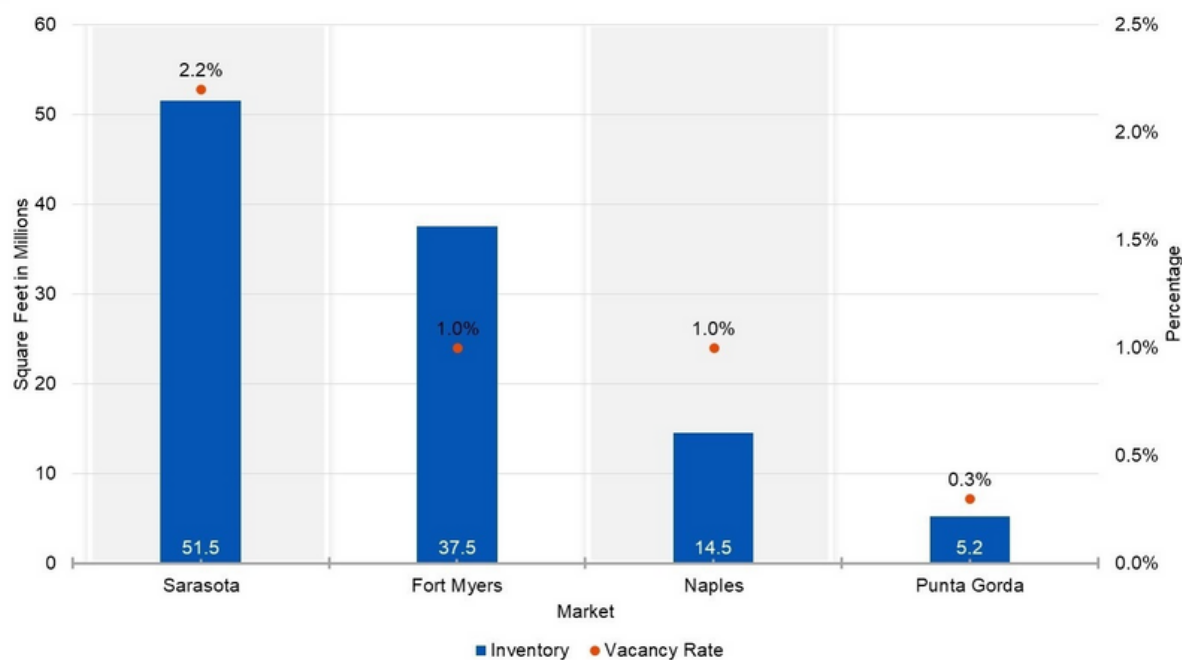




BUY VS. BUILD VS. LEASE

The Southwest Florida Industrial Market has experienced a boom since 2021. As indicated in the chart below, industrial vacancy rates in the region are at an all-time low, falling well below the national average of 4.6%, and are among the lowest in the entire state (as reported by Commercial Edge in their July 2023 National Industrial Report). This has left many businesses scrambling to determine an appropriate real estate strategy, while developers and investors look to

Southwest Florida Markets Boast Some of the Lowest Industrial Vacancy Rates in Florida



Source: CoStar May 2023



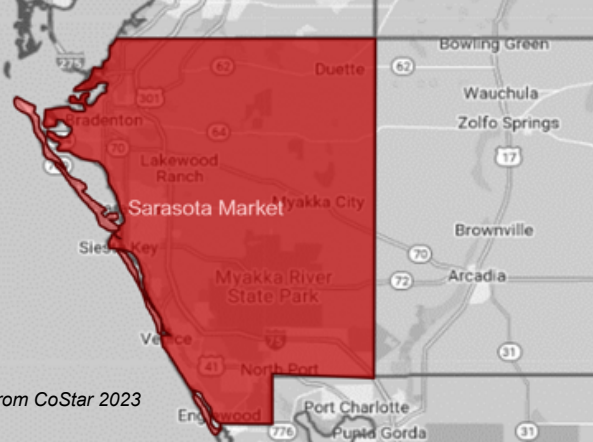
capitalize on this increasing demand. While there is plenty of inventory in the pipeline (4.3 million SF under construction in Fort Myers alone), lease rates are averaging nearly \$3.50/SF higher than the national average (\$9.76/SF) and many of these boast large footprints. End users, however, have much to navigate, including the high costs of construction labor, materials, and land. So, what is the best option?

