Miami continues to outperform its peer markets

5.0%	531,192	5,031,812	3,355,279	$15.46
▲ Total Vacancy (Q2 2024)	▼ SF Net Absorption (Q2 2024)	▼ SF Construction (Q2 2024)	▲ SF Delivered (Q2 2024)	▼ NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

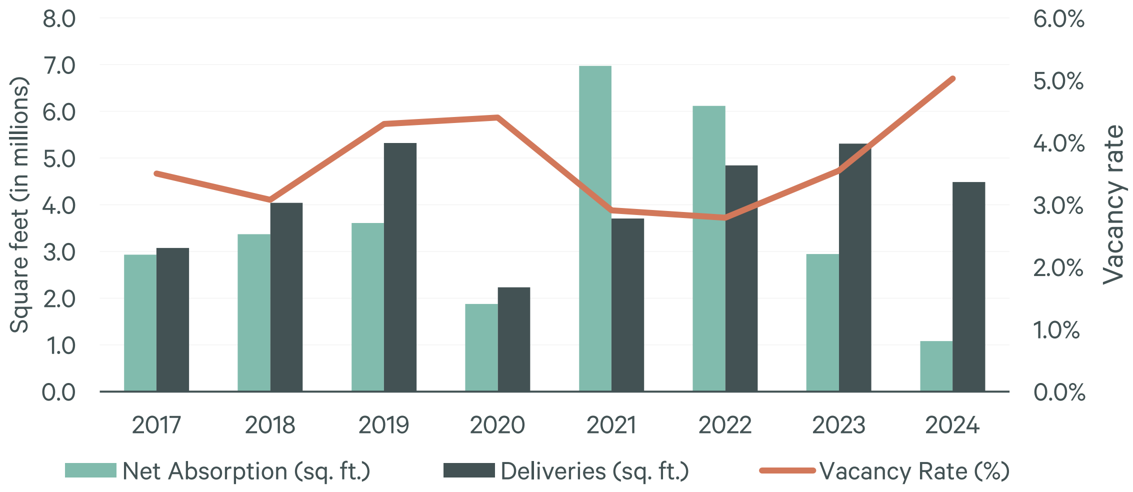
Market highlights

- During the first half of 2024, demand in Miami continued to normalize but remains stronger than in other comparable markets nationwide. This trend is expected to continue without triggering a significant drop in rents, as land constraints continue to play a role.

- Developers continued to pull back on new warehouse construction as the market returns to a pre-pandemic lease up/absorption pattern over the next year or so. This scale back should help vacancy stabilize over the next few quarters.

- The overall vacancy rate increased by 200 basis points since Q2 2023. Unlike past vacancy spikes, this current wave is due to the amount of new speculative inventory rather than a severe economic downturn. As a result, users are still eager to enter space, and owners have been able to maintain positive, albeit slowing, rent growth

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

Demand

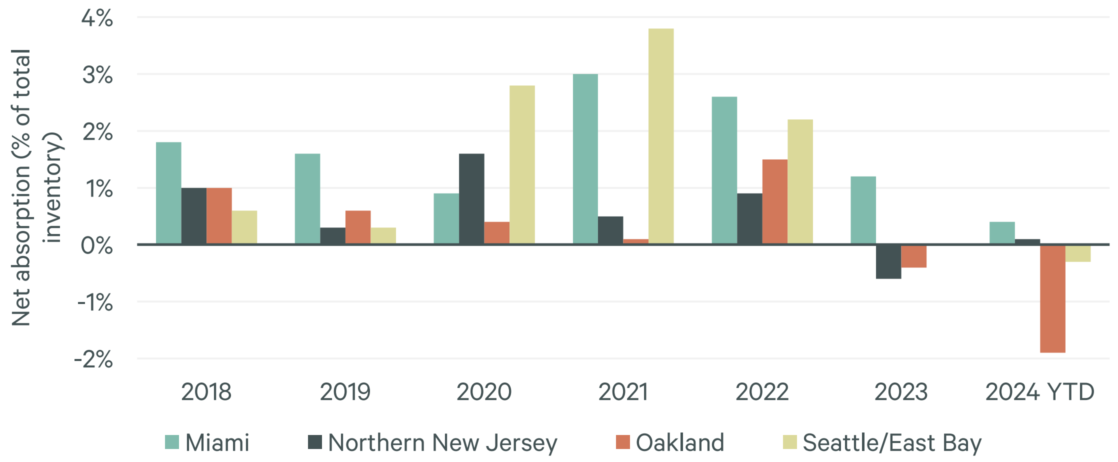
Miami fundamentals continued to normalize to their pre-pandemic figures in the second quarter of 2024, including demand. However, when compared to markets with similar characteristics and barriers to entry like Northern New Jersey, Oakland, or Seattle, Miami's industrial market continues to have better growth in terms of net absorption.

