Construction slows amid normalizing demand

▲ 3.6% Direct Vacancy

▲ 591,911 SF Net Absorption

▼ 7,342,662 SF Construction

▲ 692,616 SF Delivered

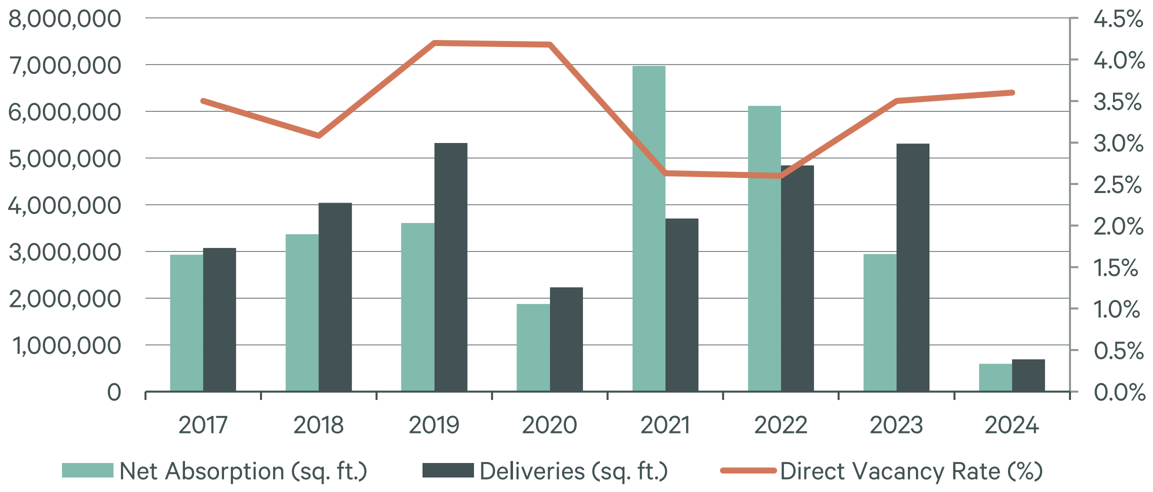
▲ $15.55 NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

Overview

- Starting 2024, Miami's industrial market continues to grow, albeit at a slower pace. Demand has decreased to 2.1 million square feet in the last 12 months, falling below the five-year average annual absorption rate of slightly over 4.5 million square feet.
- Although the market has shown robust performance overall, the growth in asking rents has started to decelerate, with quarterly rent growth essentially flat during Q1 2024.
- Construction has ramped up in recent years, with more than 7.3 million square feet currently in progress as of the first quarter of 2024. However, new construction starts have slightly declined, reaching a total of over 2.4 million square feet in 2023, below the two-year historical average of over 5.0 million square feet.
- Despite an increase in vacancies due to supply growth in 2023, the vacancy rate is projected to only reach approximately 4% before decreasing again as the supply surge subsides in 2025.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

DEMAND

Miami's industrial market has recorded moderating leasing totals and rising availability since the end of 2022. These trends have continued into 2024 as new leasing activity during the first quarter (1.9 million square feet) has thus far come in well behind the 4.2 million square feet leased on average during the first quarter of the last three years.

While leasing across the market is down year-over-year, some pockets continue to outperform the overall market, such as Airport/Doral, Medley and Miami Lakes (Hialeah Gardens). These submarkets continue to see a fair amount of new leasing activity – particularly above 100,000 square feet.

Positive absorption was observed during the first quarter of 2024 due to major move-ins from TSS Logistics (112,000 sq. ft.), Fulfillment Hub USA (87,500 sq. ft.), Ocean Doors and Windows (84,700 sq. ft.), Comfortside (72,100 sq. ft.), PCA (70,800 sq. ft.) and Samsung (61,500 sq. ft.).

