The vacancy rate hits a new record low as developers increase construction

▼ 2.7%
Direct Vacancy

▼ 286,948
SF Net Absorption

▲ 1,375,605
SF Construction

▲ 0
SF Delivered

▲ $15.25
NNN / Lease Rate

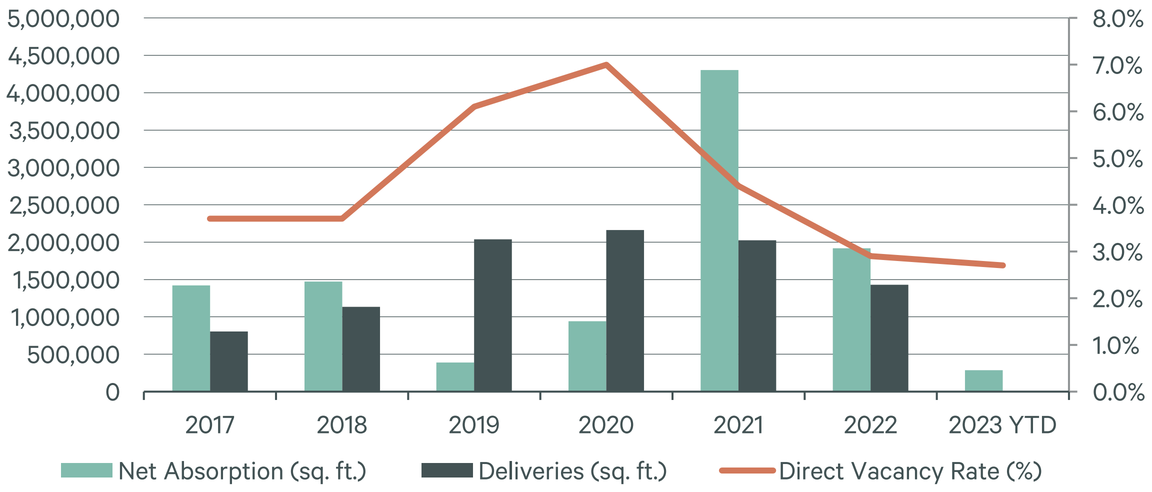
Note: Arrows indicate change from previous quarter.

Overview

- The Broward industrial market ended Q1 2023 with net absorption of 287,000 sq. ft., marking the 12th consecutive quarter of positive net absorption.
- Vacancy dropped 30 basis points quarter over quarter, dropping from 3.0% in Q4 to 2.7% in Q1. This is currently the lowest vacancy rate on record for the Broward market.
- The current construction pipeline has roughly 1.3 million sq. ft. of industrial space underway, all of which is speculative construction.
- As market conditions remain tight, asking rental rates increased 5.0% for the quarter, averaging $15.25 per sq. ft., with a 23.0% increase year-over-year.

The industrial market in Broward has been on a super charged growth path, resulting in historically low vacancy rate and surges in rent growth. As a result, developers increased construction activity during the past six months, yet there were no deliveries this quarter. Limited inventory and continued demand will allow for growth to remain constant, however, at a lesser rate than recent quarters given the economic climate.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

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DEMAND

Tenants continued to absorb space amongst constrained supply, resulting in almost 300,000 sq. ft. of positive net absorption. This was contributed by a large-scale move-in of 209,000 sq. ft. in recently built Prologis I-595 Distribution Center. The tenant was Williams-Sonoma.

This quarter saw a limited number of large deals – most deals only ranged between 10,000 to 30,000 sq. ft. Total leasing activity ended at 800,000 sq. ft., a 20.0% drop from last year. Highlighting the lack of available space, the market is currently facing. However, to eliminate the supply drought, 1.3 million sq. ft. of new industrial product is currently underway. To date, almost 90% of it still available for pre-leasing.

VACANCY & PRICING

Vacancy rates across the market continued to decrease, a trend that held steady through every quarter throughout the year. The overall vacancy has dropped by 430 basis points since 2020 – when it peaked at 7.0%. The submarket with the lowest vacancy rate is Southwest Broward at 2.13%, while Northeast Broward has the highest rate at 4.62% due to some large blocks of space in Class A product.

Asking rents for the overall Broward market finished Q1 2023 at $15.25 per sq. ft., representing a 45.0% increase over the last five years. With the few remaining blocks of space being taken down rapidly, landlords have been able to consistently maintain unprecedented rent growth in a short amount of time. We expect rent growth to continue in the coming months of 2023 as demand for industrial space persists. This growth may be supported by high quality vacant product entering the market, justifying landlord's increasing asking rates.

