



AVISON
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West Palm Beach market fundamentals

FLORIDA INDUSTRIAL INSIGHT REPORT
Q2 2021

Key industrial takeaways



Economic conditions

- Essential workers, a logistics hub and a sharp but entrenched rise in e-commerce spending have helped bring South Florida’s unemployment rate down to **5.7%**.
- Oxford Economics projects that South Florida is expected to see job growth of **3.2%** in 2021, 4.6% in 2022, and should recover all of its lost jobs in Q2 2022.
- Gross domestic product (GDP) in South Florida remains **0.8%** below the peak level reached in 2019 but is expected to grow 8.1% in 2021 and 4.9% in 2022. From 2023 to 2025, GDP is expected to grow at an annual rate of 1.8% led by real estate, which is expected to contribute 20% of the growth.



Recovery rate

- Florida was ranked **#4** in a WalletHub study of the top U.S. states for their rates of recovery, with industries gaining the most jobs over the year including leisure and hospitality, professional and business services, and trade, transportation and utilities.
- Primarily an export port and an economic engine for Palm Beach County, the Port of Palm Beach is the fourth busiest container port of Florida’s 15 deep water ports and is the 18th busiest container port in the United States.



Industrial demand

- Leasing interest has been strong since the beginning of the year in West Palm Beach, and leasing activity is already at **58.0%** of the total recorded in 2020 and expected to accelerate through the end of 2021.
- E-commerce continues to have an impact on the West Palm Beach market with a major distribution center currently underway for Amazon. The dwindling availability of quality class A distribution space is creating heightened occupier demand, which will be partly mitigated when currently proposed speculative projects break ground—or in the event e-commerce activity begins to taper.

Key industrial takeaways



Industrial supply

- As logistics requirements and e-commerce needs forge ahead in South Florida, developers continue to search for prime sites to stay ahead of demand.
- There are 2 industrial properties in West Palm Beach's Palm Beach Park of Commerce under construction totaling 1.2 million sf, including a **1 million-sf** distribution warehouse for Amazon and a 200,000-sf speculative warehouse for TPA Group, with another 15 buildings that remain proposed countywide.
- West Palm Beach's overall vacancy rate continues to incrementally decline with vacancy at **5.4%**, the lowest rate since 2019.



Pricing trends

- Base rents have increased by **12.8%** since the start of the pandemic and have generally trended upward over the last decade, rising steadily since 2012.
- Some landlords in South Florida are beginning to push for **4%** escalations in their initial proposals but there is little traction so far. The Amazon effect has driven some of the acceleration in asking rents over the last year, and that may begin to taper off during the second half of the year.



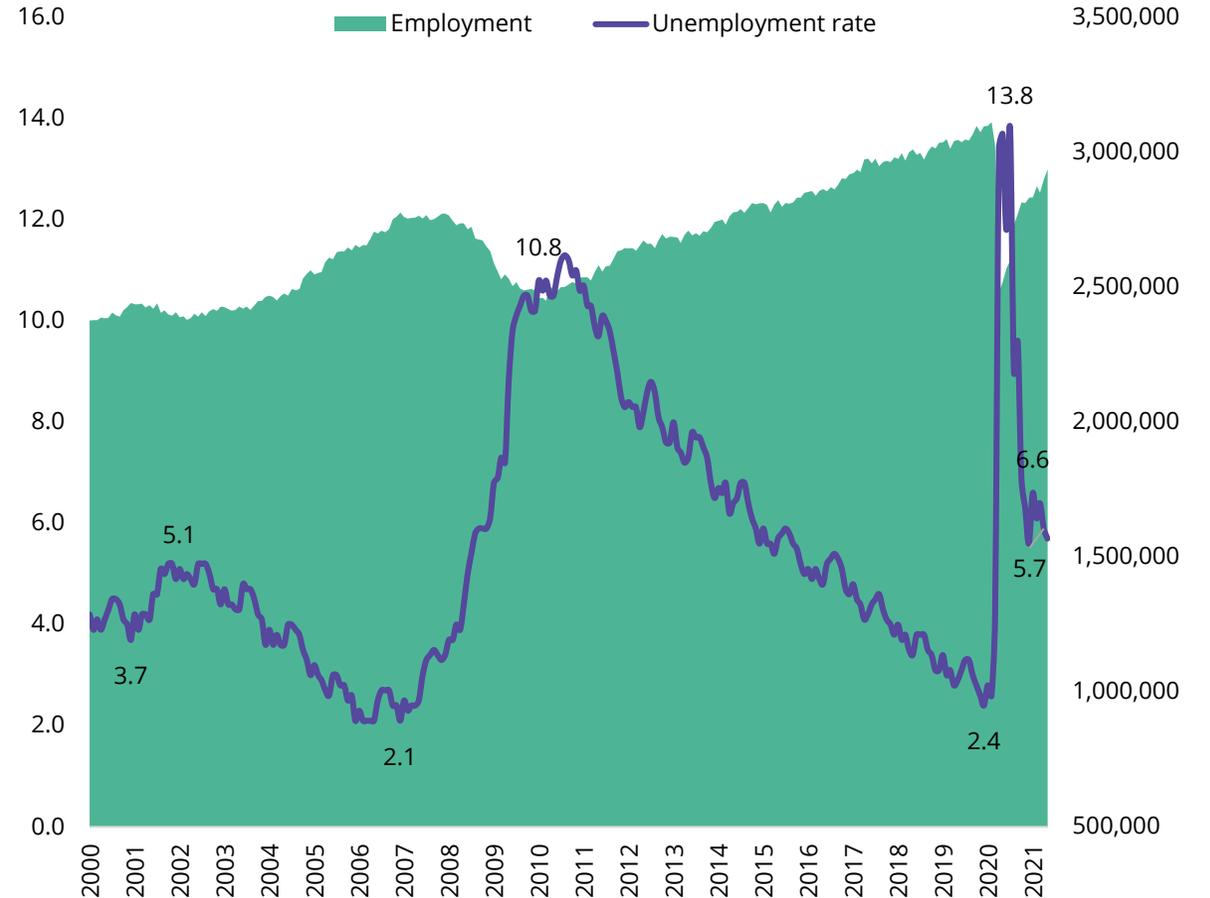
Capital markets

- West Palm Beach's industrial investment activity has been healthy, totaling **\$506.7M** since 2020 as investors are attracted to the sector's strong post-pandemic fundamentals.
- West Palm Beach industrial asset pricing has experienced some softening since the beginning of the pandemic, declining by **5.2%**.
- The largest industrial investment sales transaction during Q2 2021 was the sale of a 79,845-sf warehouse building at 3125 Fortune Way in Wellington to Chandaris Investment LLC for **\$15.1 million**, or \$190 per sf.

