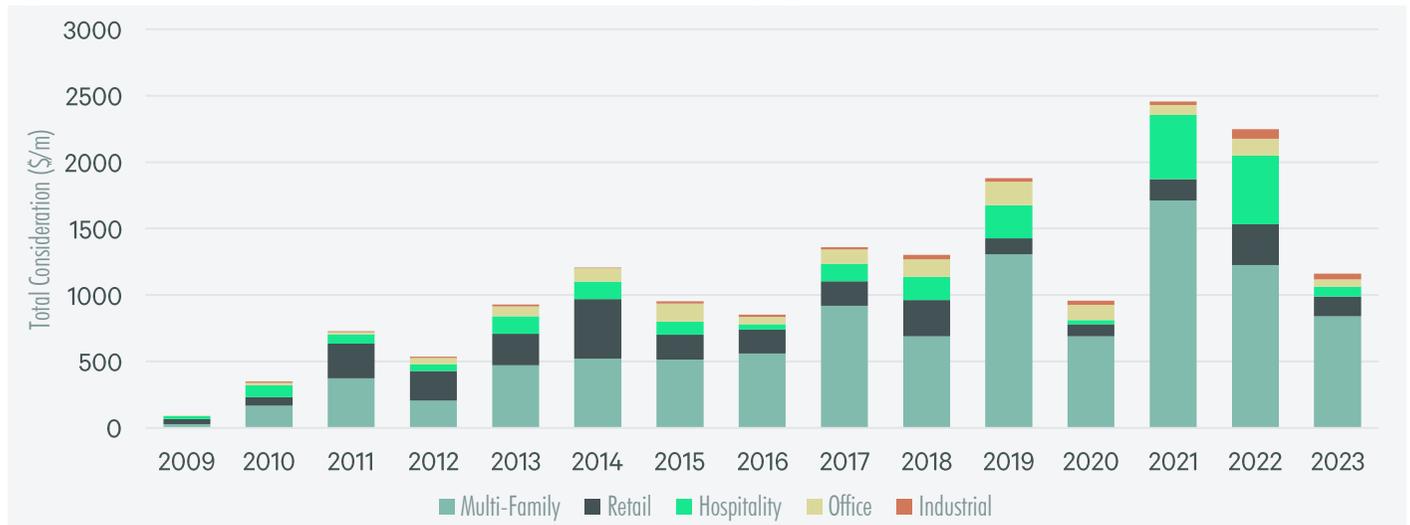

Florida Panhandle Report



Property Market Fundamentals Strong, Await Capital Markets Return Starting in H2 2024

Figure 1: Total Consideration of Real Estate Trades in Florida’s Panhandle by Type and Year



Source: Real Capital Analytics, February 2024.

Market Overview

The seizing up of capital markets last year is evident in the profound decline in property trades in 2023, which were down nearly 50% year over year. Meanwhile, and in stark contrast to the investment sales arena, market conditions at the street level remain very healthy throughout Northwest Florida. Very tight vacancy across most segments, combined with development activity that has remained limited, continues to push rental economics, setting the stage for a recovery in property valuations over the next 12 months. With expectations for interest rate relief later in 2024, the strong fundamental market conditions should support a healthy recovery in capital markets, with a slight reduction in cap rates and increasing trading levels throughout the year.

Threats to the market do remain though, as interest rate resets on maturing loans will certainly affect

investor balance sheets, reducing overall liquidity and possibly creating a distress cycle in certain asset types. Combined with tighter overall lending criteria, there's no doubt that weaker hands will be exposed, but there will be great opportunities for the capital that's remained on the sidelines the past 18 months.

On the supply side of the equation, we are very pleased to report the commencement of some much needed warehouse/distribution development in the Florida Panhandle. With available space constraints beginning to squeeze growth in the industrial segment during the last half of 2023, the new development cycle is a welcome relief. Retail development also continues to be fairly healthy, reacting to fundamental population and housing growth, expansion of neighborhoods and submarkets and continued consumer demand. Overall, the Panhandle commercial real estate market remains in very good shape and 2024 should prove to be another year of growth and value creation.

