Slow start to the year should give way to an active second half

▲ 10.2%	▼ (71,204)	▼ 737,588	▼ 428,740	▲ $7.21
Vacancy Rate	SF Net Absorption	SF Under Construction	SF Deliveries	Triple Net / Lease Rate

Note: Arrows indicate change from previous year.

OVERVIEW

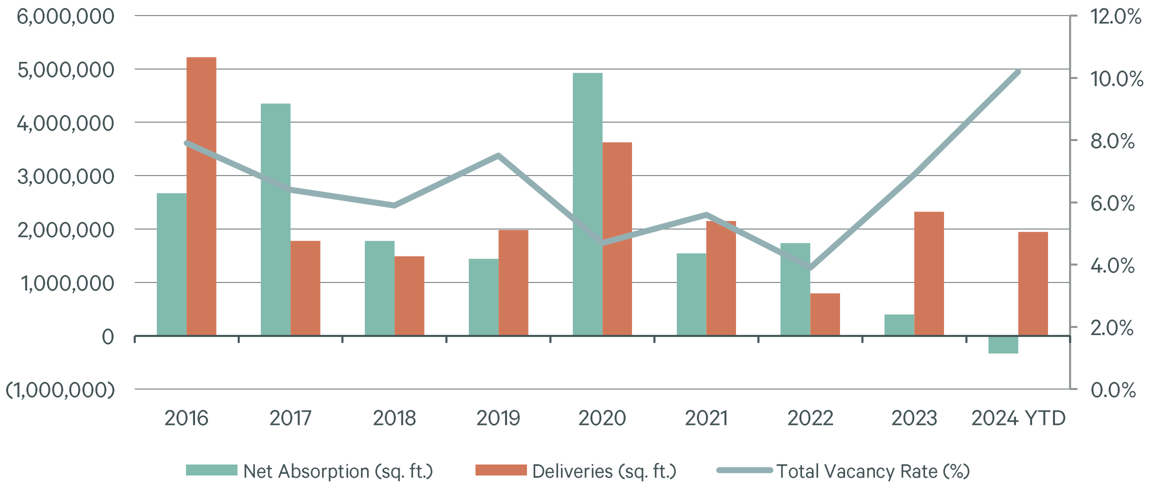
– Overall vacancy crept up to double digits during the second quarter, now 10.2%, as 2024 deliveries are just 21% leased thus far.

– The construction pipeline has drastically slowed with just 738,000 square feet under development – 70% of which is in Western Polk County.

– Smaller bay product with higher asking rents are buoying market averages and pushing rent growth to 2.8% quarter over quarter and 12% year over year.

A slower pace of bulk-leasing has been keenly felt over the past 12-18 months, and this lack of key activity has dampened some market fundamentals. Negative absorption is still in the red for the year and market vacancy that has hit a 10-year high. However, the market is poised for an H2 recovery thanks to recent tenant activity. Now, 1.7 million square feet of pending move-ins are on track for the second half of the year, which should work vacancy back into the single digits barring additional consolidation or downsizing by Polk County firms. It's not an unfamiliar story for Polk County, which is used to the boom-bust cycles that come with a relatively small industrial market that is home to some of the largest industrial users in the state.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

As the pace of bulk leasing slowed, the market has seen three consecutive quarters of negative absorption due to a lack of large move-ins that the area has historically seen. However, the year-to-date total stands at just -330,000 square feet and the market has seen some positive momentum that promises to push us back into positive territory by years end. A recent uptick in leasing has bolstered the total number of transactions sized 100,000 square feet or larger to 8 so far this year. More importantly, this activity has earmarked 1.7 million square feet of space for future occupancy by firms like Veritiv (530K), LifeScience Logistics (422K), and other large, confidential users who signed leases in the second quarter. When these future move ins are considered, they help drop market vacancy from 10.2% to 7.5%.

VACANCY

With just 28% of the 4.3 million square feet delivered since the start of 2023 leased, overall vacancy has hit double digits for the first time in a decade. This demonstrates a supply-demand imbalance that we have seen for most of the past 18 months – again a product of slower big-box demand. However, the construction pipeline has also drastically slowed. This time last year over 3 million square feet was under construction compared to just 738,000 square feet today. The biggest groundbreaking of the quarter was Hamilton Logistics Center just east of County Line Road. It totals 318,000 square feet between two rear-load buildings.

