
3Q24

Palm Beach Industrial Market Overview

NEWMARK

Market Observations

Economy

- The market's unemployment rate increased by 29 basis points year over year to 3.4% but remained well below the five-year average of 4.3%.
- Job growth pace has slowed compared with recent highs to 1.4% year over year and has fallen below pre-pandemic levels, with August 2019 growth at 1.8%.
- All sectors, except office-using industries, reported employment growth, with mining and construction leading job gains at 6.6% over the past 12 months.
- Industrial-using jobs in the market continued to reflect yearly growth, with manufacturing jobs remaining unchanged year over year, but trade/transportation/utilities jobs and construction jobs growing by 0.4%, and by 6.6% year over year, respectively.

Major Transactions

- Good Greek Moving signed the largest deal of the third quarter, renewing and expanding into 53,250 SF in Turnpike Crossing.
- Three of the top five leases in the third quarter took place in the North Central submarket of Palm Beach, with one in South Central and one in Boca Raton.
- The top five deals were done by three tenants in different manufacturing industries, one personal/business service firm, and one e-commerce firm. None of the top ten deals were done by 3PL companies for a fourth consecutive quarter. This suggests that warehousing space is currently in greater demand than distribution space.

Leasing Market Fundamentals

- The market realized 322,676 SF of positive absorption in the third quarter of 2024, a 132.8% year over year increase.
- Overall rental rates decreased by 0.2% quarter over quarter and increased by 3.0% year over year to \$13.56/SF.
- There were no new construction deliveries in the third quarter of 2024, while 200,000 SF of new construction broke ground.
- Demand exceeded supply this quarter due to the 1.7 MSF drop in the construction pipeline following the second quarter, which pushed vacancy down by 70 basis points quarter over quarter to 8.0%. However, vacancy only increased by 200 basis points year over year, indicating that vacancy had normalized prior to the influx of 1.9 MSF year-to-date new supply delivering.

Outlook

- The Palm Beach industrial market will see a drop in new supply delivering to the market in the medium term, due to only 0.4% of the current market's inventory under construction.
- Vacancy rates are expected to remain elevated over the next few quarters as new supply from a robust construction pipeline is worked through with very limited new projects set to break ground in the near term. Continued positive demand will aid in absorbing the new space.
- Asking rents will likely remain elevated, but the pace of increases will flatten over the near term due to the sudden increase of availability. The only project currently under construction is fully speculative with no current preleasing in place.

1. Economy
2. Leasing Market Fundamentals

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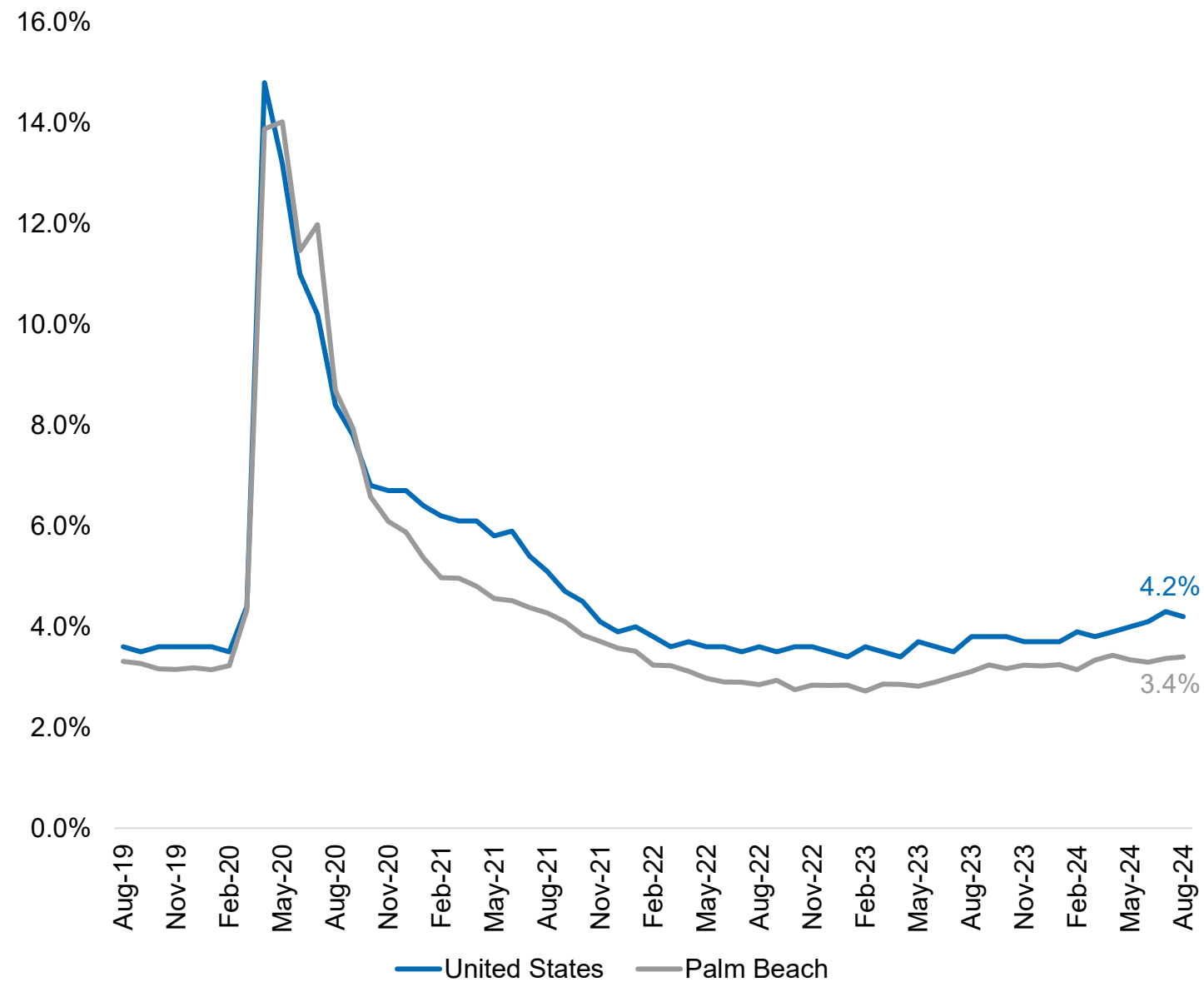
Economy



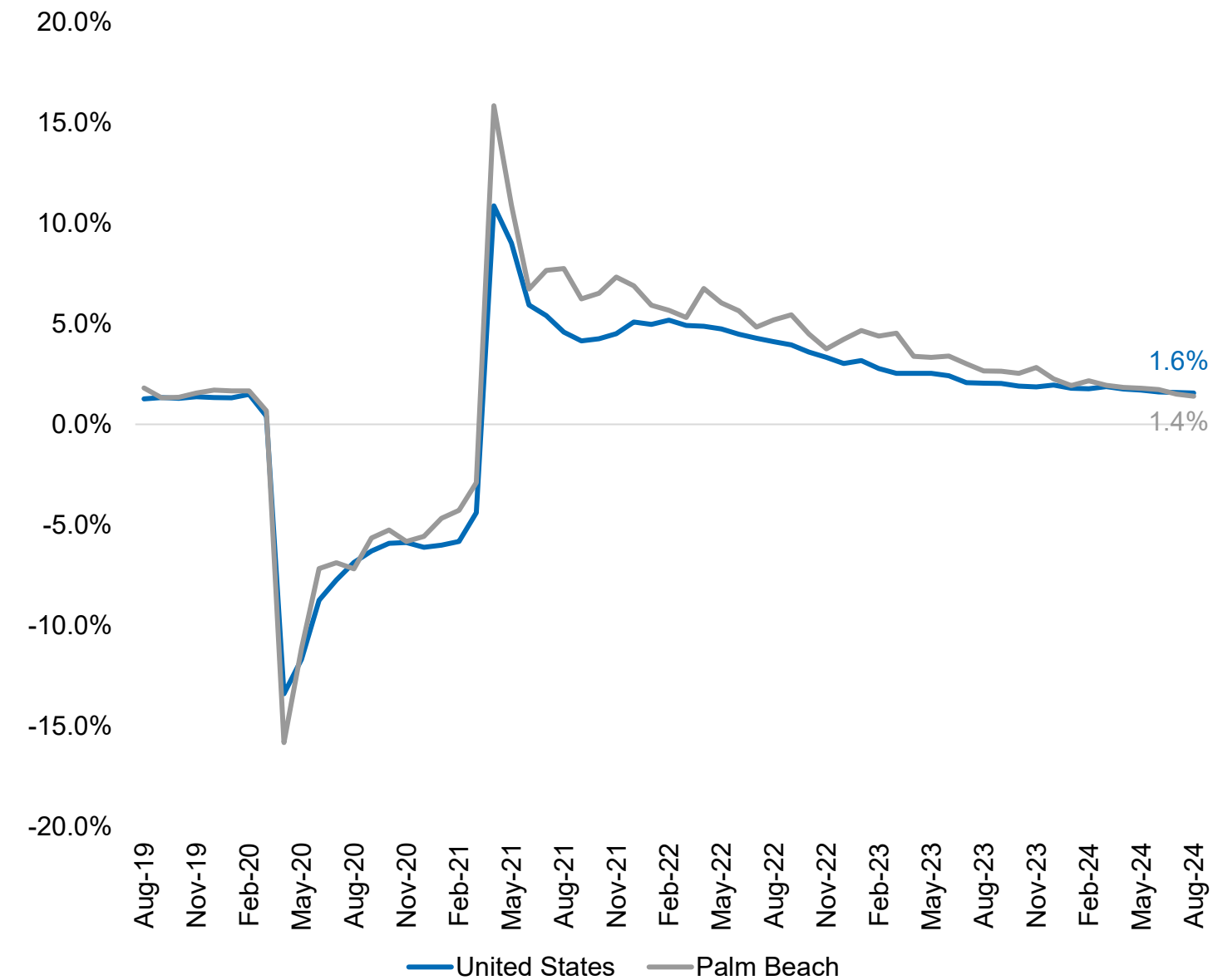
Unemployment Flattens; Employment Growth Loses Steam

Palm Beach has generally reported lower unemployment rates compared with the national average but has recently fallen closer to the national average in employment growth. The region's unemployment rate increased by 29 basis points year over year to 3.4%, marking the sixth consecutive month above 3.3%. Employment growth has recently decelerated to below the national average, falling by 125 basis points year over year to 1.4% as a likely result of continued national economic headwinds.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

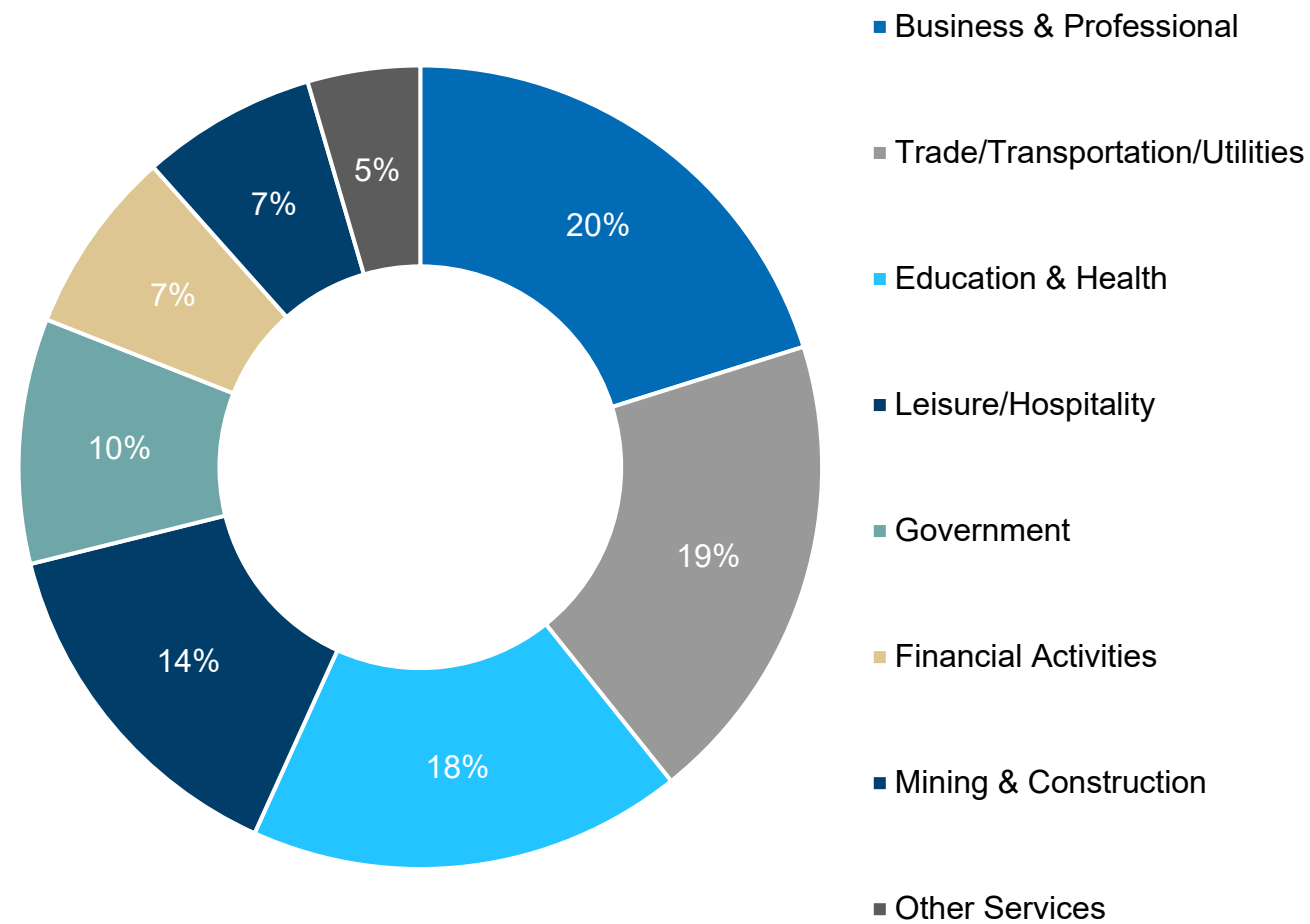


Source: U.S. Bureau of Labor Statistics, Palm Beach County

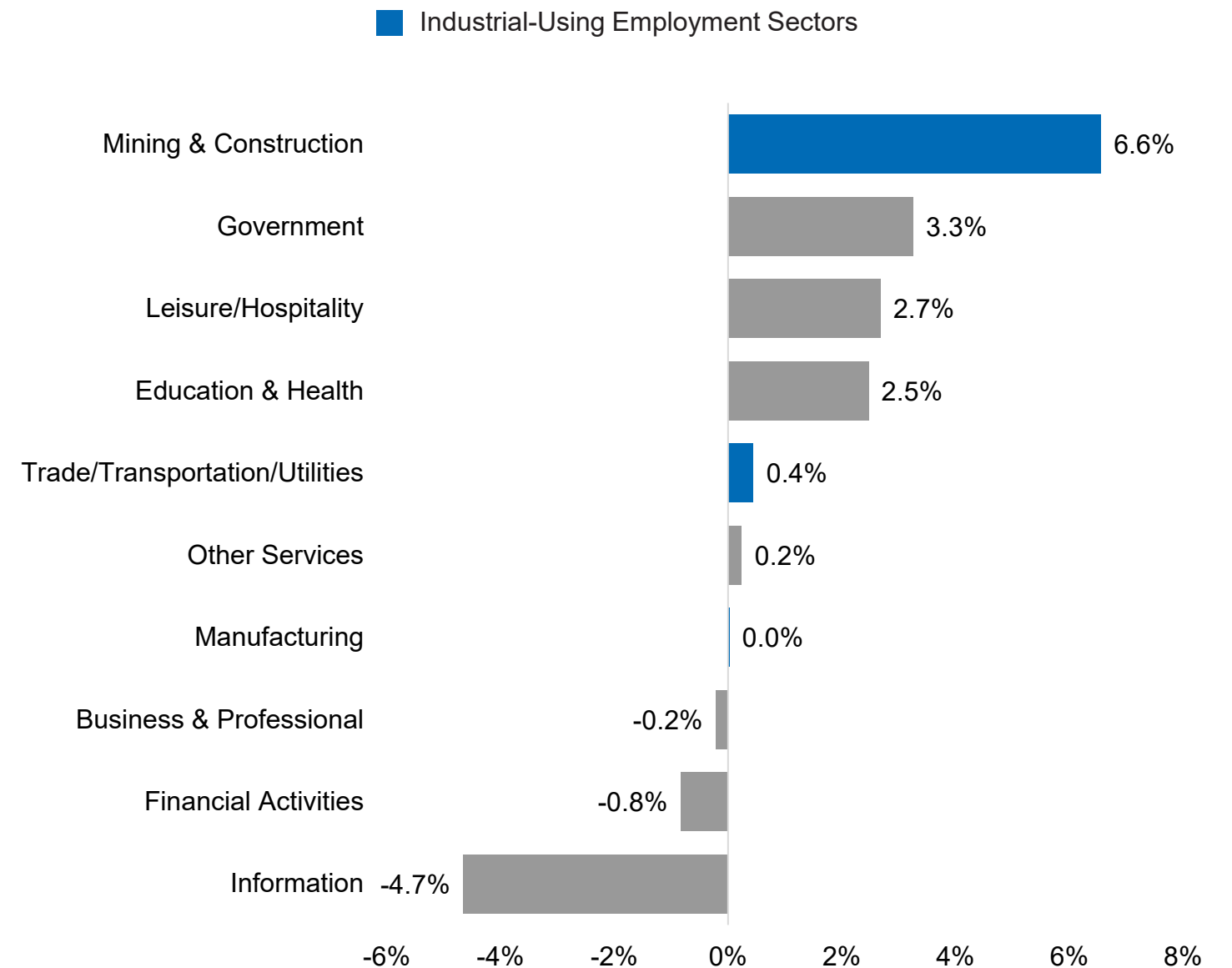
Mining & Construction Leads Industrial-Using Employment Sector Growth

Palm Beach's top two employment industries account for 37.4% of market share. Industrial-using employment's trade/transportation/utilities sector is the second-largest sector in the market, at 18.2%. All industries, except for business and professional, financial activities, and information, reported growth, with industrial-using industries reporting year-over-year growth ranging from no change to an increase of 6.6%.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024



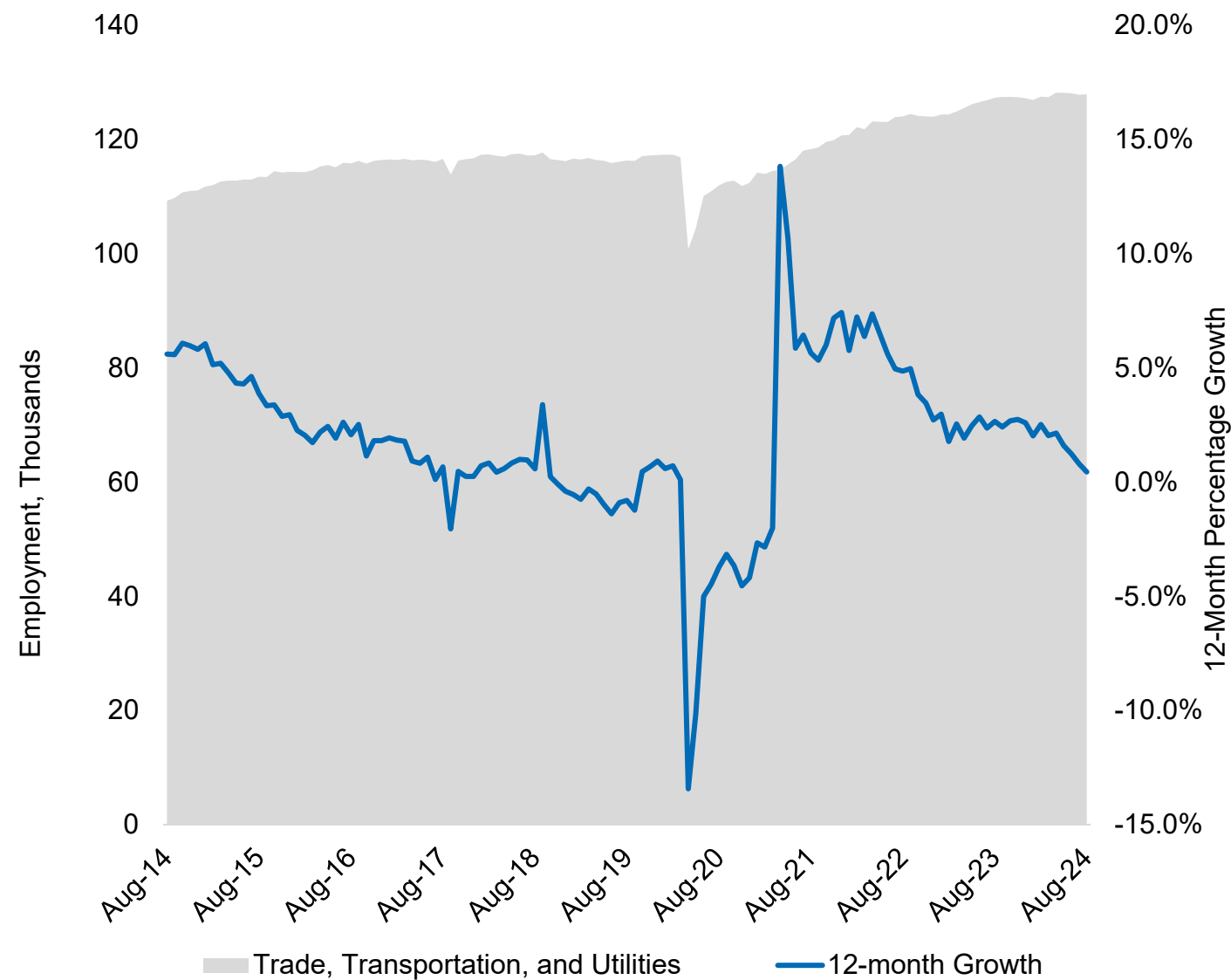
Source: U.S. Bureau of Labor Statistics, Palm Beach County

Industrial Employment Growth Near Zero

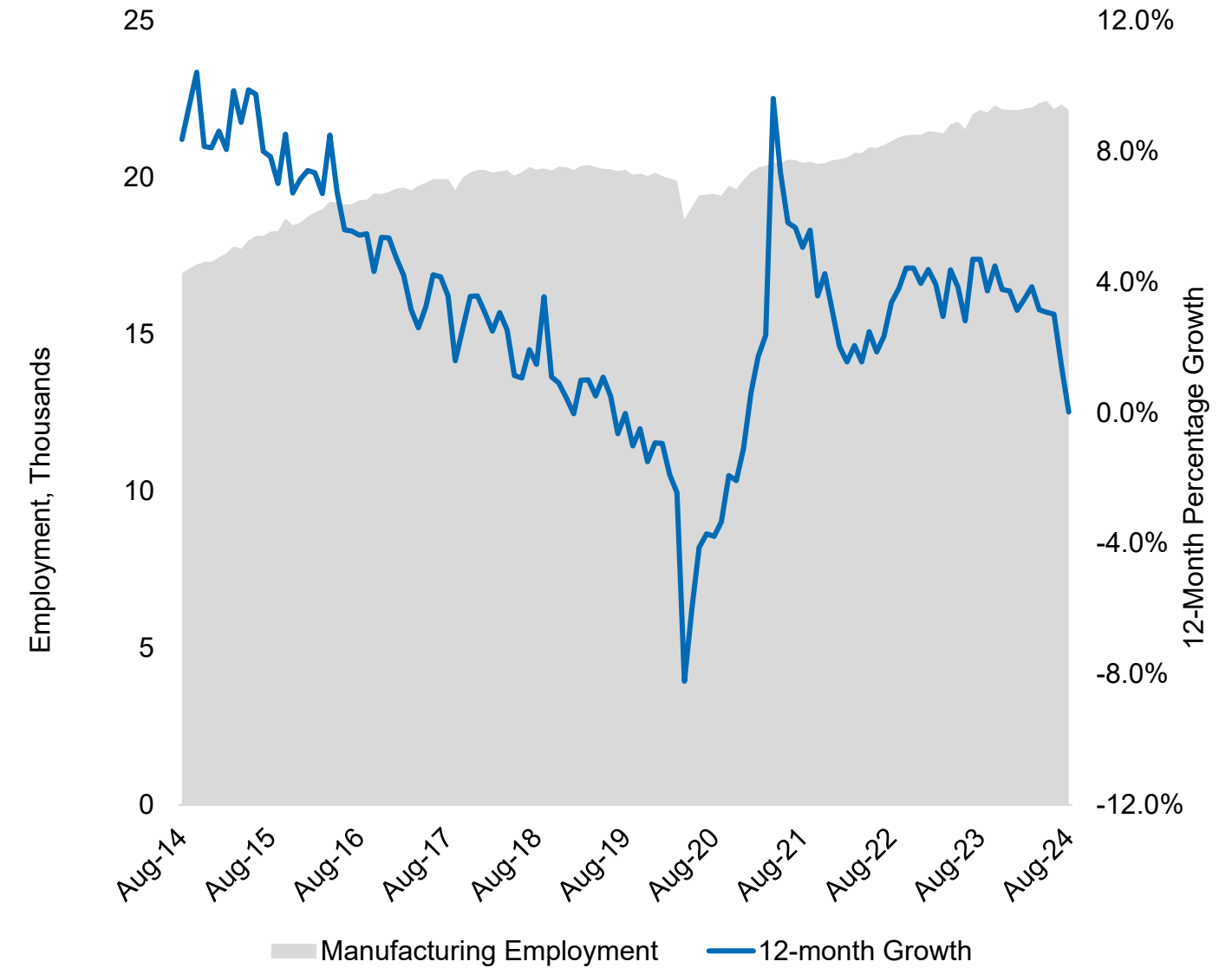
Trade/transportation/utilities employment has trended slightly down to 127,866 employees as of the end of August 2024, remaining close to the historical high of 128,144 reported in May 2024. Manufacturing employment has also trended slightly down to 22,148 jobs, dipping from the previous historical high of 22,440 recorded in May 2024.

