Treasure Coast

2024 Commercial Real Estate Outlook

Thursday, February 22, 2024

Prepared For:

BUSINESS DEVELOPMENT BOARD
MARTIN COUNTY | FLORIDA

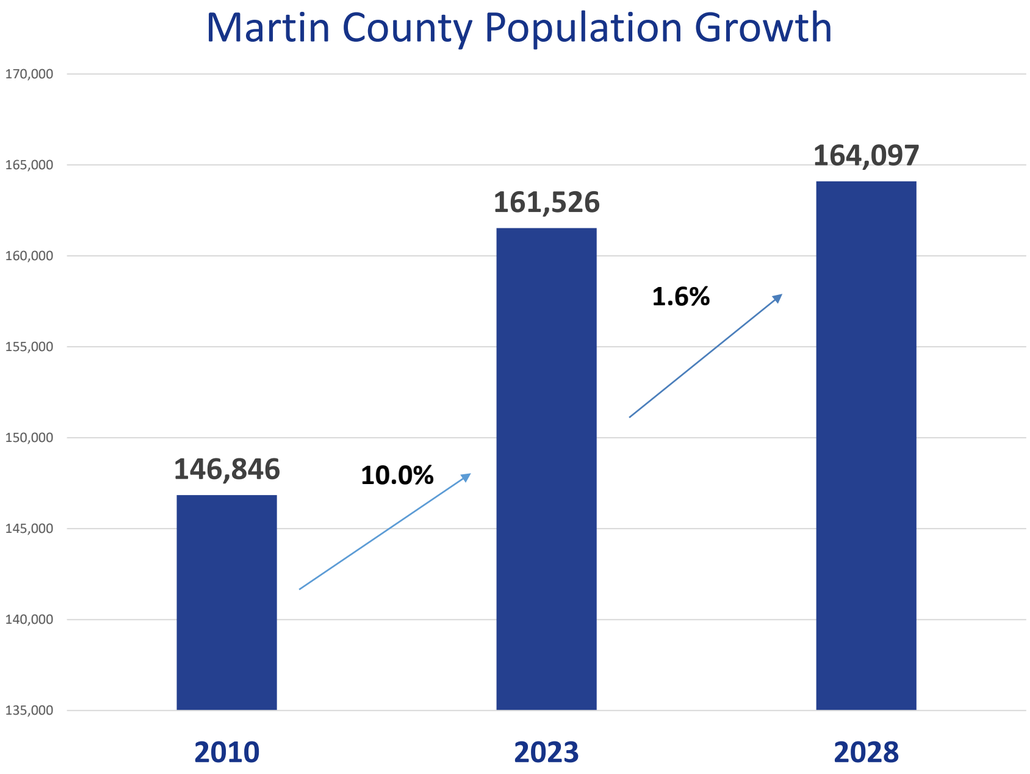
Colliers

Accelerating success.

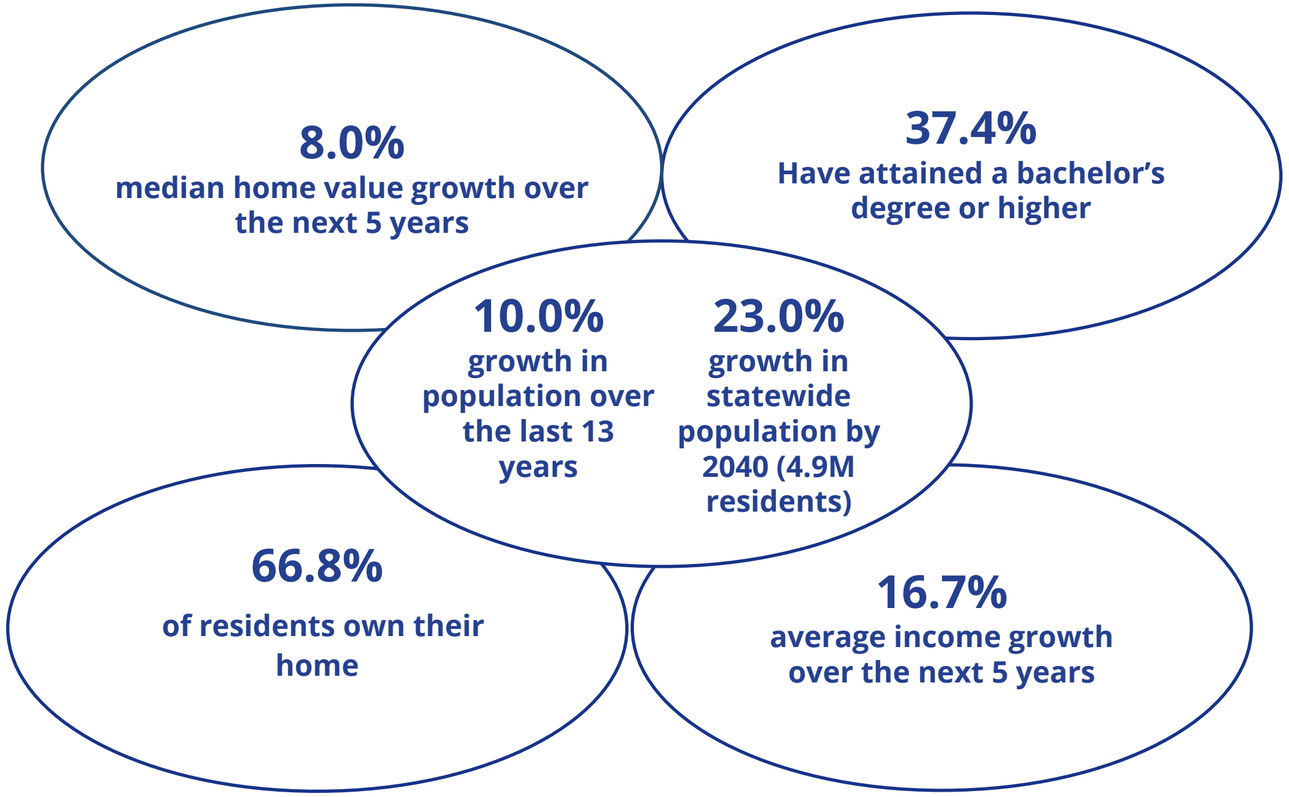
Economic Overview

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

Martin County ranked #6 Best County in Florida to retire by Niche.com, while Stuart ranked #1 for "Happiest Seaside Town" by Coastal Living – first time for Florida!



Source: Colliers International, ESRI

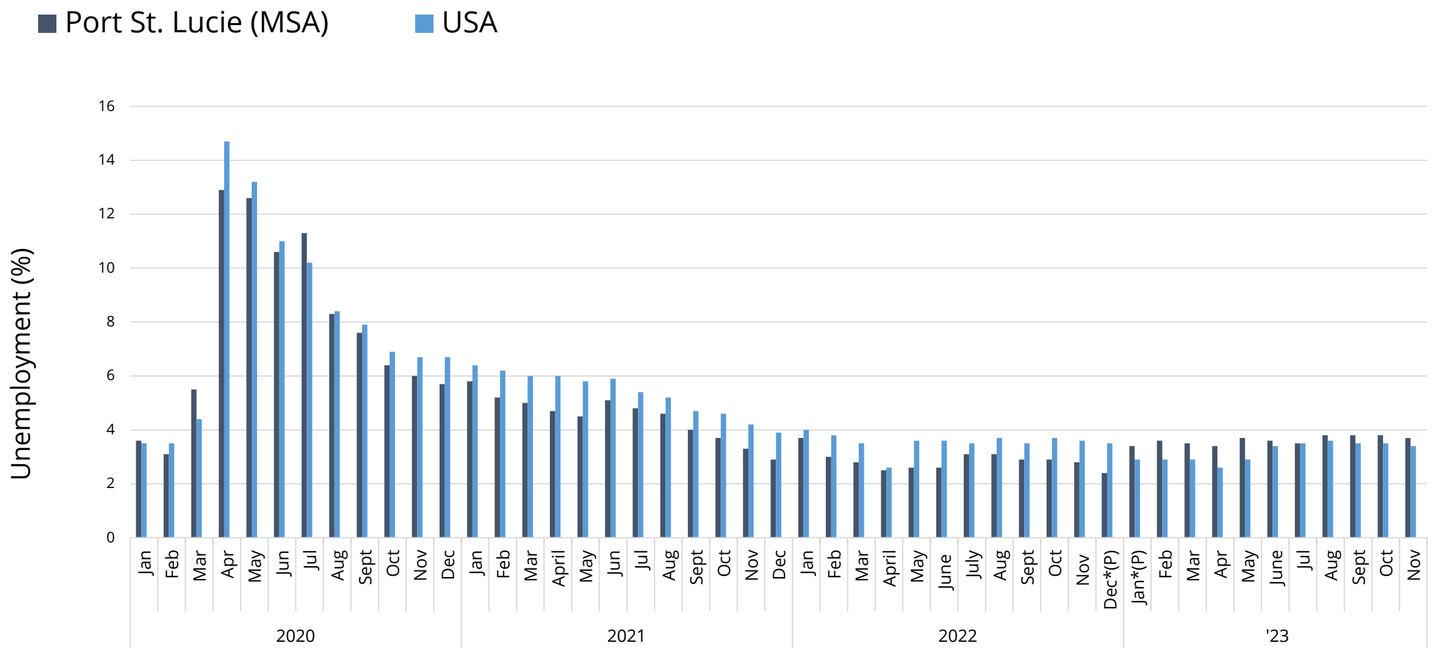


Tightening Labor Market = Labor Shortage

The Port St. Lucie MSA (including Martin County) is performing better than the U.S. in workforce recovery as the unemployment rate recorded at 3.4% percent in November 2023, down 11.3 percentage points from the pandemic peak rate and 30-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 2023*

3.4%
Port St. Lucie MSA

3.7%
U.S.

Port St. Lucie MSA unemployment rate is lower than the national average by 30-basis points

**preliminary*

Consumer Price Inflation

Financial Indicators

3.97% ↑	6.63% —	5.32% —
10-Year Treasury	30-Year Fixed Rate Mortgage	SOFR

Economic Indicators

U.S.

3.70% —	353,000 ↑	0.60% ↑
Unemployment Rate	Monthly Job Change	Monthly Retail Sales

Martin County

2.90% ↓
Unemployment Rate

***Lowest in the Region (Port St. Lucie MSA & Sebastian-Vero Beach MSA)!**

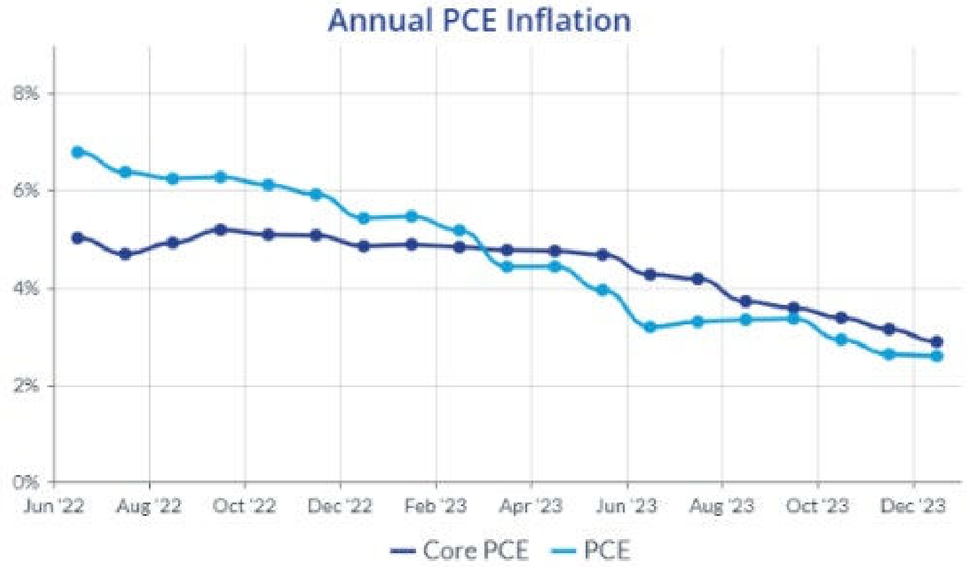
U.S.

2.00% ↑	417,000 ↑	3.10% ↓
Manufacturing PMI Change	Housing Starts 5+ Units	Consumer Price Index

Port St. Lucie MSA

448 ↓	4,400 ↑
Housing Starts 5+ Units	Monthly Job Change

Core PCE inflation rises at slowest rate since spring 2021



Source: MarketWatch

The rate of U.S. inflation based on the Fed's preferred PCE gauge rose a mild 0.2% in December and **pointed to smaller price increases in 2024**.

Inflation picked up a bit at year-end after declining in November, but **there's little evidence of emerging trouble**.

The yearly core inflation rate slowed to 2.9% from 3.2% to mark **the lowest level in almost three years**.

Source: Colliers, January 2024

U.S. Capital Markets

For many investors, 2023 was a year of challenges, with volatile interest rates, a banking crisis, geopolitical conflict, and lenders extending and modifying loans. Although sales volume reached $344 billion, it dropped by 53% compared to 2022, marking the second consecutive year of declining sales. Activity was the weakest since 2013, and the typical year-end volume pop failed to materialize. The Fed's plan to pivot in 2024 and lower interest rates was a welcome year-end gift to the market and boosted investor sentiment.

- Sales volume of $344 billion was down 53% from last year.
- Sales haven't been this low since 2013, both annually and quarterly.
- Activity in Q4 was the weakest of the year, which is atypical. However, December did post monthly gains.
- Multifamily volume fell the most of all asset classes, though it led in total sales.
- The Fed's 2024 pivot should set the stage for a better year overall.