5.7%

South Florida's unemployment rate as of May 2021, 810 bps below the height of the pandemic

Historically tightened labor market conditions were halted by the pandemic with 629,600 job losses between February and April 2020. However, reopening efforts in the months since have enabled the economy to add over 455,000 jobs since April 2020.



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Property type job gains and losses

-6.8%

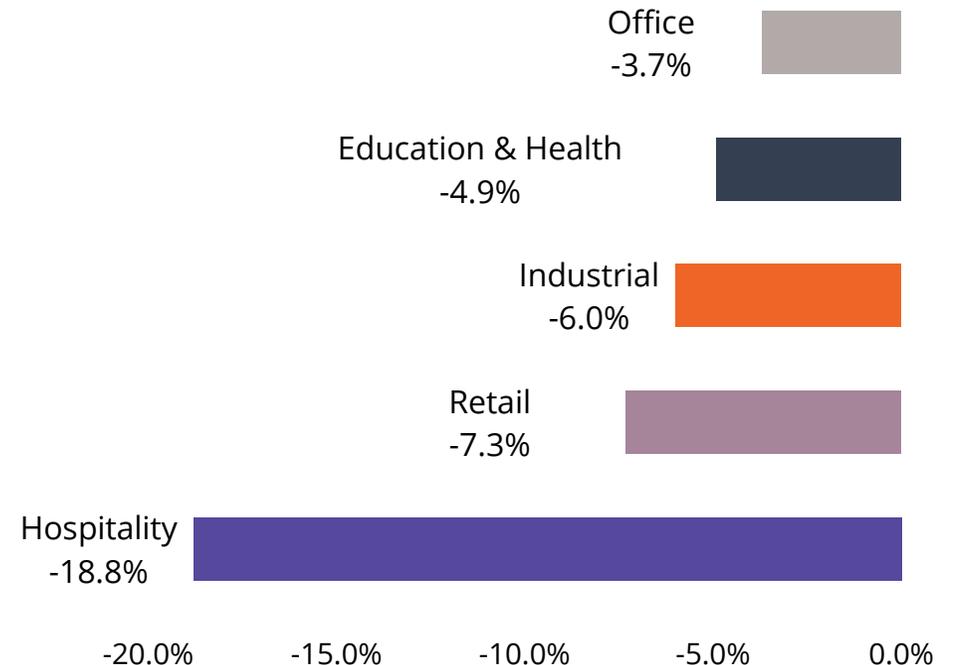
Change in total employment during the pandemic

The South Florida metro area lost 6.8% of its total labor force since the pandemic began with industrial losses faring slightly better at 6.0%. The strength of the industrial sector in West Palm Beach pre-pandemic helped to offset the losses that have occurred.

[VIEW DASHBOARD](#)

Total change in South Florida* job gains/(losses)

February 2020 to May 2021



Note: Not seasonally adjusted data. *Metropolitan statistical area.
Source: Bureau of Labor Statistics

Industrial job gains and losses

-6.0%

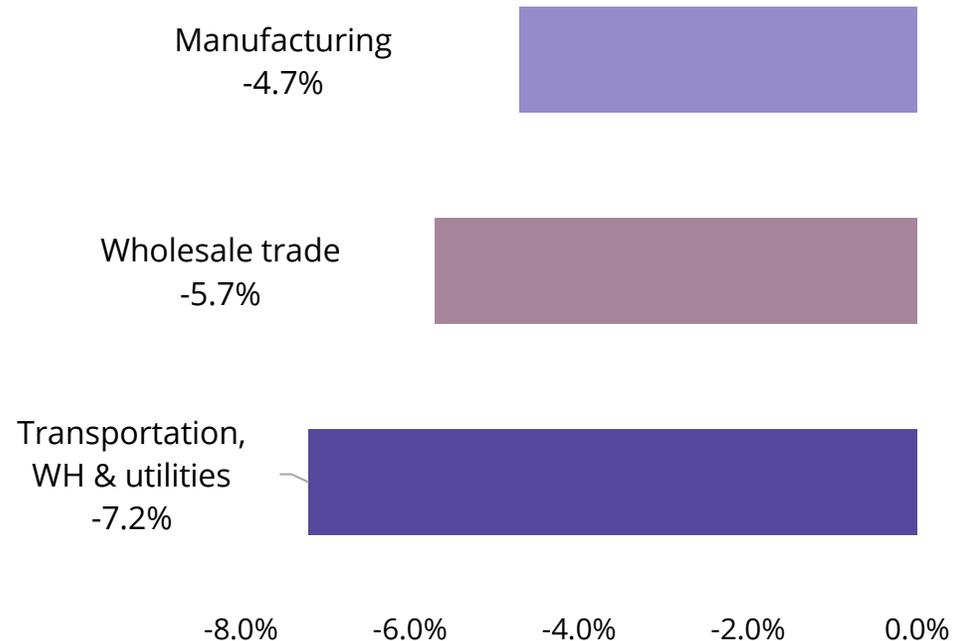
Change in industrial employment during the pandemic

South Florida industrial job losses have declined by 6.0% since the start of the pandemic, however this recession's impact on the industrial labor market has been considerably less severe than the global financial crisis, when total job losses totaled 12.6%.