Trade/transportation/utilities and manufacturing employment have fallen to nearly flat growth, with August 2024 reporting 0.4% and no change year over year, respectively.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Palm Beach

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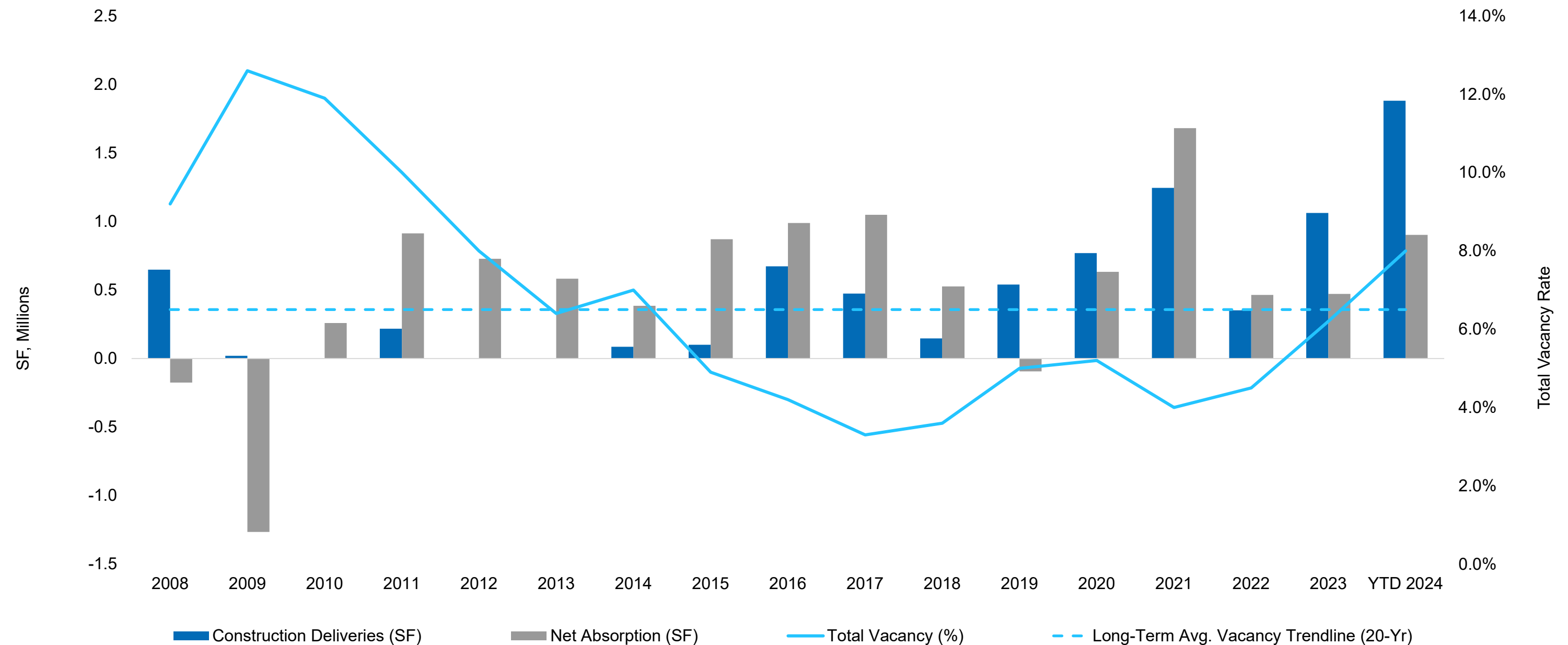
Leasing Market Fundamentals



Quarterly Demand Remains Strong Alongside Record-Breaking New Supply in 2024

Palm Beach's industrial vacancy rate increased by 200 basis points year over year to 8.0% in the third quarter of 2024, staying above the long-term average of 6.5%. There were no new deliveries in the third quarter of 2024, but the year-to-date total is 1.9 MSF, nearly double the market's net absorption of 902,193 SF in the same period. In the near term, Palm Beach industrial vacancy rates are projected to remain elevated but then slowly decline as the new inventory is absorbed.

Historical Construction Deliveries, Net Absorption, and Vacancy

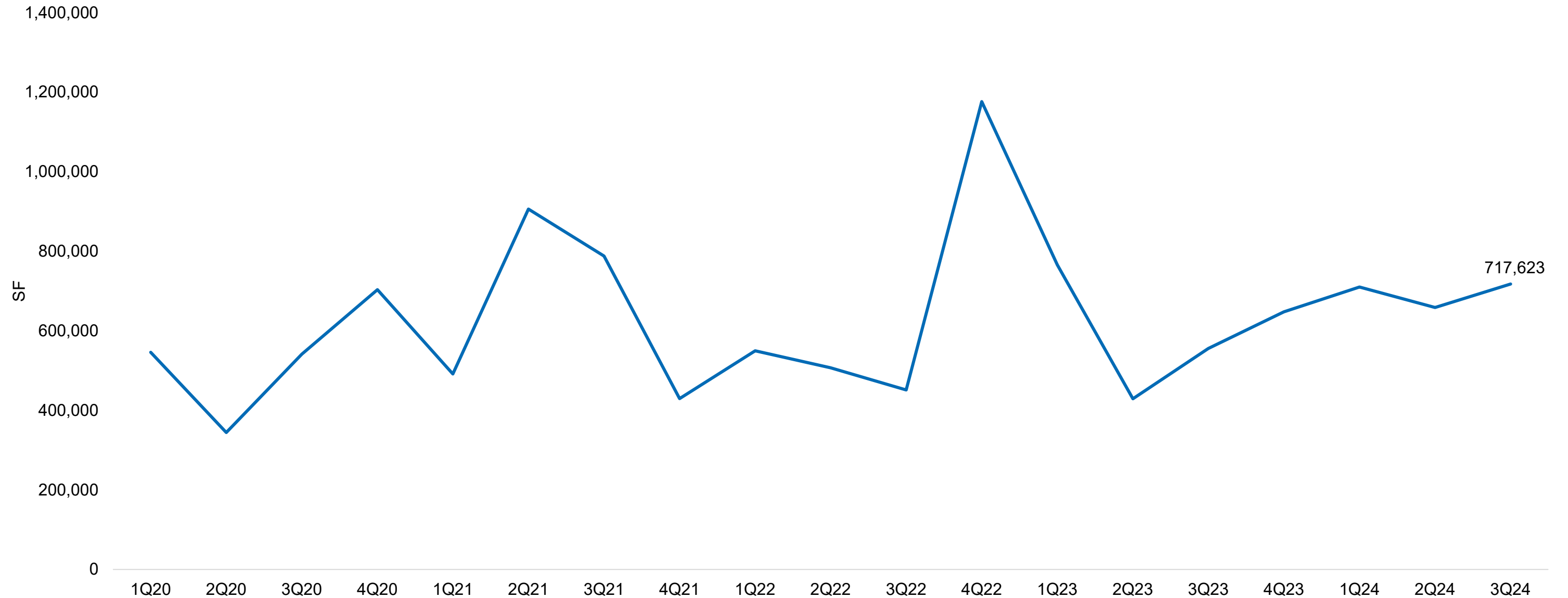


Source: Newmark Research, CoStar

Industrial Leasing Activity Remains Above Pre-Pandemic Levels

Quarter-over-quarter leasing activity improved by 8.9% in the third quarter of 2024, ending the quarter at 717,623 SF. Despite national economic headwinds, overall demand in the market remains positive, with the number of completed deals exceeding triple digits for seven consecutive quarters.

