

FIGURES | PALM BEACH INDUSTRIAL | Q4 2022

The Palm Beach market remains robust in late 2022

▼ 2.6%
Direct Vacancy

▼ -97,290
SF Net Absorption

▲ 2,408,248
SF Construction

▲ 534,196
SF Delivered

▲ \$15.10
NNN / Lease Rate

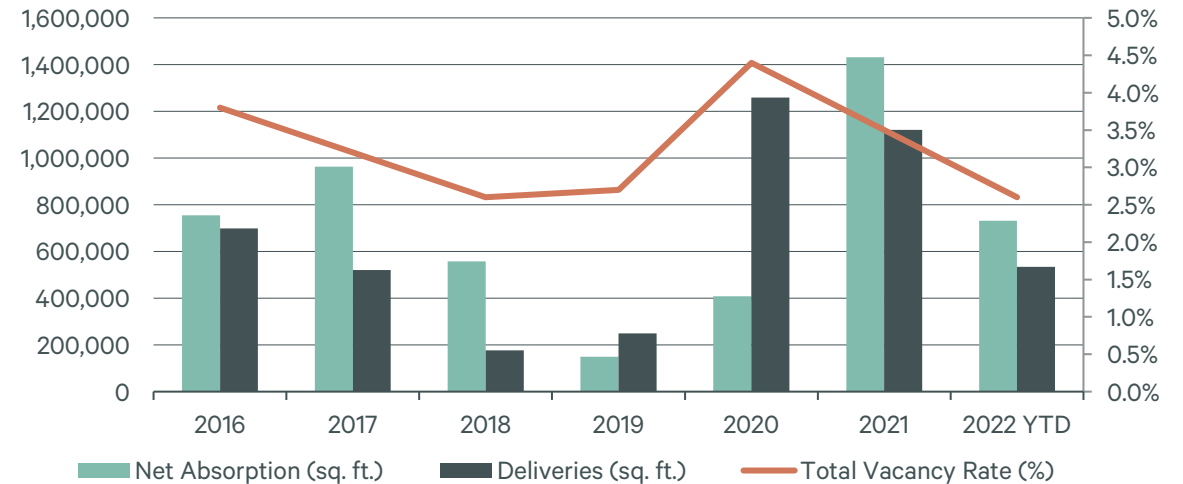
Note: Arrows indicate change from previous quarter.

Overview

- Dwindling availabilities and persistent demand continue to push asking rents higher, materializing in a 13% year-over-year average asking growth rate to \$14.15 per sq. ft.
- Construction activity increased across many submarkets as more than 1.9 million sq. ft broke ground this quarter. Currently, there is 2.4 million sq. ft. under construction – a record construction number for the market.
- Levels of vacant space remain very low, compressing by 180 basis points since the height of the pandemic. Consistency in vacancy numbers can be attributed to the continued shortage of general industrial and warehouse space market-wide.

The Palm Beach industrial market strengthens itself for another consecutive quarter. Warehouse vacancy has decreased by 20 basis points this quarter and 90 basis points year-over-year to 2.6%. While net absorption for the quarter has fallen from the previous quarter, the deceleration is more a result of limited availability and delayed deliveries of new space than of slowing demand.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

DEMAND

Evidenced by the 730,000 sq. ft. of positive net absorption year to date, demand held steady in the Palm Beach market. There were over 255 leases signed during the past 12-months, 42 of which occurred in Q4 2022. Total leasing activity for the year ended at 2.3 million sq. ft., driven by the market’s bread and butter demand (5k to 10k tenants). Notable leases this quarter include Importmex Distributors, (23,000 sq. ft.), EZ- Weld Group (12,000 sq. ft.), and Sunbelt Rentals (10,000 sq. ft.).

Moreover, MG3 Reit, dropped \$78 million for the Walgreens Distribution Center. The property at 15998 Walgreens Drive is west of Jupiter, near Bee Line Highway and Pratt Whitney Road. In the sale-leaseback, Walgreens sold the real estate but will continue to fully occupy the 683,000-square-foot property

VACANCY & PRICING

Vacancy has fallen to 2.6% - well below the 10-year average of 3.5%. The drop in vacancy is due to limited construction deliveries in 2022, as only 500,000 sq. ft. was added this year compared to the historic annual average of 700,000 sq. ft. Fortunately, the market is flush with opportunities to build. Available properties that are under construction range in size from 20,000 sq. ft. to 100,000 sq. ft., which will provide options for a variety of users.

