

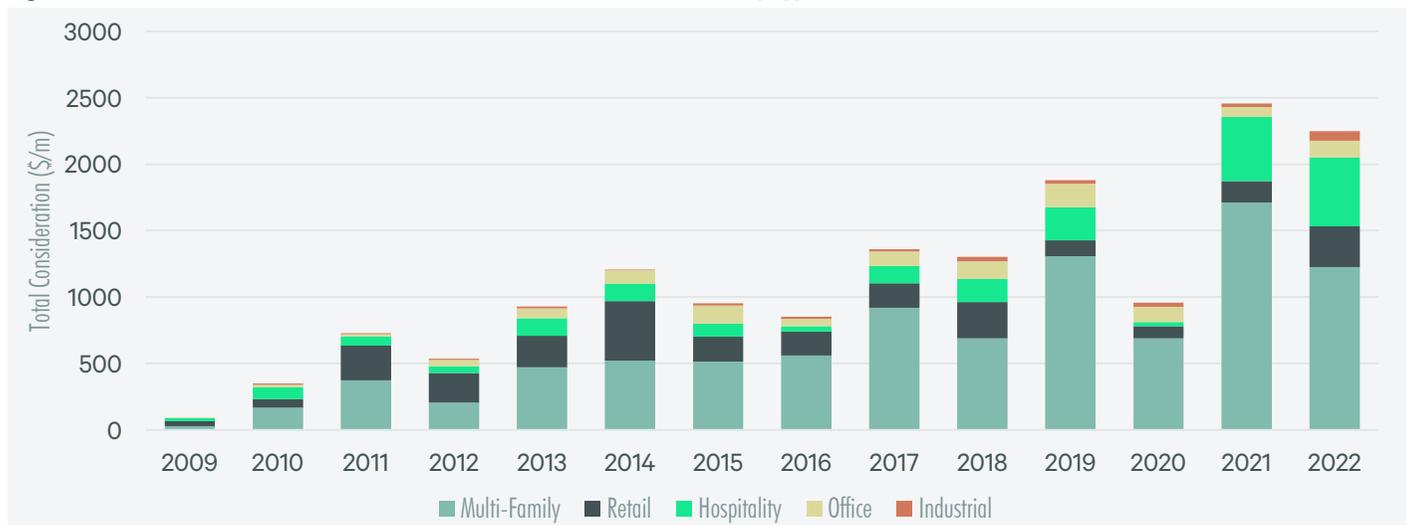
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# Florida Panhandle Report



# Economic Challenges Ahead – Can the Panhandle Markets Withstand the Headwinds?

**Figure 1: Total Consideration of Real Estate Trades in Florida’s Panhandle by Type and Year**



Source: Real Capital Analytics, February 2023.

## Market Overview

Even with the general economic volatility and uncertainty throughout real estate and capital markets during the second half of 2022, with rising interest rates having chilling effects on valuations and transaction volume, the Florida Panhandle commercial real estate market area remained on trend, with strong demand for space continuing in every segment. As a result, vacancy rates in every sector are among the lowest recorded, rental rates continue to appreciate, and fundamental market conditions are supportive of a new development cycle. There is no doubt that projects are getting re-priced due to interest rate volatility, and many have been shelved, but with continued demand for space, particularly in the retail and industrial segments, The Florida Panhandle

commercial real estate market remains very healthy and poised for further growth during the foreseeable future.

## Office Sector

While the office sector is lagging throughout the US, there are a few key markets that are seeing the benefit of business migration, primarily in low-cost of business Sunbelt locations. The FL Panhandle sector is now seeing signs of life, with positive absorption of nearly 127,000 sq. ft. during 2022, and a majority of that coming in the second half of the year. With low vacancy rates (6.3%) compared to many areas and no significant new supply coming online, market conditions may be supporting some measurable rent growth during 2023, assuming demand remains as strong as recent months.

## Industrial Sector

The region's industrial market conditions remain very healthy with 252,505 sq. ft. of positive absorption during the second half of 2022 and vacancy rates at just 2.5% for the Panhandle overall. There is essentially no space availability for the continued demand that is expected and, if anything, the industrial segment may be poised for some short-term negative absorption in the coming months. Although full year 2022 absorption was relatively strong, the market witnessed (82,731 sq. ft.) of negative net absorption during the second half of the year, pointing to the potential volatility in market conditions until a development cycle starts in earnest. It appears that new development needs to catch up to the demand levels, as our brokers are reporting pipelines remaining full of unfulfilled requirements that are looking for space to occupy, and they expect multiple build-to suit projects to commence in the 1<sup>st</sup> half of 2023.