FIGURE 2: Statistical Snapshot Q1 2023

Submarket	Total Inventory (SF)	Direct Vacancy Rate (%)	Availability Rate (%)	Q1 2023 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate ($/NNN)
Central Broward	18,572,907	3.03	4.35	-78,034	-78,034	0	$15.60
Coral Springs	8,691,515	3.38	6.78	-12,767	-12,767	627,385	$16.00
Northeast Broward	11,767,707	4.62	4.43	263,359	263,359	0	$17.25
Pompano/Lauderdale	25,269,959	2.65	7.43	-66,595	-66,595	0	$17.50
Southeast Broward	16,043,813	3.05	5.34	187,432	187,432	748,220	$15.50
Southwest Broward	17,518,956	2.13	11.52	-6,835	-6,835	0	$15.50
Sunrise	5,829,397	2.52	10.31	388	388	0	$15.75
Grand Total	103,694,254	2.7 %	6.5%	286,948	286,948	1,375,605	$15.25

Source: CBRE.com

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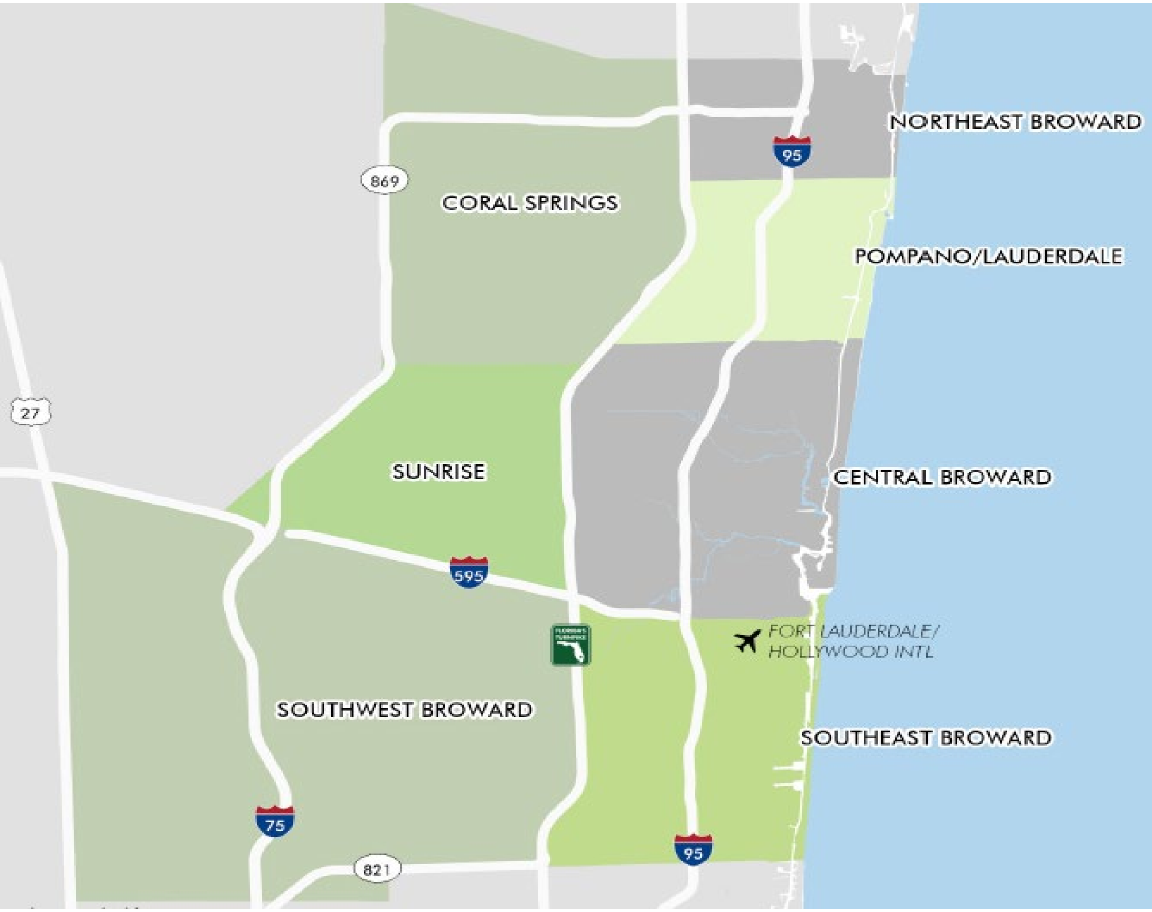
Market Area Overview



Economic Outlook

Downstream consequences of the Fed's tightening program are surfacing and signaling slower growth ahead. Specifically, trouble in the banking sector will likely weigh on even the strongest feature of the economy—the consumer—as banks limit lending to increase their own liquidity. This will erode demand for big-ticket items, such as housing and autos, but could also impede spending on services, which has been a key driver of job growth in recent months.

Meanwhile, other corners of the labor market, especially technology and corporate functions, are under pressure as hiring far exceeded revenue growth in recent years. Other operating challenges, such as inflation and cost of capital, are causing firms to shelve expansion plans and business investment is stalling. Like households, firms will certainly feel the pinch of constrained credit flows.

This risk-off environment points to a moderate recession this year. The impact on commercial real estate will be two-pronged—a weaker economy will slow NOI growth and tighter bank lending will limit investment activity. These conditions will likely accelerate and crystalize value loss in the office sector, but losses elsewhere will be less severe due to stronger fundamentals. The silver lining is that a faster slowdown in the economy will reduce inflation pressure later this year and allow the Fed to ease monetary policy, providing greater clarity to the real estate sector.

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