Office Sector

Similar to conditions in core office markets, recent economic uncertainties and the trend toward hybrid schedules/work-from-home have combined to stall office demand in the FL Panhandle. Positive absorption of over 21,500 sq. ft. occurred in the Panhandle during H2 2023 with Pensacola and Tallahassee totals leading the way. The trailing 12-month total was 136,999 sq. ft. And overall vacancy totaled 6.7% at the end of 2023. Positive highlights in the market can be found in increased leasing activity. During the first half of 2023, 20 leases over 5,000 sq. ft. occurred while 33 leases over 5,000 sq. ft. occurred during the second half of 2023. If that trend continues, the office market will be in store for a more active 2024.

Industrial Sector

The region's industrial market conditions remain very healthy with 812,015 sq. ft. of positive absorption during the second half of 2023 and trailing 12-month absorption of 880,358 sq. ft, resulting in vacancy rates at just 2.6% for the Panhandle overall. An acute lack of supply continues to plague the market, and demand remains very strong. There are a couple of modest flex industrial projects under development and a couple of larger distribution projects kicking off in early 2024, with market rents having appreciated enough to overcome the elevated cost of capital. 2024 and 2025 should prove to be a watershed period in the Panhandle industrial segment, as speculative development finally comes to the region at a meaningful scale and relieves the imbalance with the steadily increasing demand.

Retail Sector

Retail market conditions in Northwest Florida remain very strong, with tight vacancy, healthy absorption of new inventory, and a modest level of new development under way in almost every market area in the Panhandle. Trailing 12-month positive absorption of over 844,000 sq. ft. demonstrates the segment's expansion, and the historically low vacancy rates of 2.1% at the close of H2 2023 remain supportive of appreciating rents. The grocery anchored sector continues to drive the development and investment cycle, and unanchored multi-tenant centers and single-tenant retail are prevalent throughout the region. Emerging submarket areas and growth corridors continue to gain the attention of retail developers and tenants, as they respond to the ever-expanding population throughout the Florida Panhandle.

Capital Markets

Total investment sales of \$1.16 billion during 2023 represent a 48.3% drop from the same period in 2022. All segments have been impacted in the slowdown of capital markets activity. Consistent with recent history, the Multi-family sector remains the clear leader in investor activity in the Panhandle (72% of the total and a 31.4% decline), as there is simply more institutional quality product in the market, and a recent development cycle that continued to see assets converted from merchant developers to longer-term owners. The product type with the biggest drop was Hospitality (85.4% decline) followed by Office (57.1%) and Retail (52.2%). The Multi-family market has essentially seized up with the recent economic and interest rate turbulence, and it appears that the overall investment market in the Panhandle is poised to see one of its slowest years in the past decade. Investment sales are expected to remain subdued until the Fed lowers interest rates starting in May or June. Expectations are that investment sales activity will start to improve during the second half of 2024.

The combination of continued economic momentum with a likelihood that the Fed's dramatic tightening cycle is now complete makes a 'soft landing' appear more likely for early 2024 but the pace of growth will be more modest than in recent quarters. Foremost, lower and middle-income households no longer have the luxury of excess savings and the pace of wage growth, whilst remaining elevated, is slowing. This nuance with wage growth is important. Higher wages are helping to maintain higher, albeit decelerating, core inflation.

This backdrop will likely translate into the Fed only slowly lowering its target rate in 2024. (CBRE expects 75 – 100 basis points worth of rate cuts in 2024.) This outlook may deter some spending, but it does help illuminate a pathway forward for real estate capital markets. Indeed, the combination of healthy fundamentals for many sectors and thawing credit markets could provide some welcome upside surprises for real estate performance in 2024.

