Palm Beach market cooling but fundamentals remain healthy

▲ 4.2%	▼ -72,636	▼ 1,699,319	▼ 437,728	▲ $15.50
Direct Vacancy	SF Net Absorption	SF Construction	SF Delivered	NNN / Lease Rate

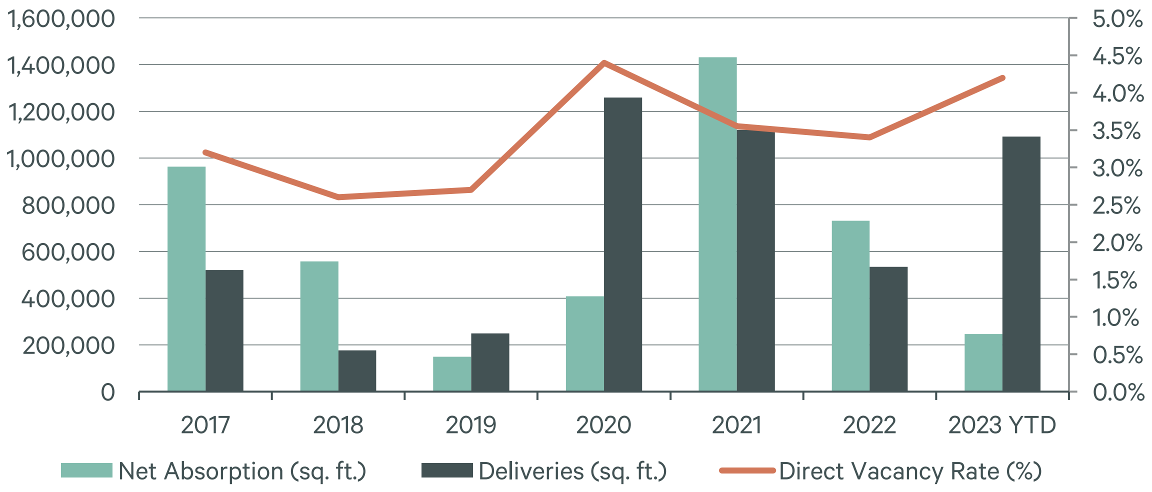
Note: Arrows indicate change from previous quarter.

Overview

- The availability rate rose this past quarter, increasing from 4.3% to 5.2%. The vacancy rate also rose this quarter from 2.9% to 4.2%.
- The market reported negative absorption in the third quarter of 2023, bringing year-to-date totals to 246,232 sq. ft.
- The 1.6 million sq. ft. pipeline trended downward for the second consecutive quarter upon record deliveries and sharply decelerating new starts.
- Rent growth, aggressive through all of 2022, has decelerated and will continue to cool thorough the year. This will vary on submarket, size range and asset type class.

The industrial market has begun showing signs of fatigue as both leasing velocity and new development are down substantially from 2022 levels and the slow down is expected to continue as companies and developers track volatile market conditions. Though demand has decelerated since hitting a peak in 2021, speculative leasing has been steady, demonstrating that tenants remain active despite economic hurtles.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

DEMAND

Net absorption totals should remain below pre-pandemic norms in 2023 and 2024, as softer demand for consumer goods coupled with high inflation and interest rates continues to temper growth. However, net absorption is forecasted to finish well in the black in 2023 and 2024, signaling its resilience amid the current economic headwinds.

Leasing activity under 20,000 sq. ft. dominated activity this quarter. In fact, it has made up 89% of the total leasing activity year-to-date, while deals over 20,000 sq. ft. made up the remaining 11%. In addition, 42% of the total leasing activity in 2023 have been renewals, which is almost double the number of renewals seen in 2022. Some noteworthy renewals this quarter include Logistics (70,744 sq. ft.), and Dal-Tile (60,640 sq. ft.). There were also noteworthy new deals such as Foundation Building Materials (58,214 sq. ft.), and Latricrete International (47,673 sq. ft.).

VACANCY & PRICING

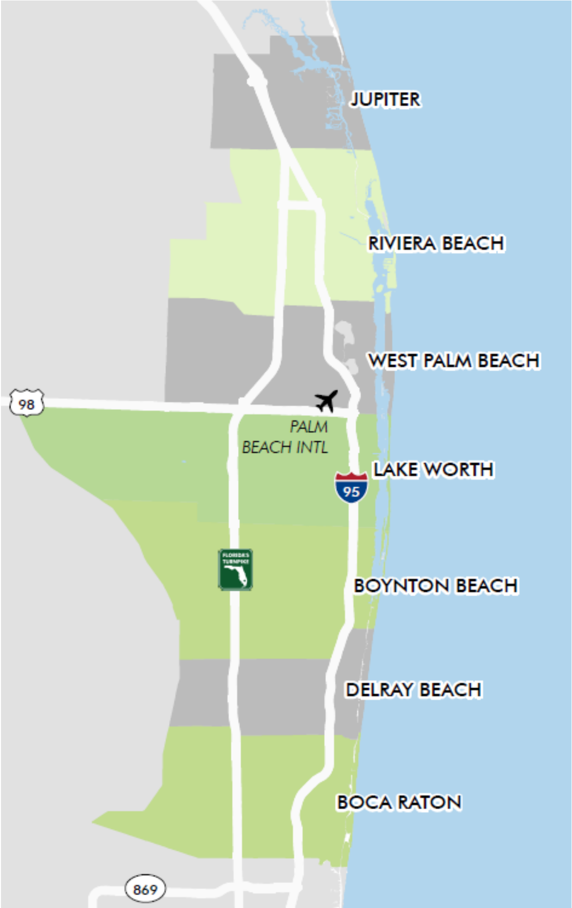
Rent growth, aggressive from 2019 through 2022, has decelerated and will continue to reduce its pace of growth throughout the next year but will maintain levels which exceed pre-pandemic highs as demand fundamentals persists and developers compensate for the rising cost of construction.

The gradual rise in vacancy from last quarter can be attributed to the increase in speculative development in 2023. This has resulted in an incremental rise in the vacancy rate as speculative building continue to deliver either partially or entirely available.

FIGURE 2: Statistical Snapshot Q3 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Direct Availability (%)	Q3 2023 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/SF /NNN)
Boca Raton	7,455,058	3.54 %	5.32 %	6,987	72,332	0	$17.00
Boynton Beach	4,431,245	3.85 %	5.44 %	-8,990	-25,040	0	$14.00
Delray Beach	2,907,748	2.52 %	2.9 %	-17,540	2,151	0	$15.60
Jupiter	1,682,839	1.86 %	1.71 %	-1,783	-112	0	$14.50
Lake Worth	3,771,457	2.05 %	0.94 %	-37,210	-31,847	206,000	$16.00
Out of Submarket	3,948,718	6.73 %	8.13 %	14,822	14,822	929,327	$14.30
Riviera Beach	12,523,055	4.82 %	5.94 %	56,842	90,373	0	$15.50
West Palm Beach	14,467,014	4.73 %	5.74 %	-85,764	123,553	563,992	$17.00
Total Palm Beach	51,187,134	4.2%	5.2%	-72,636	246,232	1,699,319	$15.50

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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