## Retail Sector

Retail market conditions in Northwest Florida remain very strong, with rapid absorption of new inventory and continued rent appreciation. A significant amount of unanchored strip and single-tenant development activity has been occurring and there is now a visible transitioning to larger, anchor-led developments punctuating the development cycle. Reacting to the region's expanding permanent population and employment growth trends, new neighborhood retail centers are popping up in emerging submarket areas. Full year positive absorption of over 850,000 sq. ft. demonstrates the segment's expansion leading to historically low vacancy rates of 2.6% at year end 2022. Average base rents continue to appreciate, and values remain relatively stable even in the face of cap rate decompression caused by rising interest rates. Approximately 185,000 Sf of space is currently under construction, and we expect this figure to be much higher as the year progresses.

## Capital Markets

The Florida Panhandle region experienced well over \$1.0 billion in real estate capital markets investment in each of the years from 2017 through 2019, indicating the market's growing visibility to more investor types as demand continues to migrate from core markets to tertiary markets. However, consistent with declining capital markets activity throughout the US during the Covid-19 period, the Panhandle experienced a slowdown in 2020. What a difference a year and a half makes - investment activity rebounded, and then some, setting records during 2021 in Northwest Florida. Investment sales during 2022 (2.25 billion) decreased 8.5% compared to 2021, which was still the 2<sup>nd</sup> highest annual total recorded, and almost 20% above 2019 activity. The Hotel segment (\$517.2 million), retail (\$307.0 million) office (\$127.4 million) and industrial (\$71.3 million) were the biggest gainers during 2022 as compared to previous years. Interest rate headwinds and inflation impacted Multi-Family sales (\$1.2 billion) which decreased 28% from the prior year. Multi-family transactions still remained a large part of the overall activity, but this segment is expected to see a further fall-off in 2023, as it remains sensitive to interest rates and insurance cost volatility. Land acquisition activity also remains elevated, further supporting the notion that the market is still in early stages of a development cycle.

Due to a variety of positive catalysts underlying the Florida Panhandle economy including the reconstruction and expansion of Tyndall Air Force Base in Panama City, the continued investment in the region's infrastructure from the funds awarded from the BP Deep Water Horizon oil spill many years ago, and the organic growth the maturing area is now experiencing, the future remains very bright. Investors continue to "find" the Panhandle, and while there are secular economic challenges ahead, investment and development activity are expected to remain relatively healthy during 2023.

## Market Statistics

**Figure 7: Office Market Statistics**

Market	Total Inventory (SF)	Direct Vacancy (%)	Total Vacancy (%)	H2 2022 Net Absorption (SF)	Trailing 12 Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/FSG)
Pensacola	6,298,938	4.3	4.3	(10,513)	32,551	-	22.10
CBD	1,884,891	3.9	4.0	46,046	1,048	-	22.53
Suburban	4,414,047	4.5	4.5	(56,559)	31,503	-	19.39
Destin/Fort Walton/Okaloosa	2,900,587	3.2	3.2	9,027	17,163	-	23.39
Destin	701,908	3.4	3.4	2,334	(3,205)	-	18.52
Fort Walton Beach	1,363,388	4.9	4.9	(7,857)	2,363	-	26.86
S Walton/Miramar Beach	415,524	0.8	0.8	(700)	2,755	-	31.75
Niceville/Crestview	377,840	-	-	15,250	15,250	-	15.00
Panama City	3,031,523	2.4	2.5	53,520	23,382	-	18.31
Panama City Beach	475,085	0.2	0.6	4,231	439	-	17.44
Panama City	2,346,845	3.0	3.0	48,288	18,702	-	18.79
Tallahassee	12,931,863	8.6	8.9	33,035	53,892	-	21.39
CBD	2,438,869	7.0	7.6	4,366	5,893	-	26.29
Suburban	10,492,994	9.0	9.2	28,669	47,999	21,716	20.46
<b>Total Panhandle</b>	<b>25,162,911</b>	<b>6.2</b>	<b>6.3</b>	<b>85,069</b>	<b>126,988</b>	<b>21,716</b>	<b>21.44</b>

Source: CBRE Research, H2 2022.

Tracked Set: 10,000 sq. ft. and greater single and multi-tenant office buildings.  
\*Includes base data adjustments where previously untracked inventory is found.