Market Statistics

Figure 7: Office Market Statistics

Market	Total Inventory (SF)	Direct Vacancy (%)	Total Vacancy (%)	H2 2023 Net Absorption (SF)	Trailing 12 Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/FSG)
Pensacola	6,256,644	4.3	4.4	31,230	(39,803)	-	25.54
CBD	1,921,409	3.3	3.4	22,789	10,155	-	25.48
Suburban	4,335,235	4.8	4.8	8,441	(49,958)	-	25.61
Destin/Fort Walton/Okaloosa	2,739,161	8.0	8.2	(30,458)	(53,533)	-	20.30
Destin	891,283	11.2	11.7	1,290	(2,830)	-	20.30
Fort Walton Beach	1,119,227	9.5	9.5	(17,848)	(37,503)	-	26.86
S Walton/Miramar Beach	373,524	0.4	1.7	(1,400)	(2,743)	-	26.36
Niceville/Freeport/Crestview	412,575	3.0	3.0	(12,500)	(12,500)	-	14.00
Panama City	2,948,921	4.9	4.9	(17,676)	(52,112)	-	19.11
Panama City Beach	533,590	3.2	3.2	(8,141)	16,105	-	18.18
Panama City	2,234,243	5.8	5.8	(9,535)	(69,724)	-	18.00
Tallahassee	13,525,081	7.5	7.8	38,408	8,449	-	20.33
CBD	3,118,999	4.3	4.9	24,347	39,139	-	24.79
Suburban	10,406,082	8.4	8.7	14,061	(30,690)	21,716	20.11
Total Panhandle	25,469,807	6.5	6.7	21,504	(136,999)	21,716	20.69

Source: CBRE Research, H2 2023.

Tracked Set: 10,000 sq. ft. and greater single and multi-tenant office buildings.
 *Includes base data adjustments where previously untracked inventory is found.
 **Does not include medical office buildings (MOB).

Figure 8: Industrial Market Statistics

Market	Total Inventory (SF)	Direct Vacancy (%)	Total Vacancy (%)	H2 2023 Net Absorption (SF)	Trailing 12 Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/NNN)
Pensacola	16,437,362	2.9	3.1	115,166	(23,306)	-	10.71
Escambia County	15,047,737	2.2	2.4	114,819	53,747	-	11.28
Santa Rosa County	1,389,625	10.8	10.8	347	(77,053)	-	6.95
Destin/Fort Walton/Okaloosa	4,923,255	2.5	2.9	27,850	41,842	191,900	13.92
Destin	180,933	4.0	4.0	27,800	25,200	32,400	13.00
Fort Walton Beach	2,432,756	4.4	4.4	4,200	25,392	-	10.07
S Walton/Miramar Beach	508,076	1.7	1.7	(6,150)	(8,750)	-	14.20
Niceville/Freeport/Crestview	1,159,204	0.2	0.2	2,000	-	159,500	14.13
Panama City	6,516,502	1.3	1.3	13,156	233,038	10,000	9.26
Panama City Beach	781,394	-	-	10,500	52,200	10,000	9.89
Panama City	5,087,874	1.6	1.6	2,656	180,838	-	9.23
Tallahassee	12,290,482	1.4	1.8	655,843	628,784	-	9.38
Total Panhandle	40,167,601	2.4	2.6	812,015	880,358	201,900	10.63