Total Leasing Activity (SF)

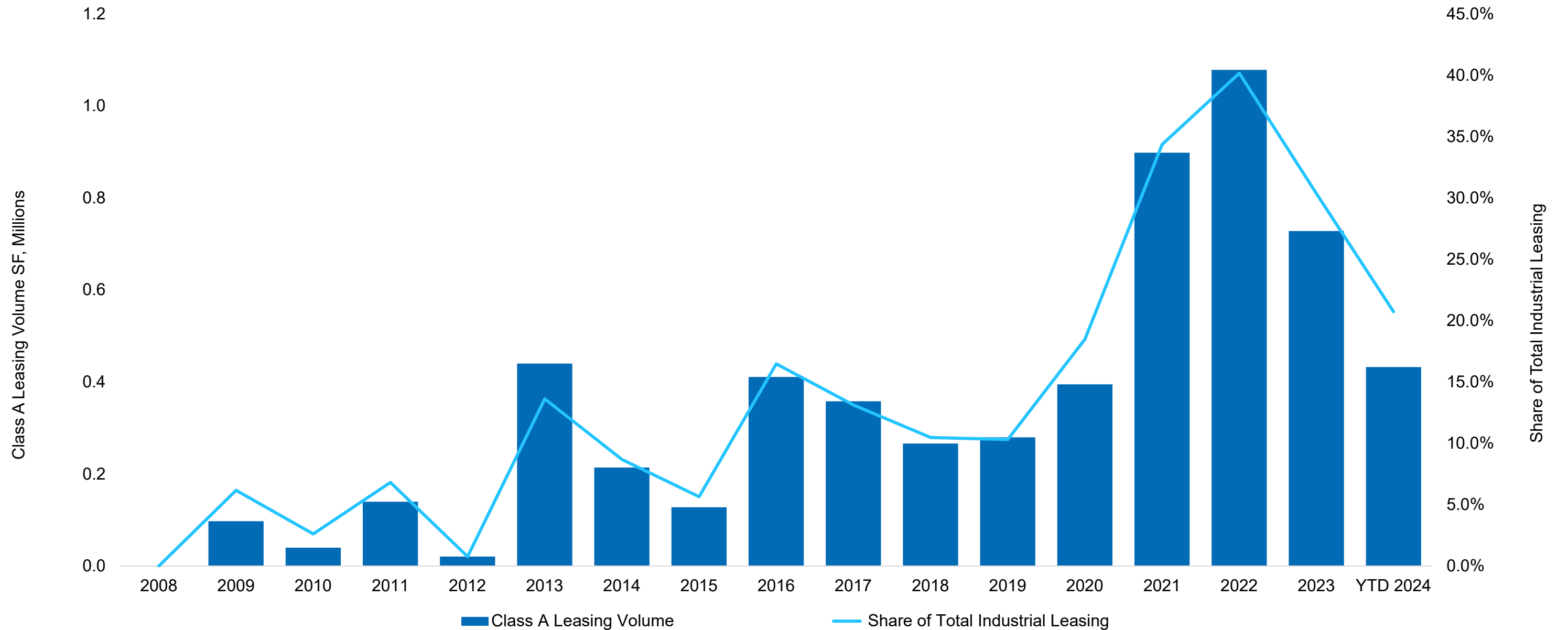


Source: Newmark Research, CoStar

Class A Warehouse Leasing Share Declines

Class A Leasing volume decreased by 60.3% quarter over quarter to 53,995 SF. Class A leasing activity accounted for 20.7% of all leasing so far in 2024, surpassing the pre-pandemic yearly average of 10.3% in 2019, but falling short of the 40.2% high reported in 2022. With an increasing share of Class A warehouse availability due to recent record high new deliveries in the prior quarter, Class A leasing is anticipated to rise in the short to medium term.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

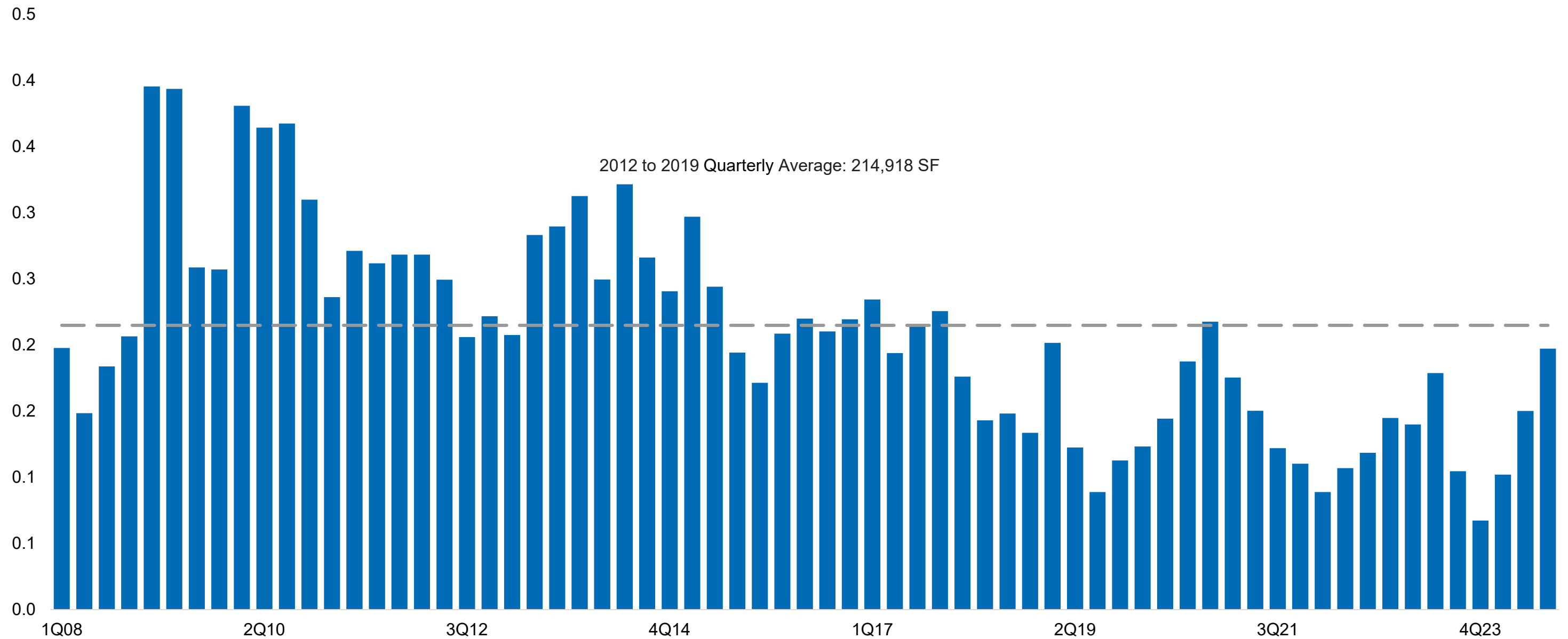


Source: Newmark Research, CoStar

Industrial Sublease Availability Rising From Record Low

Until recently, sublease availability has generally decreased since the recent high in the second quarter of 2023 at 178,827 SF. A recent low was reached in the fourth quarter of 2023 when sublease availability was at 67,334 SF. Since then, sublease availability increased by 88.5% year over year to 197,254 SF as of the end of the third quarter of 2024 but remains just below the 2012 to 2019 average of 214,918 SF.

Available Industrial Sublease Volume (msf)

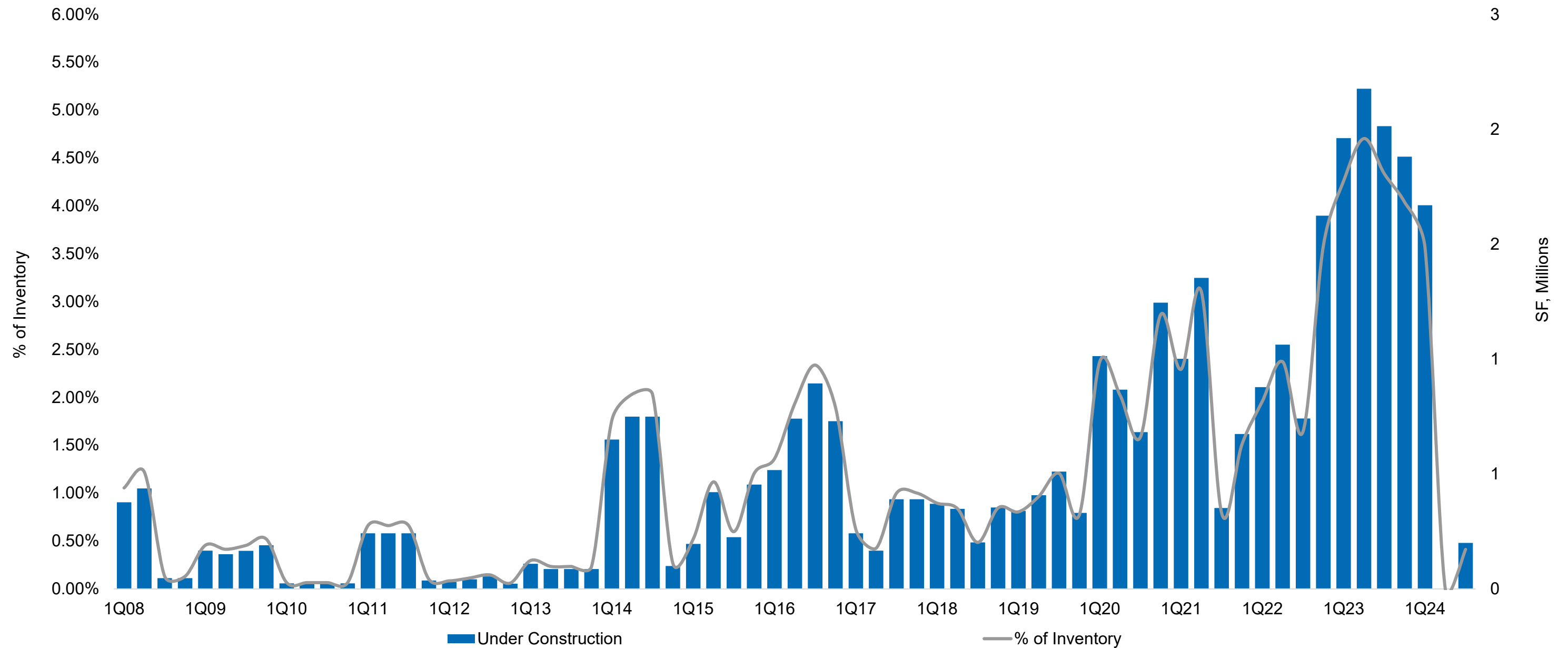


Source: Newmark Research, CoStar

Industrial Supply Pipeline Remains Largely Inactive Following Historic Deliveries

The construction pipeline decreased from the historical high of 2.2 MSF reported in the second quarter of 2023 to 200,000 SF as of the third quarter of 2024, marking the first new project to break ground in 2024. Industrial developers are pausing new development projects in the near term to allow the market time to absorb the influx of new supply. With a record number of deliveries in the second quarter and only one new project underway as of the third quarter of 2024, it is anticipated that the pipeline will pause on additional new starts until early 2025.