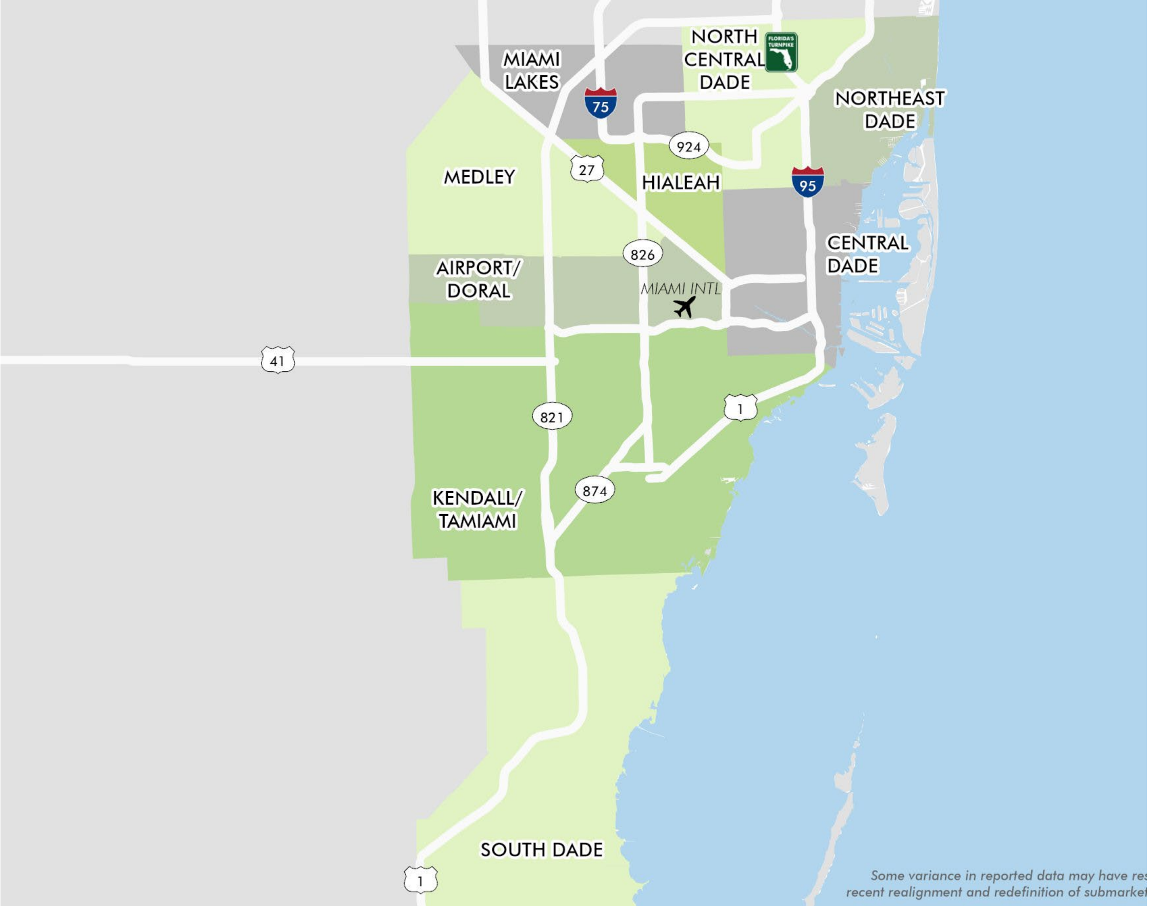
VACANCY & PRICING

Industrial rents in the Miami market, driven by the demand for logistics facilities, have nearly doubled over the past five years to an all-time high of $15.55 per sq. ft., due to high levels of demand witnessed since mid-2020. As of Q1 2024, rents continue to be stable but with a growing potential for reduction. In addition, vacancy levels are forecasted to rise over the next 12-months, as more than 7.0 million square feet is projected to be delivered by year-end, of which 74% remains available. Looking beyond 2024, the impact of new construction on vacancy levels is projected to moderate considerably. This is because construction starts have slowed down for four consecutive quarters.

FIGURE 2: Statistical Snapshot Q1 2024

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy Rate (%)	Direct Availability Rate (%)	Q1 2024 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/NNN)
Airport/Doral	60,824,327	4.05%	6.35%	67,671	67,671	1,199,770	$19.55
Central Dade	39,606,460	3.38%	6.35%	-39,112	-39,112	85,376	$14.34
Hialeah	16,707,629	3.74%	4.82%	66,693	66,693	409,189	$14.32
Kendall/Tamiami	14,404,811	2.63%	2.51%	587	587	0	$13.00
Medley	46,335,849	3.01%	4.52%	454,867	454,867	1,271,650	$17.23
Miami Lakes	16,891,703	6.05%	5.75%	67,586	67,586	2,401,866	$17.05
North Central Dade	38,594,279	3.28%	4.17%	-20,160	-20,160	1,805,758	$16.15
Northeast Dade	2,686,371	2.30%	2.72%	-14,030	-14,030	0	$14.50
Out of Submarket	1,389,117	0.18%	0.18%	0	0	0	N/A
South Dade	4,634,516	1.18%	1.46%	7,889	7,889	169,053	$13.00
Grand Total	242,075,062	3.56 %	5..11 %	591,991	591,991	7,342,662	$15.55

Market Area Overview



Economic Outlook

Continued economic growth paired with the Fed signaling more accommodative policy all suggests the U.S. economy is heading toward a ‘soft landing’. GDP growth should be less than half 2023’s pace when growth topped 3%. Reasons for the slowdown include a more prudent consumer and much weaker hiring. This latter issue is most acute within interest rate sensitive sectors, such as tech start-ups and goods manufacturing. Notable exceptions include investment in EV and microchip production capacity. More caution from businesses means a good chunk of recent hiring came from publicly funded sectors (e.g., education, healthcare, state & local governments). A key exception is leisure & hospitality, driven by continued demand for discretionary services. With many private firms on the sidelines the job openings rate declining to 5.5% from its peak of 7.8% in 2022. This has also meant the pace of wage growth has cooled, but not enough to see inflation fall quickly to 2%. With unemployment remaining below 4% and high-capacity utilization, CPI is unlikely to return to target until 2025.

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