Construction slows, but longer-term demand will fuel development

▼ 4.3%
Total Vacancy (Q2 2024)

▼ -187,683
SF Net Absorption (Q2 2024)

▼ 398,940
SF Construction (Q2 2024)

▼ 0
SF Delivered (Q2 2024)

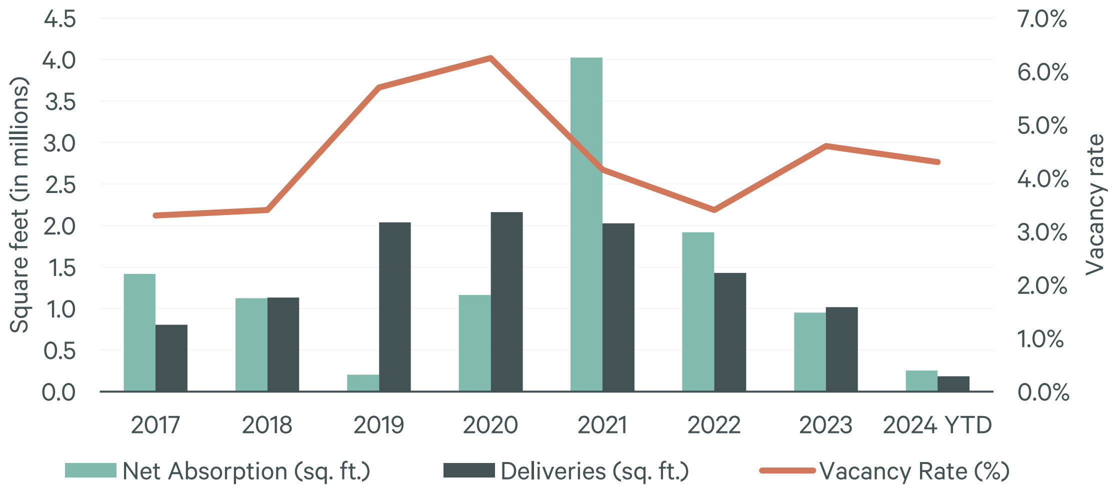
▲ $15.87
NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

Market highlights

- Broward's industrial market is stabilizing in 2024. While softer leasing trends weigh on net absorption, the pace of deliveries has slowed dramatically, and vacancy moved sideways over the past six months.
- The lack of supply perpetuates a tight market in Broward, with vacancy currently at 4.3%. The current rate is higher than the 3-year trailing average. However, it is below the 10-year average and is still considered a landlord market. The national vacancy rate is currently 6.1%.
- Demand will continue to be closely watched, with developers being responsive, as they have been in the last year, resulting in the likelihood of a continued tight market relative to pre-pandemic levels.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE.com

DEMAND

Tenant demand remained positive the first half of 2024, totaling over 250,000 sq. ft. of net absorption. This growth coincided with encouraging economic indicators, such as increased consumer confidence and wage growth surpassing inflation. Large deals during the first half of 2024 highlight the persistent demand for prime warehouse space. However, much of this demand is not yet reflected in net absorption figures, as major deals such as Chick-fil-A (201,000 sq. ft.) and Yachting Promotions (199,643 sq. ft.) are scheduled to move in during early 2025 and late 2024, respectively.

So far, much of the newly built industrial space is finding tenants, even if some of the larger buildings are taking longer to fill than expected. These include full occupancy of 216,000 sq. ft. at Foundry Commercial's Osprey Logistics Park by CTS Engines, full occupancy of IDI Logistics' 135,000 sq. ft. warehouse at Rock Lake Center by USPS and ATI fully occupying 131,000 sq. ft. at First Industrial's First Gate Logistics Center.

VACANCY & PRICING

Broward will face less pressure from oncoming new supply than most South Florida markets over the next several months. The under-construction stock of 398,940 sq. ft. represents only 0.4% of existing inventory. Around 7.3 million sq. ft. is currently available for lease, of which 1.0 million sq. ft. is via sublet.

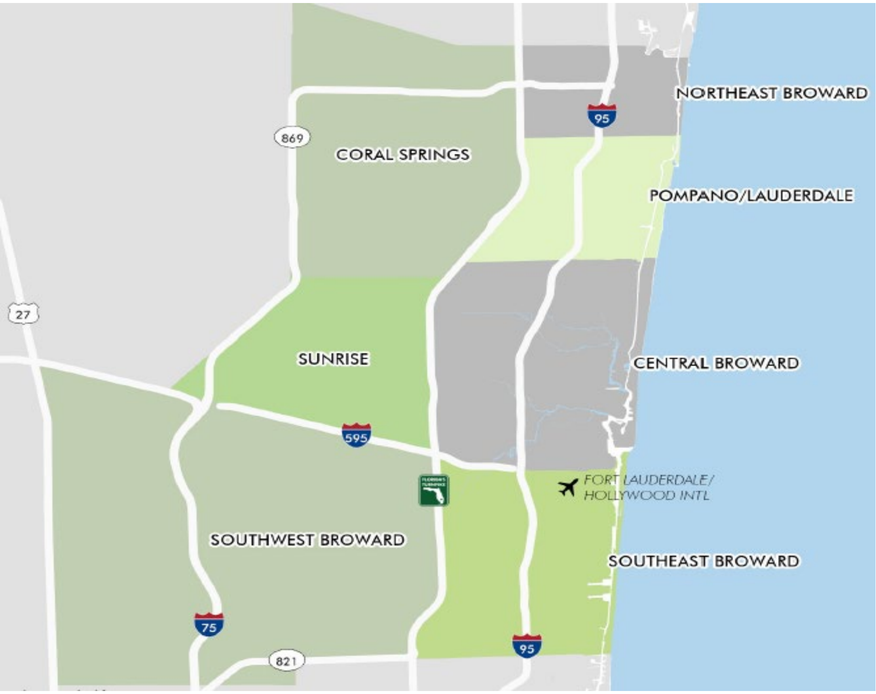
After a three-year growth rate, which saw Broward industrial rents rise by 34.7%, annual rental appreciation over the most recent 12 months moderated significantly to around 8%. In the context of a slowing economy and space demand, rent growth will likely remain positive in 2024 but substantially lower than the break-neck speed witnessed in 2021 and 2022. The lack of new developments raises the potential for rent growth to reaccelerate in 2025-26.

FIGURE 2: Statistical Snapshot Q2 2024

Submarket	Total Inventory (SF)	Vacancy Rate	Q2 2024 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Q2 2024 Deliveries (SF)	Avg. Asking Lease Rate ($/NNN)
Central Broward	18,576,151	4.15 %	-62,627	-176,605	0	0	$15.30
Coral Springs	9,274,627	3.95 %	-77	400,475	0	0	$15.00
Northeast Broward	11,596,543	5.96 %	-49,098	-7,843	0	0	$16.50
Pompano/Lauderdale	25,313,654	4.77 %	-195,113	-202,418	0	0	$16.00
Southeast Broward	16,679,200	4.66 %	-9,465	39,433	398,940	0	$17.30
Southwest Broward	17,764,817	3.27 %	167,150	267,521	0	0	$16.50
Sunrise	5,872,247	2.4 %	-38,453	-68,487	0	0	$14.50
Grand Total	105,077,239	4.32 %	-187,683	252,076	398,940	0	$15.87

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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