Market fundamentals remain strong in the Palm Beach market

▼ 2.7% Vacancy rate

▼ 4.8% Availability Rate

▲ 326,614 SF Net Absorption

▲ 972,153 SF Construction

▲ 0 SF Delivered

▲ $12.05 Industrial Gross / Lease Rate

Note: Arrows indicate change from previous quarter.

Overview

– The fundamentals of Palm Beach's industrial market are strong, positioning it well to weather any potential upcoming economic headwinds.

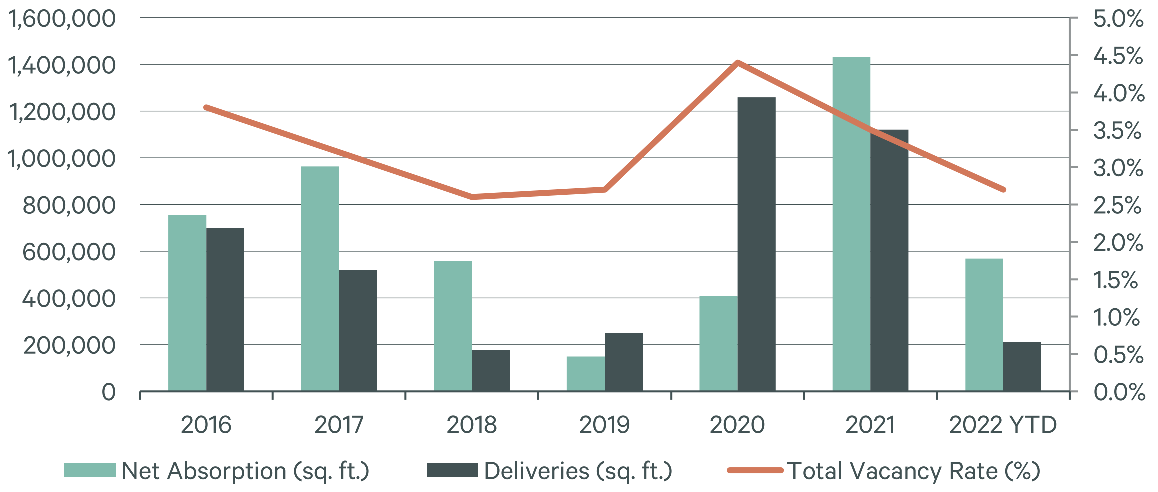
– Market activity continues to be limited in geography to the West Palm Beach submarket. With 90% of the market's development pipeline in this area, future leasing activity will be driven by new deliveries as it has in previous quarters.

– Speculative development continues to push ahead, and nearly 500,000 sq. ft. of groundbreakings occurred in 2022. Nearly 1.0 million sq. ft. of deliveries are anticipated in the second half of this year with spaces ranging from 5,000 to 150,000 sq. ft. These developments will provide users with high quality-large scale options in a supply constrained environment.

– The vacancy rate continued to compress in Q2 2022 as no major-move-outs were recorded and no new inventory was added. The overall vacancy now nears an all time-low; 2.7%.

– For companies looking to lease industrial spaces, rents are expected to continue to rise. Currently, asking rents are up 13% year-over-year.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

DEMAND

The market continues to expand, making it the 14th quarter in a row which saw positive absorption, despite headwinds caused by increasing rental rates, cost of construction and interest rates. Most of the positive absorption can be attributed to large move-in such as Exacore Fabrication (164,000 sq. ft.) and Eastern Metal Supply (124,000 sq. ft). Both deals were signed last quarter but took occupancy during Q2 2022.

Total leasing activity ended the first half of 2022 at almost 1.0 million square feet, driven mostly by small to mid-size deals. By historic norms, this represents a healthy leasing volume for the market. Some notable deals this quarter include Floor & Décor (91,000 sq. ft.), 1-800-Pack-Rat (74,000 sq. ft.) and Depuy Synthes Sales (29,000 sq. ft.).

VACANCY

The overall vacancy rate fell to 2.7% this quarter, a 140-basis point decrease from the previous year. Tenants searching for bulk space above 100,000 sq. ft. saw their options dwindle to just 4 options, with only two spaces currently vacant and move-in ready. Slightly more availability remains in the 20,000 to 50,000 sq. ft.