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Total change in South Florida* job gains/(losses)

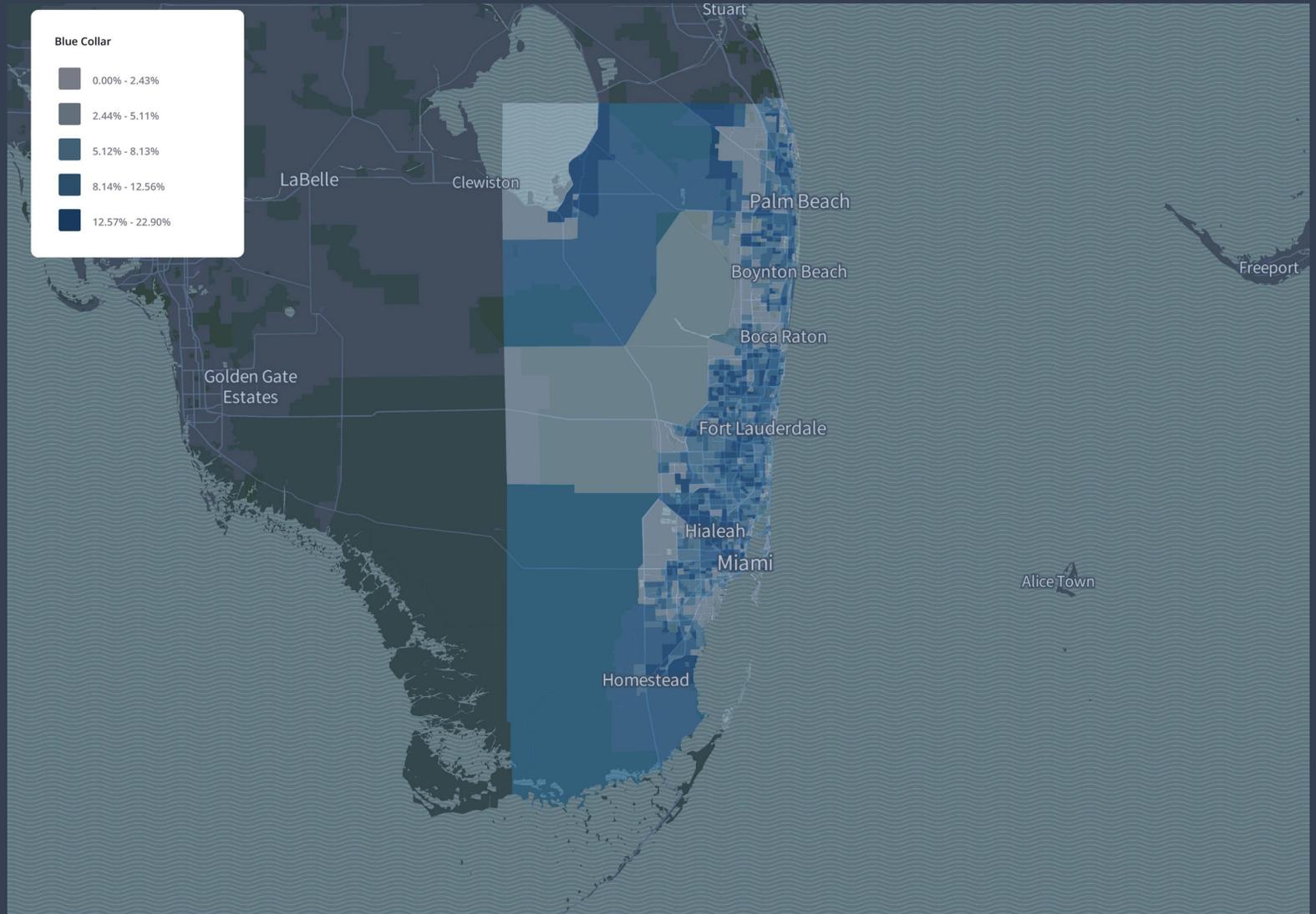
February 2020 to May 2021



Note: Not seasonally adjusted data. *Metropolitan statistical area.
Source: Bureau of Labor Statistics

Blue-collar workforce concentration

Source: AVANT by Avison Young, ESRI
Large pockets of blue-collar workforce are found
throughout South Florida's largest industrial submarkets.

