

SOUTH FLORIDA INDUSTRIAL MARKET

MARKET FUNDAMENTALS HOLDING AS ROBUST DEVELOPMENT IS UNDERWAY

The third quarter of 2019 marked almost nine consecutive years of growth for South Florida's industrial market, as demand outpaced supply for the 38th consecutive quarter, the longest growth streak recorded. Although market fundamentals remained strong, market conditions continued to slow, as demand fell by almost half from the previous quarter to 376,000 square feet of positive net absorption. Year-to-date, net absorption totaled 1.7 million square feet. Demand still outpaced supply during the third quarter. However, new industrial developments completed throughout the region pushed vacancy up to 4.2%, an increase of 30 basis points from the previous quarter and 60 basis points from 3.6% one year ago. The robust development of the past 24 months has created approximately 9.5 million square feet of new industrial inventory, but strong demand during this time has kept market occupancy above 95.0%. Most of this demand has come from new tenants and healthy expansions by existing companies already in the market. The warehouse/distribution segment dominated the market with more than 2.0 million square feet of year-to-date absorption, while the general industrial sector trailed far behind with 54,000 square feet of absorbed space. R&D/flex space saw a return of supply with more than 434,000 square feet of negative net absorption so far for the year. Tight market conditions translated into record-level asking rental rates that pushed past the \$9.00/SF mark for the first time in the region's history, increasing \$0.55/SF from one year ago to \$9.05/SF.

LEASING AND DEMAND

There were 464 deals totaling almost 4.7 million square feet of lease activity during the quarter, for a total of approximately 14.6 million square feet of transactions so far this year. This represents an increase from the 12.4 million square feet recorded at the close of the third quarter one year ago. Warehouse/distribution continued to dominate space requirements, posting almost 90.0% of all deal activity year to date. Trailing far behind, general industrial accounted for more than 1.2 million square feet, while R&D/flex space also lagged with 278,000 square feet so far this year. Retail and wholesale distribution companies have consistently held onto the lead for the bulk of mid- to large-sized lease deals since the start of 2018 and have accounted for an additional 2.4 million of the 6.4 million square feet transactions reported to date this year. The logistics and distribution sector took second place with 1.7 million square feet, while home and building supply companies rounded out the top three with 762,000 square feet. The region's strong ties to Latin America and the Caribbean coupled with population growth have fueled demand during this economic cycle.

INVESTMENT SALES

Fourteen investment sales totaling 3.3 million square feet occurred during the third quarter of 2019, bringing the year-to-date total to almost 6.2 million square feet sold for \$768.5 million. This is a sharp drop in volume from the 8.0 million square feet sold for \$977.0 million one year ago. The average sales price held almost level at \$124/SF from the \$125/SF price recorded during the third quarter of 2018. Demand remains high for leased-up high-end industrial product, as sales prices remain at record levels. However, owners have held off on listing these properties, as lower-tier industrial inventory appears to be dominating sales activity in 2019.

CURRENT CONDITIONS

Demand growth in the region continued to slow, down almost by 50.0% from the previous quarter, but over 3.4 million square feet of tenants in the market showed that demand remained robust throughout the region.

Construction activity held strong with approximately 4.0 million square feet while completions totaled 1.6 million square feet during third quarter.

Industrial rents pushed past the \$9.00/SF market for the first time in recorded history as rates from higher-end developments continued to push asking averages upward.

Vacancy rates have begun to inch upward due to construction completions despite demand growth remaining in South Florida.

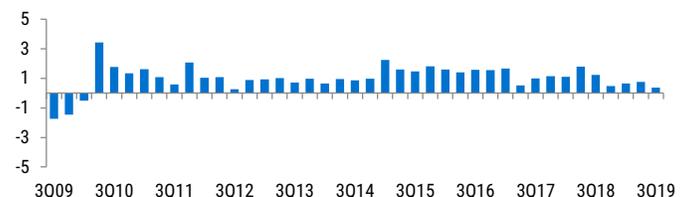
Strong market fundamentals are projected to continue during the remainder of 2019 and into 2020.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, Millions)



MARKET SUMMARY

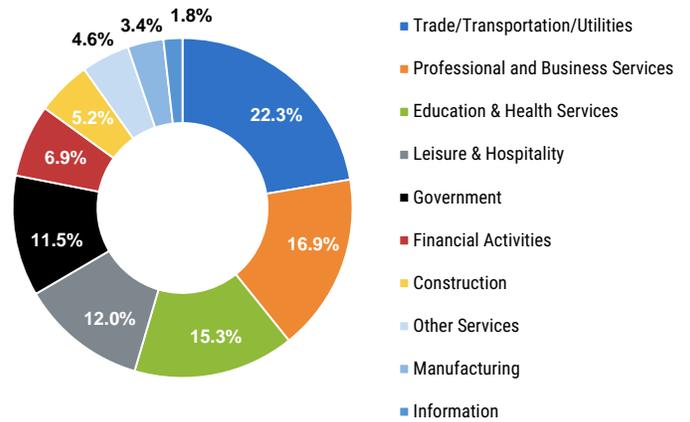
	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	373.1 MSF	371.5 MSF	367.9 MSF	↑
Vacancy Rate	4.2%	3.9%	3.6%	↑
Quarterly Net Absorption	376,306	746,977	1,224,278	↔
Average Asking Rent	\$9.05	\$8.95	\$8.50	↑
Under Construction	4,068,091	5,187,957	5,117,796	↓
Deliveries	1,611,763	1,369,429	868,370	↔

