

Palm Beach County Industrial, Q2 2020

Market weathers expected slowdown in Q2

 Total Vacancy
2.6%

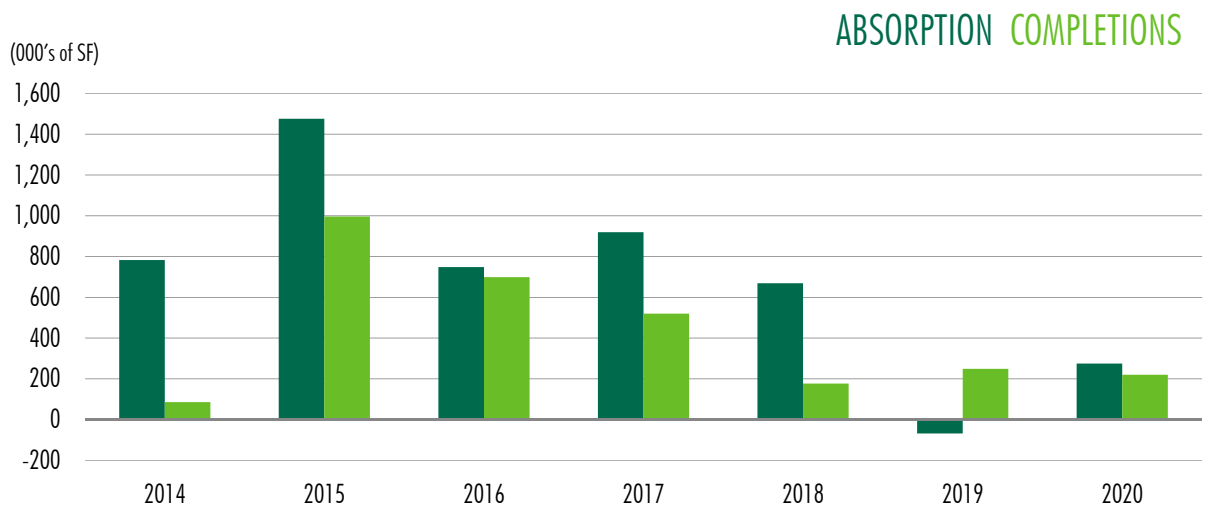
 Lease Rate
\$10.86 PSF

 Net Absorption
3,633 SF

 Under Construction
1,013,259 SF

*Arrows indicate change from previous year.

Figure 1: Under Construction and Completions



- The vacancy rate closed out the first quarter at 2.6%, fairly steady from the close of Q1 2020. This marks the 10th consecutive quarter with vacancy below 3.0%.
- Sales activity was light this quarter, but the sale of 1177 Blue Heron Blvd toward the end of the quarter speaks to the market’s strength.
- Asking rents remain elevated, hovering around record high levels. While growth has slowed in recent quarters, this was the 11th consecutive quarter with rates above the \$10.00 per sq. ft. mark.

ACTIVITY

Although absorption was tepid in the second quarter, and a slowdown was expected given the economic atmosphere, leasing activity actually increased compared to the first quarter. Additionally, another sizable transaction was inked this quarter. Following the Niagara Bottling lease for 114,500 sq. ft. in Q1, Millwork Sales renewed their 152,400 sq. ft. space in Royal Palm Beach. With vacancy sitting below 3.0%, a mark it's been under since 2017, renewals comprise a significant portion of leasing activity. This suppressed vacancy is aided by limited development of late. This quarter saw one 27,000 sq. ft. building complete,; however, developers have taken note of demanding outpacing supply.

