

SOUTH FLORIDA INDUSTRIAL MARKET

INDUSTRIAL HOLDING STRONG WHILE DEMAND SLOWED

The third quarter of 2018 marked more than eight years of growth for South Florida's industrial market, as demand outpaced supply for the 34th consecutive quarter. Although demand slowed, starting from first quarter of 2017, more than 3.2 million square feet of positive absorption held vacancy level from one year ago to settle at 3.9%, despite more than 4.5 million square feet of new industrial inventory added over the last year. Vacancy has only risen 20 basis points from the record low of 3.7% recorded at the end of 2017. In a two-year span, sturdy demand has accounted for more than 7.3 million square feet of positive absorption, although this is less than the 13.1 million square feet absorbed in 2015 and 2016. Almost 4.4 million square feet of new inventory is currently under construction, with more projected to break ground over the next 12 months. Will the strong leasing of new buildings continue, or could the market see vacancies begin to rise if economic conditions slow in the near future? Either way, market fundamentals and strong ties to Latin American and Caribbean Island distribution should lessen the impact if a future slowdown is in store. The tightening market translated into an asking average rental rate of \$8.43/SF, an increase of \$0.45/SF from the average recorded one year ago and slightly shy of the \$8.53/SF record set back in the second quarter of 2007.

LEASING AND DEMAND

There were 423 deals totaling 3.6 million square feet of lease activity during third-quarter 2018, for a total of approximately 12.9 million square feet of year-to-date transactions. Warehouse/distribution ruled with 9.1 million square feet, followed by general industrial with 3.2 million square feet. In stark contrast, R&D/flex space lagged behind with deals totaling just under 624,000 square feet so far this year. The logistics and distribution sector retook the lead for the bulk of mid- to large-size lease deals in 2018, accounting for 28.0% of the 5.4 million square feet of transactions reported so far this year. The retail/wholesale industry trailed closely while falling to the number two spot with more than 1.4 million square feet. Home and building supply companies rounded out the top three with 814,000 square feet. The food and beverage segment also performed well with 650,500 square feet, while manufacturing was at the bottom with 160,000 square feet.

INVESTMENT SALES

Demand for well-leveraged industrial properties remained high among investors, as 34 sales totaling almost 3.7 million square feet occurred during third-quarter 2018. So far this year, there have been 79 sales for 7.9 million square feet worth \$977.6 million. This performance is similar to last year's, when 7.9 million square feet sold for \$844.2 million. The average sales price on investments increased slightly to \$125/SF from \$111/SF one year ago. Investors remained bullish, as sales of premier industrial properties have reached record-breaking levels. Prologis purchased DCT's 1.0 million-square-foot portfolio, which included DCT Commerce Center, Seneca Commerce Center I and part of Sunshine State Industrial Park, for more than \$185.1 million.

CURRENT CONDITIONS

Another healthy quarter of demand kept vacancy from creeping upward as the rate remained unchanged from the previous quarter and one year ago.

Construction activity remained robust with over 4.3 million square feet underway and more projected to break ground before year-end.

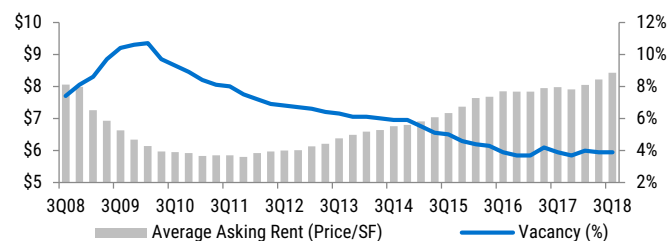
Warehouse/distribution space dominated in leasing, construction and sale activity.

Industrial rents continued to rise throughout the region, as landlords push rents closer to the \$8.53/SF record set back in 2007.

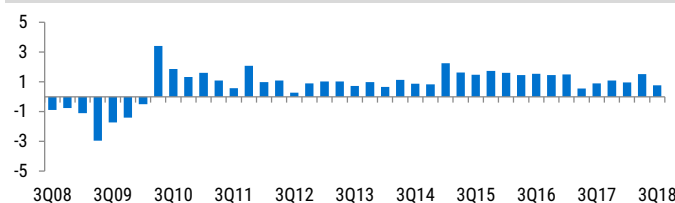
Investment sales took a significant upturn during the quarter, aided by Prologis' 1.1 million square feet portfolio purchase from DCT. Demand for well-leveraged industrial properties remained high amongst investors.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, Millions)