ECONOMIC CONDITIONS

South Florida's unemployment rate ticked downward 30 basis points to 3.5%, with 53,100 additional jobs added from August of 2018. Miami-Dade County reported the region's strongest drop in unemployment rate, down 50 basis points to 3.5% from one year ago. Palm Beach's rate saw a smaller decrease of 10 basis points to 3.7%, while Broward also decreased by 10 basis points to 3.3% from last year during the same period. Looking back from the third quarter-2018, the education and health sector held the lead for the second consecutive quarter with the strongest percentage growth of any industry in South Florida while also providing the largest increase with 19,100 jobs created. The professional and business services segment stayed in the number two spot with an increase of 14,500 jobs over the past 12 months. Also holding rank and staying in third position included the leisure and hospitality industry with the creation of 4,500 new positions. Construction jobs continued to slow during the third quarter, seeing a modest increase of 2,800 jobs from one year ago. Most remaining sectors experienced moderate improvements with the information sector continuing to struggle with another 1,800 jobs lost from one year ago. South Florida's job growth held steady, outperforming overall levels of the country as population growth and healthy development remained throughout the region. Healthy economic conditions should remain throughout 2019 and into 2020. The regions is well positioned to weather an economic downturn.

EMPLOYMENT BY INDUSTRY

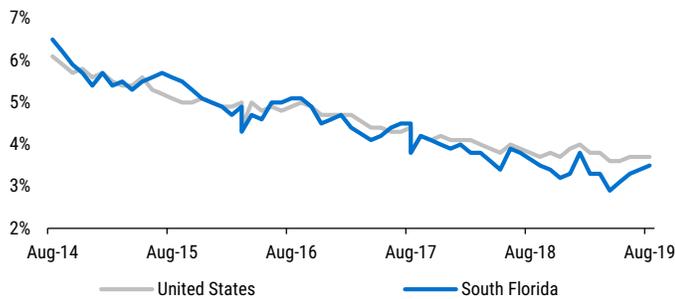
South Florida MSA, August 2019 Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

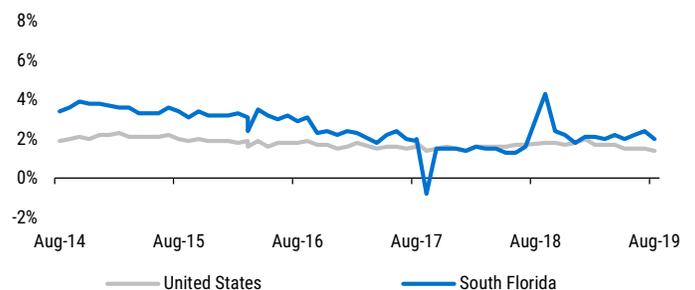
South Florida Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

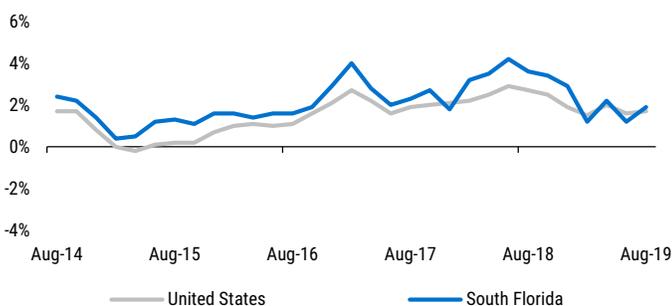
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

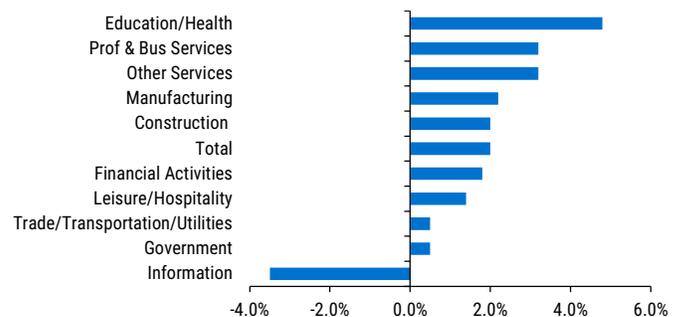
All Items, 12-Month % Change, Not Seasonally Adjusted,



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

South Florida, August 2019, MSA, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics