

FIGURES | PALM BEACH INDUSTRIAL | Q4 2021

Palm Beach’s tight industrial market looks to 2022 for more opportunity



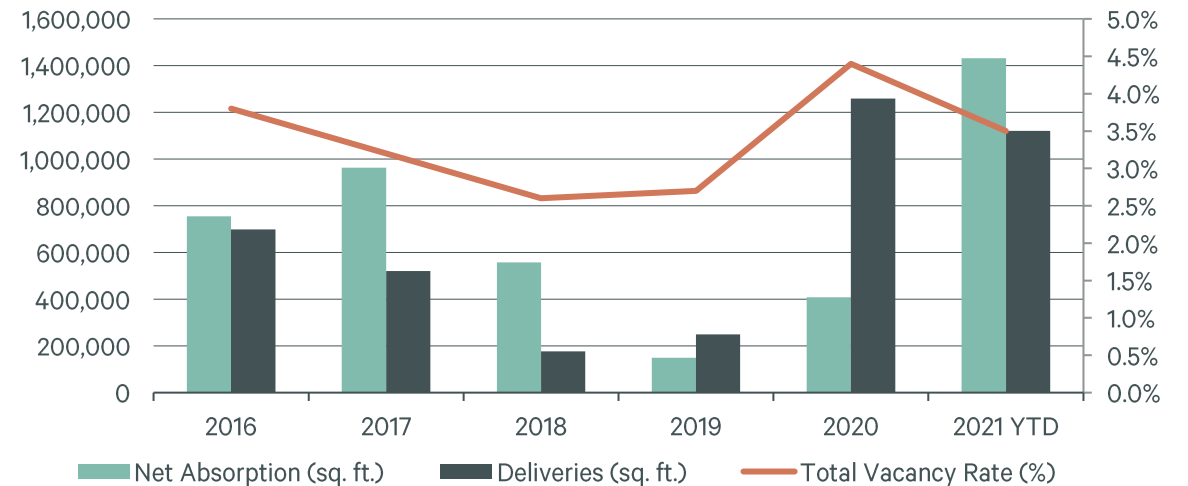
Note: Arrows indicate change from previous quarter.

Overview

- Driven by a large built-to-suit from an E-commerce tenant, the Palm Beach market recorded a total 1.4 million sq. ft. of positive net absorption for 2021. This is the largest annual total since 2015.
- Vacant inventory levels fell 30 basis points from the previous year to finish 2021 at 3.5%.
- Strong growth of rental rates continued due to the reduced levels of available space. Average asking rents were up 5.4% annually, finishing at \$11.11 per sq. ft.

The Palm Beach market concluded 2021 on a wave of positive momentum, with vacancy levels dropping 30 basis points year-over-year to 3.5% during the last three months of the year. Demand for industrial space has shown no signs of slowing down. Fueled by pandemic-driven E-commerce activity, developers have brought new spaces to the market, which are necessary to accommodate the growing presence of logistics users in the West Palm Beach submarket. Currently, there is 522,008 sq. ft. of speculative product being built; however, rising land costs and fewer places to construct may restrict development in the short to medium term. Industrial development will most likely have to move north of Palm Beach, in areas such as Martin and Saint Lucie counties.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

DEMAND

Leasing velocity remained healthy in the fourth quarter of 2021, with approximately 351,000 sq. ft. leased across 65 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 Bruker Nano (30,000 sq. ft.), Superior Designer Services (36,044 sq. ft.), and Factory Direct Supply (30,000 sq. ft).

Investment demand and user sale activity on Palm Beach continued to remain very active this quarter, with over \$180 million in transaction volume. The average sale price was \$150 per sq. ft., a 5.0% increase from the third quarter of 2021. 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 breathing room is expected in the upcoming quarters. There is 500,000 sq. ft. of speculative construction coming online in the next six months. Higher-end leasing still proves to be the most active as companies continue to chase Class-A product and new construction options in the West Palm Beach submarket. Currently, only two existing buildings and two buildings under construction can accommodate a user greater than 100,000 sq. ft.

PRICING

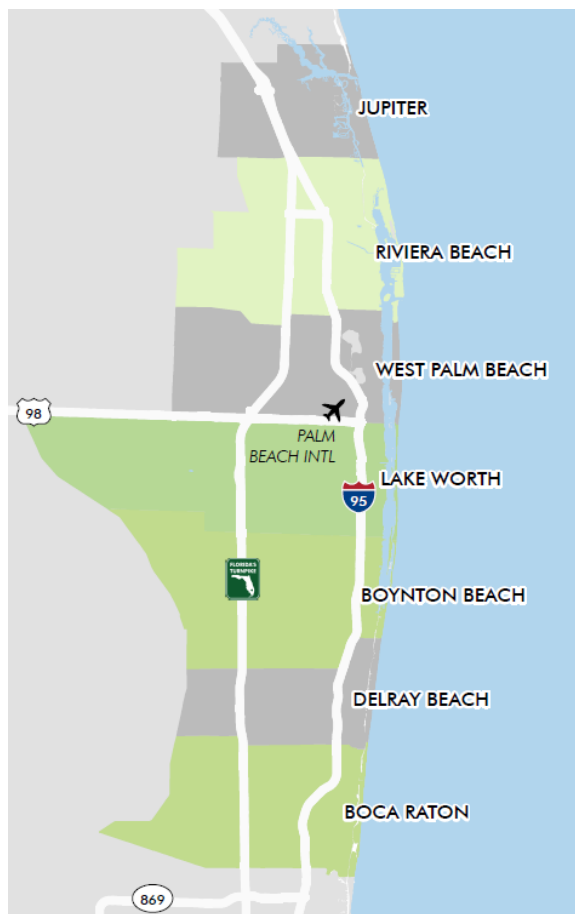
Strong growth of rental rates continued due to the reduced levels of available space. Average asking rents were up 5.4% annually, finishing at \$11.11 sq. ft, with warehouse and distribution buildings experiencing the strongest growth.

FIGURE 2: Statistical Snapshot Q4 2021

Submarket	Total Inventory (Sq. Ft.)	Total Vacancy (%)	Total Availability (%)	Q4 2021 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/SF /NNN)
Boca Raton	7,377,917	3.0%	5.7%	(83,415)	(52,953)	0	\$14.84
Boynton Beach	4,644,388	5.8%	9.4%	2,680	(10,856)	0	\$8.36
Delray Beach	2,907,748	1.0%	2.4%	5,033	15,207	0	\$15.49
Jupiter	1,862,839	0.8%	1.9%	(291)	(2,575)	0	\$13.78
Lake Worth	4,233,769	1.5%	3.3%	(3,729)	6,321	0	\$9.97
Riviera Beach	11,966,147	2.4%	4.2%	112,811	89,535	0	\$9.76
West Palm Beach	13,519,223	6.3%	8.6%	(19,465)	313,969	322,008	\$10.89
Outlying PBC	3,483,682	0.8%	1.0%	0	1,073,274	200,000	\$10.37
Total Palm Beach	49,995,713	3.5%	9.5%	13,624	1,431,922	522,008	\$11.11
Manufacturing	4,956,545	1.7%	1.8%	0	-35,092	0	\$16.45
R&D/Flex	9,677,123	1.9%	4.3%	(28,939)	18,725	0	\$13.40
Warehouse/Distribution	35,294,354	4.2%	6.5%	42,563	1,442,526	522,008	\$9.91

Source: CBRE.com

Market Area Overview



Economic Outlook

Continued job growth is expected to push the unemployment rate down to pre-COVID lows in 2022 amid historically low labor force participation. Inflation should ease to the mid-2% range by year-end as supply chain disruptions ease and production capacity improves.

The U.S. economy continues to expand amid the pandemic, with sturdy income growth supporting consumer spending. Business investment should remain elevated to satisfy demand and alleviate supply shortages, supporting GDP growth in the mid-4% range for 2022.

In response to higher-than-expected inflation, the Federal Reserve is expected to end its quantitative easing program ahead of schedule in Q2 and raise the federal funds rate several times over the course of the year. As the Fed raises short-term rates, 10-year Treasury bond yields could hit the mid-2% range by year-end. Nevertheless, due to countervailing forces—particularly slower labor-force growth—financial markets do not anticipate a significant uptick in long-duration yields.

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