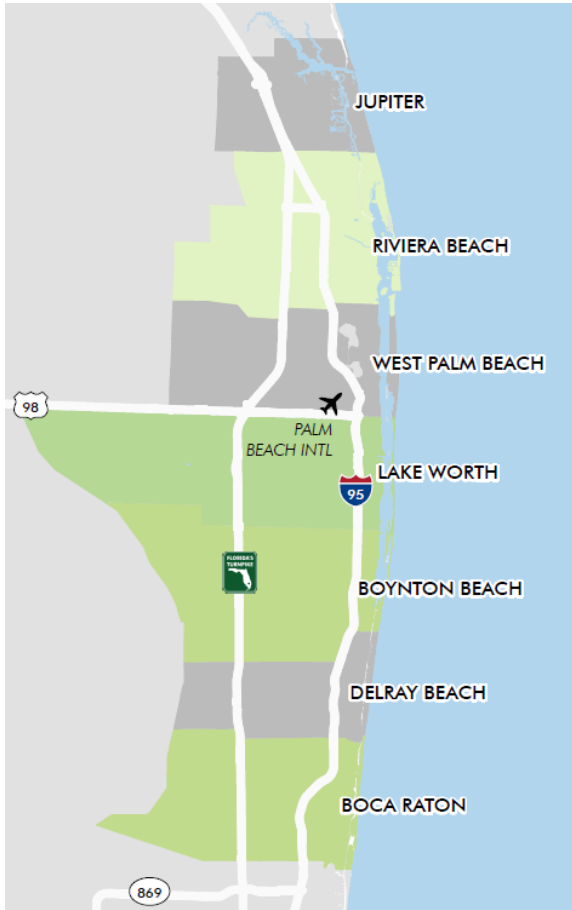
Palm Beach rental takes continued to increase as supply remains tight. The market saw an uptick of 13% year-over-year to \$15.10 per sq. ft. In addition, a lack of suitable and affordable space has led to more renewals in recent quarters. Landlords are expecting the growing population and strong labor force on the northern part of the market to spur demand by manufacturing and logistics companies.

FIGURE 2: Statistical Snapshot Q4 2022

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	3.4%	5.59 %	(83,415)	(52,953)	119,117	\$15.84
Boynton Beach	4,644,388	3.2%	8.43 %	2,680	(10,856)	0	\$10.36
Delray Beach	2,907,748	2.0%	3.31 %	5,033	15,207	0	\$15.50
Jupiter	1,862,839	1.8%	2.23 %	(291)	(2,575)	0	\$14.78
Lake Worth	4,233,769	1.2%	2.62 %	(3,729)	6,321	206,000	\$11.35
Riviera Beach	11,966,147	0.6%	0.75 %	112,811	89,535	805,536	\$10.15
West Palm Beach	13,519,223	3.3%	4.37 %	(19,465)	313,969	548,168	\$14.32
Outlying PBC	3,483,682	3.8%	7.37 %	0	1,073,274	729,427	\$12.30
Total Palm Beach	50,136,766	2.6%	4.8%	-97,290	731,924	2,408,248	\$15.10
Manufacturing	4,956,545	1.7%	1.8%	0	-142,765	0	\$16.40
R&D/Flex	9,677,123	1.9%	4.3%	14,500	27,402	0	\$13.23
Warehouse/Distribution	35,294,354	4.2%	4.9%	-50,283	847,287	522,008	\$14.15

Source: CBRE.com

Market Area Overview



Economic Outlook

The problems associated with inflation continue to run their course. Although the pace of inflation may have started to plateau, the Federal Reserve’s hawkish response has been unequivocal in a way that caught markets by surprise. Aggressive rate hikes and Fed balance sheet reductions have successfully resulted in a strong dollar and higher mortgage rates, and the beginning of a slowdown in the U.S. economy.

Higher rates are not just impeding household decisions; a higher corporate cost of capital is forcing firms to rethink hiring plans. So far resilient consumers have driven further economic growth but now the realities of lower savings rates and chronically poor sentiment suggest excess spending is coming to an end. Consequently, we expect the economy to contract early next year, and unemployment to rise. This should push inflation down toward 3% by year-end 2023. It is possible the Fed may be able to reduce inflation and maintain the unemployment rate below 5%, but we should not bank on that. Once inflation is tamed, both capital and real estate markets will become more predictable again.

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