New construction remains high as vacancy falls

▼ 3.1%	▼ 284,581	▲ 10,182,721	▲ 484,218	▲ $14.50
Direct Vacancy	SF Net Absorption	SF Construction	SF Delivered	NNN / Lease Rate

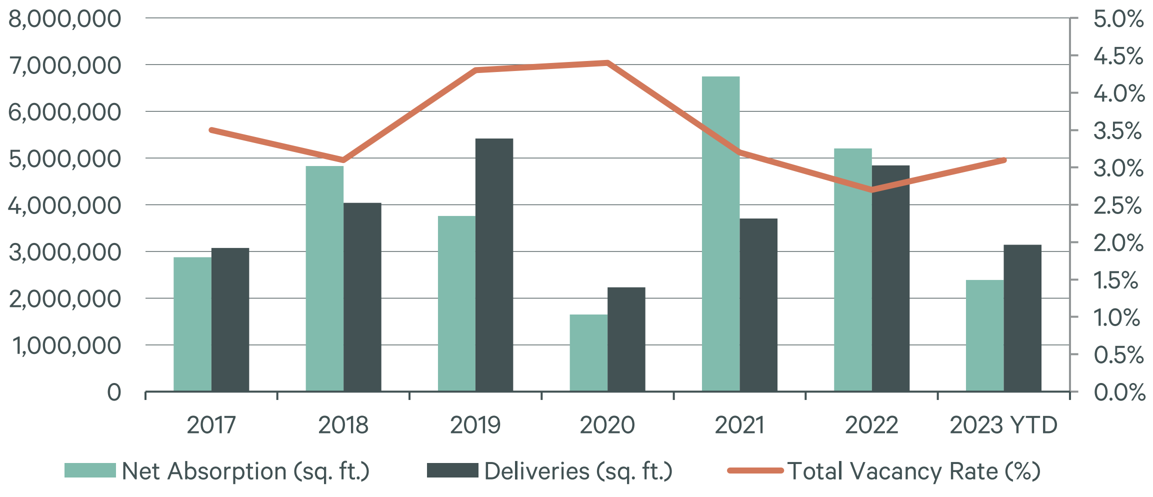
Note: Arrows indicate change from previous quarter.

Overview

- The Miami industrial market posted a 3.1% vacancy rate for the second quarter of 2023 down from the 3.6% vacancy rate posted in the previous quarter.
- More than 3.5 million sq. ft. of new product was delivered in the first half of 2023. A strong pipeline of over 10 million sq. ft. of development eases some supply pressure with several noteworthy projects breaking ground this quarter such as Bridge Point Doral, Sycamore Logistics Center, Eastgroup Homestead Park of Commerce, and Palmetto Station Logistics.
- Rates for warehouse and distribution facilities remain high at $14.50, an increase of 22% year-over-year.

The first half of 2023 was extremely active for new construction, including both speculative as well as a large built-to-suit that was over 500,000 sq. ft. Miami's industrial market continues its boom into 2023 as demand for modern space has not eased. Although net absorption for the second quarter was significantly less than the previous quarter, the year-to-date figure is at 2.2 million sq. ft.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

DEMAND

Net absorption remained robust in the first half of 2023, with 2.2 million sq. ft., driven by large move-ins such as Amazon, Target, Fedex, and JAS. Combined they totaled over 1.6 million sq. ft. of positive absorption across various submarkets. Some of the most notable leases this quarter include, Global Cargo (56,000 sq. ft.) at First Park Miami, GLB Trucking (52,000 sq. ft.) at Miami Midway Park, and Conklin Metal Industries (50,000 sq. ft.) at GLP Air Logistics Center.

The Miami Lakes submarket remains one of the most active regions in terms of net absorption, leasing activity and new construction. As such, it led the way in terms of demand for the quarter with 762,870 sq. ft. in occupancy gains. Some notable move-ins in this submarket include Flowers Baking (112,000 sq. ft.) at Beacon Logistics Park and 3sixty Duty Free (127, 299 sq. ft.) at County Line Corporate Park.

VACANCY & PRICING

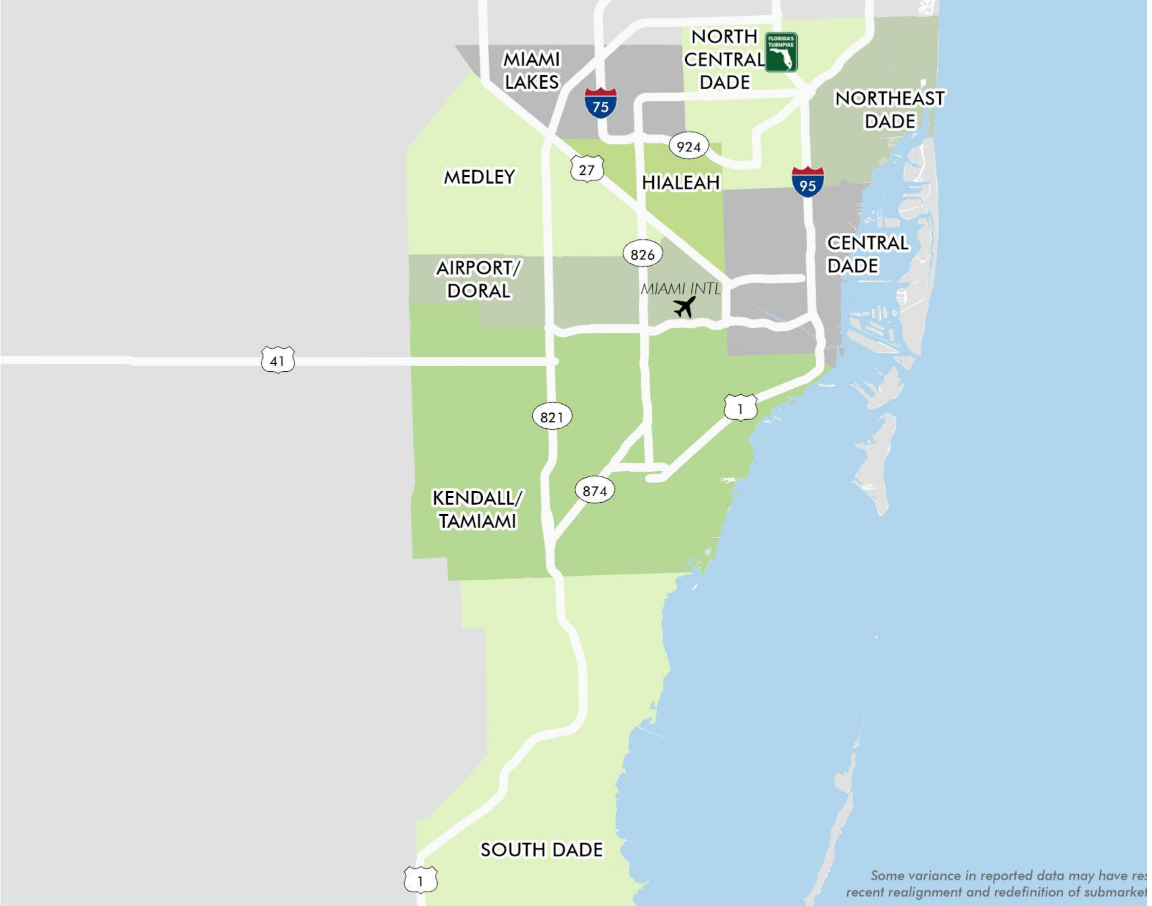
The direct vacancy rate decreased from 3.6% to 3.1% quarter-over-quarter due to strong demand. Out of the 3.5 million sq. ft. delivered year-to-date, only 235,000 sq. ft. is available for lease. Representing the large appetite for class A product in the market. There is 1.4 million sq. ft. coming online in the next quarter, of which 33% is already pre-leased. Although, vacancy could increase due to the amount of new product coming online vacant, it should remain well below historical averages.

Landlords continue to push rates as new space gets built. The average asking rate stands at $14.50, representing a 2.0% increase quarter-over-quarter. The Airport submarket remains the most expensive submarket, where some deals are being signed above $20.00 per sq. ft. The sentiment for rent growth remains positive.

FIGURE 2: Statistical Snapshot Q2 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy Rate (%)	Direct Availability Rate (%)	Q2 2023 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/NNN)
Airport/Doral	60,101,223	4.0 %	7.03 %	-368,020	-541,147	1,464,241	$18.15
Central Dade	39,777,488	3.68 %	6.55 %	26,879	968,041	85,376	$14.00
Hialeah	16,919,386	4.02 %	4.47 %	84,151	19,386	409,189	$14.20
Kendall/Tamiami	14,404,811	2.12 %	2.62 %	10,468	-14,741	0	$13.00
Medley	45,660,721	2.14 %	4.08 %	-46,446	716,087	2,417,821	$16.50
Miami Lakes	14,954,793	2.44 %	1.55 %	762,870	1,260,663	3,453,524	$15.50
North Central Dade	38,567,218	3.08 %	4.62 %	-171,429	-150,191	1,954,340	$15.15
Northeast Dade	2,686,371	2.57 %	1.98 %	-5,145	-28,645	0	$14.50
Out of Submarket	1,389,117	0.18 %	0.18 %	0	0	0	$12.00
South Dade	4,634,516	0.97 %	1.32 %	-8,747	-15,310	398,230	$12.00
Grand Total	239,095,644	3.1 %	5..1 %	284,581	2,214,143	10,182,721	$14.50

Market Area Overview



Economic Outlook

For the last six months the consensus amongst economists has been that H2 would bring the United States to the brink of recession and possibly push it over the edge. Recently, this narrative has been challenged by a surprisingly resilient consumer and labor market. Indeed, GDP growth in Q2 2023 is poised to hit the mid-2% range (p.a.). Beneath this veneer of health lies a fragile economy, which will probably lapse into recession, albeit a little later than previously expected.

The chief concern is credit conditions tightening at a magnitude that typically precedes a recession. The consequences are already manifest in the housing market, and particularly across the Western U.S. where valuations are most disconnected from local incomes. Other rate sensitive sectors, such as manufacturing, are also under pressure—both domestic and abroad—exemplified by cooling capital goods orders and PMI data. And while the labor market is objectively tight, it is softer than one year ago when we saw higher quit rates and stronger wage growth. Tighter credit conditions are also likely to catch up with Americas small and medium sized industries (restaurants, cafes) in the service sector in the next two quarters.

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