Vacancy Among the Lowest in the Nation, Boosting Rent Growth; Keeping Investor Interest Piqued

Already-tight vacancy and a slow construction pipeline will keep available space limited. Steady demand in Palm Beach County’s relatively small industrial sector has compressed vacancy over the past nine years to one of the tightest among U.S. metros. This trend coupled with few deliveries scheduled in 2018 will drop the vacancy rate to a cyclical low by year end. The vacancy rate is especially restricted in areas of high demand, resting under 1 percent in the Lewis Terminals and Electronics Way neighborhoods. Leasing this year has been led by technology firms and companies servicing the area’s growing population. The net migration of 38,000 people into the market during the past 12 months and the expansion of e-commerce, are generating the need for additional distribution and warehouse space. The demand for available industrial space has underpinned a 30 percent surge in the average asking rent since the end of 2013, with further rent growth expected through year end.

Robust property performance luring buyers to metro. A number of investors seeking lower entry costs and higher yields than nearby Miami-Dade are searching for assets in Palm Beach County. The market’s favorable economic growth attracts a wide range of buyers. Deal flow held steady year over year in June, limited by the supply of for-sale assets. Strong investor demand helped drive the average price up 12 percent during the period to $132 per square foot, while first-year returns compressed 20 basis points, with the average falling below 7 percent, the lowest level in 18 years. Warehouses with less than 50,000 square feet were often sought after. Class C warehouses changed hands at an average approaching $110 per square foot, with cap rates in the low-6 to low-8 percent range.

2018 Market Forecast

- **Employment up 1.6%**: Employers will expand staffs by 1.6 percent or 10,000 workers in 2018, roughly doubling last year’s job growth.
- **Construction 213,000 sq. ft.**: Completions fall to less than half of last year’s 627,000 square feet. Projects are scattered throughout the county with only one building larger than 60,000 square feet.
- **Vacancy down 60 bps**: The slow delivery pace will assist in moving vacancy down 60 basis points to 2.5 percent on the net absorption of roughly 492,000 square feet. Last year, vacancy fell 90 basis points.
- **Rent up 4.9%**: Asking rent will climb an average of 4.9 percent to $10.45 per square foot in 2018, building on a 3.4 percent gain last year.
- **Investment**: Vacancy above the metro average and robust rent gains should attract buyers to the Arvida Park of Commerce area for assets with some upside potential.

Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available. Asking rent is based on the full service marketed rental rate. 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 office data are made during the fourth 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.

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