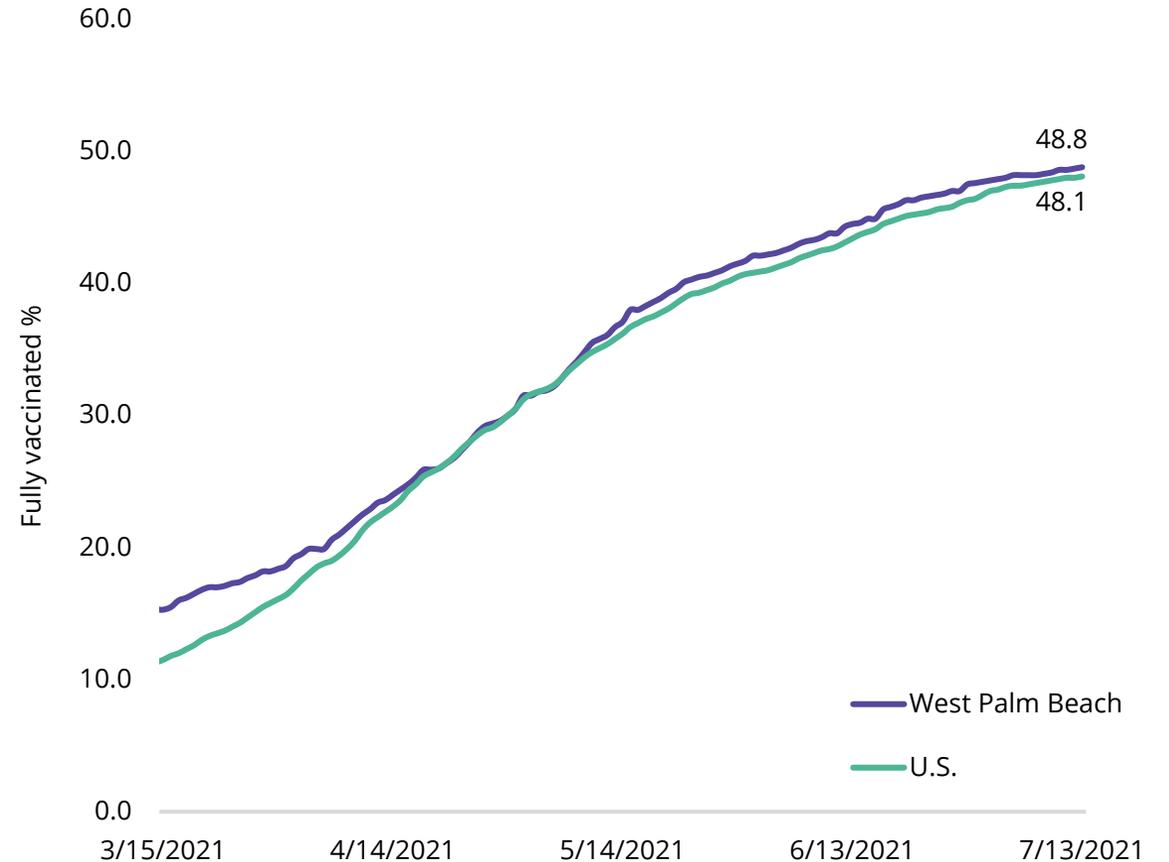


Vaccination rates

48.8%

Share of total Palm Beach County population that is fully vaccinated

Total vaccinations in Palm Beach County slightly exceed the national average, however the county still lags behind vaccination rates in several major U.S. metros.



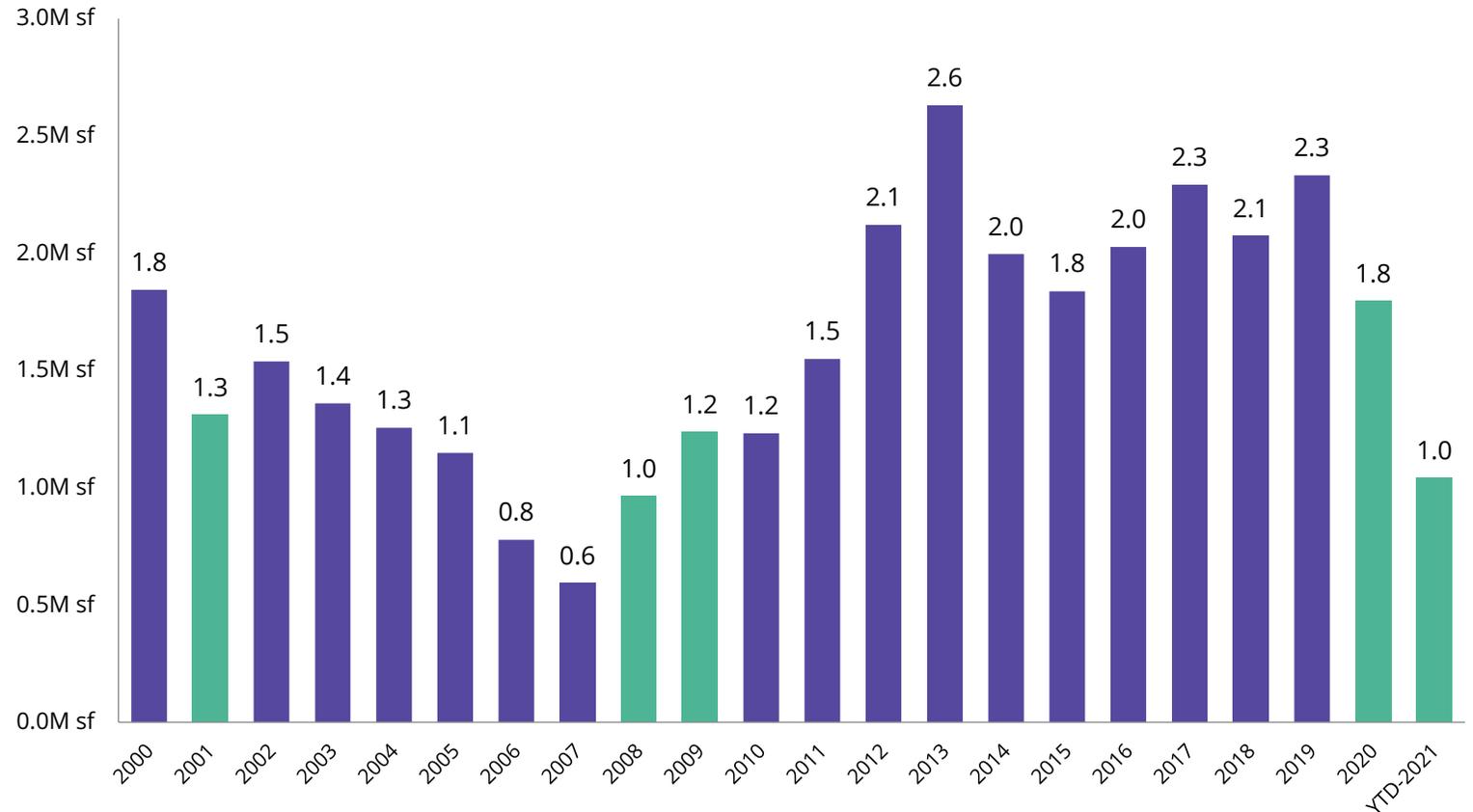
Source: CDC

Industrial leasing activity

58.0%

Year-to-date 2021 leasing activity compared to year-end 2020

Leasing activity has been strong through Q2 2021 and is on pace to eclipse 2 million sf by year-end 2021.



