The Palm Beach market posts strong first quarter; rents increase

▼ 3.4% Total Vacancy

▲ 243,312 SF Net Absorption

▲ 489,748 SF Construction

▲ 200,000 SF Delivered

▲ $11.20 NNN / Lease Rate

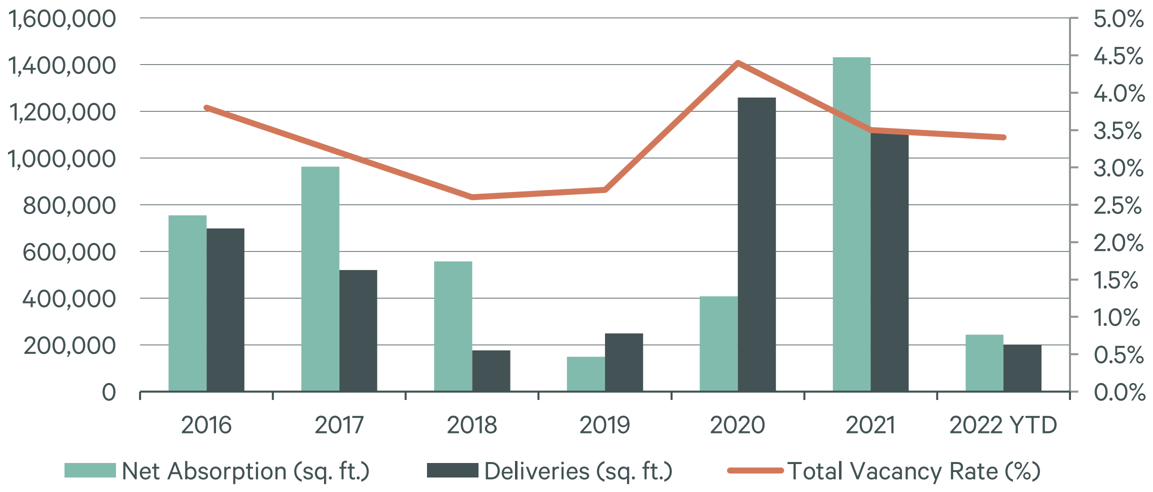
Note: Arrows indicate change from previous quarter.

Overview

- The market tallied 240,000 sq. ft. of positive net absorption, the result of many factors, including lease occupations from previous quarter signings, as well as some owner/user sales that prompted occupation.
- Vacant inventory levels fell 60 basis points from the previous year to 3.4%. The market's vacancy rate has stayed under 5.0% for nine consecutive years.
- The first quarter of 2022, saw asking rents increase by almost 10% year-over-year, the highest the market has seen in a decade.

The Palm Beach industrial sector opened the year with robust leasing and sales activity, achieving new records for current spec development and future projects in the pipeline. Recently, Woodmont Industrial Partners, paid $40 million for 116.6 acres at Palm Beach Park of Commerce along Bee Line Highway west of Jupiter, with plans for eight Class A buildings in the upcoming years. Currently, there is 489,000 sq. ft. of speculative product being built in the West Palm Beach submarket. The economic recovery and the accelerated buildout of e-commerce and 3PL last-mile facilities, fulfillment centers, and bulk warehouses will continue to reinforce demand for the Palm Beach market in the upcoming quarters.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

DEMAND

Leasing velocity remained healthy in the first quarter of 2022, with approximately 270,000 sq. ft. leased across 47 transactions. Most of these deals were for smaller spaces, as 90% of the transactions recorded were less than 20,000 sq. ft (the market's bread and butter demand). Some of the most notable transactions this quarter include Ocwen Financial Corporation (51,900 sq. ft.), Factory Direct Supply (30,500 sq. ft.), The Ware Group (24,000 sq. ft.), and Rolo Transport (21,000 sq. ft.).

Investment demand and user sale activity on Palm Beach continued to remain very active and doubled in volume since last year to $84 million. The average sale price was $160 per sq. ft., a 10% increase from the previous quarter. With most demand drivers pointing towards continued growth, investment capital is expected to continue coming into the Palm Beach market.

VACANCY

The market continued to tighten but more breath ing room is expected in 2022. There is almost 500,000 sq. ft. of speculative construction coming online with minimal pre-leasing next quarter. Higher-end leasing still proves to be the most active as companies continue to chase Class-A product and new construction options across all submarkets.