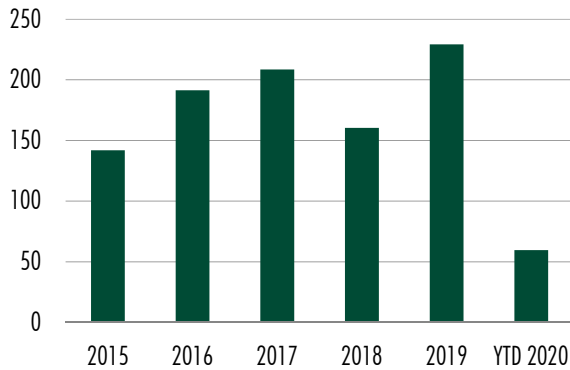
DEVELOPMENT

There is currently over 1.0 million sq. ft. of space under construction in the market, all in the northern portion of the county. Much the new and under construction product is located within Airport Logistics Park, and Prologis Airport Center, which is now owned by Prologis after the acquisition of Liberty Property Trust late last year. Nearly all of this space is scheduled to complete by year-end, making 2020 the biggest year for new deliveries since 2015, when 1.5 million sq. ft. came online.

SALES ACTIVITY

Sales volume was understandably down this quarter, with only three properties trading. Most notably, 1177 W Blue Heron Blvd (151,000 sq. ft.) in Riviera Beach was sold to Dalfen Industrial by Stateside Capital Group for \$18.35 million. And although sales volume was down this quarter, the fact that this sale took place toward the end of the quarter is a sign that investors are still optimistic.

Figure 2: Historic Sales Volume (\$ in millions)



PRICING

Landlords held firm on rents, bucking expectations for a sharp decline in fundamentals. Rents actually increased by 1.0% quarter-over-quarter and closed out the quarter at an historic high. This is a positive sign, but is something worth monitoring going into the second half of the year given the nature of real estate to lag economic conditions.

OUTLOOK

Virology, not the business cycle, has dictated the course of the world’s economy this year. COVID-19 forced a nationwide shutdown of most economic activity in March, with the largest economic centers, especially the Northeast and Pacific coast, facing the strictest lockdowns. The economic fallout proved severe, pushing unemployment to over 15% and likely causing the economy to contract by more than 30% per annum in the second quarter.

These morbid economic conditions inspired many governors to ease lockdowns, especially in Sunbelt states where the case count was less severe than in more densely populated regions. These re-openings have energized activity. Several high-frequency indicators, such as hotel occupancies, restaurant traffic and hours worked, suggest the US economy bottomed in April and has been trending slightly upward since. This has renewed demand for labor as many hard-hit sectors, such as hospitality and healthcare, began to bring back furloughed workers in May.

On the downside, COVID-19 is ramping-up in states that were quick to reopen. Political commentary suggests authorities in these states have little appetite to re-impose stricter lockdowns. Although a significant uptick in cases that pummels consumer confidence is a risk, it is quite plausible that a mild escalation of COVID-19 can coincide with pent-up consumer demand that restrains economic losses this year to a fall in GDP of just over 6%.