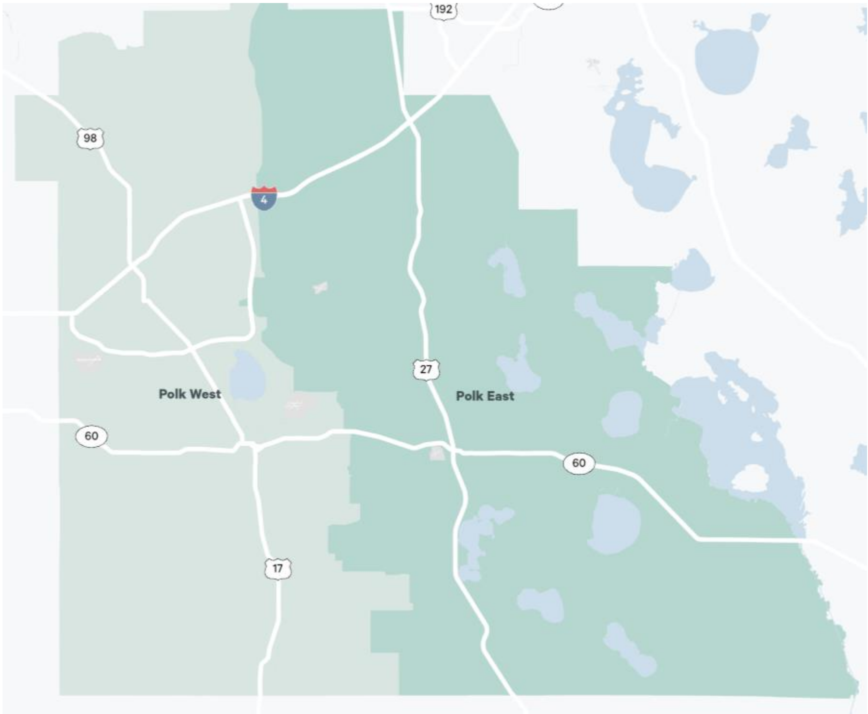
PRICING

Average asking rents are still up 2.8% on the quarter and 12% since last year as the delivery of smaller bay product, with higher asking rents, buoy market averages. The leasing of a few larger blocks of space recently has also reduced some of the pressure these lingering vacancies have had on the market over the past 12-24 months.

FIGURE 2: Statistical Snapshot Q2 2024

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q2 2024 Net Absorption (Sq. Ft.)	2024 Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/SF/NNN)
Polk East	21,042,479	12.3%	12.3%	(133,800)	(147,065)	231,920	$7.03
Manufacturing	2,902,749	4.6%	4.6%	(133,800)	(133,800)	0	$10.00
Warehouse/Distribution	18,139,730	13.5%	13.5%	0	(13,265)	231,920	$6.80
Polk West	42,824,386	9.1%	9.2%	62,596	(182,503)	505,668	$7.37
Manufacturing	4,676,221	0.2%	0.2%	0	0	0	$12.61
Warehouse/Distribution	37,652,319	10.3%	10.4%	43,614	(215,985)	505,668	$7.28
R&D/Flex	495,846	2.5%	2.5%	18,982	33,482	0	$15.00
Polk County Total	63,866,865	10.2%	10.2%	(71,204)	(329,568)	737,588	$7.21
Manufacturing	7,578,970	1.9%	1.9%	(133,800)	(133,800)	0	$10.36
Warehouse/Distribution	55,792,049	11.4%	11.4%	43,614	(229,250)	737,588	$7.07
R&D/Flex	495,846	2.5%	2.5%	18,982	33,482	0	$15.00

Market Area Overview



ECONOMIC OUTLOOK

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.

Survey Criteria: Includes all competitive industrial buildings 10,000 sq. ft. and greater in size in Polk County. East Polk includes Auburndale, Davenport, Dundee, Eagle Lake, Fort Meade, Frostproof, Haines City, Highland Park, Hillcrest Heights, Lake Alfred, Lake Hamilton, Lake Wales and Winter Haven. West Polk includes Bartow, Lakeland, Mulberry and Polk City.

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