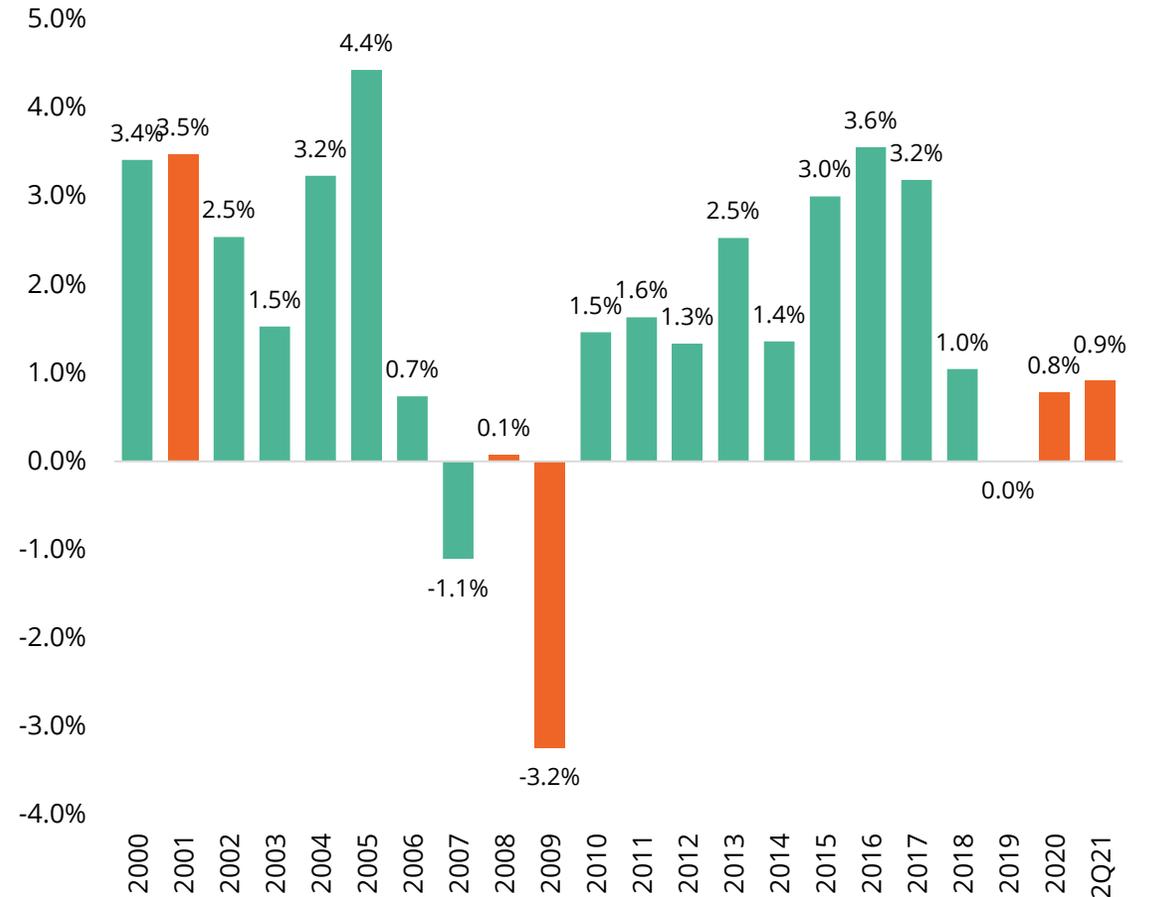
Note: Green represents recession years.
Source: CoStar

Industrial net absorption

1.7%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Absorption through mid-year has been solid and is indicative of healthy overall fundamentals. Barring any major economic shocks, net absorption for 2021—which currently totals 369,688 sf—is on pace to eclipse the performance of the previous 2 years and will significantly outpace performance during the previous recession between 2008-2009.



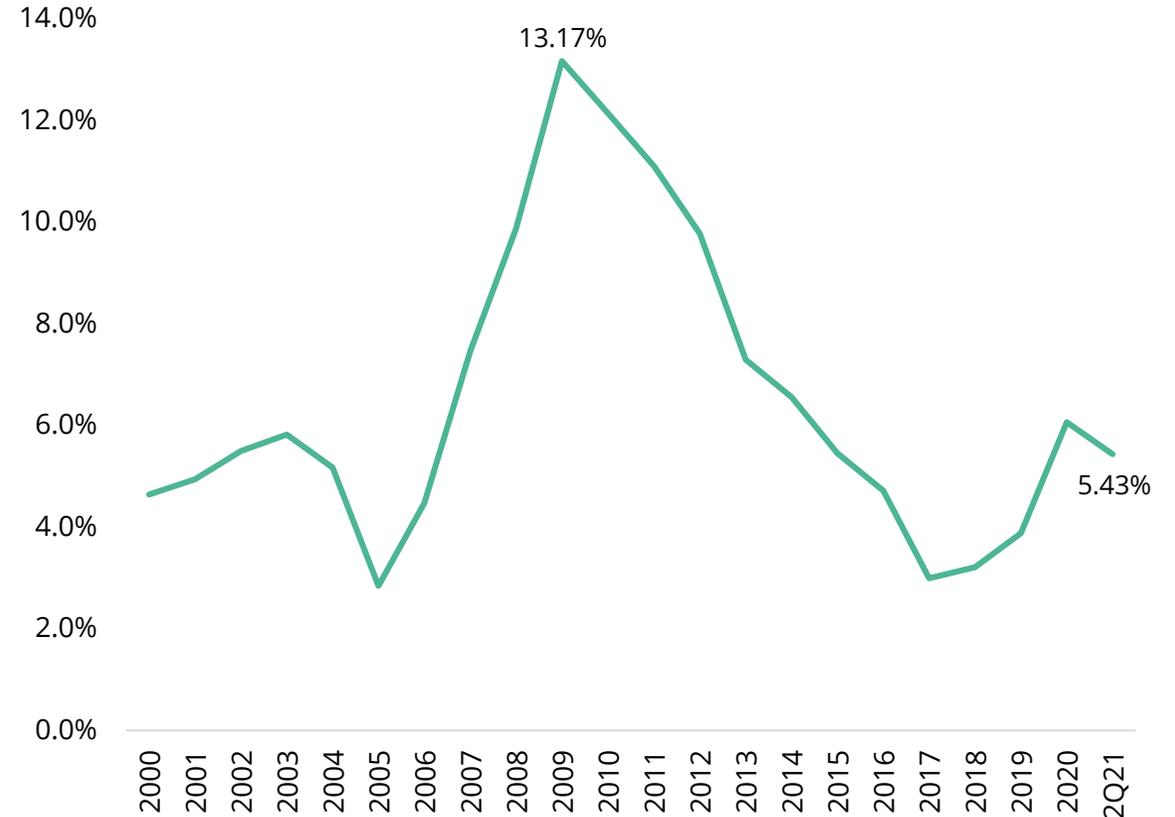
Note: Absorption is measured as the year-over-year change in occupied square feet. Orange represents recession years.
Source: CoStar

Industrial vacancy rate

5.4%

Total vacancy has declined by 70 basis points since YE-2020

The Q2 2021 total vacancy rate of 5.4% reflects the lowest rate since 2019, however it is also notable that net absorption for the year-to-date has far significantly outpaced the negative absorption recorded that year, underscoring how quickly the market is leasing up newly available space.



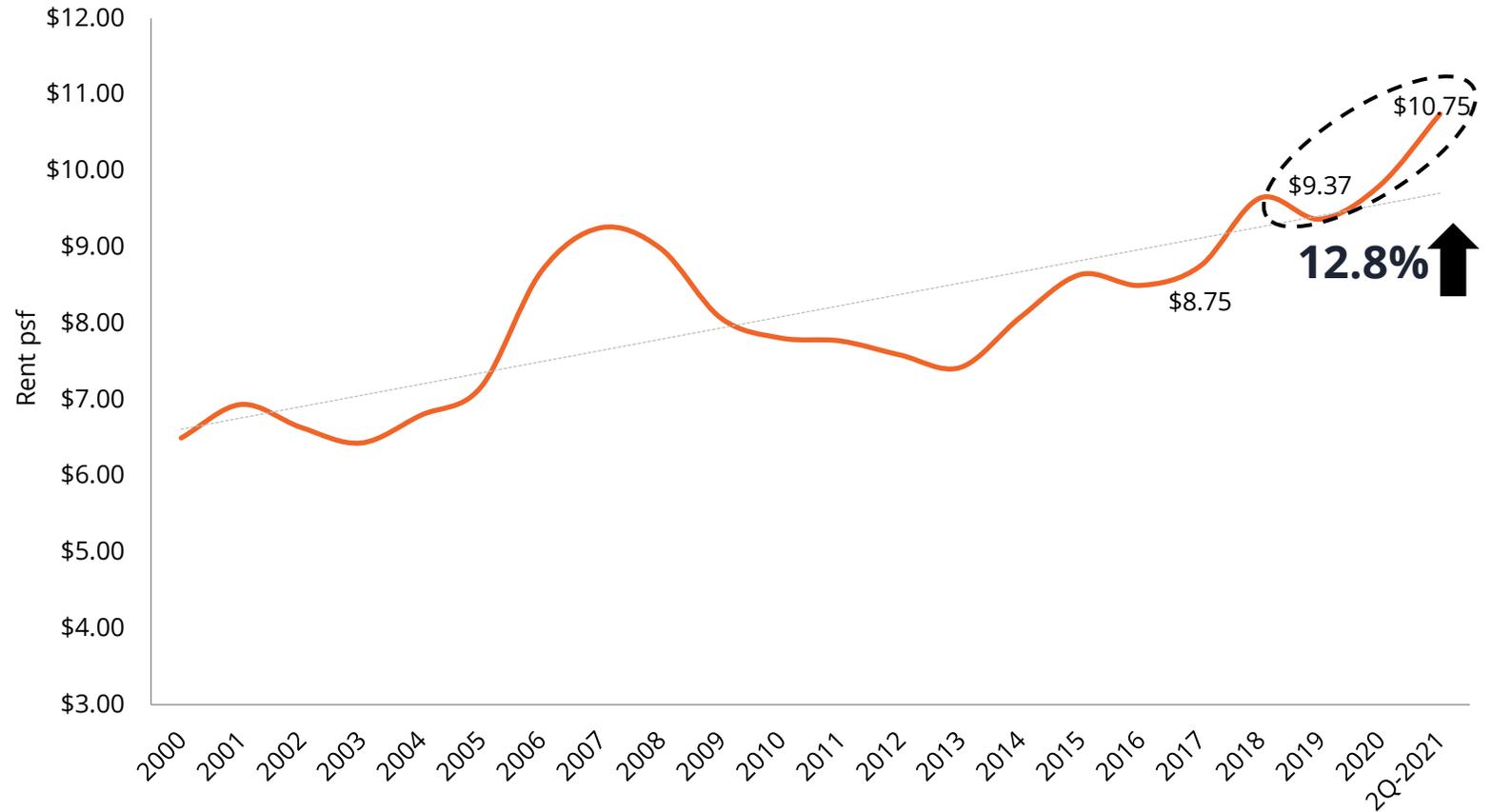
Source: CoStar

Base rents

+ 12.8%

Base rents since the onset of the pandemic

Base rents for industrial space (including flex) grew during the second quarter and have generally trended upward over the last decade, rising by 27.7% over that period.



Source: AVANT by Avison Young

Big-box demand drives construction

15 properties

Proposed or under construction

3.0 msf

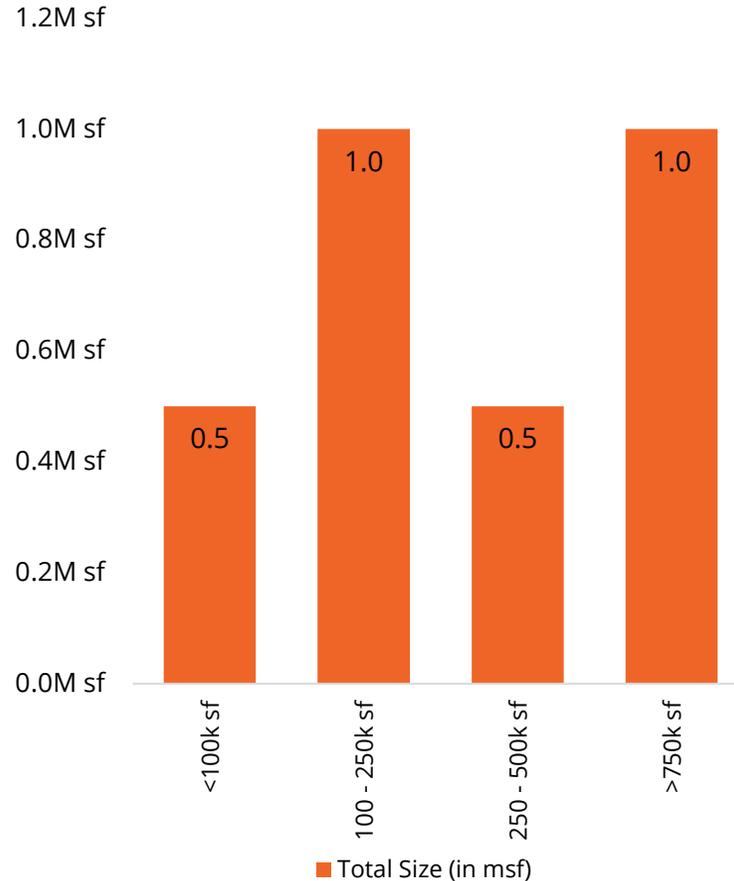
Proposed or under construction

7.4%

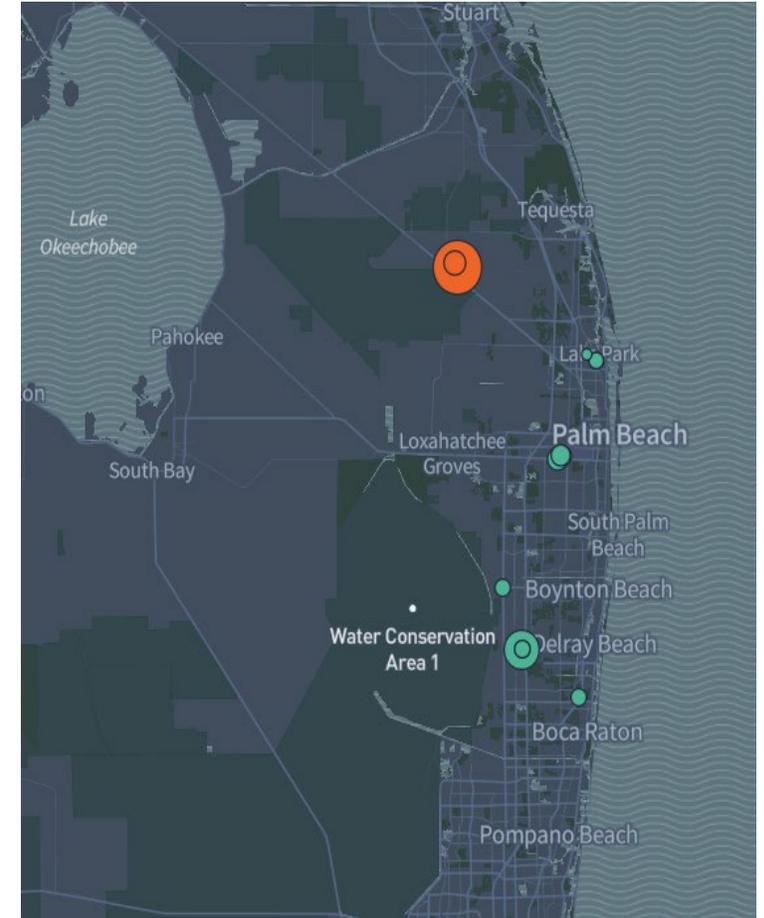
Share of industrial inventory

North Palm Beach

Submarket with the most under construction projects at 2



Source: AVANT by Avison Young



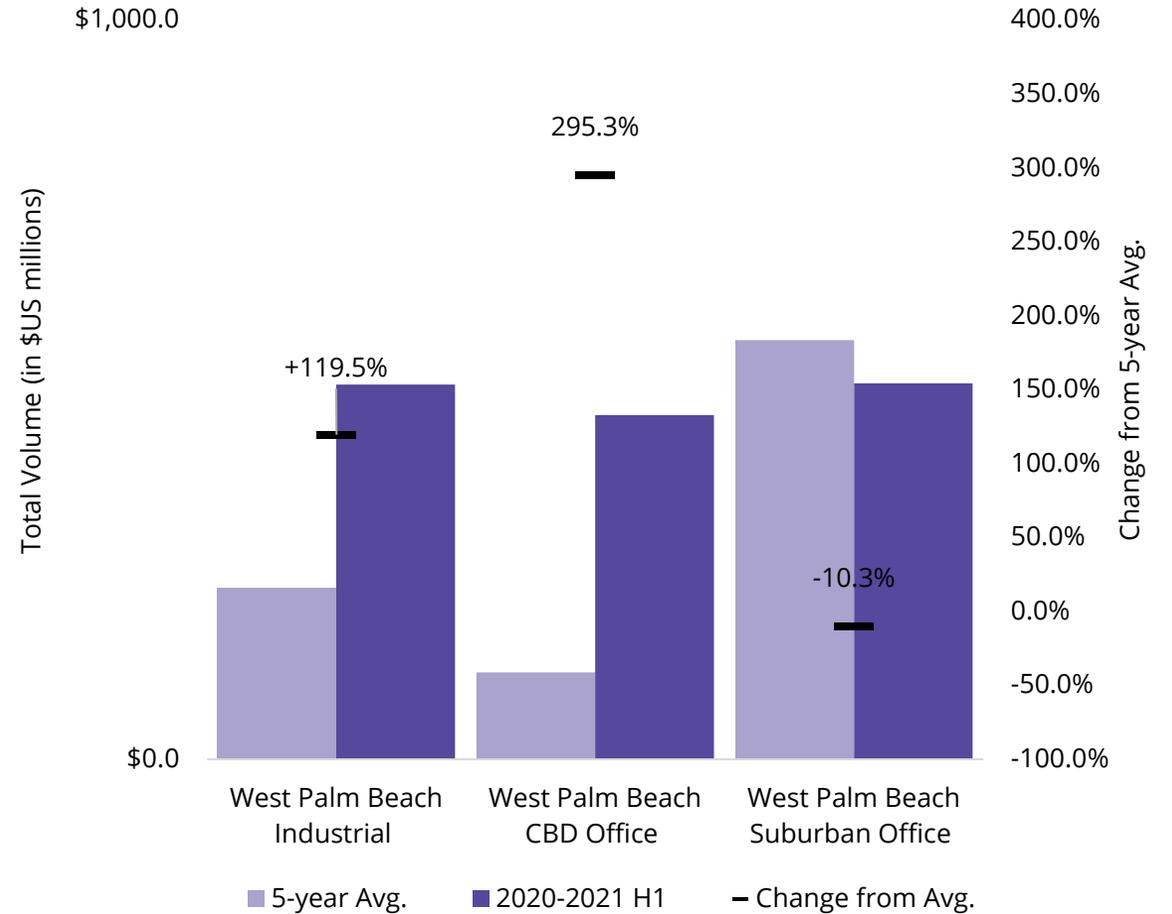
Orange circle: Under construction Green circle: Proposed

