Industrial market active on all fronts, on track for record absorption and deliveries this year

3.7%	1,696,852	4,985,524	1,191,989	$9.03
Vacancy Rate	SF Net Absorption	SF Under Construction	SF Deliveries	Triple Net / Lease Rate

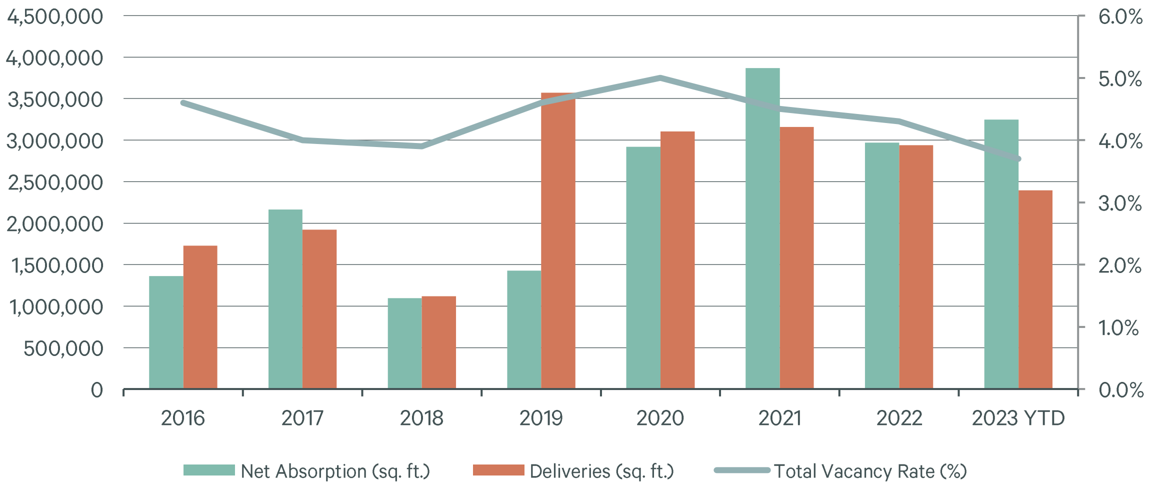
Note: Arrows indicate change from previous year.

OVERVIEW

- Market vacancy fell 40 basis points to 3.7% this quarter as large, anticipated move-ins drove this metric to its lowest level since the Great Recession.
- For the second consecutive quarter over 1 million square feet broke ground. However, developers have begun shifting to projects targeting the small to mid sized tenant, with all 11 buildings starting work having footprints smaller than 175,000 square feet.
- Annual rent growth continues to post double digits, increasing 11.2% year over year. For the first time, average market wide rates have broken the $9.00/SF NNN barrier.

It is shaping up to be a year of records for the Tampa industrial market as decade low vacancy is met with historically high asking rents. Despite 2.4 million square feet of deliveries so far this year, with another 5 million square feet under construction, tenants are still being met with limited options in Tampa's infill submarkets. And although tenant demand has shifted to smaller size segments recently, velocity remains prolific. 70% of the 1.2 million delivered this quarter had commitments in tow, with this demand already claiming half of all space currently under construction as well. Despite only being halfway through the year, net absorption and new deliveries are already encroaching annual totals seen since Covid.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

Nearly 1.7 million square feet of positive net absorption this quarter was largely driven by firms with signed leases within new construction that were waiting for building delivery or space buildout. With these move-ins realized, year to date absorption was propelled to 3.2 million square feet – a level already 9% higher than 2022's total and just 15% shy of surpassing the post-Covid record of 3.9 million square feet recorded in 2021. With recent groundbreakings and some upcoming deliveries catering to the very active tenant vertical of under 200,000 square feet, we are likely to see these new opportunities garner very strong interest.

VACANCY

A 40 basis point drop in market vacancy has brought it to its lowest recorded level in over 15 years. Perhaps most importantly, over 1 million square feet of net absorption in Plant City has started to rectify multiple quarters of elevated vacancy due to unleased space and pending move-ins. This dropped vacancy rates there by a third in just 90 days, from 16% to 11.2%. While the 5 million square feet under construction will surely introduce vacancy over the next few quarters, 48% of that space is already preleased.

