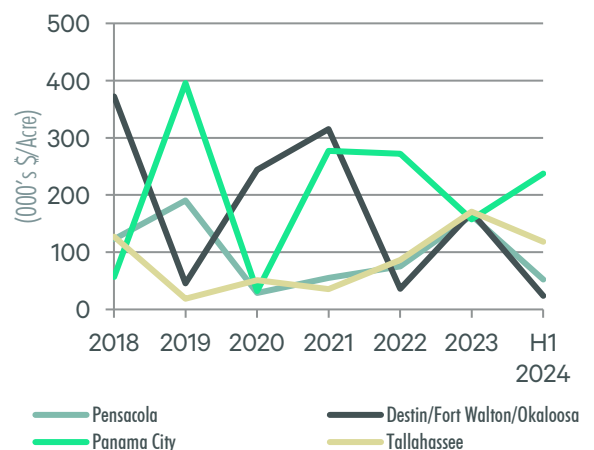
Source: CBRE Research, H1 2024.

Figure 15: Hospitality Avg. Sale Price Per Room



Source: CBRE Research, H1 2024.

Figure 16: Land Avg. Sale Price Per Acre



Source: CBRE Research, H1 2024.

Figure 2: Pensacola Top 5 Jobs by Sector & Employers

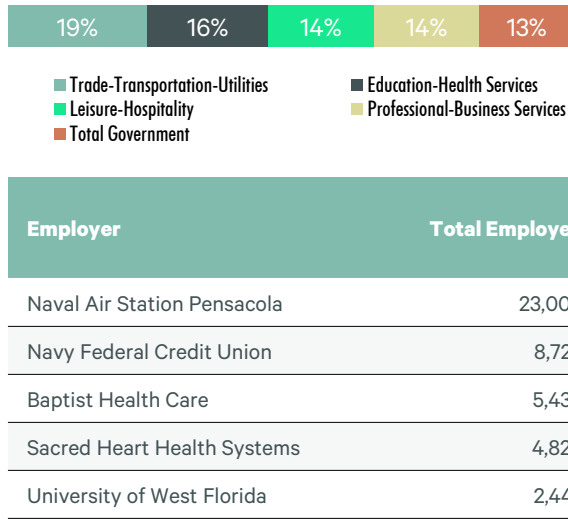
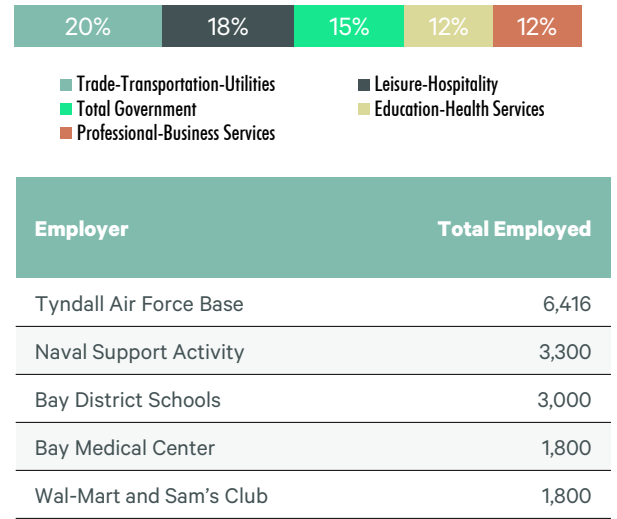


Figure 3: Panama City Top 5 Jobs by Sector & Employers



Source: U.S. Department of Labor, Bureau of Labor Statistics, August 2024 & Florida West Economic Development Alliance.

Figure 4: Destin Top 5 Jobs by Sector & Employers

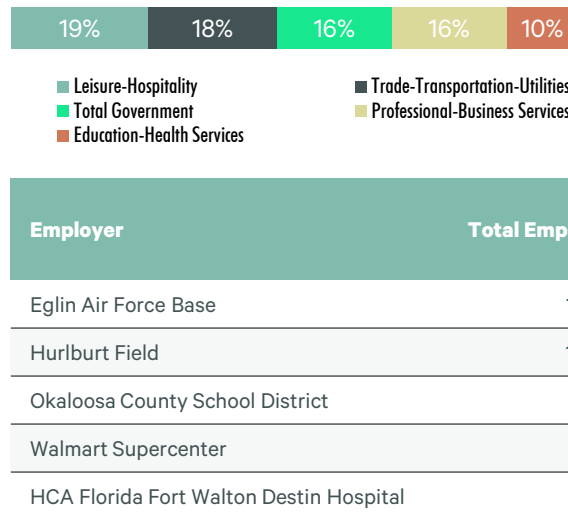
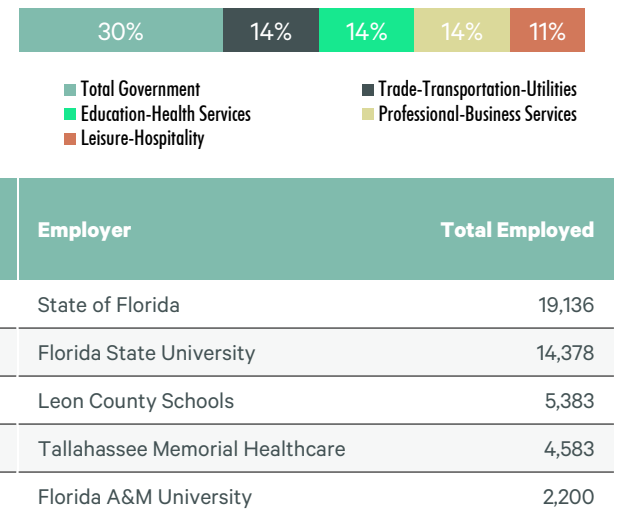