Investment dollar volume

\$506.7M

Industrial dollar volume, 2020 to Q2 2021

Investment activity has picked up for both industrial and office assets in West Palm Beach. Industrial sales volume for 2020 through 2Q21 was up 119.5% over the 5-year average and office sales were up significantly in the CBD by 295.3% due to a handful of key trophy office tower trades.



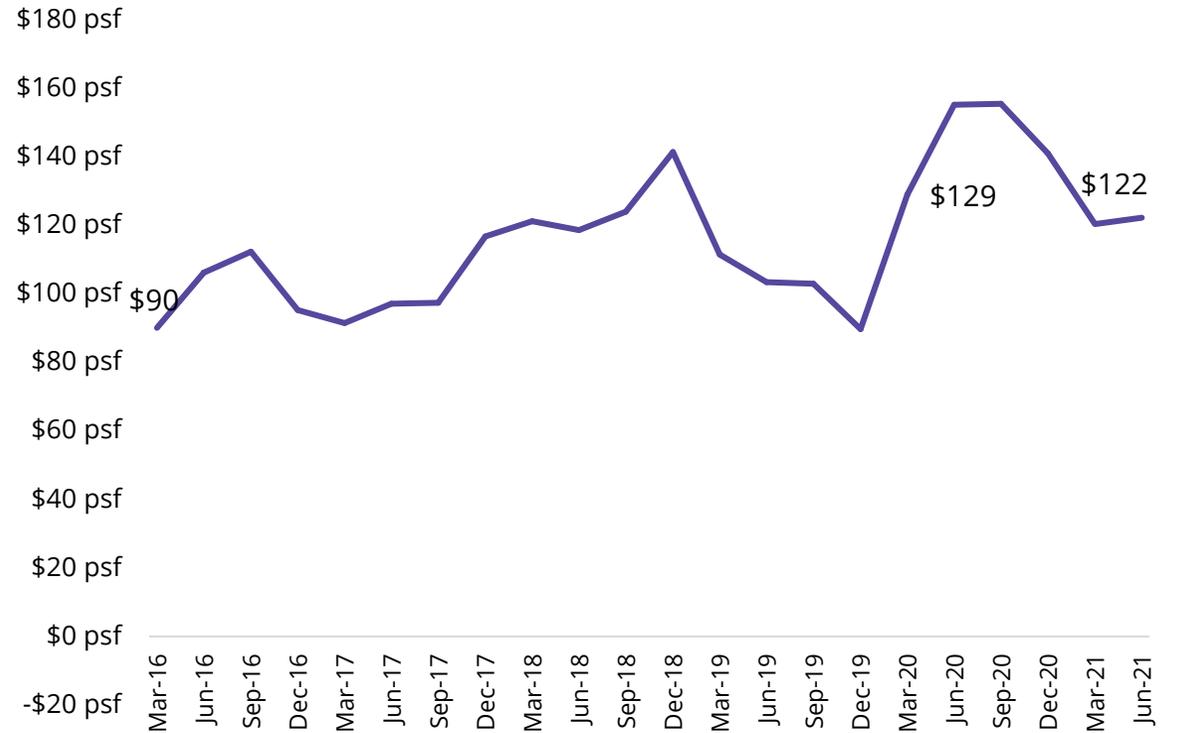
Source: AVANT by Avison Young
RCA

Industrial asset pricing

-5.2%

West Palm Beach industrial pricing, March 2020 to June 2021

West Palm Beach industrial asset pricing has experienced some softening since the beginning of the pandemic, declining by 5.2%.



Source: AVANT by Avison Young
RCA

Looking forward



Here's what we can expect

- Pricing pressures on both the leasing and investment sales sides coupled with **inflationary concerns** are leading some investors to look at secondary and tertiary markets however industrial fundamentals remain healthy in West Palm Beach.
- Developers will remain active in West Palm Beach but at a slower pace than neighboring markets, and the Amazon effect will likely begin to have a **lessened impact** heading into 2022.
- Moving forward, existing properties will increasingly need to negotiate the **pricing delta** between remaining competitive and offering an attractive alternative to new development with a comparatively discounted rate.
- Incremental upticks in asking base rents will continue over the next year as higher quality class A space will remain sought after, creating **pricing appreciation**.
- While **supply chain disruption** was an issue at the beginning of the pandemic, semiconductor shortages coupled with the Suez Canal blockage further highlighted frailties within global supply chains. Moving forward, creating logistics, distribution and shipping efficiencies, in addition to reshoring efforts, will be critical in preventing the kind of disruption that took place in 2020.



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Let's talk

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