The core market in Palm Beach county remains strong

▲ 6.2%
Total Vacancy (Q2 2024)

▼ -103,979
SF Net Absorption (Q2 2024)

▲ 619,149
SF Construction (Q2 2024)

▲ 991,405
SF Delivered (Q2 2024)

▲ $15.90
NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

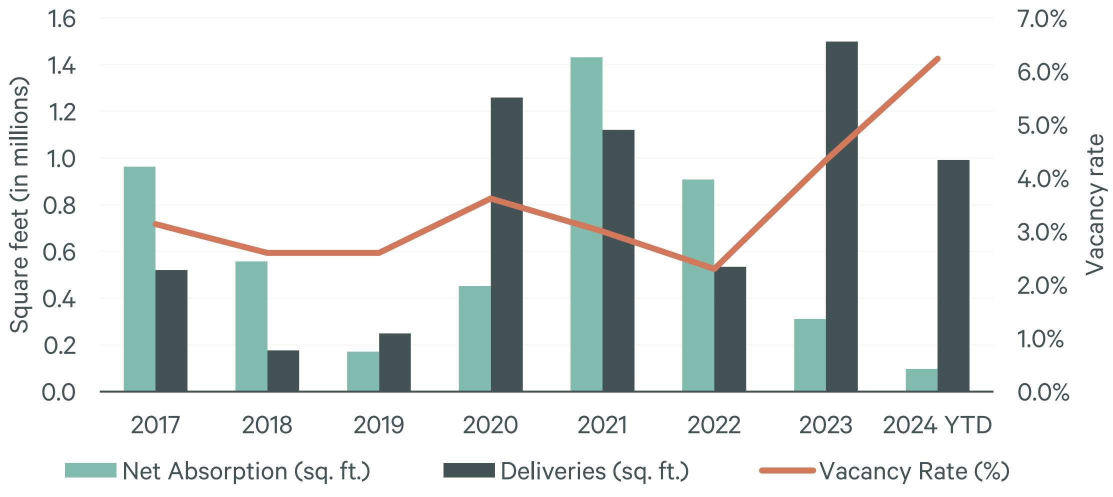
Market highlights

- Following national trends, the demand for industrial space in Palm Beach is easing. Net absorption fell significantly in 2023, and 2024 is expected to be more typical, with steady absorption rather than the surge seen in 2021.

- The vacancy rate has reached a multi-year high of 6.2%, mainly due to big-box buildings in the Palm Beach Park of Commerce in PB Outlying (West Jupiter). This submarket, being remote, has seen a lot of new construction that has yet to be absorbed.

- Industrial rent growth in Palm Beach is stabilizing after a swift deceleration through the first half of 2023. Rent growth is up year-over-year and sits at 4.2%, which remains above the national rate of 4.0%.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

DEMAND

Demand ended the second quarter with negative absorption, primarily due to Exacore vacating 165,000 sq. ft. in Palm Beach Park of Commerce, of which 47,257 sq. ft. has already been reoccupied by Global Furniture. The market concluded the first half of the year with nearly 100,000 sq. ft. of positive net absorption, returning to pre-pandemic levels. Newly constructed properties, especially those catering to the core market demand, continue to get leased at a healthy pace. Key examples include the full occupancy of 162,000 sq. ft. at Southern Way Business Center Building 1, 133,000 sq. ft. at Palm Beach Airport Logistics Center by Chep, and 78,000 sq. ft. at Southern Business Center Building 2 by Berling Packaging.

New leases signed this quarter include Sfakia (53,250 sq. ft.), Global Furniture (47,257 sq. ft.), The Pyure (30,278 sq. ft.), Import Mex Distributors (23,471 sq. ft.), and Panor (23,384 sq. ft.).

VACANCY & PRICING

Since 2022, vacancy rates have increased from 2.3% to 6.4%, primarily due to the completion of large box buildings in the PB Outlying submarket. This area has added 1.0 million sq. ft. of space since 2022, with an average building size of 300,000 sq. ft., which is larger than typical developments in core submarkets. Currently, the core market, excluding the PB Outlying area, has a 4.6% vacancy rate, marking only a 200-basis point increase since 2022.

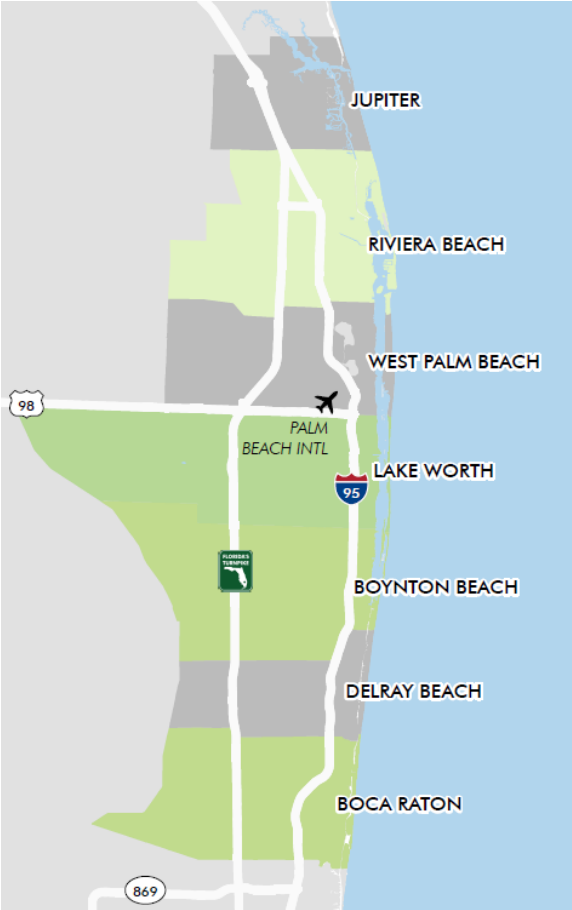
Annual rent growth in Palm Beach has decelerated sharply over the past two years. Rents in Palm Beach have increased 4.2% over the past year after reaching a peak annual rent growth of over 20% in 2022. Geographically, rents have risen the most in the West Palm Beach Submarket, and all submarkets have experienced positive annual rent growth.

FIGURE 2: Statistical Snapshot Q2 2024

Submarket	Total Inventory (Sq. Ft.)	Total Vacancy	Q2 2024 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Q2 2024 Deliveries (SF)	Avg. Asking Lease Rate ($/SF /NNN)
Boca Raton	7,455,058	3.7 %	-9,773	-18,382	0	0	$19.05
Boynton Beach	4,431,245	1.98 %	-15,932	-13,772	0	0	$17.00
Delray Beach	2,907,748	2.46 %	-28,485	-19,749	69,785	0	$17.50
Jupiter	1,682,839	2.15 %	-4,525	-3,825	0	0	$13.00
Lake Worth	3,910,625	1.32 %	128,185	146,275	0	0	$13.00
PB Outlying	4,472,178	24.15 %	-164,806	-194,300	549,364	555,963	$11.50
Riviera Beach	12,523,055	5.36 %	-89,507	-4,956	0	0	$14.60
West Palm Beach	15,087,367	6.61 %	80,864	206,336	0	435,442	$16.65
Total Palm Beach	52,470,115	6.24%	-103,979	97,627	619,149	991,405	$15.90

Source: CBRE.com

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.

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