Figure 3: Vacancy and Asking Rates

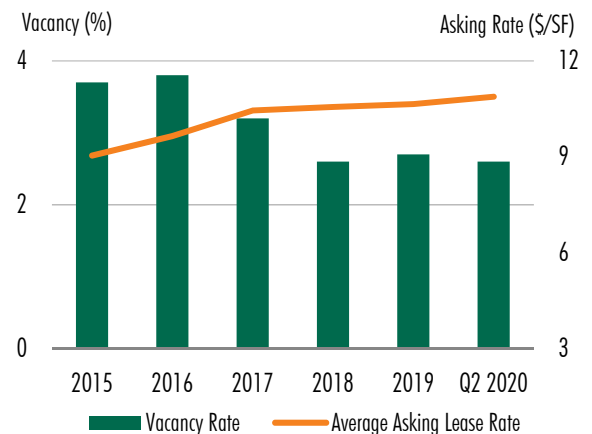


Figure 2: Market Statistics

Submarket	Total Inventory (SF)	Total Availability (%)	Total Vacancy (%)	Q2 2020 Net Absorption (SF)	YTD 2020 Net Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/NNN)
Boca Raton	7,365,479	7.1	2.9	5,859	2,604	0	12.80
Boynton Beach	4,233,635	10.4	5.3	(31,955)	(31,062)	0	8.82
Delray Beach	2,774,748	2.6	1.6	1,000	12,048	0	16.17
Jupiter	4,312,795	4.3	1.7	(10,338)	207,308	0	10.99
Lake Worth	3,309,107	4.3	1.9	(1,500)	29,723	0	9.93
Riviera Beach	9,461,230	4.1	2.1	(72,885)	(66,885)	120,282	10.25
West Palm Beach	15,849,194	6.3	2.6	113,452	125,452	892,977	9.44
Total	47,306,188	5.8	2.6	3,633	279,240	1,013,259	10.86
Manufacturing	4,956,545	2.0	0.7	0	0	0	14.41
R&D/Flex	9,711,652	6.9	2.7	13,818	14,475	0	12.71
Whse/Distribution	32,637,991	6.1	2.9	(10,185)	274,950	1,013,259	10.04

Figure 3: Significant Q2 2020 Lease Transactions

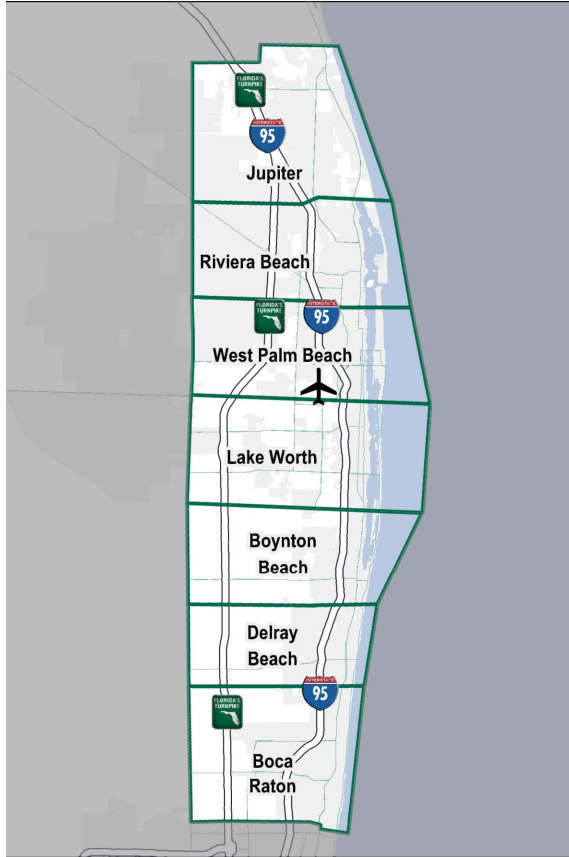
Submarket	Property	Tenant	Transaction (SF)
Royal Palm Beach	700 103 rd Ave N	Millwork Sales	152,390
Royal Palm Beach	501 103 rd Ave N	Funsweets	51,840
Boynton Beach	2027 High Ridge Rd	Kiosoft Technologies	39,601
Riviera Beach	2001 Australian Ave	Serta Simons Bedding	30,000

Figure 4: Projects Under Construction as of Q2 2020

Submarket	Property	Address	Building (SF)
West Palm Beach	Greene Space Industrial Park – Bldg 2	Hoffman Rd, West Palm Beach	193,020
West Palm Beach	Turnpike Crossing Building 4	6717 Belvedere Rd, West Palm Beach	146,253
West Palm Beach	Prologis Airport Park – Bldg 2	6051 Southern Blvd, West Palm Beach	127,091
West Palm Beach	Bgreene Space Industrial Park – Bldg 1	1501 Meathe Drive, West Palm Beach	124,479

Figure 5: Significant Q2 2020 Sale Transactions

Submarket	Address	Buyer	Seller	Sale Price (\$)	Building (SF)	Price Per SF (\$)
Riviera Beach	1177 W Blue Heron Blvd – Bldg 2	Dalfen Industrial	Stateside Capital Group	18,350,000	151,008	122



Market Coverage: Includes all competitive industrial buildings 10,000 sq. ft. and greater in size in Palm Beach County.

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