MARKET SUMMARY

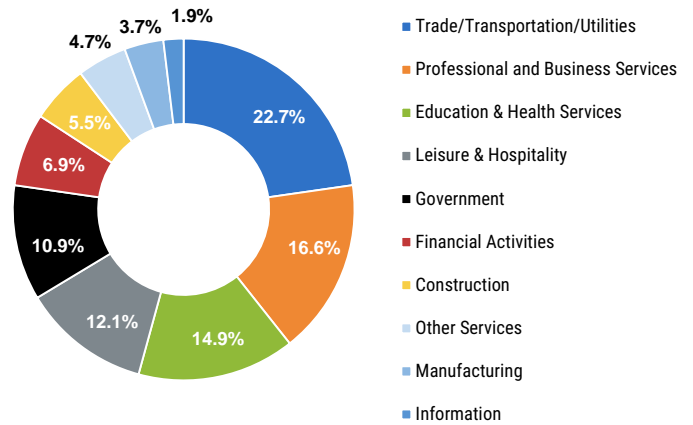
	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	368.1 MSF	367.0 MSF	363.7 MSF	↑
Vacancy Rate	3.9%	3.9%	3.9%	↑
Quarterly Net Absorption	778,146	1,530,141	901,772	↓
Average Asking Rent	\$8.43	\$8.22	\$7.98	↔
Under Construction	4,376,676	5,186,873	5,094,729	↓
Deliveries	868,370	1,156,558	287,775	↔

ECONOMIC CONDITIONS

South Florida's unemployment rate ticked downward 50 basis points to 4.0%, with 45,700 additional jobs added from July 2017. Broward County reported the region's lowest unemployment rate, down 40 basis points to 3.7% from one year ago. Palm Beach's rate saw a smaller decrease of 20 basis points to 4.0% from last year during the same period, while Miami experienced the largest decrease of 50 basis points to 4.0%. Looking back from the second quarter-2017, the construction sector held onto the lead in the strongest growth of any industry in South Florida with 15,200 jobs created, while the manufacturing industry stayed into the second spot with an increase of 9,400 jobs over the past 12 months. Rounding out the top three included the education and health segment with the creation of 6,700 new positions. However, professional and business services took over the lead, seeing the largest annual percentage increase in employment by rising 16.6% from jobs held one year ago. Most remaining sectors experienced modest improvements with the information sector continuing to struggle with 400 jobs lost since July of 2017. South Florida's job growth held steady as the regions economy appeared to be reaching a balancing point after three years of strong momentum. The market is still in strong position as population growth continued to drive multi-family development throughout the region.

EMPLOYMENT BY INDUSTRY

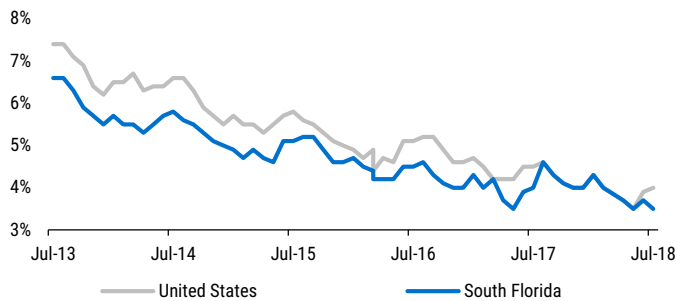
South Florida MSA, May 2018 Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

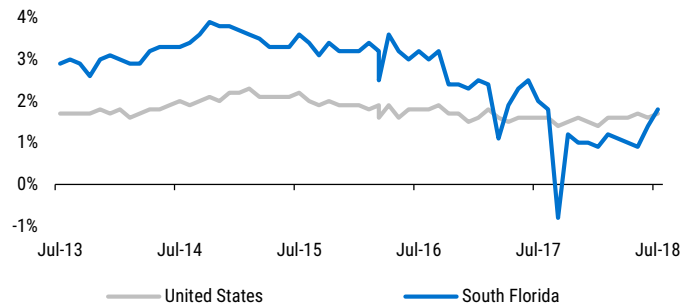
South Florida Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

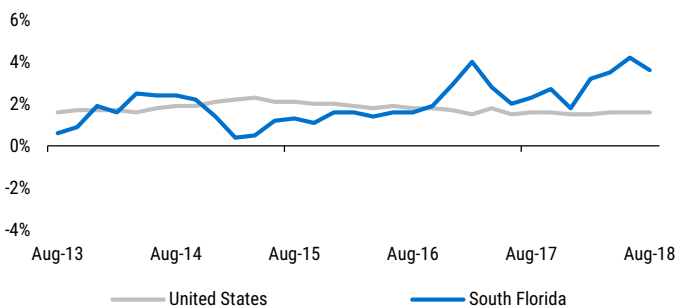
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

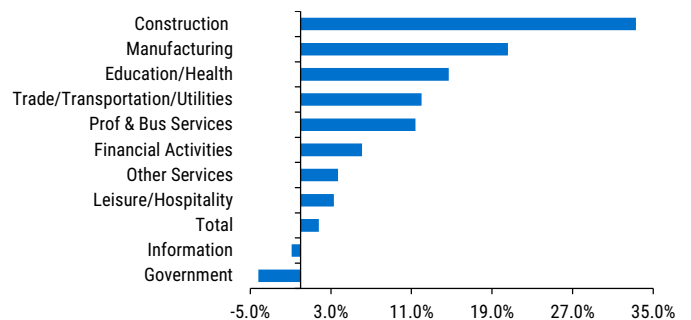
All Items, 12-Month % Change, Not Seasonally Adjusted,



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

South Florida, May 2018, MSA, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics