

# Treasure Coast

## 2023 Commercial Real Estate Outlook

Thursday, January 26th, 2023

Prepared For:



Colliers



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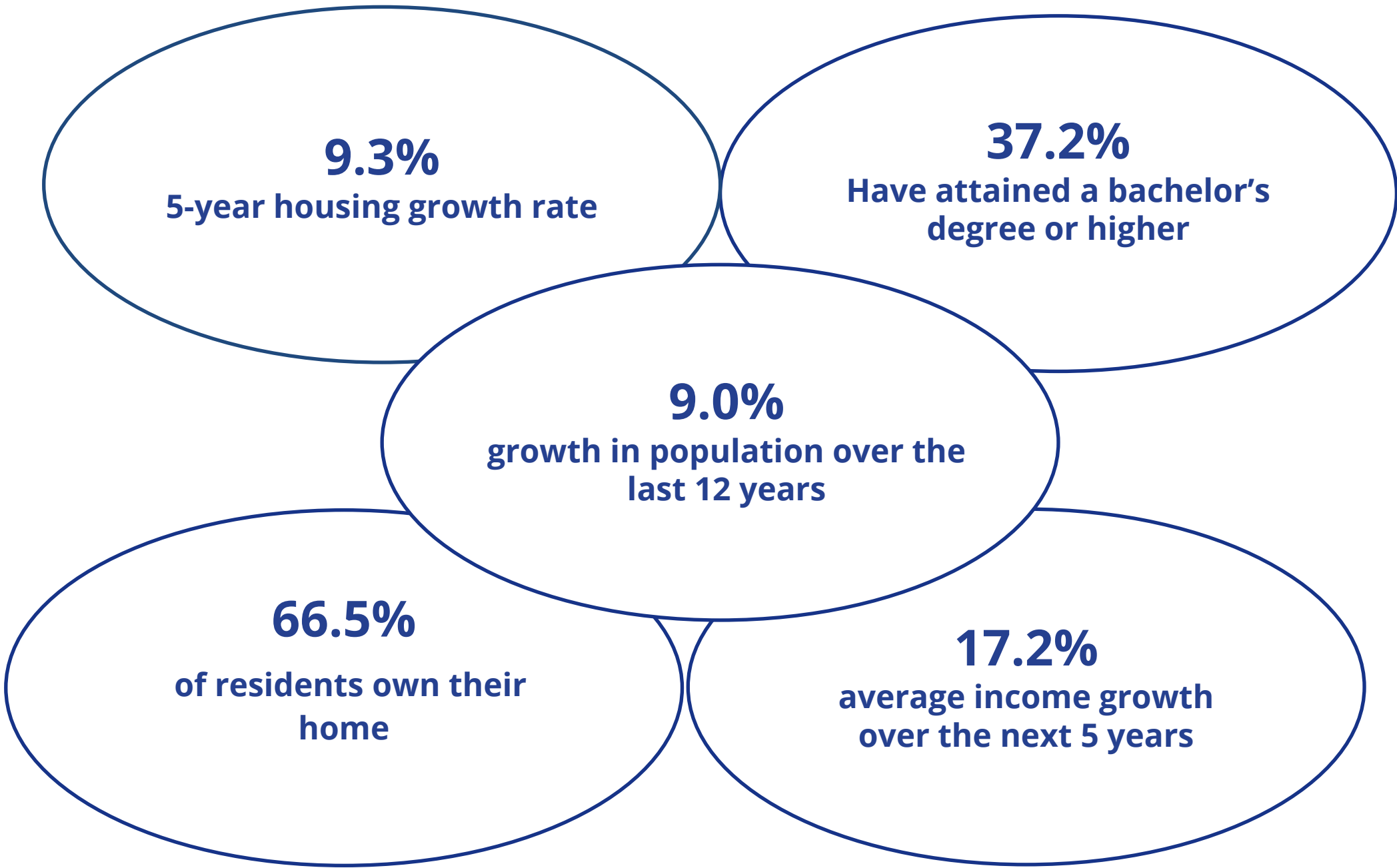
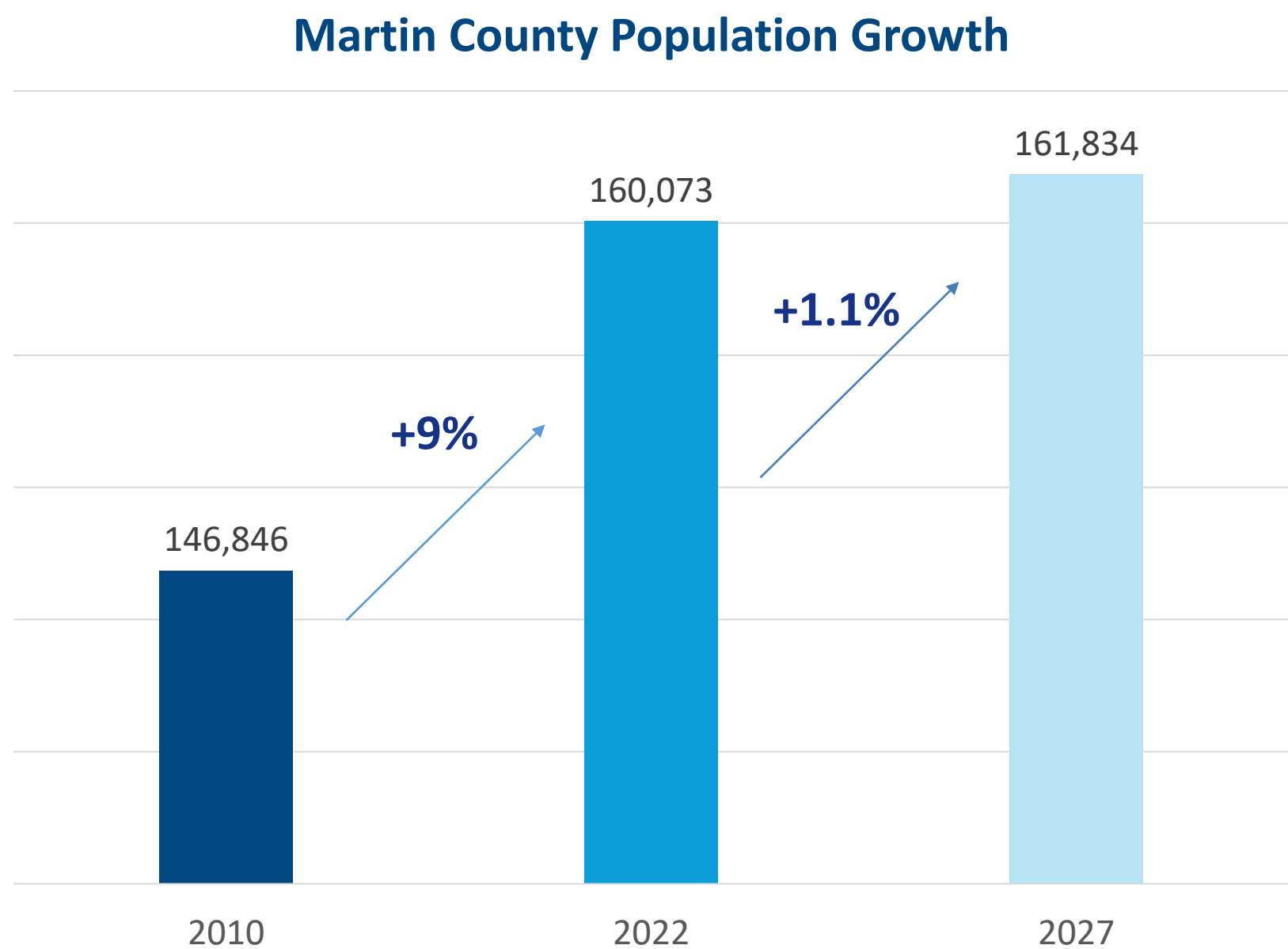
# Economic Overview