**Figure 8: Industrial Market Statistics**

Market	Total Inventory (SF)	Direct Vacancy (%)	Total Vacancy (%)	H2 2022 Net Absorption (SF)	Trailing 12 Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/NNN)
Pensacola	14,278,505	2.6	2.6	97,727	(46,407)	-	6.60
Destin/Fort Walton/Okaloosa	4,521,393	2.9	2.9	43,430	(6,062)	100,000	10.00
Destin	125,533	-	-	-	-	-	12.50
Fort Walton Beach	2,426,726	5.5	5.5	(5,285)	(23,812)	-	6.00
S Walton/Miramar Beach	508,076	-	-	13,650	16,750	-	14.20
Niceville/Crestview	907,619	-	-	-	2,000	100,000	8.10
Panama City	5,639,153	3.6	3.6	153,493	26,995	52,200	8.64
Panama City Beach	717,194	-	-	3,000	-	52,200	11.41
Panama City	4,274,725	4.7	4.7	150,493	26,995	-	8.59
Tallahassee	11,484,413	1.4	1.8	(42,145)	(57,257)	630,000	10.66
<b>Total Panhandle</b>	<b>35,923,464</b>	<b>2.4</b>	<b>2.5</b>	<b>252,505</b>	<b>(82,731)</b>	<b>782,200</b>	<b>8.17</b>

Source: CBRE Research, H2 2022.

Tracked Set: 10,000 sq. ft. and greater single and multi-tenant industrial buildings.

**Figure 9: Retail Market Statistics**

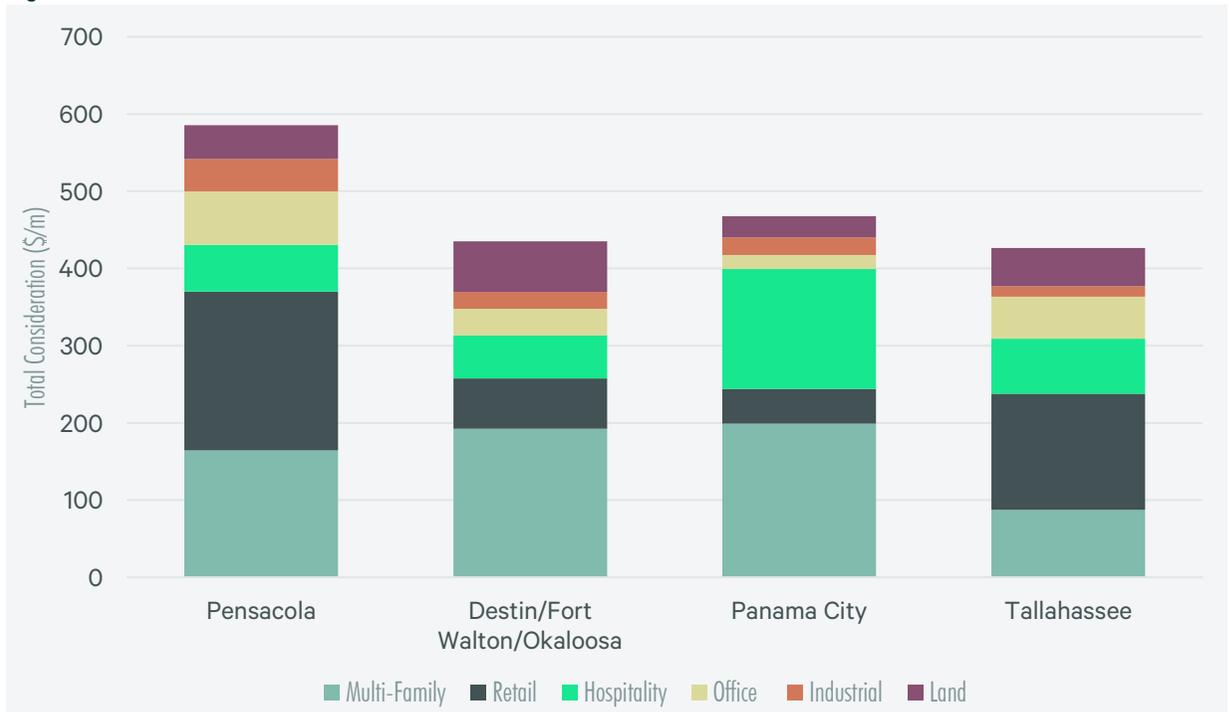
Market	Total Inventory (SF)	Direct Vacancy (%)	Total Vacancy (%)	H2 2022 Net Absorption (SF)	Trailing 12 Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/NNN)
Pensacola	29,594,957	3.1	3.1	69,430	279,695	15,265	15.53
Destin/Fort Walton/Okaloosa	19,253,345	2.5	2.5	9,505	147,843	72,142	16.18
Destin	3,941,588	1.8	1.8	(13,761)	14,777	-	23.46
Fort Walton Beach	7,206,295	3.9	4.0	(10,620)	55,014	23,179	13.23
S Walton/Miramar Beach	2,976,620	2.2	2.2	(29,791)	29,606	41,132	19.86
Niceville/Crestview	3,112,390	1.4	1.4	16,677	(7,276)	7,831	18.77
Panama City	16,809,645	1.2	1.2	90,133	127,960	-	13.78
Panama City Beach	4,912,141	0.9	0.9	19,266	(2,003)	-	20.05
Panama City	10,454,214	1.4	1.4	68,743	130,064	-	12.56
Tallahassee	22,935,028	3.1	3.1	295,153	296,964	97,935	15.67
<b>Total Panhandle</b>	<b>88,592,975</b>	<b>2.6</b>	<b>2.6</b>	<b>464,221</b>	<b>852,462</b>	<b>185,342</b>	<b>15.41</b>