Since 2018, Miami has been taking up space at one of the fastest rates seen nationwide. In 2021, demand peaked, with 3.0 percent of its total inventory being absorbed, while similar markets twice its size such as Northern New Jersey stayed below 1.0 percent. Currently Miami's net absorption is still positive, whereas most comparable markets are now experiencing negative growth. Long-term trends in the region continue to be driven by positive demographic growth and robust port activity.

Industrial leasing in Miami remains substantially lower than pre-pandemic levels, though it has increased about 10 percent during the past 12-trailing months. Steady leasing volume has been propelled by large deals (above 100,000 sq. ft.) with 22 deals signed so far during the past year. Some of the largest deals this quarter include Sentry Tire USA (161,787 sq. ft.), Caribbean Trading Enterprises (142,800 sq. ft.), Global Engine Maintenance (107,090 sq. ft.) and Zuma & Songs (100,414 sq. ft.).

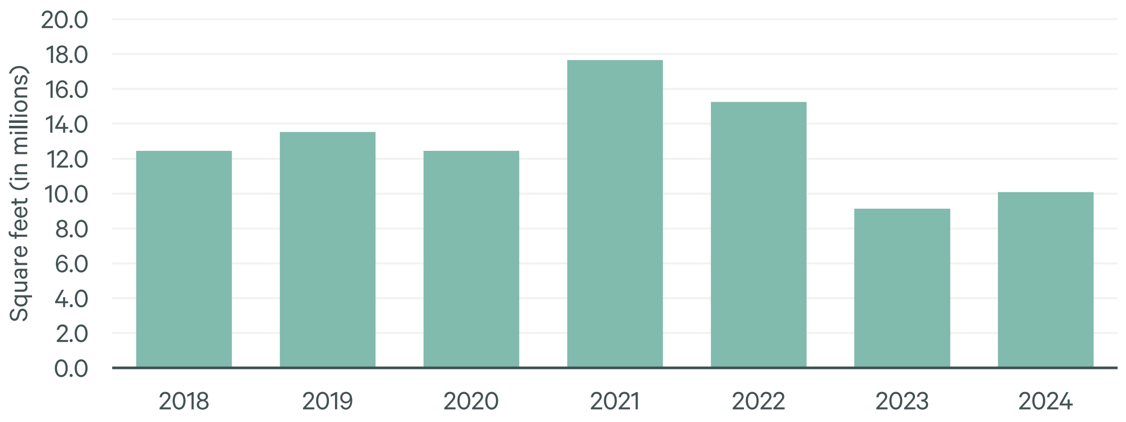
In addition, net absorption has been concentrated in submarkets with a strong development pipeline such as Hialeah Gardens. Since the start of 2024, tenants have occupied 730,000 sq. ft., mainly due to Imperial Bag's (506,215 sq. ft.) move-in during Q2 2024. While tenants are moving into a wave of new industrial inventory, older buildings developed before 2000 are losing occupancy. More than 4.0 million sq. ft. of over 9.0 million sq. ft. delivered since 2023 has been occupied, but occupancy loss among older stock has curtailed net absorption in 2024 to just 1.0 million sq. ft. Despite this, vacancy rates in most submarkets remain below 5 percent. Considering the delivery of 4.5 million sq. ft. of new industrial product in the first half of this year, the Miami market continues to experience robust positive absorption.

FIGURE 2: Miami market comparison



Source: CBRE.com

FIGURE 3: Leasing activity (Trailing 12-months)



Source: CBRE.com

Vacancy & Rates

Vacancy has increased to 5.0% as of the second quarter of 2024, now trending at levels last seen in early 2019. Vacancy among logistics inventory (including warehouse and distribution buildings above 100,000 sq. ft.) is at an all-time high at 6.4%, while small bay building vacancy (under 10,000 sq. ft.) remains tight, compressing by 60 basis points year-over-year.

Rent growth for industrial space in Miami have decreased since mid-2023 due to contracting demand and rising vacancies. Annual rent growth in Miami is currently at 6.6%. This is below the peak of 25% set during the pandemic. Despite more building options, and greater negotiating leverage as rents in the market soften, most tenants will still face significant rent hikes upon lease expiration. Market rates are still up over 40% in the past five years and have doubled over the past decade.

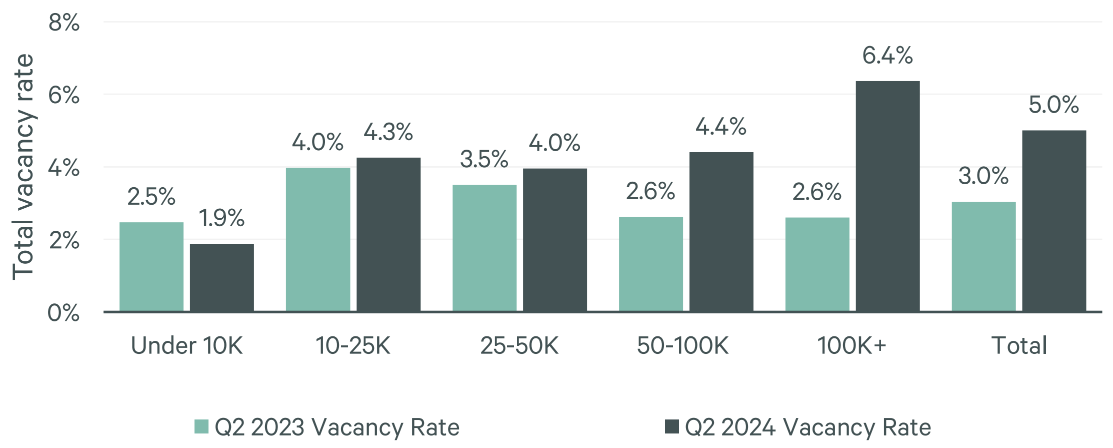
Supply

The Miami market is an infill market with high land values due to its scarcity of land. There is currently 5.0 million sq. ft. of inventory under construction in the market as of the second quarter of 2024. Construction activity, though measured, has been consistent over the past two and a half years, trending between 3.0 million sq. ft. and 5.0 million sq. ft. as construction starts balanced completions.

Despite rising market vacancy and declining rent potential, developers continue to break ground on construction projects in 2024. For example, Carrie Meek International Business Park broke ground this quarter with two buildings totaling 374,419 sq. ft. and Point 97th with one building totaling 107,632 sq. ft.

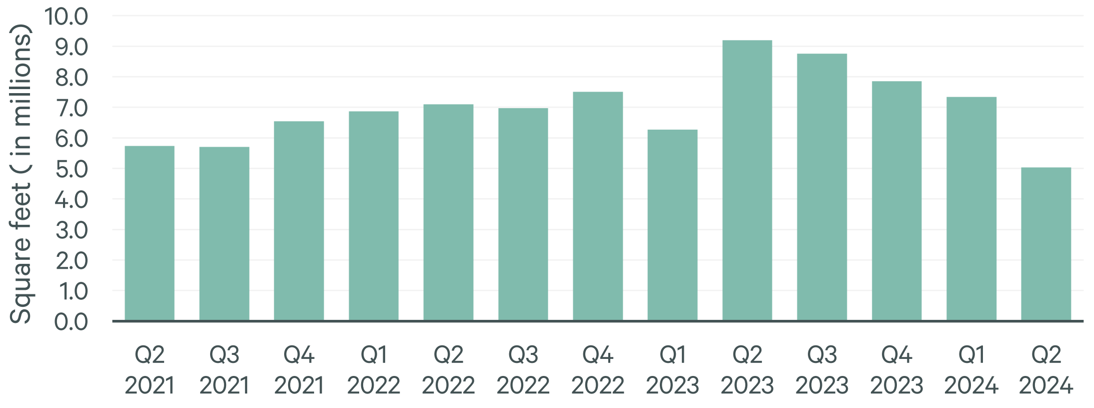
There is a scarcity of modern inventory with ample clear height and electric power near the port, providing confidence to developers that new supply will lease as demand improves. Looking beyond 2024, the impact of new construction on vacancy levels is projected to moderate considerably. This is because construction starts have slowed down for four consecutive quarters.