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# Economic Growth Spurred by Rapid Population Boom & Growing Number of Establishments

Martin County ranked #7 Best County in Florida to retire by Miami Realtors, and #7 County with the best public schools in Florida by Niche.com



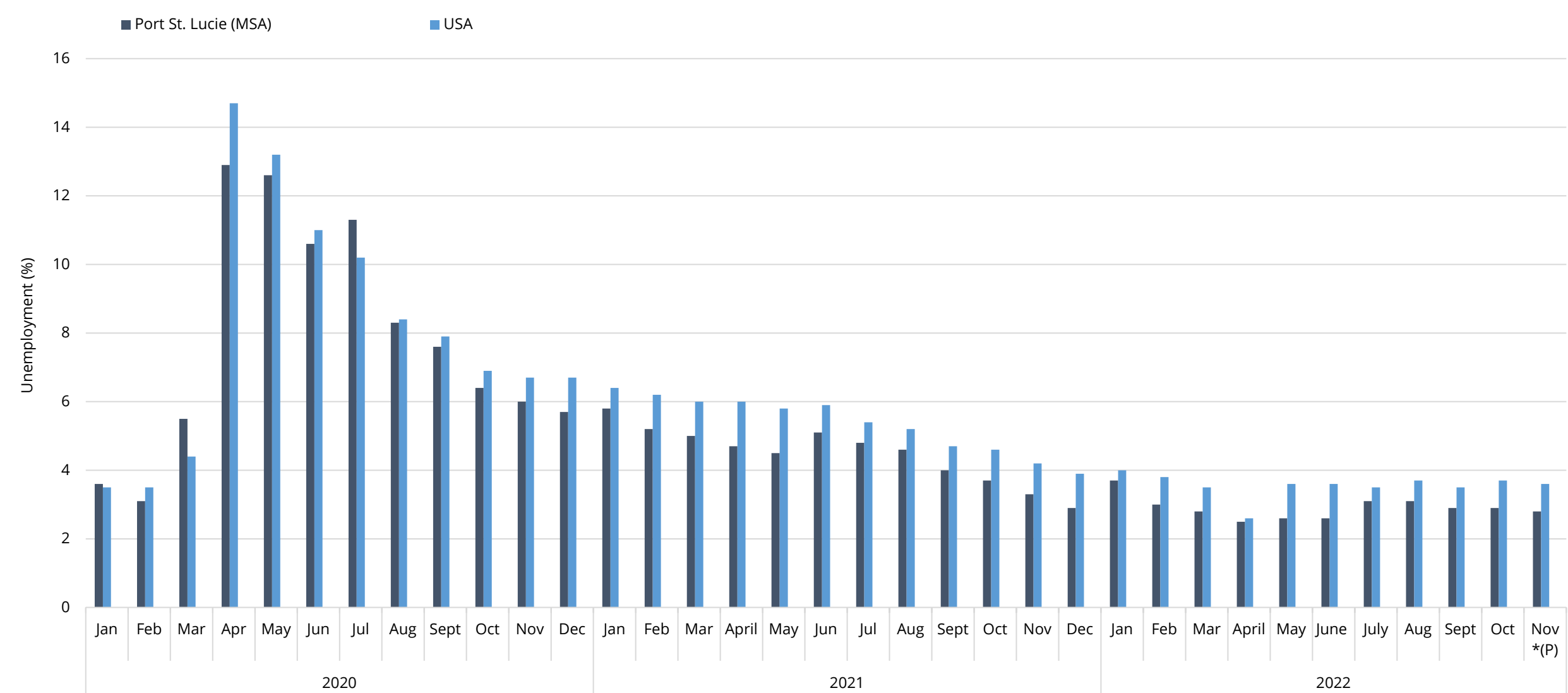
Source: Colliers International, Economic Research

# Tightening Labor Market = Labor Shortage

The Port St. Lucie MSA (including Martin County) is performing better than the U.S. in workforce recovery as the unemployment rate dropped to 2.8% percent in November 2022, down 10.0 percentage points from the pandemic peak and 80-basis points lower than the USA average.

## Unemployment Rate

Port St. Lucie (MSA) and USA Average



Source: Bureau of Labor and Statistics, Economic Research

## Unemployment Rate November 2022\*

**2.8%**  
Port St. Lucie  
MSA

➔

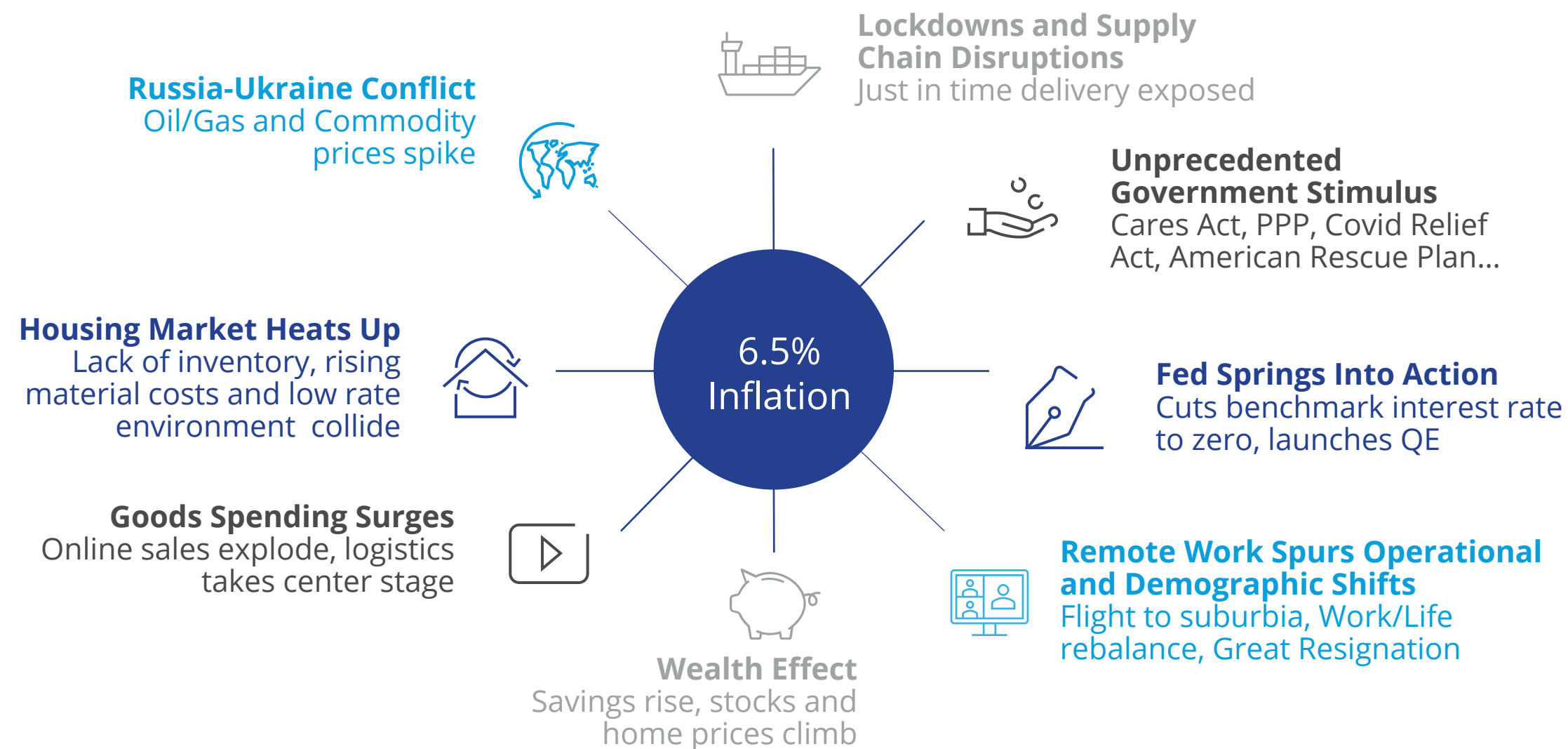
**3.6%**  
U.S.

Port St. Lucie MSA  
unemployment rate is  
lower than pre-pandemic  
and lower than the national  
average

*\*preliminary*

# Interest Rates and Rising Cost of Capital

## How did we get here?



Colliers Research

## Employment Gains have Slowed in December, while Hiring Remains Robust

The December employment report had something for everyone.

### JOBS

- **December's job report showed the labor market remained strong at the end of the year**, even as the Federal Reserve raised interest rates to the highest level in 15 years.
- **Non-farm payrolls increased by 223,000** in the last month of the year.
- **The unemployment rate in December fell to 3.5%**, the lowest seen since 1969.
- **In 2022, a total of 4.5 million new jobs were added**, which is an average **monthly increase of 375,000**.

### EARNINGS

- Perhaps more importantly for the Fed **average hourly earnings increased at a slightly slower pace, at 0.3%, down from 0.4% in November**.
- Additionally, on an annual basis, **wages rose 4.6% in December**, which was also a **slower pace than the 4.8% seen in the prior month**.

"Headline employment gains have slowed in recent months but hiring remains robust despite the Fed's effort to tamp down a strong labor market that has placed upward pressure on wages and contributed to stubborn inflation."

- Yahoo Finance



# Market Overviews



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Office Trends

2022 Year-End Market Comparison

Market Indicators (Class A/B/C)	Martin County	St. Lucie County	South Florida	South Florida Class A
Inventory	2.8 Million SF	4.8 Million SF	221 Million SF	74.4 Million SF
Under Construction	12K SF	0 SF	5.9 Million SF	4.5 Million SF
Net Absorption (2022)	+20K SF	+12K SF	+2.4 MSF	2.0M SF
Vacancy Rate	4.6% Decrease 70 BPS YOY	4.5% Decrease 30 BPS YOY	10.1% Decrease 50 BPS YOY	15.7% Decrease 90 BPS YOY
Asking Rates				
Full-Service Rents	\$18.22	\$20.87	\$43.70	\$50.38
5-Year Growth	+16.5%	+42.6%	+44.1%	+37.9%

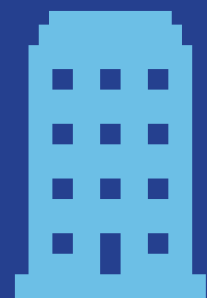
Source: CoStar, Colliers, Q4 2022

Market Highlights & Outlook

- Martin County
- Increasing tenant demand pushed rental rates up to \$18.22 per square foot full service, a 16.5 percent increase over the last five years. With limited new construction and office tenants expanding north, the vacancy rate has dropped 70-basis points, to 4.6 percent. Despite macro-economic uncertainty, Martin County shows healthy market conditions, and it's expected that the Martin County office market will thrive moving into 2023.
- St. Lucie County
- St. Lucie County is experiencing significant growth in rents, reaching \$20.87 per square foot full service in the fourth quarter of 2022, a 42.6 percent increase over the last five years. With no new construction on the horizon, vacancy rates are expected to continue to fall based on increased demand in the tightening market.
- South Florida
- With continued population growth, the South Florida market continues to expand with rental rates reaching a record high of \$43.70 per square foot full service based on heightened tenant demand. Despite the influx of new construction, the vacancy rate has dropped 50-basis points, to 10.1 percent. Healthy market fundamentals are expected to continue going into 2023.
- South Florida (Class A)
- The South Florida Class A office market remained stable, amid a substantial amount of new construction over the last five years. The vacancy rate ended the fourth quarter of 2022 at 15.7 percent, a year-over-year decrease of 90 basis-points. It's expected that the 4.5 million square feet under construction will get absorbed quickly upon completion as the flight-to-quality trend persists.

# Office Market Trends

## Moving Forward in 2023



### Bifurcation/Flight to Quality

Modern, high quality, well-located assets will continue to attract tenants and increase rents, in contrast to Class B and C assets that will see a tighter pool of interested tenants.



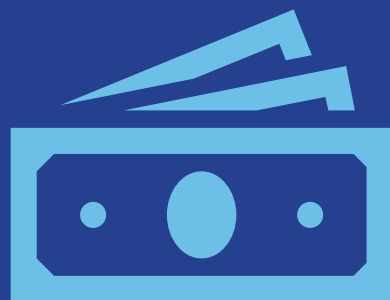
### Amenities

Tenant expectations for building amenities are also more entrenched, adding to the challenges for Class B and C assets that do not evolve.



### Office Utilization Rate

As hybrid work patterns further cement in company's long-term plans, tenants will have more clarity on space needs and dispose of underutilized space.



### Investment Activity Slows

Capital is sitting on the sidelines due to economic uncertainty and rising interest rates. However, capital is available for the right deals. Investors are showing interest in medical office and suburban office as the preferred investment for 2023.



### New-to-Market Tenants

An influx of new-to-market office tenants is expected to continue as companies and employees relocate to SFL for a better quality of life and are lured by the new, state of the arts facilities, like The Main, 830 Brickell (Miami) and 360 Rosemary (West Palm Beach).



### Medical Office

Medical office has been maturing into an attractive and stable asset type. Demand is strong due to the aging population and growing number of insured people needing care.



# Retail Trends

## 2022 Year-End Market Comparison

Market Indicators	Martin County	St. Lucie County	South Florida	South Florida Class A
Inventory	9.6 Million SF	10.2 Million SF	261 Million SF	42.2 Million SF
Under Construction	14K SF	69K SF	4.6 Million SF	2.0 Million SF
Net Absorption (2022)	+44K SF	+112K SF	+2.9 MSF	+486K SF
Vacancy Rate	5.8% Decrease 30 BPS YOY	3.2% Decrease 60 BPS YOY	3.5% Decrease 70 BPS YOY	2.7% Decrease 50 BPS YOY
Asking Rates				
NNN Rents	\$17.72	\$16.79	\$34.08	\$34.71
5-Year Growth	+7.1%	+5.1%	+43.4%	+33.4%

Source: Costar, Colliers, Q4 2022

### Market Highlights & Outlook

#### Martin County

- The Martin County retail market fundamentals displayed positive key indicators across all key metrics in 2022. Rental rates climbed up to \$17.72 per square foot NNN, a 7.1 percent increase over the last five years. Similarly, the vacancy rate decreased 30-basis points year-over-year, to 5.8 percent. With population growth shifting north and healthy tenant demand following, it's expected that retail vacancy rates will continue to compress.

#### St. Lucie County

- The St. Lucie County retail market remained on an upward throughout 2022. Retail rents grew to \$16.79 per square foot NNN in the fourth quarter, a 5.1 percent increase over the last five years. Additionally, the vacancy rate compressed down to 3.2 percent, a 60-basis point decrease year-over-year. Increased demand is expected to continue going into 2023.

#### South Florida

- The South Florida retail market finished the fourth quarter on a positive trajectory. Net absorption reached positive 2.9 million square feet, as rental rates climbed up to an all time high of \$34.08 per square foot NNN. The vacancy rate decreased by 70-basis points to 3.5 percent. The 4.6 million square feet under construction will help to alleviate the increased demand.

#### South Florida (Class A)

- The Class A retail market in South Florida remained stable in the fourth quarter 2022. Vacancy rates compressed down to 2.7 percent, a 50 basis-point drop year-over-year. Additionally, net absorption reached positive 486,000 square feet for the year. The market is expected to stabilize further going into 2023, based on continued population growth and the uptick in new-to-market tenants.

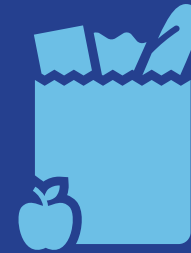
# Retail Market Trends

## Moving Forward in 2023



### Large Chains Flourish

The Pandemic disproportionately hammered small businesses across all retail sectors. For many large national chains, this will become an opportunity to aggressively grow market share heading in to 2023.



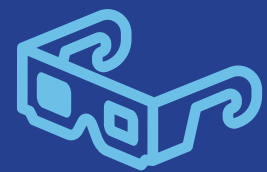
### Grocery Remains White-Hot

Grocery remains white-hot, with growth bolstered by aggressive expansion plans from newer market entrants like Amazon Fresh, Aldi and Lidl.



### Off-price Apparel On Trend

Off-price apparel has returned to robust growth, with players like Kohl's and Burlington experimenting with smaller-format stores to facilitate expansion into new markets.



### Theatres Remain Challenged

Theaters remain deeply challenged, and consolidation is expected in coming months.



### Class A Trophy Malls

Class A and trophy malls account for roughly one-third of the inventory, but 80 percent of the sales. Those properties have benefited from flight to quality as well as been the focus of nearly all the growth from the new clicks-to-bricks trend.



### Digital Disruption

Retail banking continues to deal with digital disruption, driving less need for overall branches and smaller footprints.

# Industrial Trends

## 2022 Year-End Market Comparison

Market Indicators	Martin County	St. Lucie County	South Florida
Inventory	7.7 Million SF	13.0 Million SF	427 Million SF
Under Construction	130K SF	5.7 Million SF	11.6 Million SF
Net Absorption (2022)	+141K SF	-65K SF	+9.2 Million SF
Vacancy Rate	2.8% Decrease 110 BPS YOY	3.6% Increase 90 BPS YOY	2.9% Decrease 40 BPS YOY
Asking Rates			
NNN Rents	\$11.66	\$9.73	\$13.73
5-Year Growth	+38.5%	+66.9%	+44.5%

Source: Costar, Colliers, Q4 2022

### Market Highlights & Outlook

#### Martin County

- Driven by population growth and the expansion of the Port of Fort Pierce, the Martin County industrial market displayed healthy fundamentals at the end of 2022. Rental rates climbed up to \$11.66 per square foot NNN, a significant 38.5 percent increase over the last five years. Additionally, the vacancy rate decreased 110-basis points year-over-year to 2.8 percent. With continued population growth spreading further north and increased demand for space in the area, it's expected the additional 130,000 square feet under construction will get leased up quickly.

#### St. Lucie County

- The St. Lucie County industrial market fundamentals are beginning to stabilize, as the market absorbs the abundance of new construction that has delivered over the past several years. Although the vacancy rate increased by 90 basis-points year-over-year, it has been trending back down with a 60 basis-point decrease quarter-over-quarter. Due to consistent demand and limited available space, rental rates have been pushed up 66.9 percent over the past five years. With 5.7 million square feet under construction, it's expected to help level out market fundamentals moving into 2023.

#### South Florida

- The South Florida industrial market closed 2022 on a positive trajectory. Net absorption reached positive 9.2 million square feet, as rental rates climbed up to an all time high of \$13.73 per square foot NNN. The vacancy rate compressed 40-basis points down to 2.9 percent. Approximately 11.6 million square feet is under construction and will help to alleviate the tightening market.

# Industrial Market Trends

## Moving Forward in 2023



### E-Commerce

E-Commerce sales are holding strong despite a return to in-store shopping, and still occupy a significant amount of industrial space.



### Demand from 3PL's

Strong demand stems from 3PLs, as companies turn to outsourcing logistics to avoid inventory issues, labor shortages, transportation costs and other supply chain challenges.



### Rent Growth

Soaring rent growth is reaching record highs, while vacancy rates are reaching all-time lows.



### Supply/Demand

Leasing activity is expected to moderate in 2023 as the need to hold additional inventory dissipates, however, demand will keep up with new supply with another year of strong positive net absorption, low vacancy and strong rent growth.



### Supply Chain

Global supply chains disruptions remain in flux. In 2023, companies will look to diversify their product sourcing and try to mitigate supply chain disruptions.



### Reshoring/Nearshoring

Manufacturing is coming back to the U.S. at record pace. Major initiatives are underway to “reshore” battery and solar manufacturing, while other companies are combating shipping costs/delays/disruptions by nearshoring – bringing the supply chain closer together.



# Multifamily Trends

## 2022 Year-End Market Comparison

Overall Multifamily Market Indicators	Port St. Lucie-Fort Pierce	South Florida
Inventory (Units)	19,703*	641,797
Occupancy	94.8%	95.5%
Per Square Foot	\$1.83	\$2.44
5 Year Rent Growth	+50%	+57%
Deliveries		
Units (2022)	852	9,871
Under Construction		
Units	2,660	47,863

Source: Costar, MPF, Colliers International, Q4 2022

\*Sample of tracked inventory

## Market Highlights & Outlook

### Port St. Lucie MSA

- Just like South Florida, Port St. Lucie – Fort Pierce has felt the effects of rapid population growth with a strong occupancy rate and a rental rate that has soared 50 percent over the last five years to \$1.83 per square foot. Continued migration is expected to strengthen the multifamily market as the population growth continues to shift north.

### South Florida

- South Florida has achieved record growth over the last 5 years with rental rates climbing 57 percent to \$2.44 per square foot. Investors and developers have eyed South Florida for opportunities, adding close to 10,000 new units to the inventory in 2022 with another 47,800 units under construction.



# Multifamily Market Trends

## Moving Forward in 2023



### Rentership Rising

High mortgage interest rates priced more households out of ownership options. As a result, there has been growth in rent-by-choice households.



### Migration

The pandemic brought massive migration from across the U.S. to South Florida as people reevaluated where they wanted to live based on cost, weather, community and family.



### Apartment Demand

Constrained construction of new supply, and a price run-up on the single-family for sale front, spilled over into expanded apartment demand.



### Functionality

Consumers desire indoor/outdoor living, health and well-being features and functionality, designs for nimble work/life balance at home.



### New Development

With 1.3 million new households projected each year through 2035, industry trade groups calculate the U.S. will need 4.3 million newly built apartments between now and then.



### Technology Impact

Exponential advances in technology will have impacts on the building-cycle, property operations and management, and resident experience of cost-versus-value models.



### Policy Constraint

Policymakers' restrictive land use barriers will spread sharper supply-versus-demand mismatches, to sculp evolving geographies as people seek refuge from high-cost locales.



### Affordability

Virtually all newly built apartment communities targeted the financially privileged, instead of serving moderate and lower-income households in supply-constrained areas.

# Treasure Coast Economic Development



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# Martin County | Economic Development

The Martin County Capital Improvement Plan (CIP) has allotted \$124M in expenditures to go towards the airport, community development, library, parks, public buildings, transportation, and public building.



## Newfield

300-acre site will be the employment district and will include 4,000 new homes, a town center, open space with trails, and a park



## Costco

162,000 SF site proposed for Costco at the Market Place at Kanner



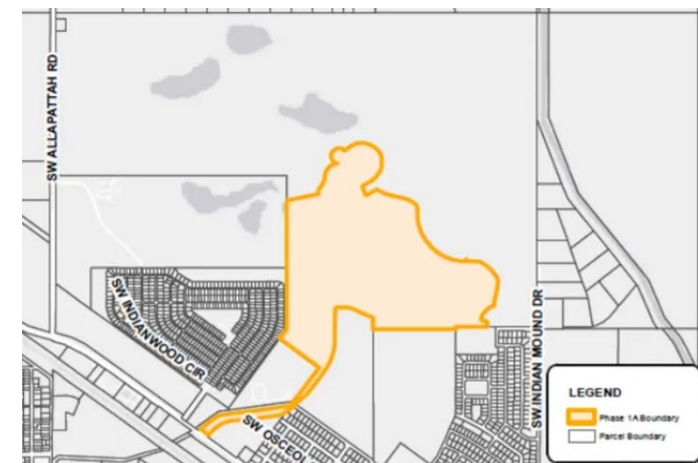
## Harbor Grove

324-unit multifamily building, completed in 2022. Features include a fitness center, clubhouse and pool.



## The Sovana at Stuart

185-unit 55+ senior multifamily building, completed in 2022. Features include a fitness center, clubhouse and pool, full-sized theatre, and a full-service salon and spa



## Terra Lago

806-acre community, including a town center, assisted-living facility, 2,000 single family homes, an 11-acre central area with club house and recreation center and 100,000 SF of commercial space



## Willis Custom Yachts

90,000 SF yacht-construction building, on-site restaurant, 220-ton marine lift, and a 150-ton marine lift. Will add 75 new jobs



# Treasure Coast Industrial Explosion

UNDER CONSTRUCTION



**Kings Highway Industrial Park**  
±20,000 SF



**South Florida Logistics Center**  
±1,103,203 SF



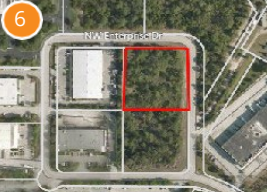
**Kings Logistics Center**  
±638,000 SF



**3800 Crossroads**  
±211,547 SF



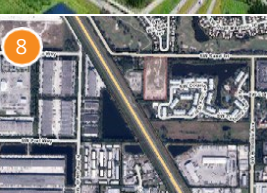
**Interstate Crossroads Business Center** - ±1,013,650 SF



**Enterprise Drive**  
±20,000 SF



**Legacy Park at Tradition**  
5.4 million SF



**SW Sand Trail**  
±48,000 SF



**7916 SW Jack James Drive**  
±90,000 SF



**South Martin Industrial Park**  
±96,000 SF



**South Florida Gateway Distribution Center** - ±750,000 SF - 1,500,000 SF

PROPOSED



**Orange 95 Commerce Center**  
±761,091 SF



**Kings Highway Commerce Park**  
±1,500,000 SF



**Glades Logistics Park**  
±330,000 SF



**Glades Commerce Center**  
±287,500 SF



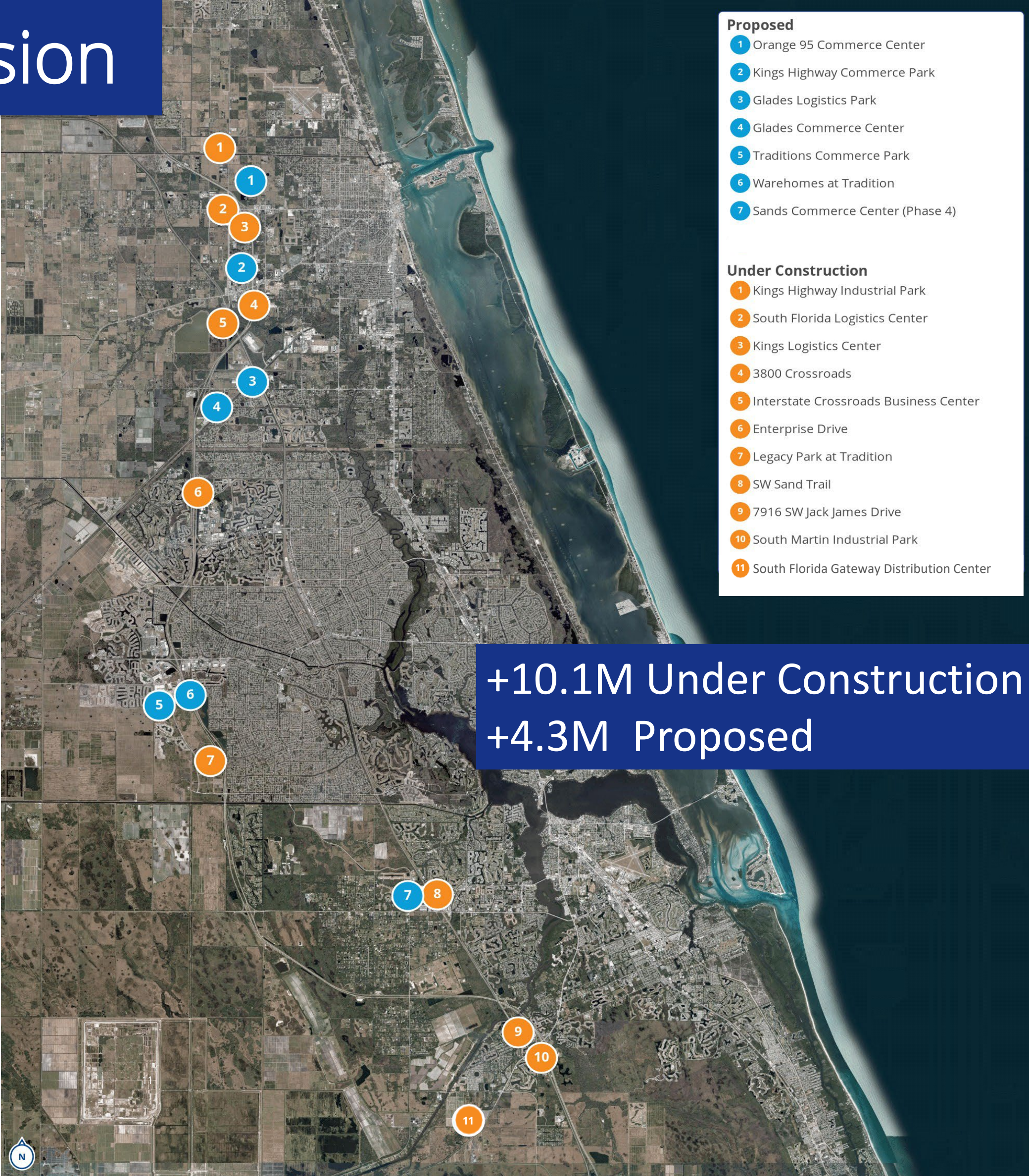
**Traditions Commerce Park**  
±558,588 SF



**Warehomes at Tradition**  
±406,944 SF



**Sands Commerce Center (Phase 4)**  
±466,000 SF



**Proposed**

- 1 Orange 95 Commerce Center
- 2 Kings Highway Commerce Park
- 3 Glades Logistics Park
- 4 Glades Commerce Center
- 5 Traditions Commerce Park
- 6 Warehomes at Tradition
- 7 Sands Commerce Center (Phase 4)

**Under Construction**

- 1 Kings Highway Industrial Park
- 2 South Florida Logistics Center
- 3 Kings Logistics Center
- 4 3800 Crossroads
- 5 Interstate Crossroads Business Center
- 6 Enterprise Drive
- 7 Legacy Park at Tradition
- 8 SW Sand Trail
- 9 7916 SW Jack James Drive
- 10 South Martin Industrial Park
- 11 South Florida Gateway Distribution Center

+10.1M Under Construction  
+4.3M Proposed



# Summary & Outlook



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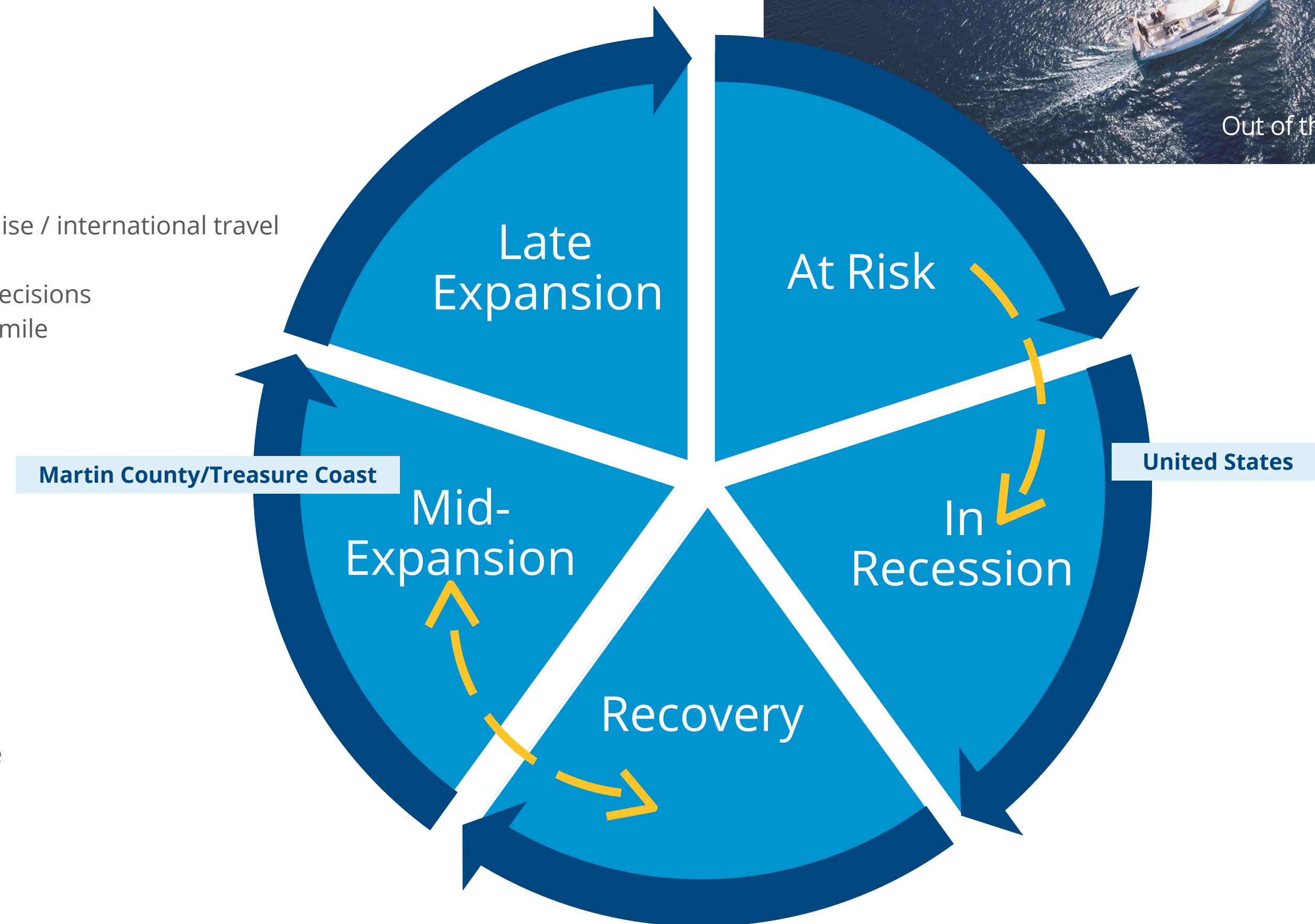
# Excitement Amid Caution

## Tailwinds

- Northern shift from South Florida
- Control of the Virus
- Domestic migration diversifying
- International migration returning
- Hospitality is recovering – return of cruise / international travel
- Retail transformation
- Talent migration facilitating business decisions
- Rapid expansion of e-commerce – last mile
- De-Urbanization/suburban “flight”?

## Headwinds/Risks

- Interest Rates
- Inflation
- Construction Prices
- Affordable Housing/Labor Shortage
- Property Insurance
- Education/transportation infrastructure
- Supply Chain Constraints
- Global Insecurity/political (VOLATILITY)



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## What's Next

# Where are we going in 2023?



### Resiliency – Net Zero

- ESG
- Climate Change
- Sea Level Rise



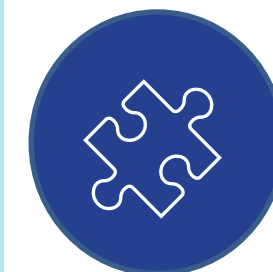
### Values Based Policies

- Equitable and Inclusive Communities
- Affordable Housing
- Support Local Businesses



### Mobility and Connectivity

- Transit Oriented Development
- Walkability/neighborhood connectivity



### Innovative Solutions

- Public/Private Partnerships
- Medtech
- Electronic Gaming/Vehicles



### Rebuild Tourism

- Promote advantageous climate
- Outdoor Recreation
- Opportunities for Locals



### Major Civic Investments



### Infrastructure and Public Spaces



### Flight to Quality & Flexible Office Space

## 2023 Global Investor Outlook

### Navigating the Global Real Estate Reset

- Stabilization Expected by Mid-2023
- Sustainability Driving Decisions
- Pockets of Opportunity Rather than Widespread Distress
- Core Assets to Prevail



Thank you.

Presented by:

**Kenneth M. Krasnow**

Vice Chairman | Florida

Institutional Investor Services

D - (786) 517-4990 | C - (914) 589-5321 | [Ken.Krasnow@colliers.com](mailto:Ken.Krasnow@colliers.com)

Questions?