Source: CBRE Research, H2 2022.

Tracked Set: 2,500 sq. ft. and greater retail buildings

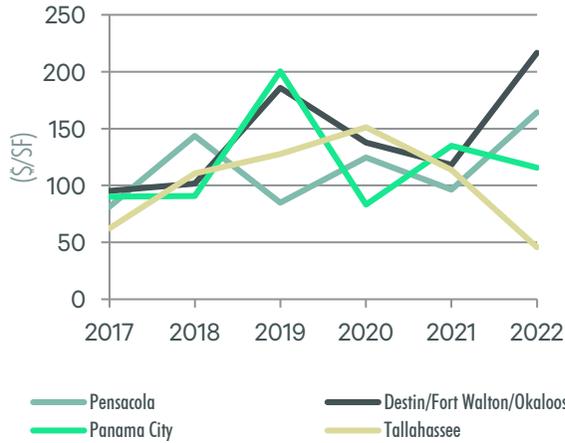
## Capital Investment Overview

**Figure 10: Sales Volume Totals H2 2022**



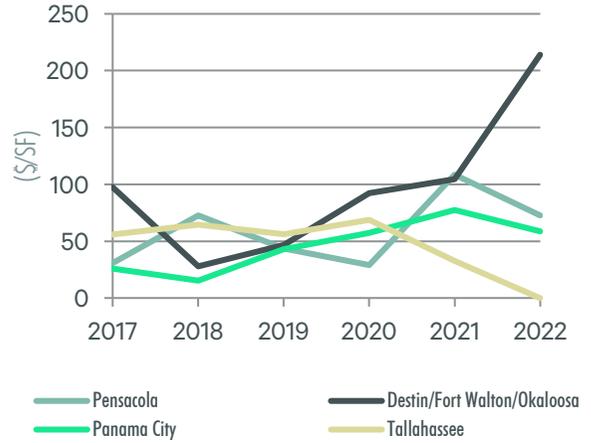
Source: CBRE Research, H2 2022.

**Figure 11: Office Avg. Sale Price Per Sq. Ft.**



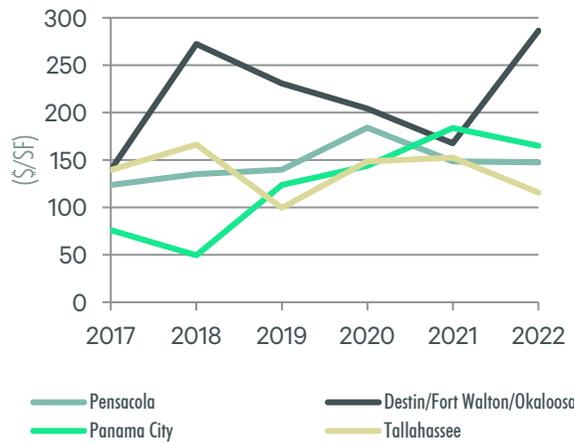
Source: CBRE Research, H2 2022.

**Figure 12: Industrial Avg. Sale Price Per Sq. Ft.**



Source: CBRE Research, H2 2022.

**Figure 13: Retail Avg. Sale Price Per Sq. Ft.**



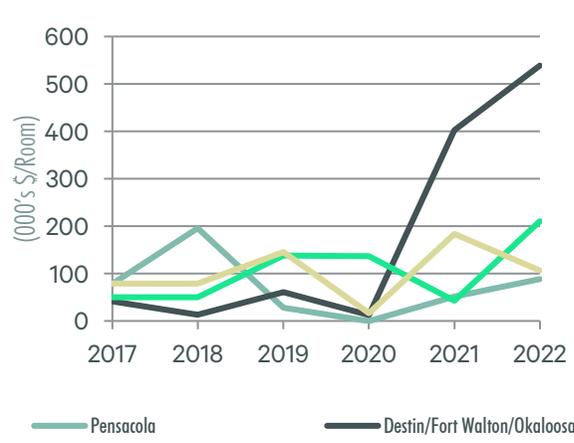
Source: CBRE Research, H2 2022.

**Figure 14: Multi-Family Avg. Sale Price Per Unit**



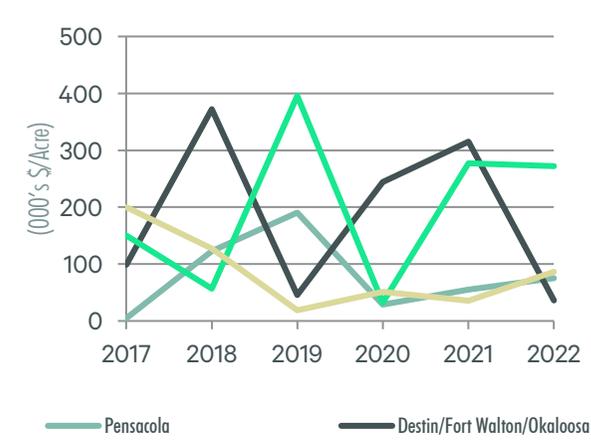
Source: CBRE Research, H2 2022.

**Figure 15: Hospitality Avg. Sale Price Per Room**



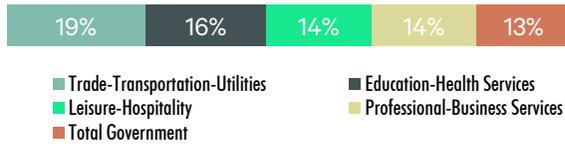
Source: CBRE Research, H2 2022.

**Figure 16: Land Avg. Sale Price Per Acre**



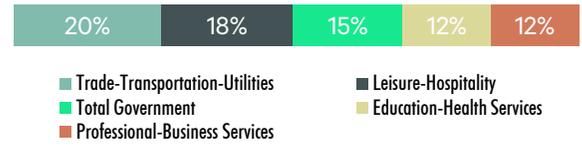
Source: CBRE Research, H2 2022.

**Figure 2: Pensacola Top 5 Jobs by Sector & Employers**



Employer	Total Employed
Naval Air Station Pensacola	23,000
Navy Federal Credit Union	8,729
Baptist Health Care	6,633
Sacred Heart Health Systems	4,820
University of West Florida	2,447

**Figure 3: Panama City Top 5 Jobs by Sector & Employers**



Employer	Total Employed
Tyndall Air Force Base	6,416
Naval Support Activity	3,300
Bay District Schools	3,000
Bay Medical Center	1,800
Wal-Mart and Sam's Club	1,800

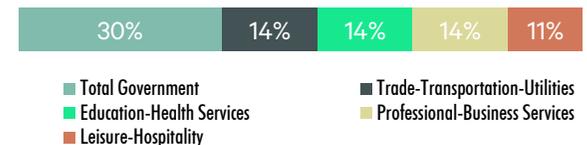
Source: U.S. Department of Labor, Bureau of Labor Statistics, February 2023 & Florida West Economic Development Alliance.