Figure 9: Retail Market Statistics

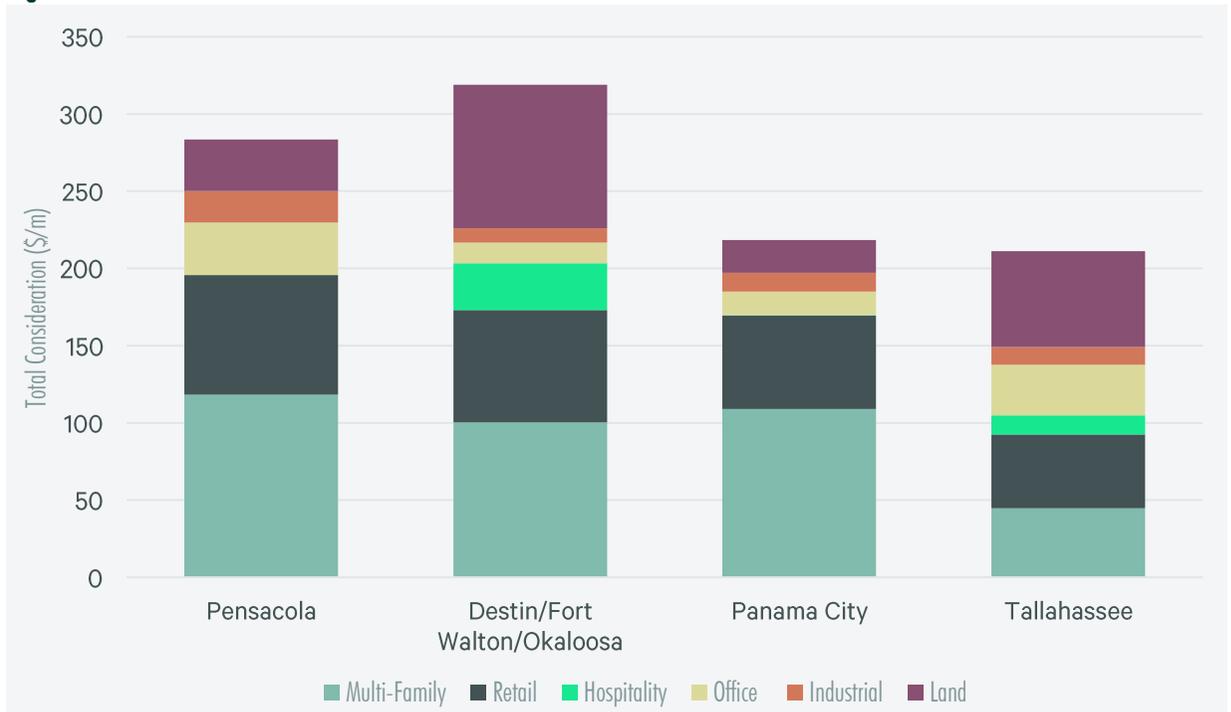
Market	Total Inventory (SF)	Direct Vacancy (%)	Total Vacancy (%)	H2 2023 Net Absorption (SF)	Trailing 12 Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/NNN)
Pensacola	30,038,423	2.5	2.5	254,809	297,232	74,291	15.77
Destin/Fort Walton/Okaloosa	19,793,869	1.9	2.0	165,269	339,943	126,357	18.54
Destin	5,040,408	2.1	2.1	6,686	19,765	69,000	23.79
Fort Walton Beach	7,274,671	2.8	2.9	1,839	82,769	-	13.54
S Walton/Miramar Beach	3,068,758	2.1	2.3	19,838	29,210	29,132	22.51
Niceville/Freeport/Crestview	3,424,494	1.0	1.0	87,685	102,950	28,225	20.18
Panama City	16,866,288	0.7	0.8	21,094	82,415	73,480	15.07
Panama City Beach	5,100,088	0.8	0.8	(1,570)	2,539	3,000	20.76
Panama City	10,437,173	0.8	0.8	21,869	70,031	70,480	14.15
Tallahassee	23,583,457	2.8	2.9	(39,327)	164,610	38,087	15.56
Total Panhandle	90,282,037	2.1	2.1	401,845	844,200	312,215	16.19

Source: CBRE Research, H2 2023.

Tracked Set: 2,500 sq. ft. and greater retail buildings

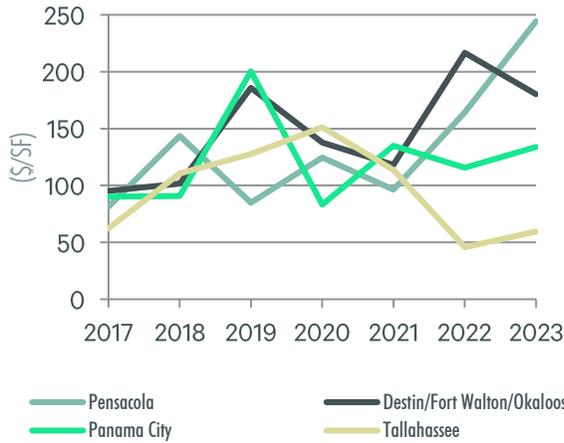
Capital Investment Overview

Figure 10: Sales Volume Totals H2 2023



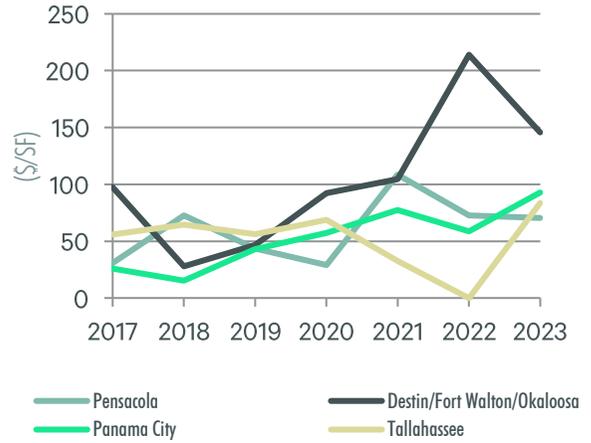
Source: CBRE Research, H2 2023.

Figure 11: Office Avg. Sale Price Per Sq. Ft.



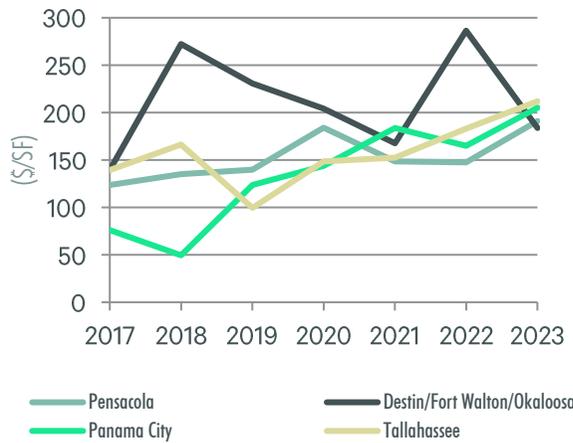
Source: CBRE Research, H2 2023.

Figure 12: Industrial Avg. Sale Price Per Sq. Ft.



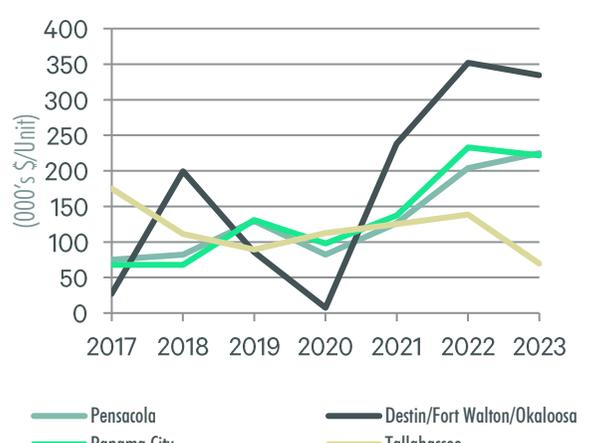
Source: CBRE Research, H2 2023.

Figure 13: Retail Avg. Sale Price Per Sq. Ft.



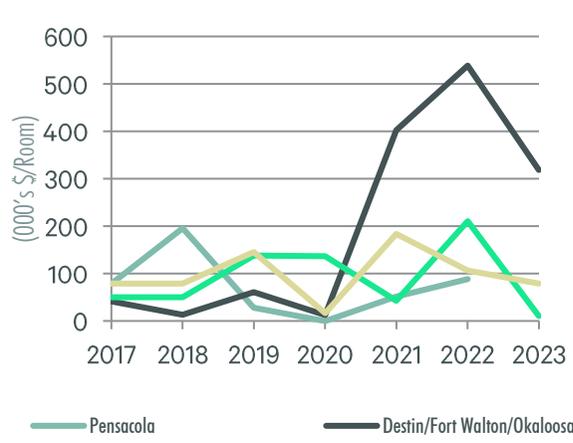
Source: CBRE Research, H2 2023.