To tackle this question, ERES has broken SW Florida down by submarket to provide a bigger picture of what's currently happening in the industrial market across the region.



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*All Data Points Sourced from CoStar 2023

Q2 | 2023 SARASOTA & MANATEE COUNTY

BUY

\$231,198,445	52,427,193	580,718	1,504,231	\$118.00	8.3%
12-MONTH SALES VOLUME	TOTAL INVENTORY (SF)	12-MONTH NET ABSORPTION (SF)	TOTAL UNDER CONSTRUCTION (SF)	AVERAGE SALE PRICE/SF	MARKET CAP RATE

Of all the markets in the subject area, Sarasota & Manatee County have both the highest vacancy rate (albeit still much lower than the national average) and the lowest sale price/SF. With a solid amount of industrial space under construction, it appears that slightly more flexibility will remain in this market for the foreseeable future from a buyer's perspective.

LEASE

\$11.93	776,920	(444,000)	1,400,000	1.70%
MARKET NNN LEASE RATE	AVAILABLE SF	12-MONTH NET ABSORPTION (SF)	TOTAL UNDER CONSTRUCTION (SF)	VACANCY RATE

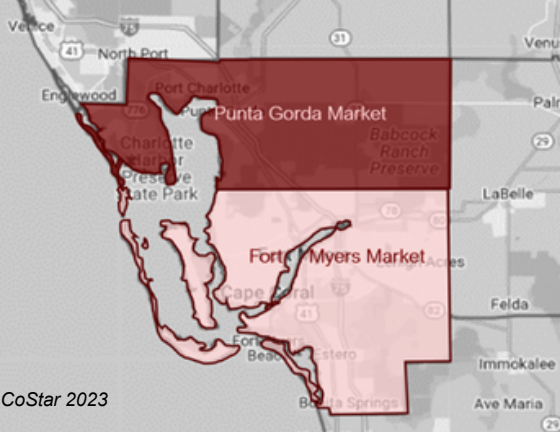
The vacancy rate in this region sits at 1.7%, still well below the national average of 4.6% (according to CoStar). Although there is slightly more inventory available in Sarasota and Manatee, leasing activity is strong, as indicated by an average downtime of 2.8 months (amazingly the highest in the markets surveyed). Decision-making must be quick and decisive for anything available to lease. On average, lease rates are higher than Ft. Myers & Punta Gorda.

BUILD

24	\$15.87	\$691,140.50	280.59	\$225.00	\$100.00
INDUSTRIAL LAND LISTINGS	AVERAGE PRICE (SF) LAND	AVERAGE PRICE (AC)	TOTAL AC	ESTIMATED CONSTRUCTION COST (SF)	ESTIMATED SOFT COST (SF)

Twenty-four industrial-zoned land listings on the market means limited options for prospective land buyers. The region holds a higher average price PSF than others in the subject market, at \$15.87 PSF. Industrial land is sitting on the market for approximately 669 days, the highest of all areas considered. Mounting construction costs and shortages in labor and materials are additional factors to consider.





*All Data Points Sourced from CoStar 2023

Q2 | 2023 FT. MYERS & PUNTA GORDA

BUY

\$345,817,394	43,118,990	2,018,495	4,651,073	\$120.50	8.05%
12-MONTH SALES VOLUME	TOTAL INVENTORY (SF)	12-MONTH NET ABSORPTION (SF)	TOTAL UNDER CONSTRUCTION (SF)	AVERAGE SALE PRICE/SF	MARKET CAP RATE

Of the total subject area, the Ft. Myers & Punta Gorda market boasts the highest number of industrial spaces under construction (4,651,073 SF), many of which are already pre-leased. However, there is a very limited pool of existing properties to choose from (with vacancy rates around 1%). Buying in this market, especially smaller industrial and flex properties, will continue to be a challenge.

LEASE

\$10.25	258,019	(67,300)	3,958,000	1.00%
MARKET NNN LEASE RATE	AVAILABLE SF	12-MONTH NET ABSORPTION (SF)	TOTAL UNDER CONSTRUCTION (SF)	VACANCY RATE

Leasing in this region remains vibrant with a vacancy rate of just 1.00%. Lease rates in the Ft. Myers & Punta Gorda market also average the lowest of the entire subject area at \$10.25 PSF. Industrial product is moving quickly in these markets, as illustrated by available industrial space averaging only 1.9 months on market. Much of the new industrial product under construction is within close proximity to the two nearby airports, and demand is being driven by their growth.

BUILD

34	\$11.00	\$477,435	353.91	\$225.00	\$325.00
INDUSTRIAL LAND LISTINGS	AVERAGE PRICE (SF) LAND	AVERAGE PRICE (AC)	TOTAL AC	ESTIMATED CONSTRUCTION COST (SF)	ESTIMATED SOFT COST (SF)

There are 34 available industrial-zoned land listings in this region, and the average price per acre is slightly lower than other areas inventoried. Many of the available listings have sat on the market for increased periods of time (averaging 645 days), likely as a result of construction costs, interest rates, and increased land costs. Construction costs are averaging around \$225/SF and soft costs are averaging \$100/SF.



Q2 | 2023


NAPLES


*All Data Points Sourced from CoStar 2023


BUY


\$93,648,600
12-MONTH
SALES VOLUME


14,473,921
TOTAL
INVENTORY (SF)


979,561
12-MONTH NET
ABSORPTION (SF)


46,718
TOTAL UNDER
CONSTRUCTION (SF)



\$166
AVERAGE SALE
PRICE/SF


7.3%
MARKET CAP
RATE


With a vacancy rate less than 1.0% and no new product in the development pipeline, industrial demand in the Naples market remains high. Add to that the lowest amount of inventory under construction in the pipeline and the highest price per SF in the subject area and it is clear that buying industrial property in Naples is a challenge.

LEASE


\$17.74
MARKET NNN
LEASE RATE


79,501
AVAILABLE
SF


(74,200)
12-MONTH NET
ABSORPTION (SF)



0
TOTAL UNDER
CONSTRUCTION (SF)



0.90%
VACANCY RATE


On par with the sales prices, lease prices have also skyrocketed in the Naples market and vacant spaces are leasing up quickly. The average downtime for industrial space is only 1.1 months and vacancy rates have dropped under 1.0%. The key takeaway here: be prepared to move fast and act quickly if a property that meets your requirements comes to market.

BUILD


2
INDUSTRIAL LAND
LISTINGS


\$40.76
AVERAGE PRICE
(SF) LAND


\$1,775,272
AVERAGE PRICE
(AC)


1.35
TOTAL AC


\$225.00
ESTIMATED CONSTRUCTION
COST (SF)


\$325.00
ESTIMATED SOFT
COST (SF)

With only two industrial land listings on the market and a high price per acre, building in Naples presents another challenge. Construction costs (hard and soft) are also on the rise, totalling approximately \$325/SF. Securing financing is also challenging which is further exacerbated by rising lending fees.



CONCLUSION

Overall, the health of the industrial market across the region is strong, which bodes well for all businesses choosing to move into or expand their footprint in SW Florida. A healthy market does present its own set of unique challenges and there's no exact science to determine which market or product type is the best for your business. To summarize the current challenges:

- While many parts of the country have slowed, SW Florida remains in growth mode, which keeps contractors and labor at increasingly high prices.
- The subcontractor pipeline remains extremely busy due, in part, to repairs still ongoing from Hurricane Ian.
- Landowners see the increase in demand and have adjusted prices accordingly. Land prices are currently at an all-time high; industrial-zoned land is listed for a premium and the entitlement process can take months/years. This makes it hard to create projects that pencil from the very start.
- Interest rates are not helping the situation either; the cost of capital is very high in today's market. Acquiring a loan to purchase or build is not only more difficult from an underwriting standpoint, but significantly higher post SVB's collapse.





Q2 | 2023

SW FLORIDA INDUSTRIAL

All this information begs the question, what is the solution? There is no silver bullet, but there are ways to navigate this extremely tight market. Assessing timing, location, and budget will truly determine next steps, but options do exist today, if approached creatively. New product is already under development, which should ease some of the aforementioned concerns. Additionally, supply chain issues seem to have peaked and contractors are likely to



become more flexible as projects get paused due to all of the factors cited. It is essential to consider all of your options and to be fully prepared to execute your plan when a solution presents itself.

ERES is ready to work alongside you to dive deeper into this discussion and help you to create a roadmap for success.

CONTACT

If you need help determining your next steps, you can rely on ERES. Our vertically integrated approach allows us to meet a multitude of real estate needs, seamlessly controlling your projects from start to finish. Contact Chris in our Florida office today!



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