

MARKET REPORT

INDUSTRIAL

West Palm Beach Metro Area

IPA

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ADVISORS

2H/19

Limited Development Emphasizes Importance of Existing Space, Keeping Vacancy Low and Motivating Investment

Construction constraints slow leasing while underlying demand stays positive. Population growth that is more than double the national pace continues to support the need for local logistical services even as key transportation routes facilitate more widespread distribution from the port. While these industrial demand factors remain strong, a lack of available land is slowing construction activity. Annual completions will fall to a five-year low in 2019 as few large-scale facilities open. A 220,000-square-foot warehouse in Jupiter marks this year's biggest delivery. Several smaller projects are underway, however, including nine buildings in the Palms West Commerce Park, comprising about 27,000 square feet in total. The lack of substantial development and minimal availability of less than 2 percent in several submarkets is limiting leasing activity as companies search for suitable floor plans. Subdued net absorption is pushing the metrowide vacancy rate up from the historical low recorded last year while also moderating how much asking rents are changing. Less turnover of space on the market is resulting in a more modest sub-1 percent increase in the average monthly payment this year following a nearly 3 percent gain in 2018.

Greater trading activity lifts sales prices as high cap rates attract out-of-market buyers. Strong industrial tenant demand into a supply-constrained market continues to support investment into West Palm Beach, with annual transaction velocity increasing year over year in June. Buyers pursued opportunities across the metro, with the Lewis Terminals, Central Palm Beach and Southern Boulevard submarkets reporting the most trades over the 12-month period ended in the second quarter. Buildings near the Palm Beach airport commanded the highest prices, exceeding \$200 per square foot in some cases. Metrowide, the average sale price improved 8.1 percent year over year to \$144 per square foot in June, while cap rates have stayed relatively stable in the high-6 percent band over the past two years. Higher returns than found in larger gateway markets are drawing buyers from Massachusetts, New York and other coastal states.

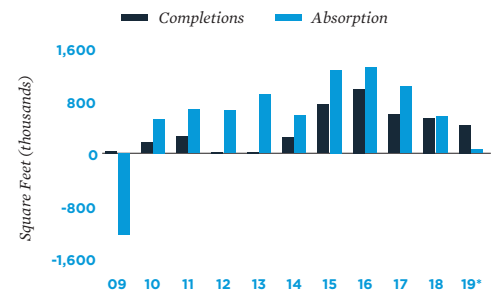
2019 Market Forecast

- Employment** up 2.5%
Job growth in 2019 improves slightly over that of last year as about 16,000 new positions will be added to payrolls, compared to a 2.4 percent gain in 2018.
- Construction** 430,000 sq. ft.
Development activity moderates for the second consecutive year as annual completions drop below 500,000 square feet for the first time since 2014.
- Vacancy** up 80 bps
After achieving a cycle low of 2.9 percent in 2018, the vacancy rate will rise to 3.7 percent this year as a lack of ample new supply constrains leasing activity. Availability nevertheless remains well below the historical average.
- Rent** up 0.7%
While less construction and tight vacancy add upward pressure to industrial rents, a lack of substantial space on the market limits movement in asking rates. The metro average asking rent will inch up to \$10.29 per square foot this year.
- Investment**
Greater land availability at lower costs may prompt more industrial development around Port St. Lucie, creating the potential for future investment opportunities just north of Palm Beach County.

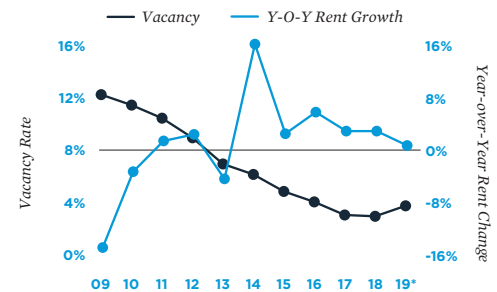
Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; Moody's Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of September 2019. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and industrial data are made during the third quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.