Figure 5: Tallahassee Top 5 Jobs by Sector & Employers



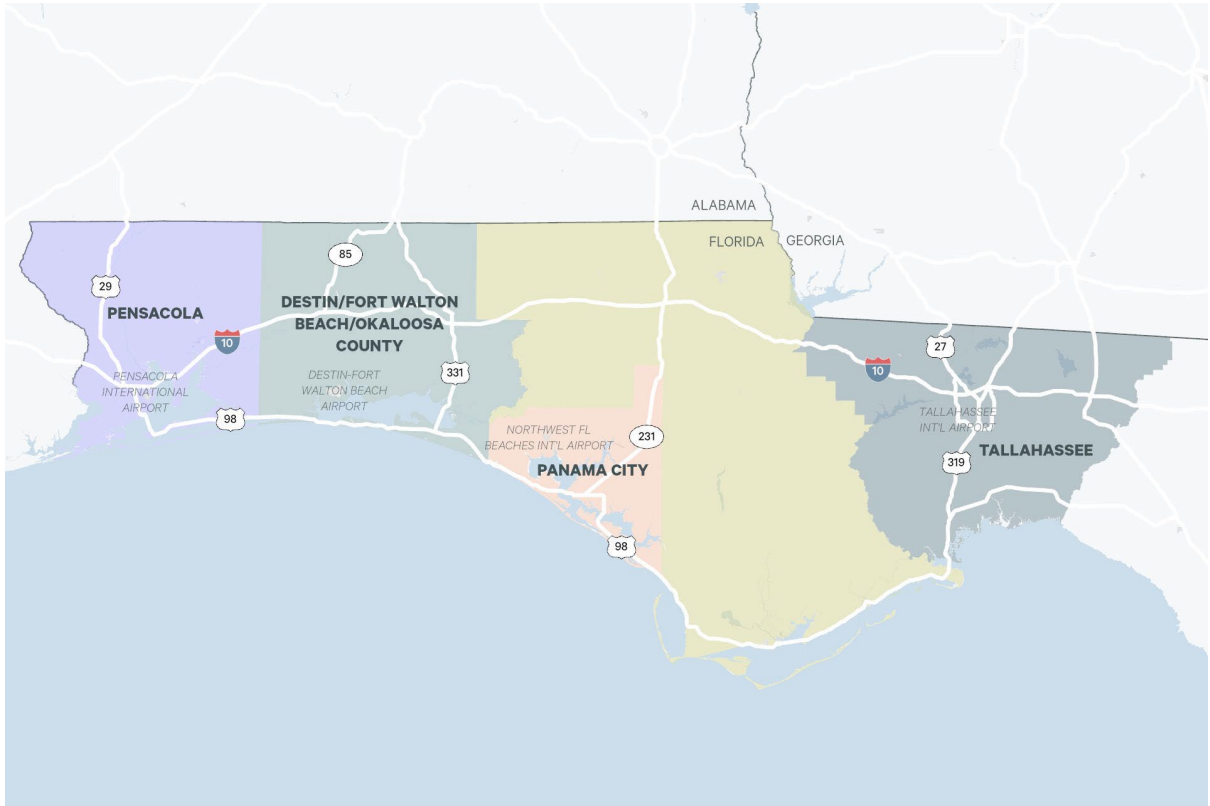
Source: U.S. Department of Labor, Bureau of Labor Statistics, August 2024, One Okaloosa EDC & Florida West Economic Development Alliance.

Figure 6: Demographic Stats

| Market | Unemployment Rate | Daytime Employment | Avg. Household Income (\$) | Median Home Value (\$) | Population |
|-----------------------------|-------------------|--------------------|----------------------------|------------------------|------------|
| Pensacola | 3.7% | 241,596 | 98,723 | 330,875 | 534,840 |
| Destin/Fort Walton/Okaloosa | 3.2% | 175,237 | 111,621 | 395,803 | 311,268 |
| Panama City | 3.3% | 104,374 | 95,557 | 331,364 | 211,899 |
| Tallahassee | 3.9% | 206,620 | 94,388 | 310,413 | 394,816 |

Source: U.S. Department of Labor, Bureau of Labor Statistics & U.S. Census Bureau, August 2024.

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.

Contacts

Tommie Reilly

Managing Director

+1 904 630 6352

Tommie.reilly@cbre.com

Tom Watson

Senior Vice President

+1 850 527 3524

Thomas.watson@cbre.com

Elizabeth Forsythe

Senior Associate

+1 850 585 5290

Elizabeth.forsythe@cbre.com

Sam Herrera

Associate

+1 714 227 3829

Sam.herrera@cbre.com

Steve Harriss

Senior Field Research Analyst

+1 469 426 6529

Steve.harriss@cbre.com

Contact CBRE Northwest Florida

600 Grand Blvd

Suite 207

Miramar Beach, FL 32550

T: 1 850 527 3524