Industrial Under Construction and % of Inventory

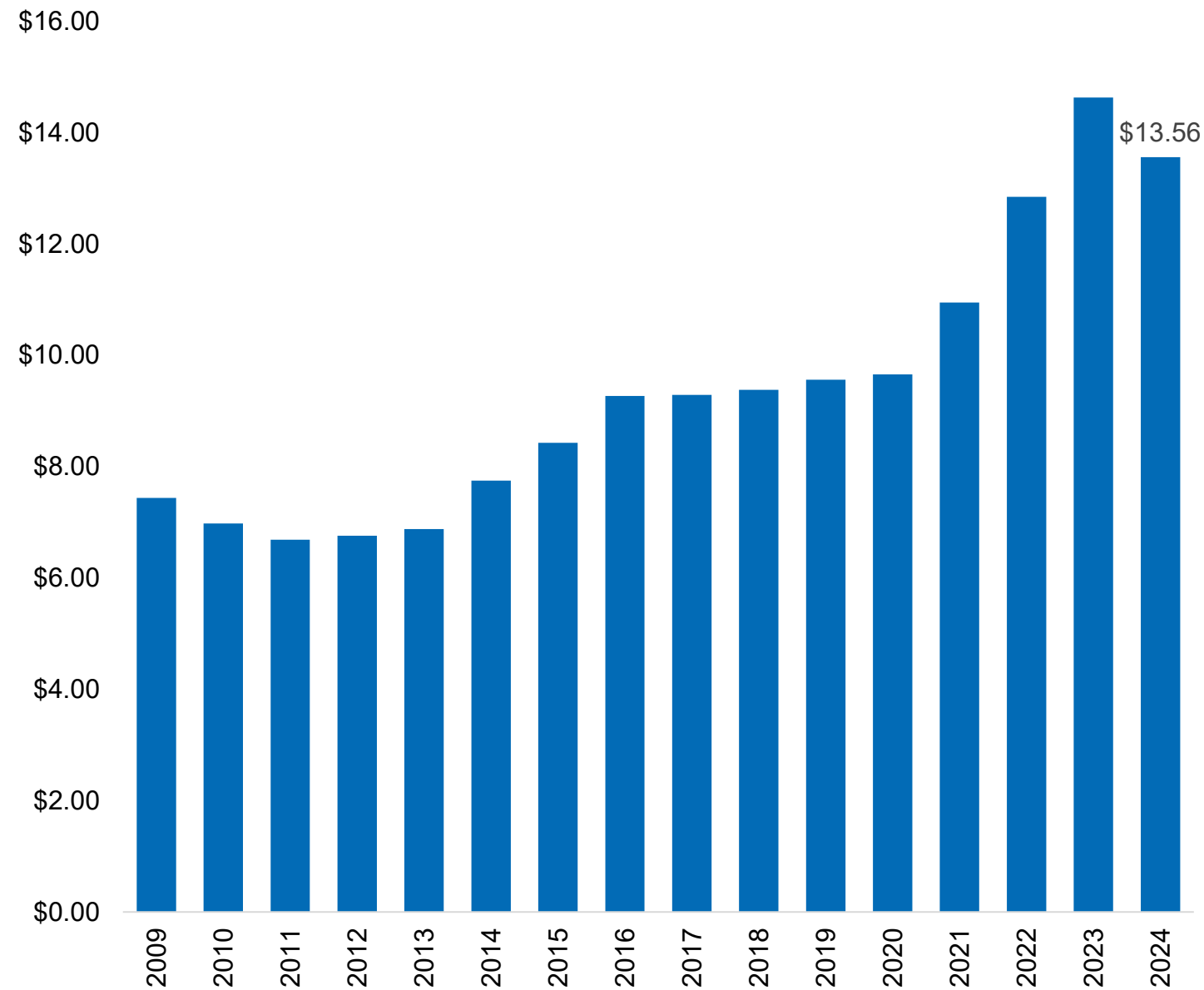


Source: Newmark Research, CoStar

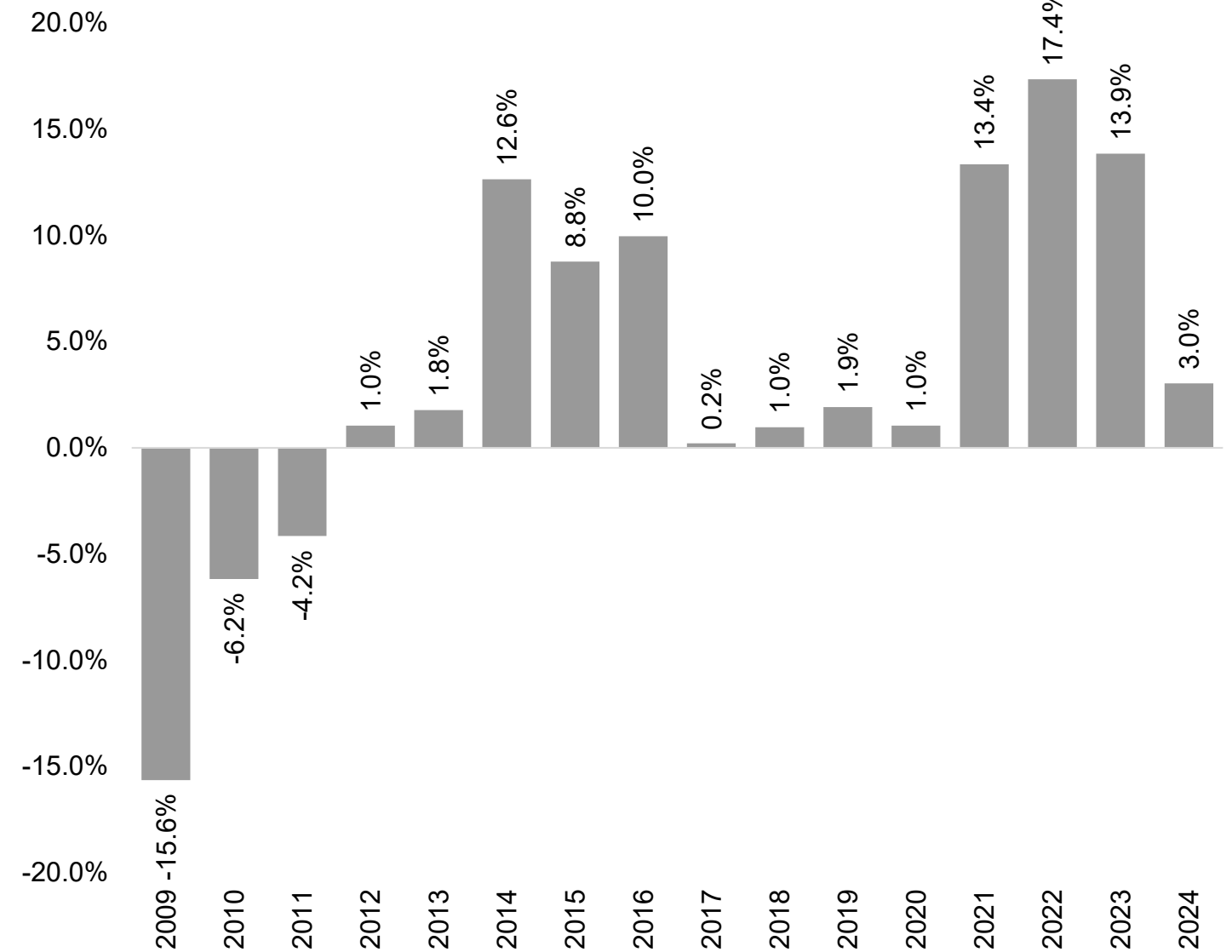
Asking Rents Temporarily Ease From All-Time High

Industrial average asking rents have rapidly increased since 2020 but the pace of growth has continued to decrease since 2022. As of the end of the third quarter of 2024, asking rents increased by 3.0% year over year to \$13.56. Near term rent growth is expected to remain elevated, but at a slower pace of growth, as demand will need to catch up with the temporary oversupply provided by the influx of new deliveries.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Notable 3Q24 Lease Transactions

Overall leasing activity increased by 8.9% quarter over quarter in the third quarter of 2024. New leases and renewals accounted for the largest transactions of the quarter as local entities moved within the market while national entities moved into the market. Leases in Class A spaces accounted for 7.5% of total lease activity for the quarter. No space is pre-leased out of the 200,000 SF under construction.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Good Greek Moving <i>Good Greek Moving renewed 25,663 SF and expanded by 27,587 SF of space at 1333 N Jog Rd.</i>	Turnpike Crossing – 1333 N Jog Rd	North Central	Renewal/Expansion	53,250
The American Bottling Company <i>The American Bottling Company (d/b/a Keurig Dr. Pepper) headquartered in Plano, TX renewed their lease for the full-building size of 47,558 SF in Boynton Beach.</i>	Canada Dry Bldg – 4895 Park Ridge Blvd	South Central	Renewal	47,558
Protech Ledged Eyewear <i>Protech is a medical equipment manufacturer that was founded in Florida in 1986</i>	Blue Heron Distribution Center I – 7960 Central Industrial Dr N	North Central	Direct New	45,000
Velocity Impact Products <i>Velocity Impact Products is a Florida-based manufacturer of innovative sliding glass doors, fixed aluminum storefronts, and luxury aluminum hurricane impact windows and doors.</i>	Blue Heron Center – 1177 W Blue Heron Rd	North Central	Direct New	44,961
Boston Proper Inc <i>Boston Proper is an e-commerce-based clothing brand.</i>	Arvida Park of Commerce Bldg IV – 1155 Broken Sound Pkwy	Boca Raton	Renewal	42,563



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