Market conditions remain tight

2.3%	4.9%	259,288	915,542	322,008	$14.10
Vacancy rate	Availability Rate	SF Net Absorption	SF Construction	SF Delivered	NNN/ Lease Rate

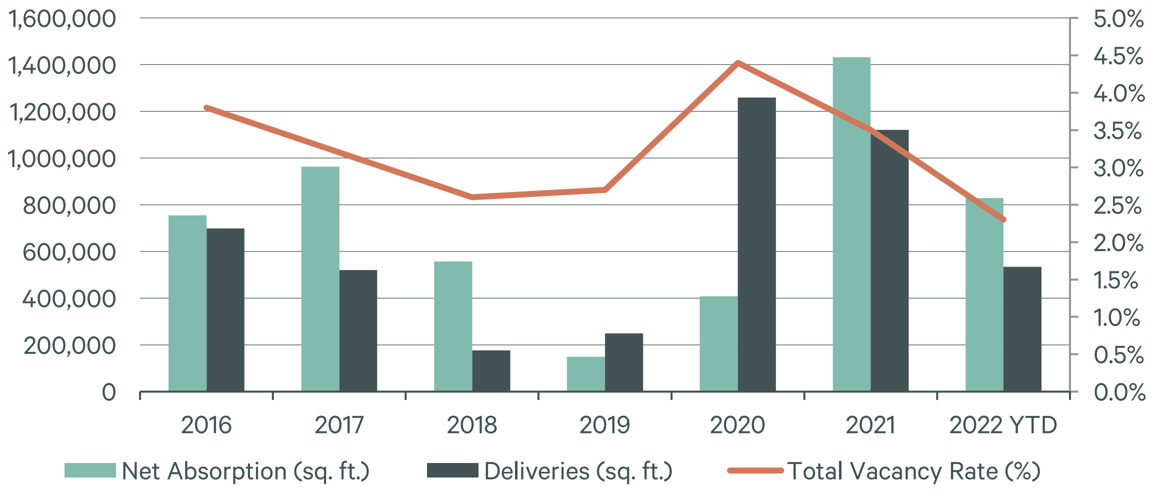
Note: Arrows indicate change from previous quarter.

Overview

- Dwindling availabilities and persistent demand continue to push asking rents higher, materializing in a 15% year-over-year average asking growth rate.
- Construction activity increased by 430,000 sq. ft this quarter, as Southern Way Business Center broke ground in the West Palm Beach submarket. Watertower Logistics Center and Palm Beach Logistics Center, are expected to break ground next quarter. These projects are 185,000 sq. ft. and 305,000 sq. ft., respectively.
- Levels of vacant space remain very low, compressing by 210 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 120 basis points year-over-year to 2.3%. While net absorption for the quarter has fallen from the previous quarter, down from 350,000 sq. ft. to 260,000 sq. ft., 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 830,000 sq. ft. of positive net absorption year to date, demand remains strong in the Palm Beach market. The second quarter produced nearly 260,000 sq. ft. of positive net absorption, with the West Palm Beach submarket accounting for 74% of the market's total. The largest tenant to take occupancy this quarter was Renco USA, a 50,000 sq. ft. tenant headquartered in the Palm Beach Park of Commerce project.

Throughout 2022, deal flow has been strong with most activity in the 10,000 sq. ft. to 15,000 sq. ft. range. Notable leases this quarter include Hill-Rom Company Inc, (75,000 sq. ft.), Kor Distribution (36,000 sq. ft.), and ROK Industries (36,000 sq. ft.). In addition, 163,000 sq. ft. has been pre-leased in Building 1 of Southern Way Business Center.

VACANCY

More than 900,000 sq. ft are scheduled to be delivered in the next six months of which the majority will be split between Riviera Beach and West Palm Beach submarket, setting up the possibility of increased vacancy in both regions. However, given the demand has yet to soften and the leasing activity within new construction has outperformed the market for several years, these upcoming opportunities may go as quickly as they came.

PRICING

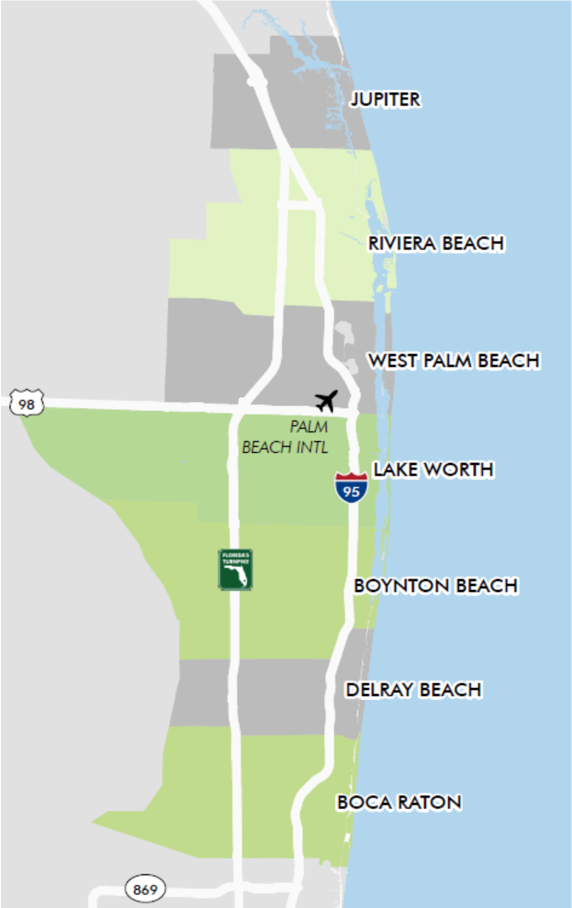
The overall asking rent continued to trend upwards. Double-digit rent growth continues to be the norm, with the average asking rent up 15.0% in 2022 versus 2021. Warehouse/Distribution rents increased 5.2% quarter-over-quarter and 13.0% year-over-year.

FIGURE 2: Statistical Snapshot Q3 2022

Submarket	Total Inventory (Sq. Ft.)	Vacancy Rate (%)	Availability Rate (%)	Q3 2022 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/NNN)
Outlying PBC	3,695,870	1.2%	1.3%	27,882	192,688	0	$10.61
Boynton Beach	4,431,245	3.2%	7.3%	12,290	126,770	0	$10.95
West Palm Beach	14,007,623	3.9%	7.3%	283,238	618,269	433,137	$14.90
Riviera Beach	11,966,147	3.0%	4.4%	(18,972)	(92,873)	363,288	$10.54
Delray Beach	2,907,748	2.3%	3.0%	(6,079)	(45,846)	0	$13.88
Boca Raton	7,377,917	2.7%	4.8%	(36,524)	1,088	119,117	$14.65
Lake Worth	4,067,377	0.8%	2.0%	2,028	30,657	0	$15.50
Jupiter	1,682,839	0.9%	1.7%	(4,575)	(1,539)	0	$14.13
Total Palm Beach	50,136,766	2.3%	4.9%	259,288	829,214	915,542	$14.10
Manufacturing	4,956,545	1.0%	2.2%	(19,500)	12,902	0	$17.34
R&D/Flex	9,497,123	2.2%	5.2%	(50,879)	(81,258)	0	$15.45
Warehouse/Distribution	35,293,399	3.2%	5.1%	329,667	897,570	915,542	$13.25

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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