Figure 14: Multi-Family Avg. Sale Price Per Unit



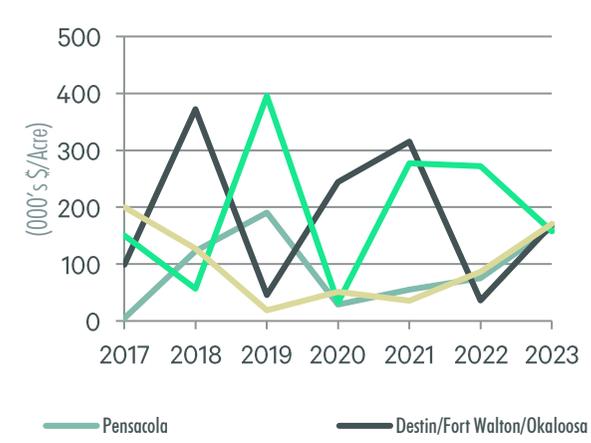
Source: CBRE Research, H2 2023.

Figure 15: Hospitality Avg. Sale Price Per Room



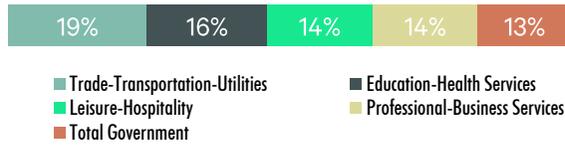
Source: CBRE Research, H2 2023.

Figure 16: Land Avg. Sale Price Per Acre



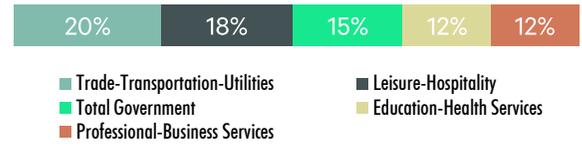
Source: CBRE Research, H2 2023.

Figure 2: Pensacola Top 5 Jobs by Sector & Employers



Employer	Total Employed
Naval Air Station Pensacola	23,000
Navy Federal Credit Union	8,729
Baptist Health Care	5,434
Sacred Heart Health Systems	4,820
University of West Florida	2,447

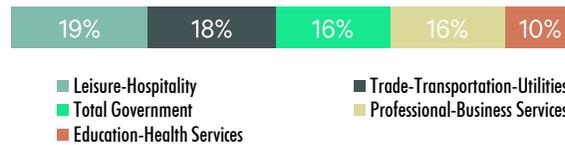
Figure 3: Panama City Top 5 Jobs by Sector & Employers



Employer	Total Employed
Tyndall Air Force Base	6,416
Naval Support Activity	3,300
Bay District Schools	3,000
Bay Medical Center	1,800
Wal-Mart and Sam's Club	1,800

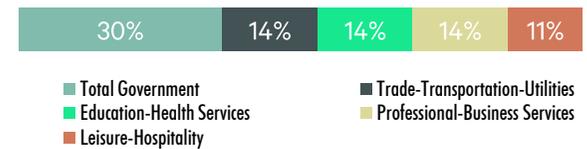
Source: U.S. Department of Labor, Bureau of Labor Statistics, February 2024 & Florida West Economic Development Alliance.

Figure 4: Destin Top 5 Jobs by Sector & Employers



Employer	Total Employed
Eglin Air Force Base	19,413
Hurlburt Field	10,124
Okaloosa County School District	3,561
Walmart Supercenter	1,520
HCA Florida Fort Walton Destin Hospital	1,300

Figure 5: Tallahassee Top 5 Jobs by Sector & Employers



Employer	Total Employed
State of Florida	19,136
Florida State University	14,378
Leon County Schools	5,383
Tallahassee Memorial Healthcare	4,583
Florida A&M University	2,200

