



MARKET HIGHLIGHT: MIAMI

DISTRIBUTION, WAREHOUSE DEMAND CONTINUES TO OUTPACE SUPPLY IN SOUTH FLORIDA



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Owner and developer Panattoni Development Co. recently broke ground on the final phase of Eastview Commerce Center in Miami's Northeast Dade submarket. Set to open in July, the new phase will add 446,800 square feet to the existing business park.

Miami-Dade continues to be propelled by persistent economic growth, bustling port activity, positive investor sentiment and strong leasing, creating a perfect recipe for industrial demand. Following its most successful year ever in 2018, PortMiami broke records yet again in first-quarter 2019, recording its highest ever monthly cargo activity amount in January with a total of 104,183 twenty-foot equivalents (TEUs) of containerized cargo, a 17 percent increase over January 2018. Meanwhile, a \$437.5 million expansion project, the largest ever, is planned for Port Everglades in nearby Broward County.

The positive fundamentals reverberate throughout the overall South Florida market. Despite the differing industrial inventories of each South Florida market with Miami-Dade County at 186.2 million square feet, Broward County at 96.9 million square feet and Palm Beach County at 39 million square feet, demand for space across the region has fueled unprecedented development activity.

Logistics, e-commerce

Net industrial absorption in Miami-Dade was impressive during the first quarter, posting positive 1.2 million square feet, a notable 45 percent increase from the net absorption recorded for first-quarter 2018. Several (mostly) preleased, speculative developments contributed to the spike in net absorption.

Demand trends against development indicate healthy industrial markets in Broward and Palm Beach as

well. From South Florida's position as the conduit between Latin America and the United States, and coinciding with various developments with the Panama Canal and South Florida's ports, the increased demand is largely attributable to robust logistics and e-commerce, and shows no signs of slowing.

Despite an influx of new industrial product, vacancy rates remain low and relatively flat, another indication of the strength of demand in Miami's industrial market. First-quarter 2019 posted overall vacancy in Miami-Dade at 2.8 percent, compared to 3.2 percent in Broward and 3.4 percent in Palm Beach. Miami-Dade's Airport West submarket saw the highest volume of leases in the first quarter, including CEVA Logistics' renewal of its 364,608-square-foot lease and Roca Tile USA renewal of its lease at Dolphin Commerce Center, expanding by 25,745 square feet for a total of 134,383 square feet.

Asking rents rose in all three South Florida counties with average rates (triple-net) in Miami-Dade at \$7.47 per square foot, Broward at \$8.56 per square foot and Palm Beach at \$7.99 per square foot. Landlords have been pushing to renew tenant leases early to lock in higher rental rates. Tenants continue to be driven by price followed by location; however, they are disadvantaged by the high-demand landlord market.

Land scarcity, high costs

During the first quarter, 1.1 million square feet of new industrial space was delivered in Miami-Dade, of which 70 percent was preleased. Significant deliveries included the three buildings comprising Phase 1 at Eastview Commerce Center in Northeast Dade (357,500 square feet); Building H at Lakeview Industrial Center in Medley (200,000 square feet); and three buildings, including the built-to-suit project for travel retailer Dufry, at the Beacon Lakes Industrial Park in Airport West (425,800 square feet).

With 3.9 million square feet of industrial under construction in Miami-Dade, 44 percent of the development underway is in the Northeast submarket. There are 13 major industrial projects scheduled for delivery in the county throughout 2019 and 2020. Panattoni Development Co. broke ground on the final phase of Eastview Commerce Center, which will add 446,800 square feet of industrial space to the Northeast Dade submarket by July 2019.

Broward has 2.4 million square feet under construction, 38 percent of which is in the Pompano Beach submarket. Palm Beach has 343,000 square feet under construction, and a proposed 566,659-square-foot industrial park near Palm Beach International Airport was recently approved by the Palm Beach County Commission.

Development may see a dip in 2019 due to the scarcity of developable land, rising land and construction costs and competition from commercial builders. Miami-Dade saw a 40 percent increase in industrial land prices over the past five years. Further tightening the market are investors beginning to purchase industrial space and rezoning it for redevelopment or repositioning for alternate uses.

Investors seek rare finds

First-quarter 2019 saw a significant gain in industrial investment activity as the total square footage traded in Miami-Dade grew by approximately 20 percent year-over-year. However, the largest sale for the quarter in South Florida took place in Broward County's Deerfield Beach with Stockbridge Capital Group's \$62.3 million purchase of Powerline Business Park. The transaction is indicative of the growing demand from institutional investors and REITs for smaller Class B assets with value-add opportunities to create rent growth.

The Federal Reserve announced in late March that it would not raise the benchmark federal funds rate further during 2019 and that it would instead hold interest rates steady at the target range between 2.25 and 2.5 percent. The decision is expected to influence investor activity positively.

The industrial investor market in South Florida remains diverse. Institutional types are focused on locking in core properties that will produce over a more extended hold model, and some are even considering buying atypical properties for redevelopment later. At the same time, owner-developers are the most active in acquiring the remaining land. Sellers are not in a rush to sell and, instead, are strategically assessing how to capitalize on peak pricing.

Outlook

The outlook remains positive for South Florida's industrial sector as e-commerce and the demand for industrial and logistics space continues to drive the market. Economic indicators such as population growth consistently correlate with demand, and investor-developers are finding creative ways to keep up.

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