Warehouse product remains tight across Broward

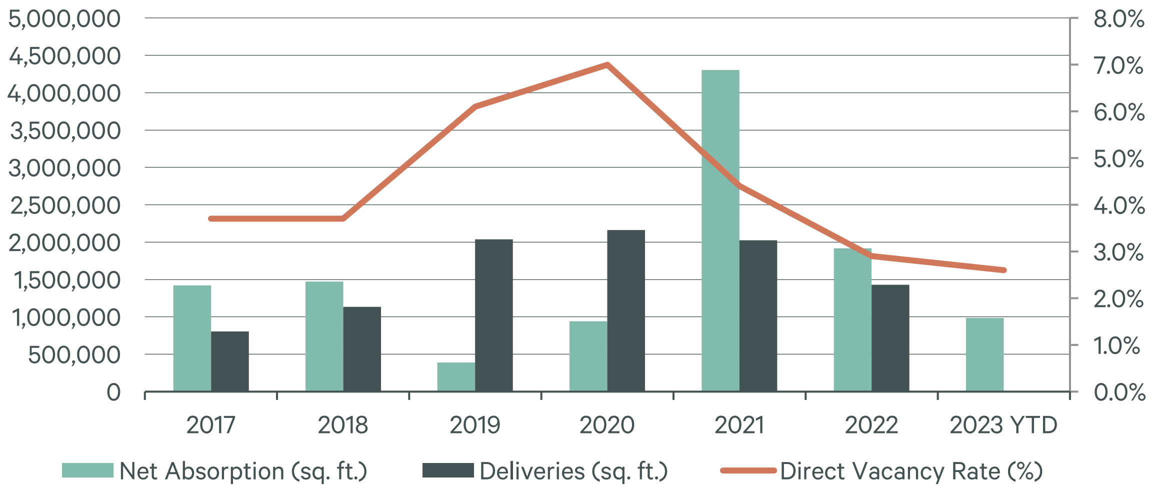
▼ 2.6%	▲ 404,703	▲ 1,306,922	▼ 0	▲ $15.35
Direct Vacancy	SF Net Absorption	SF Construction	SF Delivered	NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

Overview

- Broward's industrial tenant demand resulted in positive absorption in the second quarter of 2023. This is the 13th consecutive quarter of positive net absorption.
- The construction pipeline is still strong with 1.3 million sq. ft. in the works. Only 200,000 sq. ft. broke ground this year and it was a built-to-suit.
- The market's direct vacancy sits at 2.6%, down 10 basis points from the previous quarter of 2.7% and down 30 basis points from 2.9% one year ago.
- With over 1.3 million sq. ft. of industrial space currently in development and almost 1 million sq. ft. in net absorption in 2023. The market remains a hub for warehouse and distribution space, posting consistent gains in absorption every quarter despite word of a potential slowdown in leasing and inflation. Leasing activity remains healthy, although, it has been made up of smaller deals. The second-quarter net absorption came in at 404,703 sq. ft., a 30% drop from the previous quarter, signaling that although moderating from historic highs, the industrial market is still very healthy.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

DEMAND

Year-to-date, the Northeast Broward and Southeast Broward submarkets have accounted for a large amount of the positive net absorption in 2023. This has been driven by mid-size deals that were signed in the past couple of quarters. The largest move-in this quarter was in the Southwest Broward submarket. Specialized Freight Carriers occupied 134,000 sq. ft. at Weston Park of Commerce. The second largest move-in was Sciens Logistics, which occupied 76,000 sq. ft. at Hillsboro Technology Center located in the Northeast Broward submarket.

Leasing activity in the second quarter totaled 1.1 million sq. ft., which is half the amount recorded a year ago. However, a more significant indication of persistent demand is the share of renewals and extensions continues to increase since last year. Of deals signed this year, new deals only accounted for 30% of leasing volume. In contrast, new deals made up 60% of the total leasing volume in 2022. This difference is due to the growing number of renewals and extensions, which highlights the economic uncertainty and limited availability of the industrial space in Broward.

VACANCY & PRICING

Rates continue to rise as space falls. The availability rate fell 100 basis points year-over-year to 5.1% of Broward's 100 million sq. ft. of industrial inventory, helping push rates to $15.35 per sq. ft., a 21% increase since last year.