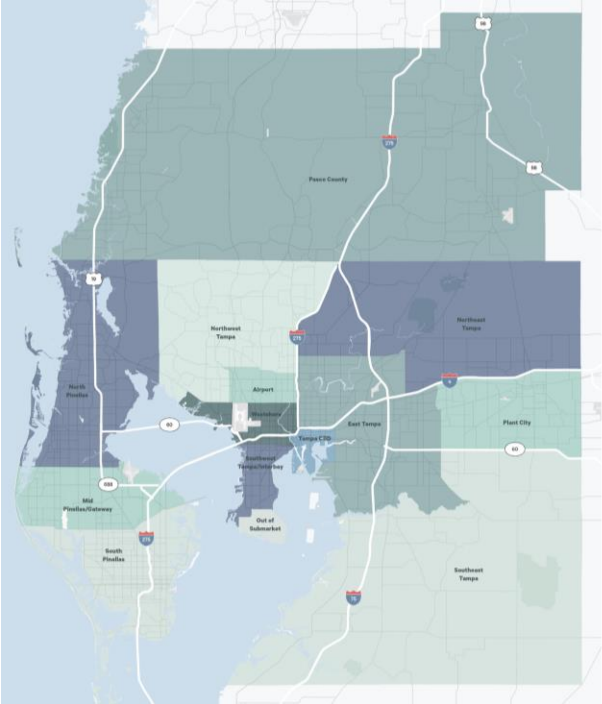
PRICING

Despite broader economic uncertainty, average asking rents have continued to appreciate at explosive rates. The market wide year over year increase is impressive enough at 11.2%, but certain submarkets are in runaway territory. East Tampa and Airport areas, where new construction thus far has done little to ease debilitating low vacancy, have witnessed exponential rent growth. In the past year, average rents have grown by a staggering 35% in East Tampa and 27% in the Airport.

FIGURE 2: Statistical Snapshot Q2 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q2 2023 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/SF/NNN)
East Hillsborough	80,643,774	4.0%	4.5%	1,758,417	3,105,252	1,342,339	$8.74
Tampa CBD	8,504,405	1.0%	1.7%	(7,296)	(5,367)	108,554	$10.27
Northeast Tampa	2,319,823	0.4%	0.4%	(10,176)	(10,176)	0	$8.50
East Tampa	49,140,143	1.9%	2.3%	734,560	875,444	802,900	$12.14
Plant City	16,953,354	11.2%	11.2%	1,089,908	2,293,930	160,000	$6.70
Southeast Tampa	3,726,049	8.8%	11.8%	(48,579)	(48,579)	270,885	$9.11
West Hillsborough	20,902,351	2.3%	2.7%	6,251	84,137	273,822	$12.21
Westshore	3,619,841	0.9%	0.9%	(1,500)	(19,363)	0	$12.93
Airport	13,302,907	3.0%	3.2%	(10,359)	152,959	273,822	$12.04
Southwest Tampa	1,919,859	0.0%	3.2%	18,500	(42,739)	0	N/A
Northwest Tampa	2,059,744	2.0%	2.0%	(390)	(6,720)	0	$13.00
Hillsborough County	101,546,125	3.7%	4.1%	1,764,668	3,189,389	1,616,161	$9.03
South Pinellas	8,668,057	6.2%	7.5%	(10,200)	8,567	0	$8.50
Mid Pinellas/Gateway	29,498,961	1.4%	1.8%	(75,714)	3,354	685,067	$9.71
North Pinellas	6,962,279	1.1%	1.1%	27,904	10,664	0	$9.23
Pinellas County	45,129,297	2.3%	2.8%	(58,010)	22,585	685,067	$9.08
Pasco County	10,749,252	3.8%	3.8%	(9,806)	34,378	2,684,296	$8.28
Tampa Total	157,424,674	3.3%	3.7%	1,696,852	3,246,352	4,985,524	$9.03
Manufacturing	32,305,220	0.8%	0.9%	(81,939)	(54,071)	0	$9.42
R&D/Flex	12,983,728	4.1%	4.4%	6,175	16,992	12,000	$13.84
Warehouse/Distribution	112,135,726	3.9%	4.4%	1,772,616	3,283,431	4,973,524	$8.30

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.

Perhaps the key question is: Will the inflation slow fast enough to avert further rate hikes? CBRE's baseline view is that there is no need for further rate hikes because inflation is coming under control, but because of strong recent data the Fed will make one more rate hike, just to make sure the job is done. This will slightly exacerbate the coming slowdown and lead the Fed to begin cutting rates at the end of the year. The long expected slowdown in the U.S. economy is still on track but will start in earnest at the end of Q3 and last through to the end of Q1 2024 by which time inflation will have slowed up and rates will be falling.

Survey Criteria: Includes all competitive industrial buildings 10,000 sq. ft. and greater in size in Hillsborough, Pinellas and Pasco counties.

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