**Figure 4: Destin Top 5 Jobs by Sector & Employers**



Employer	Total Employed
Eglin Air Force Base	19,413
Hurlburt Field	10,124
Okaloosa County School District	3,495
Walmart Supercenter	1,720
HCA Florida Fort Walton Destin Hospital	1,221

**Figure 5: Tallahassee Top 5 Jobs by Sector & Employers**



Employer	Total Employed
State of Florida	19,136
Florida State University	14,378
Leon County Schools	5,383
Tallahassee Memorial Healthcare	4,583
Florida A&M University	2,200

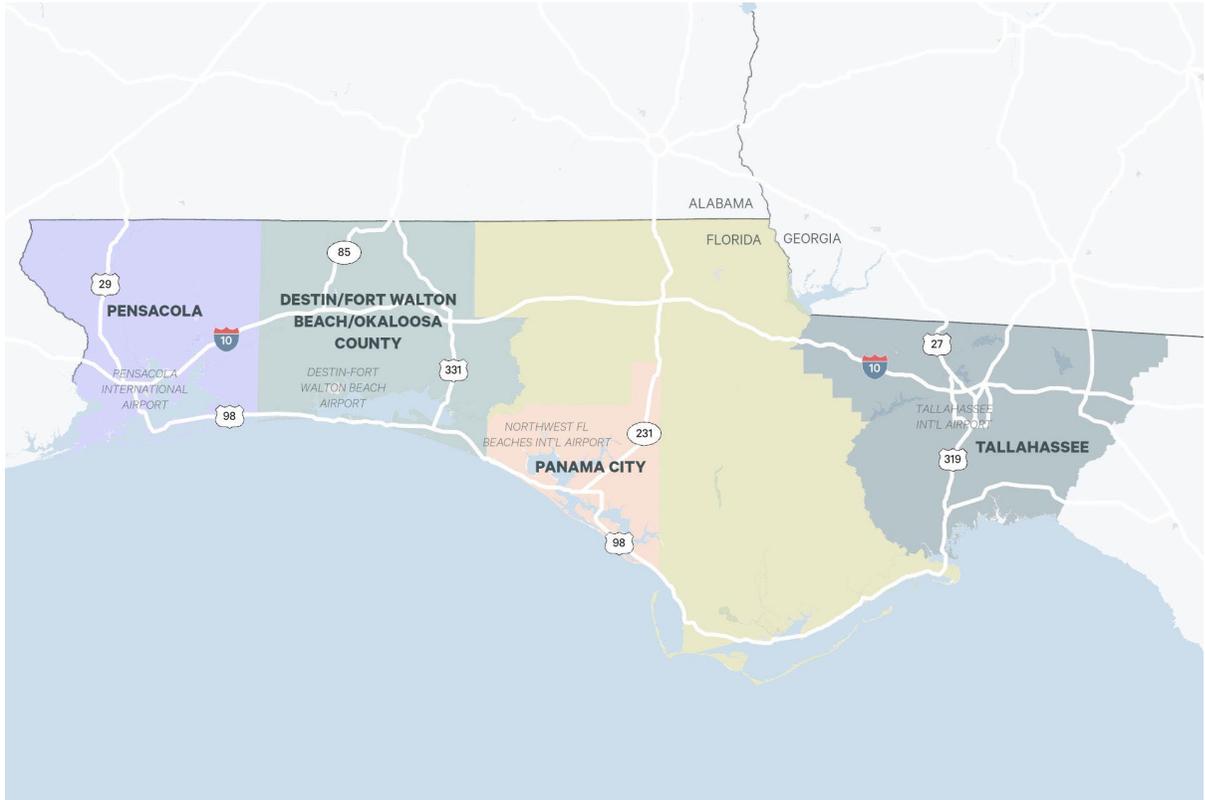
Source: U.S. Department of Labor, Bureau of Labor Statistics, February 2023 & Florida West Economic Development Alliance.

**Figure 6: Demographic Stats**

Market	Unemployment Rate	Daytime Employment	Avg. Household Income (\$)	Median Home Value (\$)	Population
Pensacola	2.3%	246,646	89,094	242,990	522,259
Destin/Fort Walton/Okaloosa	1.9%	160,250	100,144	292,088	297,456
Panama City	2.1%	95,757	88,953	256,358	178,134
Tallahassee	2.2%	203,259	85,925	250,766	386,899

Source: U.S. Department of Labor, Bureau of Labor Statistics & U.S. Census Bureau, February 2023.

## Market Map



Research Market Coverage: Includes the following counties: (Pensacola) Escambia, Santa Rosa, (Destin/Fort Walton/ Okaloosa) Walton, Okaloosa, (Panama City) Bay, (Tallahassee) Gadsden, Jefferson, Leon, and Wakulla. The CBRE Northwest Florida office also covers the counties of Jackson, Gulf, Franklin and Calhoun, including the cities of Marianna, Port St. Joe and Apalachicola.

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