Q4 2023 Sales Volume (by Asset Class)

U.S.			
	Volume ($ billions)	Volume Change (YOY)	Price Change (YOY)
Office	14.5	-32%	-16%
Industrial	20.8	-43%	+1%
Multifamily	26.9	-50%	-8%
Retail	12.4	-31%	-6%
Hospitality	7.3	-42%	1%
Total	**81.8**	**-42%**	**-6%**

Sources: Colliers, MSCI

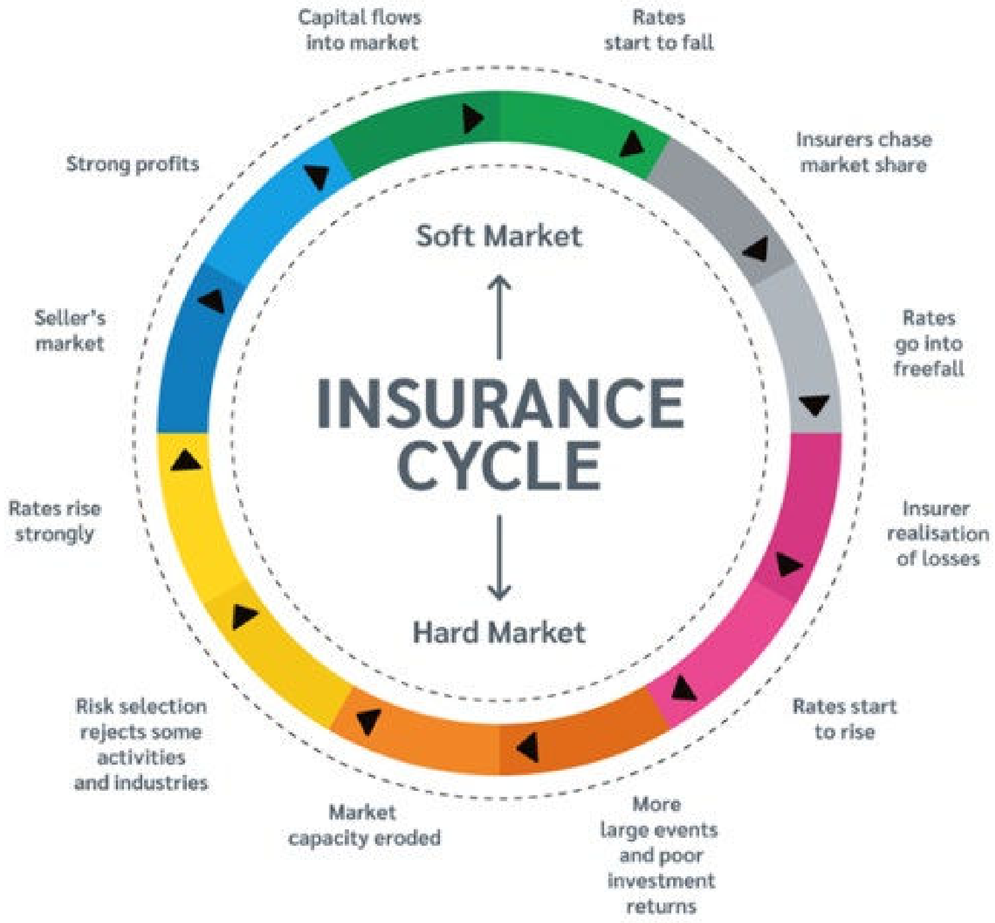
Current Insurance Market – Hard Market Challenges

Rate/Premium increases
- 2022/2023 Average +/- 30%
- Currently seeing 40-50% (Post Ian)

Restrictions of coverage
- Higher deductibles – wind 5%, 10%, 15%?
- Roof restrictions – actual cash value 15 years

Building valuation
- Insurance to value – replacement cost
- Supply chain issues & labor/goods shortages
- Co-insurance penalties & mandated values

Limited carrier capacity
- More carriers needed to insure full values
- Non-renewals
- Citizens? Market of last resort



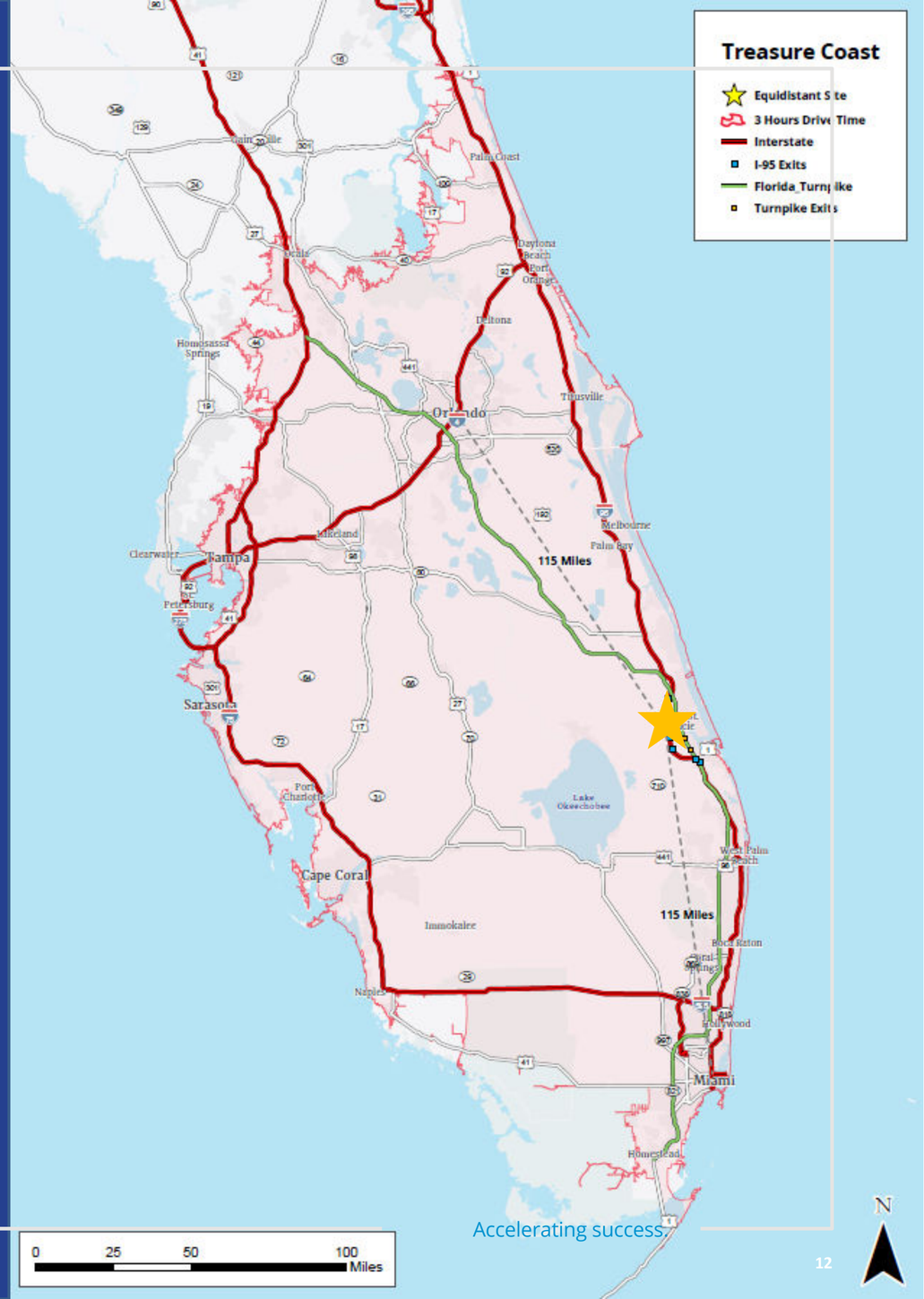
Source: Brown & Brown

Treasure Coast Market Overview

Treasure Coast

FUN FACTS

- Reach 70% of the state within a 3-hour drive time
- Equidistant to Orlando and Miami (115 miles)
- Access to (8) I-95 exits & (3) Florida Turnpike exits
- Top high school graduation rate in three-county region at 98%; 34 career and technical education programs
- Recognized as the safest region by population in the state



Office Trends

2023 Year-End Market Comparison

Market Indicators (Class A/B/C)	Martin County	St. Lucie County	South Florida	South Florida Class A
Inventory	2.7 Million SF	4.8 Million SF	226 Million SF	77.2 Million SF
Under Construction	24K SF	28K SF	6.2 Million SF	5.1 Million SF
Net Absorption (2023)	+300 SF	-52K SF	+210K SF	+536K SF
Vacancy Rate	4.2% Remained Unchanged YOY	5.6% Increase 110 BPS YOY	9.5% Increase 10 BPS YOY	13.9% Decrease 30 BPS YOY
Asking Rates				
Full-Service Rents	$14.55	$18.10	$44.92	$51.54
5-Year Growth	-12.4%	+18.1%	+37.5%	+30.4%

Source: CoStar, Colliers, Q4 2023

Market Highlights & Outlook

Martin County

- Due to uncertainty in macroeconomic factors, the Martin County office market remained stable in 2023, with a vacancy rate that remained unchanged year-over-year, and rental rates that decreased to $14.55 per square foot FS, a decrease of 12.4 percent over the past 5 years. With limited new construction and office tenants expanding north, the market is expected to remain stable going into 2024.

St. Lucie County

- St. Lucie County is experiencing significant growth in rents, reaching $18.10 per square foot FS in the fourth quarter of 2023, an 18.1 percent increase over the last five years. At the same time, vacancy rates increased to 5.6 percent, up 110-basis points year-over-year. With limited new construction on the horizon, vacancy rates are expected to stabilize going into 2024.

South Florida

- With continued population growth, the South Florida market continues to expand with rental rates reaching a record high of $44.92 per square foot FS based on heightened tenant demand. Despite the influx of new construction, the vacancy rate was stable at 9.5 percent, a marginal 10-basis points increase year-over-year. Healthy market fundamentals are expected to continue going into 2024.

South Florida (Class A)

- The South Florida Class A office market was strong amid a substantial amount of new construction over the last five years. The vacancy rate ended the fourth quarter of 2023 at 13.9 percent, a year-over-year decrease of 30-basis points, and posted positive 536,000 square feet of net absorption for the year. The 5.1 million square feet under construction is expected to be absorbed quickly upon completion as the flight-to-quality trend persists.

Office Trends

Moving Forward in 2024

Bifurcation/ Flight to Quality

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

Office Taking Shorter Lease Terms

As WFH becomes ingrained, companies renewing leases are taking out shorter leases and 10-20 percent less space than they did pre-pandemic. Improving building amenities will be a key to luring employees to the office.

New-to-Market Tenants/Talent

An influx of new-to-market office tenants is expected to continue as companies and employees relocate to FL for a better quality of life and are lured by the new, state of the art facilities.

Renovations & Redevelopment

The pandemic has prompted an effort to redevelop obsolete office buildings and renovate CBDs that will serve the sector well over time.

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.

Investment Activity Slows

Office market recovery will be hampered by weak capital market liquidity as many investors and lenders are reluctant to increase exposure to the sector.

Retail Trends

2023 Year-End Market Comparison

Market Indicators	Martin County	St. Lucie County	South Florida	South Florida Class A
Inventory	9.8 Million SF	10.5 Million SF	270 Million SF	43.1 Million SF
Under Construction	0 SF	197K SF	2.4 Million SF	1.0 Million SF
Net Absorption (2023)	+130K SF	-7.6K SF	+1.8M SF	+549K SF
Vacancy Rate	4.7% Decrease 90 BPS YOY	4.3% Increase 100 BPS YOY	3.4% Remained Unchanged YOY	2.8% Increase 20 BPS YOY
Asking Rates				
NNN Rents	$20.41	$20.17	$34.10	$36.24
5-Year Growth	+10.8%	+27.3%	+34.1%	+31.8%

Source: Costar, Colliers, Q4 2023

Market Highlights & Outlook

Martin County

- Martin County retail market fundamentals displayed positive key indicators across all key metrics in 2023. Rental rates climbed up to $20.41 per square foot NNN, a 10.8 percent increase over the last five years. Similarly, the vacancy rate decreased 90-basis points year-over-year, to 4.7 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 continued to show signs of improvement in 2023. Retail rents grew to $20.17 per square foot NNN in the fourth quarter, a 27.3 percent increase over the last five years. At the same time, the vacancy rate reached 4.3 percent, a 100-basis point increase year-over-year, due to the delivery of new construction. Market fundamentals are expected to remain strong going into 2024.

South Florida

- The South Florida retail market finished 2023 strong. Net absorption reached positive 1.8 million square feet, as rental rates climbed to an all time high of $34.10 per square foot NNN. Furthermore, the vacancy rate remained unchanged year-over-year, at 3.4 percent. The 2.4 million square feet under construction will create more availability for ongoing demand.

South Florida (Class A)

- The Class A retail market in South Florida remained stable in 2023. Vacancy rates ended 2023 at 2.8 percent, a 20-basis point increase year-over-year. However, net absorption reached positive 549,000 square feet for the year. The market is expected to strengthen in 2024, due to continued population growth and the uptick in new-to-market tenants, looking to establish a flagship in South Florida.

Retail Trends

Moving Forward in 2024

Investors Favor Retail

Retail has strengthened in terms of both performance and investor preference when only a few years ago it was the most troubled asset class.

Urban/Suburban Retail Paradigm

CBD retail that had previously been dependent upon daytime traffic generated by office workers has been affected by the remote work trend.

The Demand Equation

Coresight reported an estimated 5,200 new store openings versus 3,200 closures in 2023. By mid-year 2023, these factors had translated into dozens of U.S. retail markets reporting historically low vacancy/availability rates.

Consumer Resilience

Throughout 2023, consumer spending has proven to be far more resilient than most economists have expected, despite still-elevated inflation.

Class A - Mall Bifurcation

Though class A and trophy malls are reporting some of the highest occupancy rates of the past decade, the challenges of declining class B and C assets remain.

Bankruptcies on the Rise

2023 has seen some of the largest chain store failures in recent years, including some large liquidations. The largest bankruptcy of 2023 was the collapse of Bed Bath & Beyond— which resulted in 896 storefronts being returned to the market.

Multifamily Trends

2023 Year-End Market Comparison

Overall Multifamily Market Indicators	Port St. Lucie-Fort Pierce	South Florida
Inventory (Units)	22,744*	657,280
Occupancy	92.6%	94.6%
Rent		
Per Square Foot	$1.83	$2.49
5-Year Rent Growth	+54%	+52%
Deliveries		
Units (2023)	2,157	13,256
Under Construction		
Units	3,082	47,131

Source: Costar, MPF, Colliers, Q4 2023
**Sample of tracked inventory*

Market Highlights & Outlook

Port St. Lucie MSA

- Just like South Florida, the Port St. Lucie–Fort Pierce MSA has felt the effects of rapid population growth with a strong occupancy rate and a rental rate that has soared 54 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 52 percent to $2.49 per square foot. Investors and developers have eyed South Florida for opportunities, adding over 13,000 new units in 2023 with another 47,131 units under construction.

Multifamily Trends

Affordable Housing Income Levels

Affordable housing is generally defined as housing on which the occupant is paying no more than 30 percent of gross income for housing costs, including utilities.

Housing Type	AMI* Range	Household Income
Affordable	30-50% (Very Low)	$25K-$42K
	50-80% (Low)	$42K-$68K
	80-120% (Moderate)	$68K-$102K
Attainable	120-140%	$102-119K
Market Rate	>140%	$120K+

Source: Colliers, Florida Housing Income Limits, 2023
**The Area Median Income (AMI) for a household of four (4) in Martin County is $84,800. Each of the income thresholds uses a household size of four (4) members.*

Multifamily Trends

Martin County Affordable Housing Challenges

25% of all renters in Martin County are low income (Household income is 60% of AMI or less) and cost burdened (Paying more than 40% of income for gross rent). This is the equivalent to 3,695 cost burdened renters.

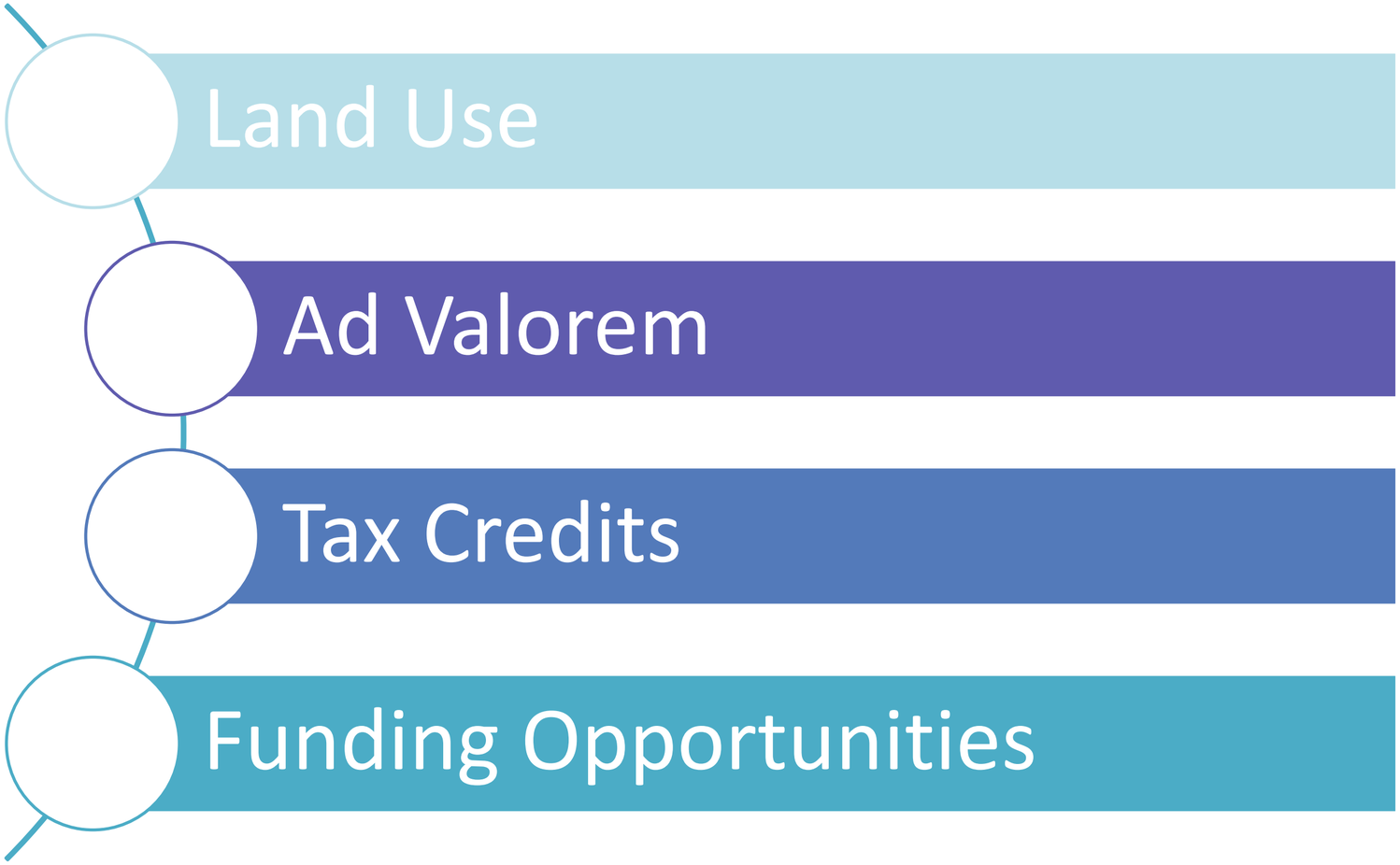
Martin County | Housing Cost Burden	
Number of Renter Households	14,820
Low-Income (<=60% AMI), Cost Burdened (>40%) Renters	3,695
Low-Income/ Cost Burdened Renters as % of All Renters in the County	25%
Source: Colliers, 2022 Shimberg Rental Market Study	

Factors fueling the housing affordability challenge:

- Limited, dwindling, supply of affordable housing options:
  - Florida added 600,000 rental units between 2012 and 2021 with rents above $1,000.
  - But the state lost nearly 277,000 units renting for $1,000 or less.
- Lack of affordable housing development to keep pace with population growth.
- Much of the cost burdened renter households are headed by someone age 55 or older.
- Strong real estate market with steadily rising property values.
- Population growth fueled by an influx of more affluent residents.
- Increasing cost of living, including expenses like utilities, healthcare, and transportation.

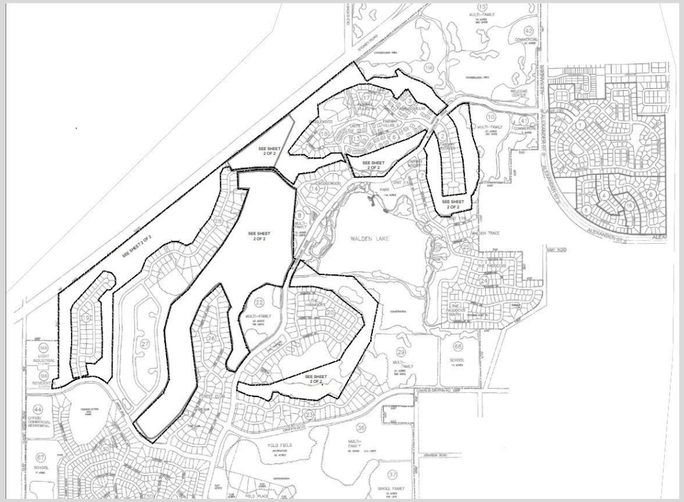
Summary of Key Changes

Senate Bill 102 – The Live Local Act, passed March 2023, effective July 2023



Step 1:

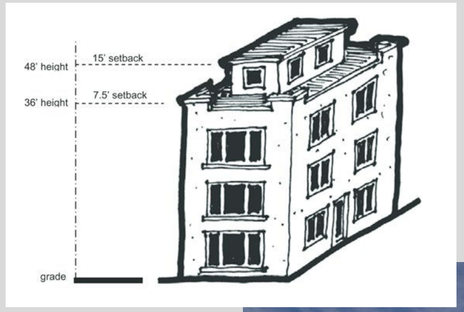
Is the area zoned for commercial, industrial, or mixed-use?

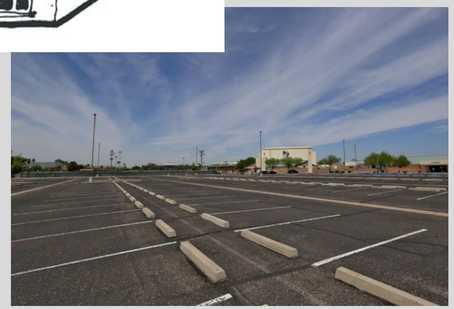


Step 2:

Can the developer design a project to meet other land development code standards for multifamily projects in the multi-family zoning district permitting the greatest density in the jurisdiction?

This includes setbacks, parking, open space, buffers, etc.





Step 3:

Can the project meet all other applicable state and local laws and regulations?

Step 4:

Is the Project affordable?

- At least 40% of multifamily residential units are affordable for at least 30 years;
- Affordable = monthly rents, <u>including taxes, insurance and utilities</u>

Extremely-low-income (< 30% AMI)
Very-low-income (50% AMI)
Low-income (80% AMI)
Moderate-income (120% AMI)

Live Local Act

(Clarifications - SB 328)

ZONING/DENSITY

- Industrial Land remains/Lands near Airport removed
- Preemption for floor area ratio ("FAR")

LOCAL LAWS

- Preemptively enacts new local laws for “certain projects” which contain affordable housing
- Protect SFR -adjacent to (2 or more sides) developments with 25 contiguous SFR

REAL ESTATE TAX EXEMPTION

- Developers exempt from paying real estate taxes depending on the affordable housing that is set-aside in the project
- "Missing Middle' exemption must include % share of common areas/land attributable to unit

TRANSIT RELATED PARKING

- Any Live Local project in TOD must be mixed-use and local gov't must eliminate parking requirements
- Also includes mandatory 20% parking reduction for any project within 1/2 mile of major transit hub

Industrial Trends

2023 Year-End Market Comparison

Market Indicators	Martin County	St. Lucie County	South Florida
Inventory	7.5 Million SF	15.7 Million SF	413 Million SF
Under Construction	1.1M SF	1.8 Million SF	11.2 Million SF
Net Absorption (2023)	-102K SF	-1.3M SF	-660K SF
Vacancy Rate	2.9% Increase 80 BPS YOY	19.4% Increase From 8.5% in 2022	3.5% Increase 80 BPS YOY
Asking Rates			
NNN Rents	$12.87	$10.32	$16.82
5-Year Growth	+30.4%	+49.8%	+76.9%

Source: Costar, Colliers, Q4 2023

South Florida

Historical Net Absorption & New Deliveries

	Average Rental Rate (/SF)	Net Absorption (SF)	New Deliveries (SF)
2018	$7.50 - $12.00	+5,085,519	6,533,553
2019	$8.00 - $12.50	+2,158,768	6,421,035
2020	$9.00 - $13.00	+4,143,506	6,730,217
2021	$10.00 - $15.00	+13,442,369	8,095,048
2022	$12.00 - $16.00	+8,862,022	7,892,322
2023	$12.00 - $22.00	-660,389	7,777,436
2024	$12.00 - $22.00	TBD	11,027,008
2025-2026	TBD	TBD	7,777,436

Source: Costar, Colliers' 16th Annual Industrial Forum

Industrial Trends

Cost of Construction – Moving Into Right Direction in 2024

Price PSF	Prices Now		Prices High Point
Steel	$12.00	↓	$18.00
Concrete Tilt Wall	$16.00	↓	$22.00
Concrete Floor	$9.00 - $10.00	↓	$12.00

- Switch gear/transformers 5–6-month lead time for large panels
- 200-400 AMP Readily available
- HVAC normal
- Roofing normal

Fill Quarry or Street Fill

Miami easier to find street or quarry fill

- $24/CYD Quarry Fill

Broward tough to find street fill – no quarry, so trucking from Palm Beach or Miami

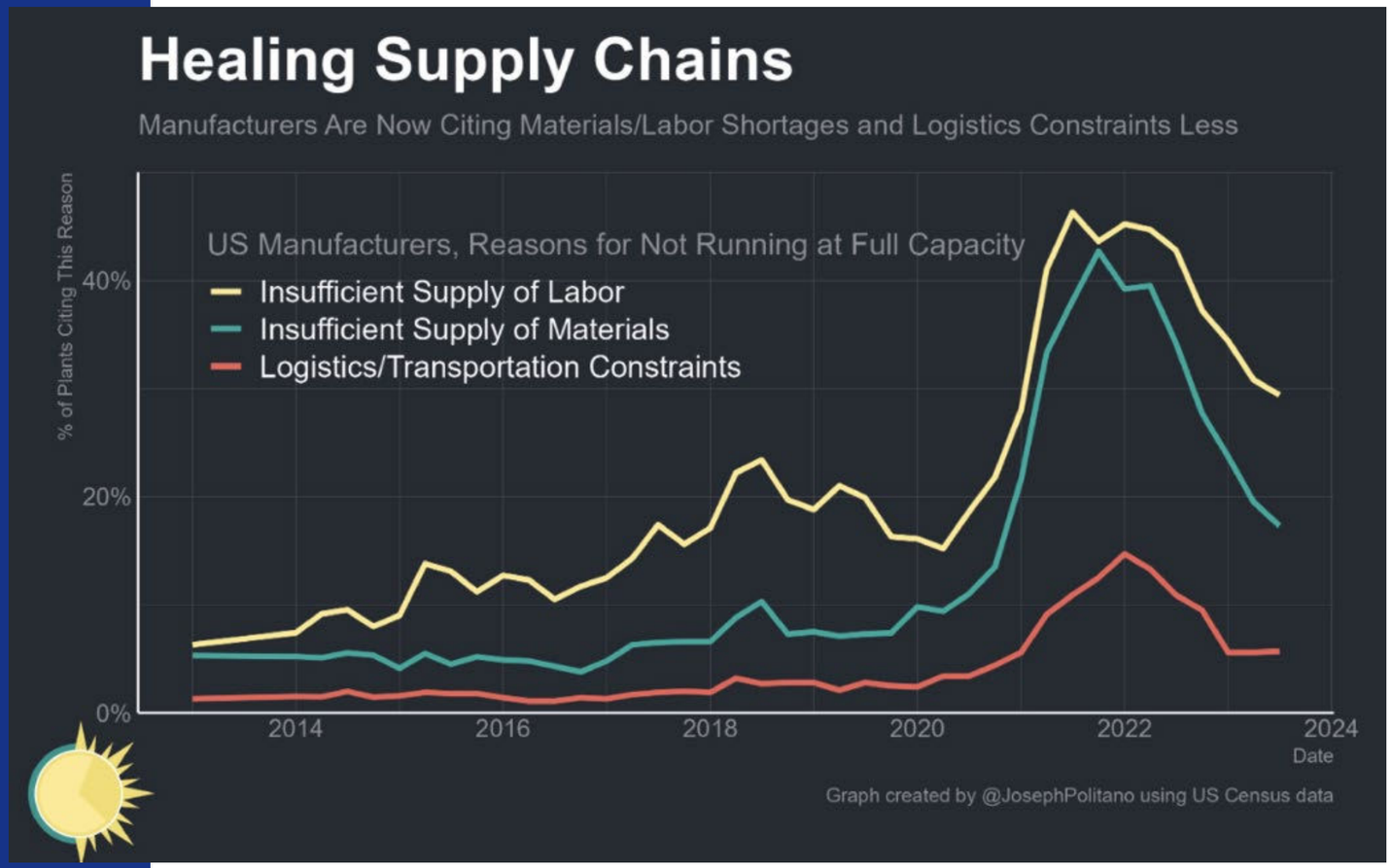
- $0.50/Mile (now) VS $0.30/Mile (2019)

Palm Beach has quarries and street fill

- $25-$26 CU/YD – Quarry Fill
- $8 /CYD – Street Fill

Industrial Trends

- All aspects of this index are moderating as supply chain returns to a sense of normal
- Labor continues to be the biggest challenge for supply chain service providers
- Transportation constraints have eased and are now within normal tolerances



Industrial Trends

Customer Focus Areas

Inventory Strategy, Robotics/Automation, Geo-political Impacts & Labor Dynamics

- As the markets continue to settle into a pre-pandemic “normalcy”, **customers are heavily focused on inventory strategy.** Evaluating impacts of rent in high markets – relocations to lower cost markets.

- Customers **look for creative solutions within their existing footprints** and ensure maximum utilization of existing assets – focus on higher cube usage.

- Disruptions to shipping lanes, especially in the Red Sea, driven by geo-political unrest is driving re-evaluation of shipping routes, adding time and cost to shipments, and **resulting in a reshuffling of ocean freight**.

- **Uncertainty with regards to labor dynamics**. Despite the low unemployment rates that have been driving wage growth, there are indications that things may be shifting.

Source: NFI

Treasure Coast Economic Development

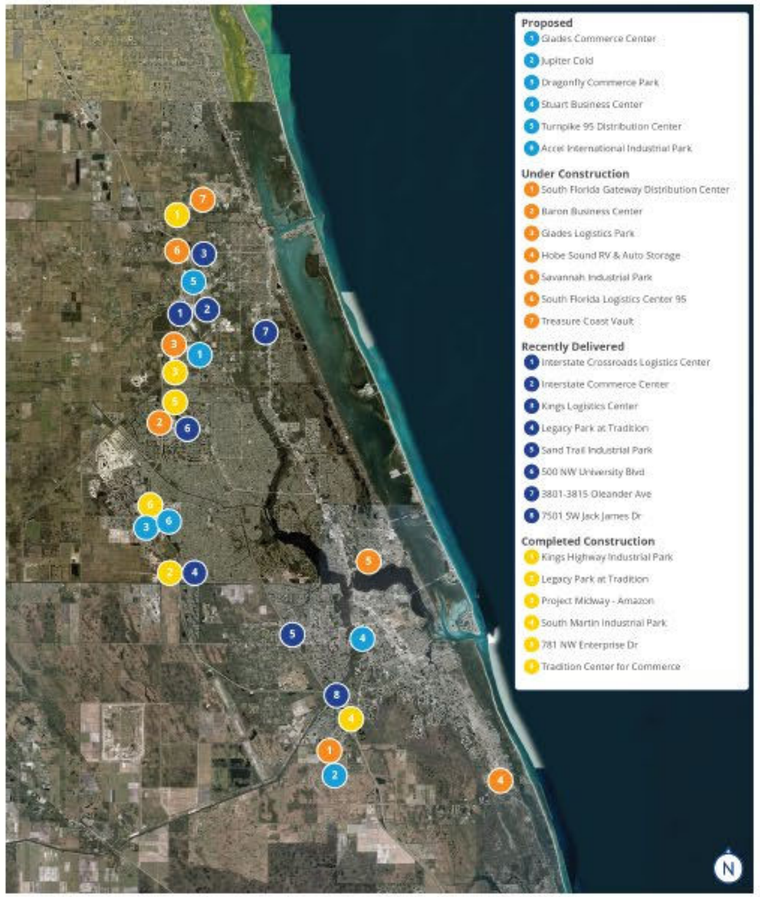
Accelerating success.

INDUSTRIAL EXPLOSION

Colliers

Proposed & Under Construction Industrial Parks

Martin & St Lucie County



Proposed Developments

Glades Commerce Center
1-6 Glades Cutoff Road
288,400 SF across 6 Buildings

Jupiter Cold
2500 SW Kanner Highway
Freezer Building - 205,888 SF
Cooler Building - 148,163 SF

Dragonfly Commerce Park
12070-12160 SW Tom Mackie Boulevard
405,508 SF across 4 Buildings

Stuart Business Center
2601 SE Willoughby Boulevard
138,765 SF across 6 Buildings

Turnpike 95 Distribution Center
7001 White Road
Building 1 - 1,505,000 SF

Accel International Industrial Park
Tom Mackie & SW Village Parkway
350,00 SF across Single or Multiple Buildings

Recently Delivered

Interstate Crossroads Logistics Center
5001 Crossroads Parkway
1,013,833 SF

Interstate Commerce Center
3800 Crossroads Parkway
211,547 SF

Kings Logistics Center
700 S Kings Highway
664,176 SF

Legacy Park at Tradition
13501 & 13825 SW Anthony F Sansone Sr Boulevard
Cheney Brothers - 367,427 SF
Building 2 - 520,000 SF

Sand Trail Industrial Park
3920-3958 SW Sand Trail
Building 1 - 24,120 SF
Building 2 - 24,120 SF

500 NW University Blvd
36,896 SF

3801-3815 Oleander Ave
12,000 SF

7501 SW Jack James Dr
10,000 SF

Under Construction

South Florida Gateway Distribution Center
2000 SW Kanner Highway
Building 1 - 698,761 SF
Building 2 - 285,120 SF

Baron Business Center
1413-1437 Commerce Centre
Building 1 - 34,500 SF

Glades Logistics Park
6937-6939 LTC Parkway
Building 1 - 161,700 SF
Building 2 - 195,200 SF

Hobe Sound RV & Auto Storage
0 SE Federal Highway
Building 1 - 14,560 SF
Building 2 - 29,120 SF
Building 3 - 32,032 SF

Savannah Industrial Park
1486-1522 NE Braille Place
15,355 SF

South Florida Logistics Center 95
7775-7805 Orange Avenue
Building 1 - 1,103,203 SF
Building 2 - 245,300 SF

Treasure Coast Vault
6509 St Lucie Boulevard
Building 1-6 - 88,400 SF
Building III - 16,800

Completed

Kings Highway Industrial Park
7510 Commercial Circle
11,208 SF

Legacy Park at Tradition
13700 SW Anthony F Sansone Sr Boulevard
Building 1 - 168,000 SF

Project Midway - Amazon
8200 LTC Parkway
1,080,308 SF

South Martin Industrial Park
8160-8168 SW Jack James Drive
Building - 18,888 SF
Building 5 - 11,649 SF

781 NW Enterprise Dr
25,320 SF

Tradition Center for Commerce
SW Tom Mackie Boulevard
150,000 SF

Summary & Outlook

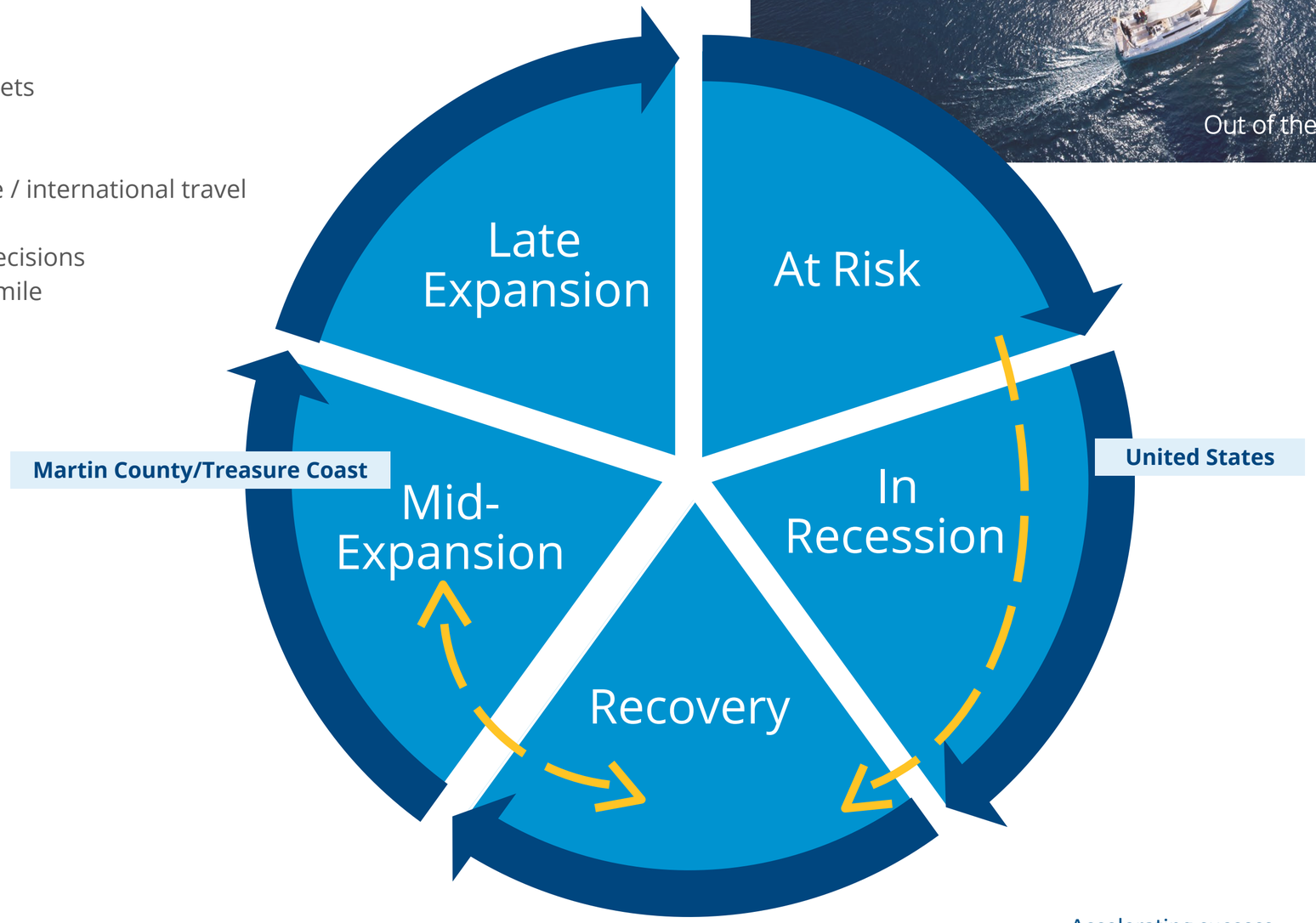
Navigating Uncertainty

Tailwinds

- Northern shift from South Florida markets
- Domestic migration diversifying
- International migration returning
- Hospitality 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)



What's Next

Where are we going in 2024?

- **Resiliency – Net Zero**
- **Values Based Policies**
- **Mobility and Connectivity**
- **Innovative Solutions**
- **Rebuild Tourism**
- **Major Civic Investments**
- **Infrastructure and Public Spaces**
- **Flight to Quality & Flexible Office Space**

2024 Emerging Trends

- Economy is headed for a "soft-landing"
- Higher For Longer Interest Rates
- A Return to 2% Inflation?
- Labor Market to Soften
- Consumer Spending to Wane
- Higher Cost of Capital
- Insurability

Artificial Intelligence

1. How AI is developing generally
   - Algorithm development
   - Federal Regulation
   - Fair Use policy
2. How AI is impacting communities
   - Local Applications
   - Govtech investment
   - Robotics
3. How AI is impacting Treasure Coast
   - Rapid Growth
   - Local Culture/Infrastructure

Thank you.

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Questions?