PRICING

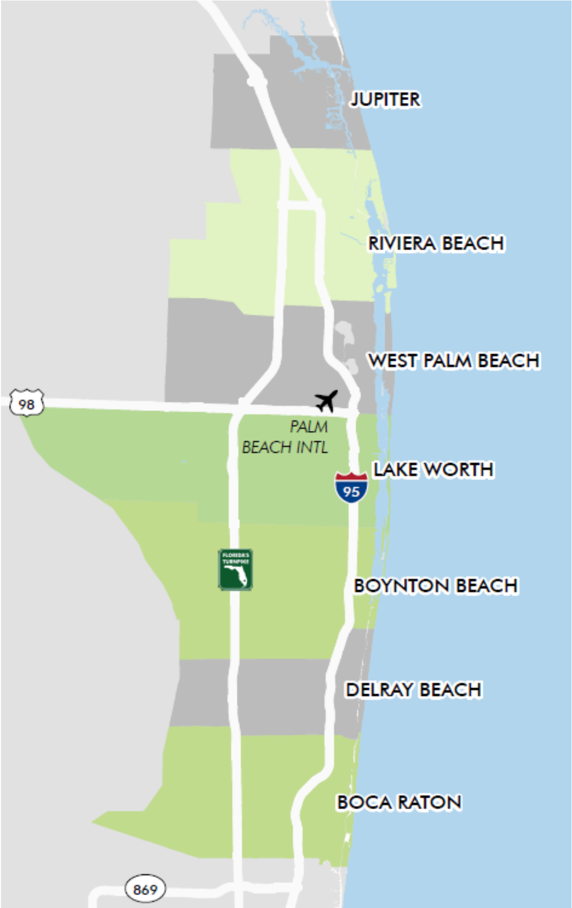
Almost all submarkets saw an increase in rents. The overall asking rent increased 10% year-over-year, finishing at $11.20 sq. ft., with Class A buildings experiencing the strongest growth. While no one is worried that industrial demand will diminish in 2022, if project timelines stay reasonable, landlords will remain strongly favored in the upcoming years.

FIGURE 2: Statistical Snapshot Q1 2022

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q1 2022 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/NNN)
Boca Raton	7,377,917	2.1%	2.5%	36,909	36,909	0	$14.52
Boynton Beach	4,644,388	6.4%	6.4%	107,787	107,787	0	$8.67
Delray Beach	2,907,748	1.0%	1.4%	(9,892)	(9,892)	0	$15.13
Jupiter	1,682,839	0.7%	0.7%	3,036	3,036	0	$14.00
Lake Worth	4,067,377	0.8%	0.8%	29,270	29,270	0	$12.30
Riviera Beach	11,966,147	3.0%	3.0%	(68,846)	(68,846)	0	$10.03
West Palm Beach	13,685,615	5.1%	5.1%	145,048	145,048	489,748	$12.12
Outlying PBC	3,683,682	6.2%	6.2%	0	0	0	$7.88
Total Palm Beach	49,995,713	3.4%	3.7%	243,312	243,312	489,748	$11.20
Manufacturing	4,956,545	0.9%	0.9%	37,452	37,452	0	$16.45
R&D/Flex	9,677,123	1.7%	2.0%	(3,716)	(3,716)	0	$13.34
Warehouse/Distribution	35,294,354	4.5%	4.6%	209,576	209,576	489,748	$9.78

Source: CBRE.com

Market Area Overview



Economic Outlook

Sentiment has taken a turn for the worse during the first quarter with Russia's invasion of Ukraine magnifying existing economic concerns. Specifically, the exclusion of Russian oil & gas from global markets is pushing up gasoline prices for U.S. consumers already rattled by inflation. American consumers are more sensitive to energy prices shifts than those in other OECD countries. Energy prices will likely remain heightened throughout this year, which will increase our inflation forecast to over 6% for 2022.

The prospects of weaker global growth—especially in Germany and China—and rising interest rates are causing some alarm. Bond markets are pricing in rate hikes through 2023 with a terminal Fed Funds Rate of 3% to 3.5%. On the upside, consumer demand should remain heightened this year driven by excess savings, especially among more affluent households, and a very strong labor market. This should translate into another year of above-trend annual growth, at 2.4%. It is possible that these tailwinds will fade quicker than the downside risks and weaker economic growth should be expected next year. The beginnings of an inverted yield curve are hinting at a recession in 2023. This is not our base case, and there is plenty of momentum left in the U.S. economy, but medium-term risks are rising, with an increasingly hawkish Fed. being the main cause for concern.

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