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Miami-Dade County's Industrial Market Sees Healthy Activity Amid COVID-19 Headwinds

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The Miami-Dade industrial market saw a prolific year in 2019, followed by a healthy, yet slower first quarter in 2020.

PortMiami's record-shattering fiscal year 2019, with cargo operations posting 1.1 million twenty-foot equivalent units (TEUs) and cruise passengers totaling a world's best 6.8 million passenger total, correlated with the robust warehouse and distribution demand the market experienced throughout 2019. There was a 9 percent uptick in South Florida industrial investment sales, and developers delivered 5.6 million square feet of product to Miami-Dade County. Industrial completions in 2019 exceeded the all-time high set in 2018, and the local inventory expanded by nearly 3 percent.

In first-quarter 2020, as the coronavirus pandemic began to unfold and cause widespread global challenges, the flow of cargo continued to meet essential needs from medical supplies to food, while all cruise lines voluntarily ceased sailings. In addition, after a strong start to the year, COVID-19 caused construction to pause and dimmed demand from space users that service hard-hit industries such as tourism and brick-and-mortar retail.

The unprecedented boost in e-commerce, grocery, and medical supply distribution currently drives the industrial sector.

Leasing remains solid despite roadblocks
Overall industrial vacancy in Miami-Dade is at 4.33 percent, up from 4.06 percent reported at year-end 2019. For the first time since 2012, the market posted negative net absorption of 51,532 square feet at the end of first-quarter 2020, which is considered moderately flat compared to the 189 million square feet of total inventory. The dip is attributable to a number of large move-outs.

Two sizable preleases during first-quarter 2020 represented continued healthy activity in the tight market. Anixter leased 147,900 square feet at Building 8 of Prologis Miami International Tradeport in Medley, Fla., and Cargill leased 70,000 square feet at Building E of Beacon Logistics Park in Hialeah, Fla.

In April, a substantial number of tenants affected by COVID-19 — such as those related to traditional retail, restaurants, hotels and the cruise industry — requested rent relief. Prologis announced that 24 percent of its tenants sought relief for an average of 69 days, with only a fraction being eligible. It seems there are many tenants desperately in need of rent relief and others that are simply opportunistic. Avison Young has successfully negotiated rent relief for several clients legitimately impacted by the pandemic.

The average industrial lease rate in Miami-Dade is $8.88 per square foot, relatively unchanged from year-end 2019. It will be interesting to watch how the overall industrial market and rental rates are affected over the next few months, as the market is only just starting to see a small peek of negative absorption.

If vacancies start to rise significantly, incentives and rental rate discounts will follow. If new leases ink with slightly lower rental rates, that will start a wave of new lease comps in the market. Then, the dynamics of new construction and land sales will need to adapt to make the new set of numbers work. Macro market stats — such as gross domestic product, unemployment, consumer sentiment and projections from the Federal Reserve — at the mid-2020 mark should give us a better understanding of where the trends will head for the remainder of the year.

Significant construction underway with potential delays

Following 5.6 million square feet of industrial product added to the market in 2019, 3.7 million square feet of construction is still underway in Miami-Dade. Most of the development activity is in Northwest Dade, with 2.2 million square feet under construction in the submarket. During the first quarter of 2020, Building F of Beacon Logistics Park added 147,768 square feet, and Home Depot's nearly 1.1 million-square-foot distribution facility broke ground in Northwest Dade.

Although most projects estimated delivery by the end of the year, completion dates may shift as development timelines see delays. Several developers with South Florida projects in the permitting process have prioritized safety and put construction on hold during the pandemic. Also, considering the outbreak could affect landlords' existing rent rolls, they may evaluate the implications before moving forward and adding more vacancy to their portfolios.

Investors take 'wait and see' approach

Industrial remains one of the hottest real estate asset types. As such, owners continue to hold on to their warehouse and distribution properties, prompting investors to be creative in seeking out industrial opportunities. Many prospective buyers are simply unsure of existing tenant financial/credit health. Since the spread of coronavirus and subsequent social distancing, creating challenges for the deal facilitation process, creativity now couples with heightened caution as capital sits on the sidelines. The Federal Reserve announced it would keep interest rates near zero until the economy has weathered the pandemic's impact.

In recent months, rare core assets that will produce over a more extended hold model saw the highest demand, and some investors even bought atypical properties for redevelopment later. Another significant trend was owner-developers, mostly institutional, pursuing unique land opportunities amid severe land scarcity. In one of South Florida's largest land sales in 2019, an off-market transaction facilitated by Avison Young, an entity known as AVE LLC sold 123 acres in east Hialeah to Bridge Development Partners. The Chicago-based developer paid $126 million for the property in the fourth quarter and plans to build up to 1 million square feet of speculative industrial space near Miami-Opa Locka Executive Airport.

During the first quarter of 2020, two significant industrial sales closed. A 234,738-square foot refrigerated distribution center at 18770 NE 6th Ave. in Northeast Miami sold to **Ivy Realty for $30.5 million**. Additionally, a 135,939-square-foot industrial building at 5900 NW 176th St. in Miami Gardens (Northwest Miami) sold to Spirit Realty Capital for $14.7 million.

Looking ahead

The economic impacts on tourism and traditional retail industries could present some headwinds for Miami-Dade's industrial market. However, the nation witnessed the most notable and fastest U.S. fiscal response in peacetime, which should fuel economic growth and provide liquidity where needed. Tenants may have challenges rebuilding their balance sheets and supply chains for the remainder of 2020 before electing to expand or take additional space, but the CARES Act is in action to help.

The silver lining may be that COVID-19 brought to light our reliance on China and other countries for the manufacturing of critical national security resources from medical drugs and equipment to military components and computer technology. The United States lost considerable manufacturing due to the outsourcing trend over the past three decades, but it should start circling back at some point in 2021.

— By Wayne Schuchts, Principal, and Tom Viscount, Principal of Avison Young's Miami office.