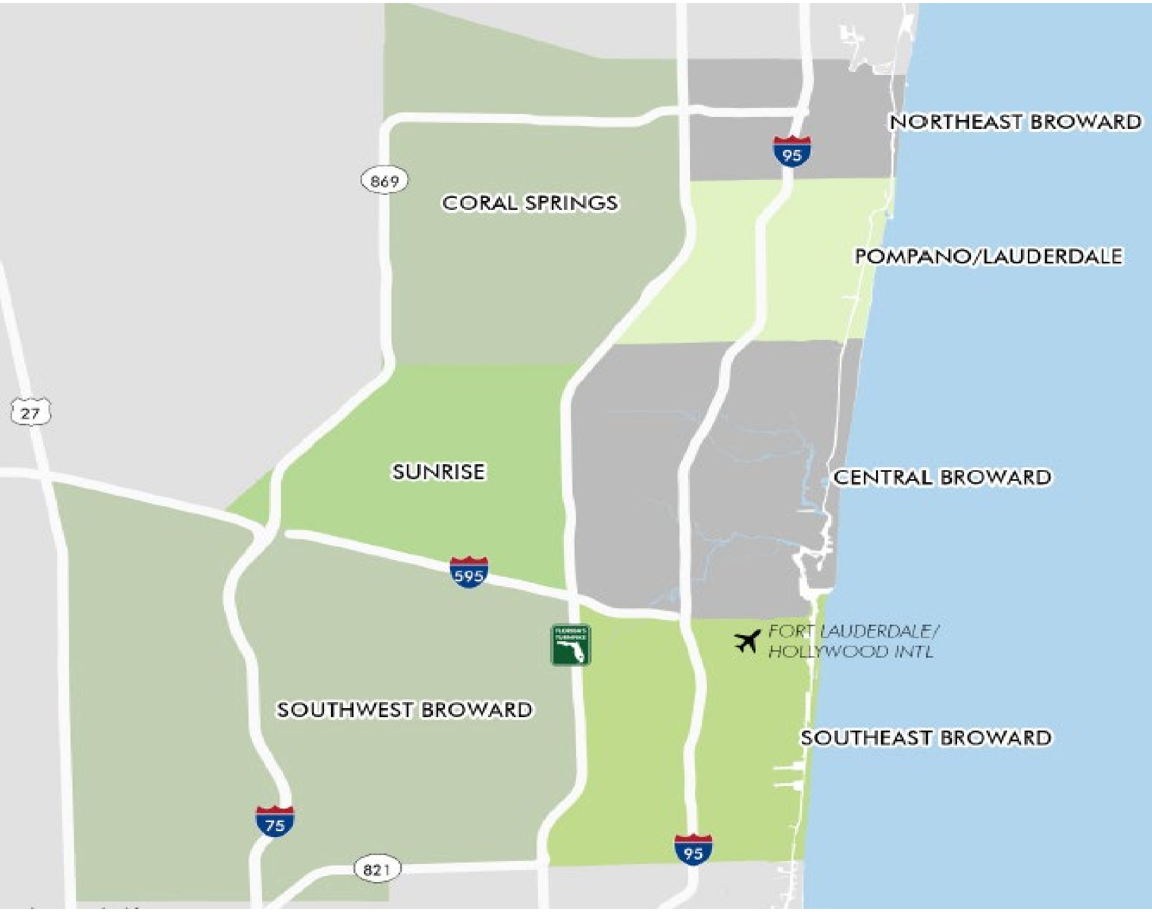
There were no deliveries this quarter which aided the vacancy rate to remain, once again, at a record-low rate of 2.6% for direct space. However, there is 1 million sq. ft. expected to come online in the next six months with minimal pre-leasing in place. Although, vacancy could increase due to the amount of new product coming online vacant, it should remain well below historical averages.

FIGURE 2: Statistical Snapshot Q2 2023

Submarket	Total Inventory (SF)	Direct Vacancy Rate (%)	Direct Availability Rate (%)	Q2 2023 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate ($/NNN)
Central Broward	18,572,907	2.72 %	3.84 %	-42,040	-15,623		$15.59
Coral Springs	8,691,515	3.03 %	4.12 %	106,431	200,263	627,385	$15.42
Northeast Broward	11,765,671	4.47 %	4.51 %	104,492	417,431		$15.33
Pompano/Lauderdale	25,269,959	2.65 %	6.19 %	-24,672	-60,758		$14.54
Southeast Broward	16,099,963	2.63 %	4.53 %	117,908	305,340	576,237	$15.00
Southwest Broward	17,518,956	1.96 %	7.5 %	138,246	131,411		$15.00
Sunrise	5,829,397	1.08 %	2.49 %	4,338	4,726	103,300	$16.56
Grand Total	103,748,368	2.6 %	5.1%	404,703	982,790	1,306,922	$15.35

Source: CBRE.com

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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