Fundamentals remain strong as demand cools down

▲ 3.4%	▼ -167,135	▼ 9,653,317	▲ 529,404	▲ $15.05
Direct Vacancy	SF Net Absorption	SF Construction	SF Delivered	NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

Overview

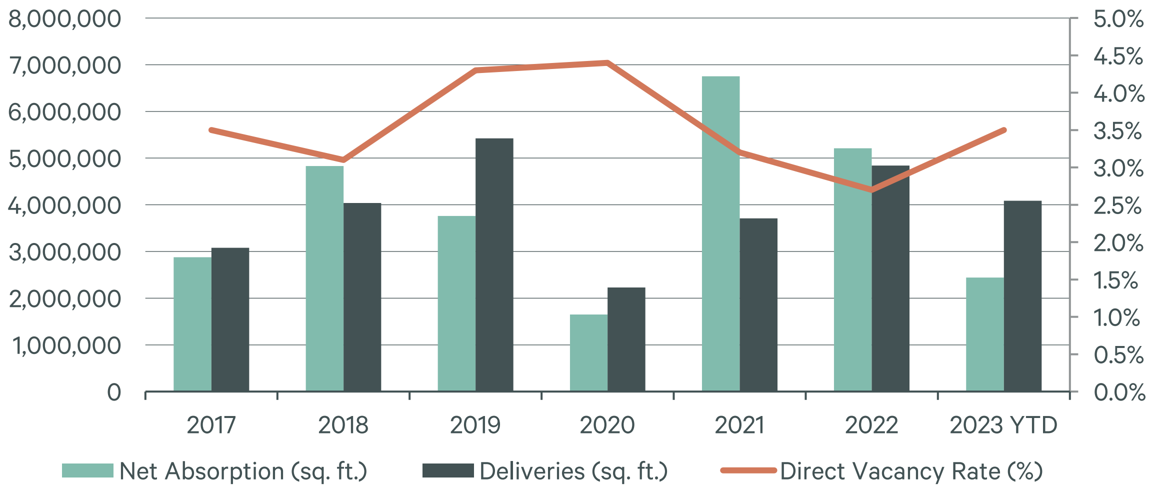
– Following yearly supply outpacing demand for the second consecutive quarter, as of the end of the third quarter of 2023, vacancy increased by 30 basis points quarter-over-quarter to 3.4%.

– Construction pipeline remains strong with 4.0 million sq. ft. of deliveries, with another 9.6 million sq. ft. under construction. Some of the most notable projects to be delivered this year include Miami Midway Park, Palmetto 74, and Northwest Dade Logistics Center II. There is 2.2 million sq. ft. expected to be delivered by end of 2023, of which 40% is preleased.

– The overall asking rate grew at a slight pace during the third quarter of 2023 to $15.05 NNN. Asking rates in Miami's industrial market have increased by 23% since last year.

– In the near-term, a strong construction pipeline will lead rent and occupancy increases in submarkets with class A product, as flight to quality persists and supply on these assets become more constraint. The new deliveries will result in outpacing demand in the near term. Long-term outlook remains positive and competitive given the market's strong economic fundamentals, such as a diversified labor pool and growing population.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

DEMAND

The Miami industrial market, just like the national industrial market, continued to downshift in the third quarter. Absorption through the first half was 2.6 million sq. ft. with 650,000 of that taken in the second quarter. Despite the summer slowdown, a bright spot for owners is that rental rates are still holding, specially on renewals. Annual increases of 4% are now common for lease terms of five years and less.

Some notable transactions during Q3 2023 include Frito Lay (130,320 sq. ft.), FedEx (116, 896 sq. ft.), TSS (112, 189 sq. ft.) and Aeropost International Services (106, 313 sq. ft.). While absorption is projected to stay positive by year-end, new deals signed 6 to 12 months ago have mostly commenced, limiting future absorption gains. User activity has slowed across all sizes but remains most active at the smaller end of size range (below 10,000 sq. ft.).