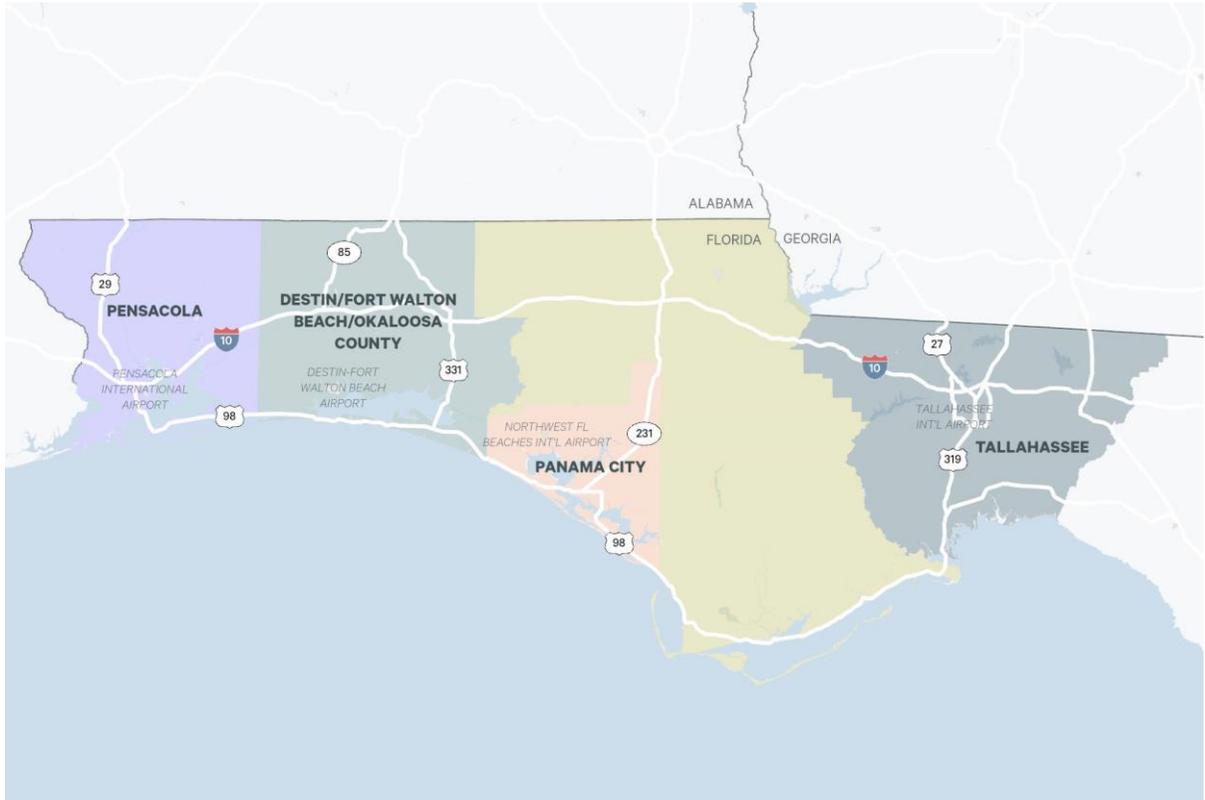
Source: U.S. Department of Labor, Bureau of Labor Statistics, February 2024, One Okaloosa EDC & Florida West Economic Development Alliance.

Figure 6: Demographic Stats

Market	Unemployment Rate	Daytime Employment	Avg. Household Income (\$)	Median Home Value (\$)	Population
Pensacola	3.2%	239,233	92,076	277,284	528,427
Destin/Fort Walton/Okaloosa	2.8%	169,136	102,427	344,898	303,414
Panama City	2.9%	94,917	87,158	285,667	182,599
Tallahassee	3.2%	203,662	87,155	268,135	390,180

Source: U.S. Department of Labor, Bureau of Labor Statistics & U.S. Census Bureau, February 2024.

Market Map



Research Market Coverage: Includes the following counties: (Pensacola) Escambia, Santa Rosa, (Destin/Fort Walton/ Okaloosa) Walton, Okaloosa, (Panama City) Bay, (Tallahassee) Gadsden, Jefferson, Leon, and Wakulla. The CBRE Northwest Florida office also covers the counties of Jackson, Gulf, Franklin and Calhoun, including the cities of Marianna, Port St. Joe and Apalachicola.

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