PRICING

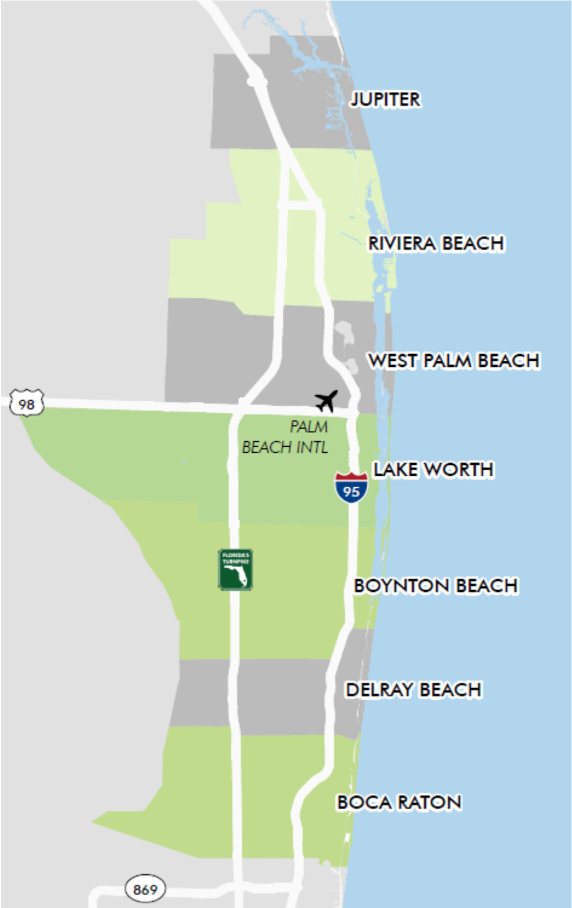
The overall asking rent continued to trend upwards. Double digit rent growth continues to be the norm, with the average asking rent up 13.0% in 2022 versus 2021. Warehouse/Distribution rents increased 4% quarter-over-quarter and 10% year-over-year. Additionally, with rising costs due to inflationary pressures, there are an increasing number of leases signed with 3.5% to 4.0% annual escalations, whereas historically, 2.0% to 3.0% was more typical.

FIGURE 2: Statistical Snapshot Q2 2022

Submarket	Total Inventory (Sq. Ft.)	Vacancy Rate (%)	Availability Rate (%)	Q2 2022 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/NNN)
Outlying PBC	3,695,870	2.0%	0.9%	164,806	164,806	0	$10.37
Boynton Beach	4,644,388	3.4%	7.3%	6,693	114,480	0	$8.66
Jupiter	1,682,839	0.7%	1.6%	0	3,036	0	$14.00
Riviera Beach	11,966,147	3.0%	4.6%	(5,055)	(73,901)	363,288	$10.54
West Palm Beach	13,685,615	3.8%	6.5%	189,983	335,031	489,748	$13.11
Boca Raton	7,377,917	2.5%	4.9%	703	37,612	119,117	$14.65
Delray Beach	2,907,748	2.4%	3.8%	(29,875)	(39,767)	0	$15.50
Lake Worth	4,067,377	0.8%	2.2%	(641)	28,629	0	$12.50
Total Palm Beach	50,027,901	2.5%	4.8%	326,614	569,926	972,153	$12.05
Manufacturing	4,956,545	1.0%	2.2%	(5,050)	32,402	0	$16.45
R&D/Flex	9,497,123	2.0%	4.5%	(3,716)	(30,379)	0	$13.34
Warehouse/Distribution	35,506,542	3.0%	5.0%	358,327	567,903	972,153	$11.07

Source: CBRE.com

Market Area Overview



Economic Outlook

Economic conditions have changed considerably from just a few months ago. Persistently high inflation that is increasingly being driven by higher food and energy prices, sparked by supply-demand imbalances and Russia's invasion of Ukraine, has greatly impacted conditions. The U.S. is particularly vulnerable to higher gasoline prices, which directly impact consumption. As of late June, gasoline is more than $5 a gallon, up 50 percent from the beginning of the year. Meanwhile, consumer sentiment has declined to levels reminiscent of periods of economic stress, suggesting consumers are very concerned despite a tight labor market and wage growth.

The Federal Reserve's attention is now centered on fighting inflation, evidenced by a 75-basis-point rate hike in June that rattled credit markets. We expect this will be followed by at least two 50-basis-point hikes through September. Our baseline view expects the Fed will be able to restrain inflation to roughly 7 percent by year-end 2022, but this will come at the cost of economic growth and a recession is expected in coming quarters. Already, rate hikes are filtering down to 'Main Street' via falling home sales and more cautious business expansion plans. The labor market will also soften, with the unemployment rate increasing to the mid-4-percent range. Once inflation is tamed, both capital and real estate markets should become more predictable again.

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