VACANCY & PRICING

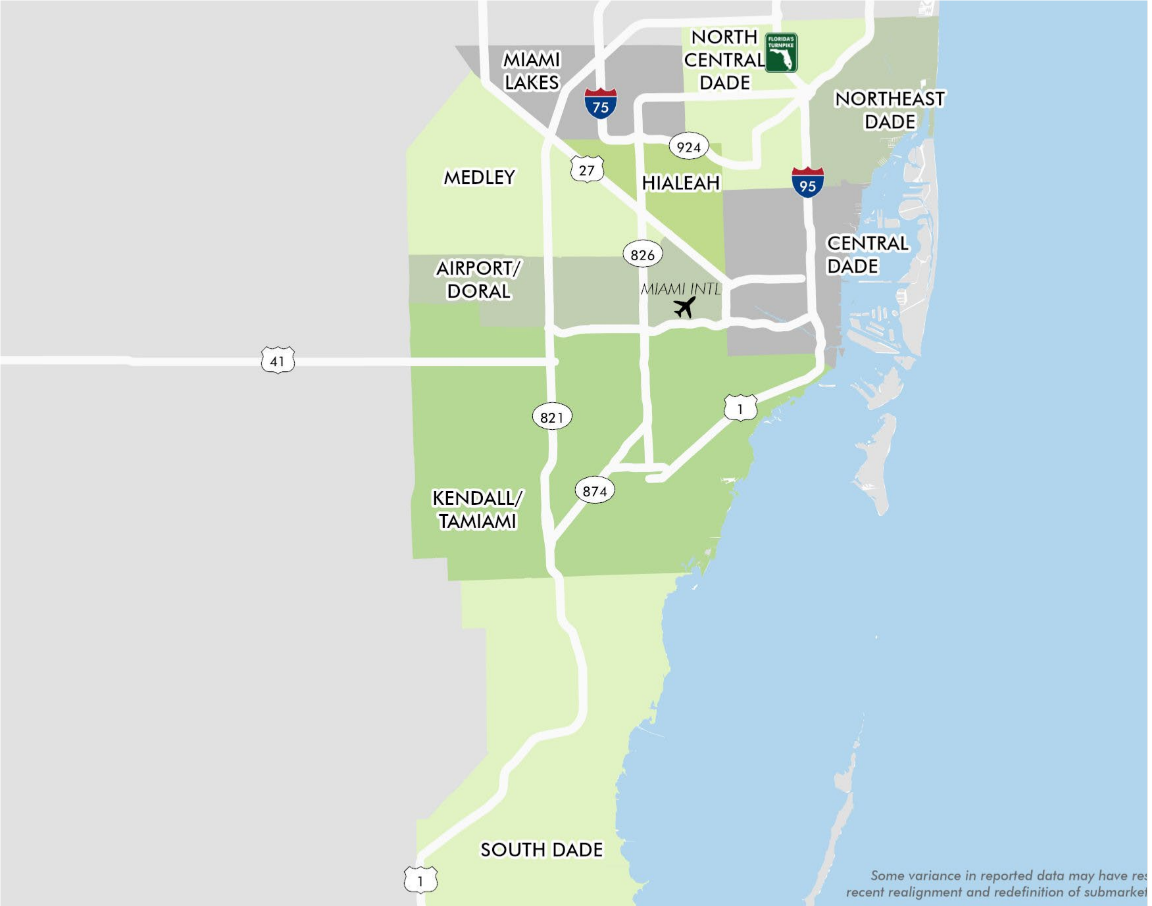
The overall vacancy rate is expected to increase in the near term, due to 4.0% of the current market's inventory being under construction. The new deliveries will result in outpacing demand in the near term. The largest blocks of space (above 100,000 sq. ft.) are in recently built warehouses, which include Royal Palm Doral and Terreno 73rd St. The overall vacancy rate for direct spaces currently stands at 3.4%, an increase of 30 basis points quarter-over-quarter and 50 basis points year-over-year.

Rates continued their march upward, albeit at a slower pace. We expect pricing to hold firm, although overall market rent growth could continue to slow. Landlords continue to push annual rent increases, and annual escalations between 3% to 4% remain commonplace.

FIGURE 2: Statistical Snapshot Q3 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy Rate (%)	Direct Availability Rate (%)	Q3 2023 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/NNN)
Airport/Doral	60,424,331	3.81 %	6.58 %	12,425	-34,837	1,464,241	$18.60
Central Dade	39,868,675	4.13 %	6.7 %	-75,159	892,882	0	$14.00
Hialeah	16,707,629	4.06 %	4.92 %	51,308	-29,876	409,189	$14.30
Kendall/Tamiami	14,404,811	2.22 %	2.34 %	-16,170	-30,911	0	$13.00
Medley	46,104,749	3.51 %	6.02 %	-182,309	533,778	1,973,793	$16.60
Miami Lakes	15,371,478	2.35 %	2.91 %	5,047	1,265,710	3,453,524	$15.70
North Central Dade	38,594,829	3.01 %	4.61 %	25,219	-124,972	1,954,340	$15.25
Northeast Dade	2,686,371	1.71 %	1.64 %	23,460	-5,185	0	$14.50
Out of Submarket	1,389,117	0.18 %	0.18 %	0	0	0	N/A
South Dade	4,634,516	1.21 %	1.28 %	-10,956	26,266	398,230	$13.00
Grand Total	240,186,506	3.4 %	5..3 %	-167,135	2,440,323	9,653,317	$15.05

Market Area Overview



Economic Outlook

The U.S. economy has defied expectations for a slowdown and has even exhibited some signs of acceleration despite sharp tightening of credit conditions and ongoing write-downs in the banking sector. This resilience due to a number of factors: 1) the Chips and IRA Acts have stimulated the construction sector; 2) the Fed. and the FDIC have provided prompt and effective support for the banks, and: 3) consumers are in good shape from a balance sheet and income perspective.

Nevertheless, headwinds are intensifying such as higher oil prices, resumption of student loan payments, and a weakening global economy. These headwinds, not serious in themselves, will hit home at a time when the squeeze from elevated interest rates is at its maximum. The upshot for real estate is that the Fed is likely finished with its tightening cycle, allowing a clearer path for real estate capital markets to unfold. Although we expect economic growth to deteriorate it is likely that valuations will stabilize during 1H 2024

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