# Demand remains strong, fueled in part by the surge in e-commerce

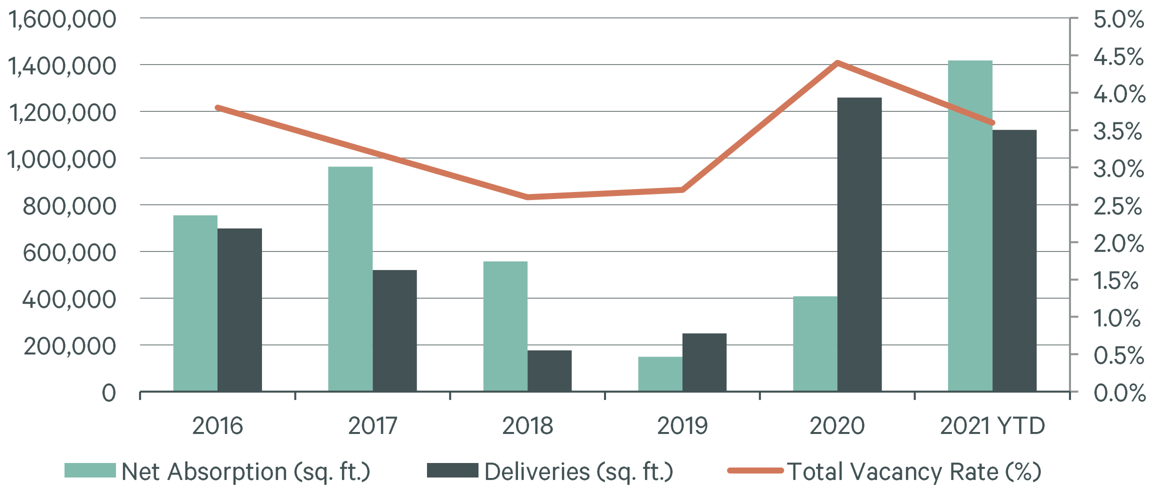
| ▼ 3.6% | ▼ 7.0% | ▲ 1,192,543 | ▼ 522,008 | ▲ 1,121,153 | ▲ $11.16 |
|---|---|---|---|---|---|
| Total Vacancy | Total Availability (Class A) | SF Net Absorption | SF Construction | SF Delivered | NNN / Lease Rate |

Note: Arrows indicate change from previous quarter.

## Overview

- Supported by the phenomenal growth of e-commerce, the Palm Beach market continued its growth in the third quarter after a steep decline in 2019. And although this quarter produced over 1.0 million s.f of positive absorption, it was almost exclusively due to Amazon's built-to-suit facility located in Jupiter.
- Most of the leasing activity remained concentrated in the West Palm Beach submarket, this comes as no surprise considering the glaring shortage in modern bulk product throughout the market.
- Total vacancy for Class A product sits at 10.3% and is expected to drop to 6.2% by year-end as almost all Class A product in the market has been spoken for. Turnpike Logistics Center, which recently traded for $190 p.s.f, is currently the only Class A product in the market with space available.
- The tenant mix engaging the market this quarter was more diverse, as the previous darling e-commerce, took a temporary back seat. Last mile-delivery, Wholesale Retail, Transportation, and Home Goods were some of the most active industries this quarter.

FIGURE 1: Historical Absorption, Deliveries and Vacancy




Source: CBRE.com

## Supply

Industrial developer McCraney recently broke ground on the second phase of Airport Logistics Park. It will have buildings of 117,426 and 127,106 s.f. McCraney will break ground on speculation without any pre-leases after fully leasing phase one in a relatively short amount of time to a diverse mix of tenants ranging from 15,000 to 63,000 s.f. In addition, Prologis existing buildings are now also 100% leased.

Under construction currently stands at 522,000 s.f, of which the majority is expected to deliver in the upcoming quarters. Despite the minimal pre-leasing in place, vacancy should continue to decline as new space delivers. Lease-up times for Class A product continues to be less than 12-months so any increases should be gradual and short lived.

It should also be noted that there is only 1.5 million s.f of proposed projects in the pipeline. Thus, market dynamics will most likely continue to move in favor of landlords even for the long-term due to the lack of available sites across the region.

## Demand

The market's bread and butter demand has kept net absorption positive since the previous cycle and this year has been no different. Healthy leasing activity from previous quarters will most likely translate to a record absorption figure by year-end. Lansing Building products (48,000 s.f), Nepa Wholesale (51,000 s.f), RMB-USA (29,000 s.f) and Amazon (120,000 s.f) are some of the many move-ins expected in the upcoming months.

The market's favorable economic factors, including robust population growth, above average median incomes and a positive outlook, indicates continued demand. Asking rates for warehouse and distribution facilities have increased more than 11.0% since 2016 and are expected to continue rising.

FIGURE 2: Statistical Snapshot Q3 2021

| Submarket | Total Inventory (SF) | Total Vacancy (%) | Total Availability (%) | Q3 2021 Net Absorption (SF) | YTD 2021 Net Absorption (SF) | Under Construction (SF) | Avg. Asking Lease Rate ($/NNN) |
|---|---|---|---|---|---|---|---|
| Boca Raton | 7,442,840 | 2.3% | 5.6% | 29,297 | 30,462 | 0 | $14.30 |
| Boynton Beach | 4,644,388 | 5.9% | 9.6% | 14,636 | -13,536 | 0 | $8.49 |
| Delray Beach | 2,907,748 | 1.2% | 2.9% | 7,069 | -10,174 | 0 | $15.82 |
| Jupiter | 1,862,839 | 0.8% | 1.7% | -150 | -2,284 | 0 | $14.56 |
| Lake Worth | 4,233,769 | 1.4% | 3.2% | -14,970 | 10,050 | 0 | $10.27 |
| Riviera Beach | 11,966,147 | 3.3% | 4.3% | -51,975 | -23,276 | 0 | $10.21 |
| West Palm Beach | 13,739,943 | 8.3% | 10.6% | 172,946 | 333,434 | 322,008 | $10.58 |
| Outlying PBC | 3,483,682 | 0.8% | 1.0% | 1,035,690 | 1,073,274 | 200,000 | $10.37 |
| Total Palm Beach | 50,060,636 | 3.6% | 5.6% | 1,192,543 | 1,418,298 | 522,008 | $11.16 |
| Manufacturing | 4,956,545 | 1.7% | 1.8% | 0 | -35,092 | 0 | $16.45 |
| R&D/Flex | 9,742,046 | 1.9% | 4.7% | 42,433 | 47,664 | 0 | $13.38 |
| Warehouse/Distribution | 35,611,833 | 4.4% | 6.4% | 1,150,110 | 1,399,963 | 522,008 | $10.01 |

Source: CBRE.com

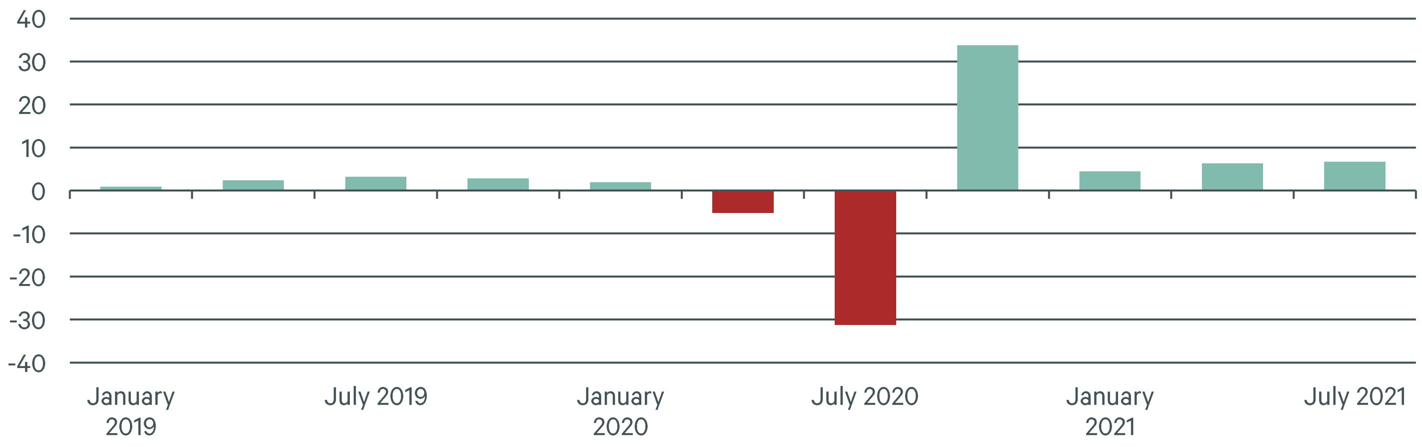
## Economic Outlook

Due to the rise of the Delta variant, CBRE pared back our GDP growth outlook for the year by an entire percentage point, to 6%, followed by nearly 4% year-on-year growth in 2022. The labor market has also been volatile, primarily due to a reversal in hiring within the Accommodation & Food Services sector, reflecting uncertainty in the space. But demand for labor remains high and most signals suggest the key problem firms face is finding workers. Thus, employment employing growth should remain above 3% through 2022. Longer-term hiring in the U.S. will be restrained by a shrinking labor force.

Shortages are not just limited to people. Key economic inputs ranging from raw materials to microchips pushed consumer prices up by 5% year-on-year. Some supply bottlenecks have proven transitory and annual price increases are stalling. Inflation should ultimately settle into the low-2% range next year. The Fed is responding to these labor market and price developments by announcing it might begin tapering its quantitative easing program as soon as this November.

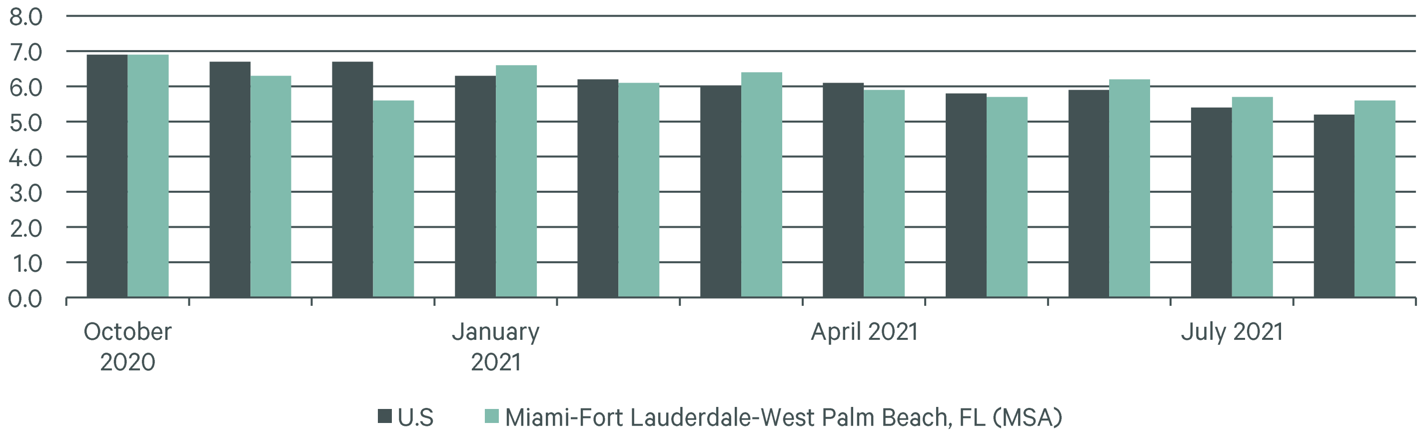
A plausible outlook is that waves of COVID-19 continue but the U.S. economy and health system learn to manage these disruptions. This will allow room for 5% GDP growth in 2022, as business investment and consumer activity normalize. Upside risks include the prospect of greater infrastructure spending, albeit the political dynamics are fluid. Also, the construction of more housing units to correct a historic shortage—estimated at 3.8 million units, per FreddieMac—would also be material tailwind for growth.

FIGURE 3: US GDP Growth Rate (%)



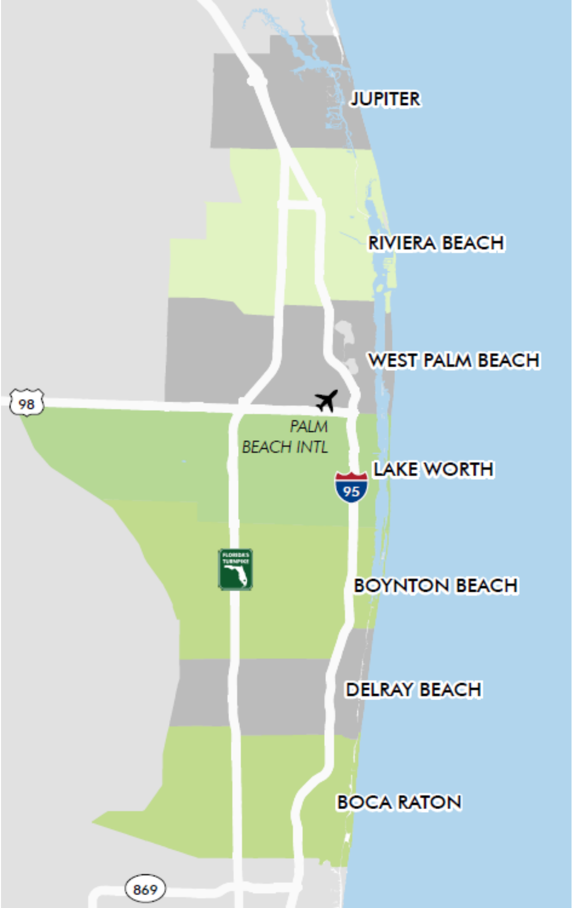

Source: U.S Bureau of Economic Analysis

FIGURE 4: Unemployment Rate (%)




Source: U.S Bureau of Economic Analysis

## Market Area Overview




## Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the "drip line" of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the "net" costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

## Survey Criteria

Includes all industrial buildings 10,000 sq. ft. and greater in size in Palm Beach County. Buildings which have begun construction as evidenced by site excavation or foundation work.

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