FIGURE 4: Vacancies by size



Source: CBRE.com

FIGURE 5: Under construction

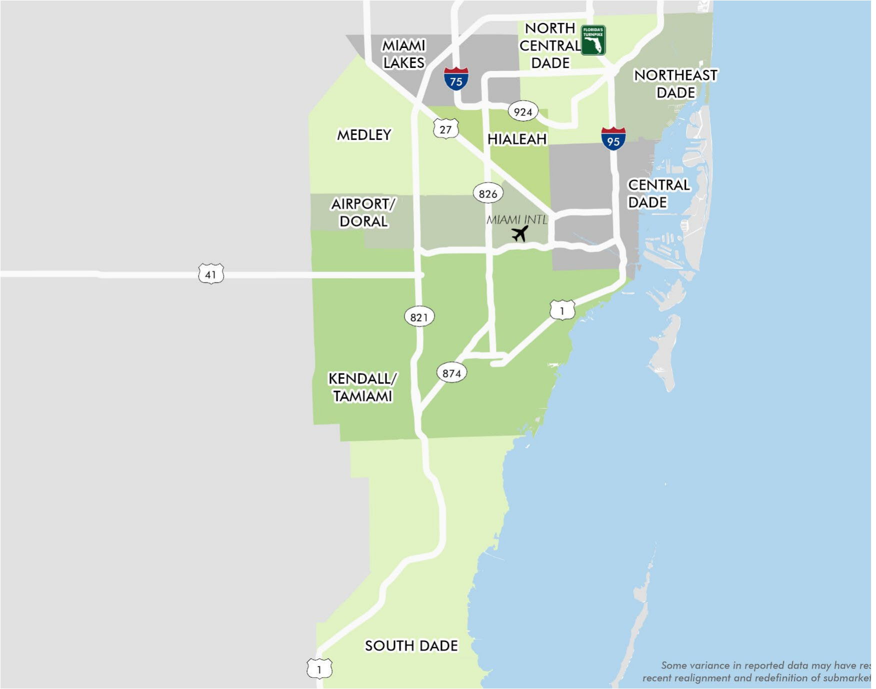


Source: CBRE.com

Figure 6: Market statistics Q2 2024

Submarket	Total Inventory (Sq. Ft.)	Total Vacancy Rate	Q2 2024 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Q2 2024 Deliveries (SF)	Avg. Asking Lease Rate ($/NNN)
Airport/Doral	60,824,327	4.58 %	-126,765	-59,094	1,528,640	0	$19.60
Central Dade	39,691,109	3.65 %	32,374	-6,738	107,632	85,376	$14.50
Hialeah	16,707,629	4.38 %	-85,667	-18,974	409,189	0	$13.60
Kendall/Tamiami	14,404,811	3.17 %	-44,926	-44,339	0	0	$13.00
Medley	46,875,052	4.64 %	-59,225	395,642	930,559	539,293	$17.35
Miami Lakes	17,933,512	8.21 %	705,155	730,440	1,512,320	924,942	$17.00
North Central Dade	40,290,770	7.83 %	106,188	86,028	374,419	1,805,758	$16.10
Northeast Dade	2,686,371	2.66 %	-1,890	-15,920	0	0	$14.50
Out of Submarket	1,389,117	0.18 %	0	0	0	0	N/A
South Dade	4,634,516	1.05 %	5,948	13,837	169,053	0	$13.00
Grand Total	245,437,214	5.03 %	531,192	1,080,882	5,031,812	3,355,279	$15.46

Market Area Overview



CBRE Economic House View

Following a year of expectation-busting growth, which has given us interest rates higher for much longer, it seems we will get a “soft landing” in 2024. Last year’s expansion was almost certainly driven by fiscal stimulus that far exceeded other western countries. Today, stimulus effects are fading, and higher interest rates continue to bite. There is evidence of this on the consumer front, wherein delinquency rates are trending upward, and credit growth is quickly slowing. The latter signals that consumption—a key driver of GDP growth in recent quarters—is poised to slow further. This partly explains why we believe growth will settle at the mid-1% range this year.

A more severe contraction in consumption would require the labor market to contract. Presently, conditions are merely softening. Both job openings and hours worked are falling. Also, most of the job growth is clustered in sectors that are immune to higher interest rates and receive at least some public funding, such as education, healthcare and government jobs. Leisure & hospitality has been a growth sector, but these cooling trends are evident here too.

A soft landing in consumption and hiring point to further disinflation. Labor-intensive service costs are poised to soften and falling rents across the Sun Belt suggest weaker housing inflation is on the horizon. Fed rate cuts are downstream of disinflation, and a most welcome outcome within the commercial real estate space where higher financing costs and devaluations are triggering distress. The prospect of a rate cut this fall will at least help ease rate volatility, put cap rates on a slight downward trajectory, and generate more common ground between buyers and sellers in coming quarters.

Contacts

Erik Rodriguez
Research Manager
1 954 548 5534
erik.rodriguez@cbre.com

Marc L. Miller
Associate Field Research Director
+1 305 381 6428
marc.miller1@cbre.com