

First Quarter, 2015 Newsletter

General South Florida Industrial Market

The industrial market in Florida's Tri-County is one of the hottest, if not THE hottest, in the country right now. The confluence of a few pivotal variables in Miami is creating a major squeeze in the industrial market that is rippling all the way north through Palm Beach County. Miami is finally making its grand debut on the global stage, now being classified in the same group of cities such as London, New York, Rio, Singapore, and Shanghai. The comparative affordability of Miami to its new peer group is creating a major draw for global capital investment. Condo's that cost \$600 per square foot might seem outrageously priced to locals, but when compared to \$1,000 per square foot in New York or even more in London, that is a bargain. This perceived affordability and the growth potential of Miami on a global scene is the catalyst that is firing up everyone's appetite for all things Miami real estate. This includes Industrial.

Big money is pouring into the South Florida industrial market from well-capitalized equity firms and public REITS. The big prize is Miami Dade county, but things are getting so expensive and supply constrained they are having to look further north into Broward and even Palm Beach County. The only remaining vacant parcels in Palm Beach County are in the northern part of the county. Aldi's just completed a 650,000 square foot distribution center and Fedex is close to starting their 250,000 square foot distribution center. Both Liberty Trust and Duke are close to starting construction on a combined 1.4 million square feet of warehouse and distribution space in West Palm Beach between Belvedere Road and Southern Boulevard.

The big players are making big moves and building mostly on spec. The numbers and rent rates justify their moves too. The average asking price for industrial space increased 16% year over year from 2013 to the end of 2014. The vacancy rate has come down to 5% from almost 7% in one year. The strong leasing activity combined with the lack of developable land, and very little new product has caused the lease rates to gap up very quickly. I do not see this trend slowing down due to the structural elements that cannot change overnight such as more land to build on and the amount of people moving to Florida.

What Does All This Mean to Mack Industrial?

The industrial landscape in South Florida is changing from a small company operator perspective. You can't compete head to head with these big boys. Their resources and access to cheap capital create a playing field similar to that of Walmart versus the local general store. The little guy is never going to win.

Where you can win though is on margins and that is where Mack Industrial plans on investing our time and energy. The big boys are focused on large distribution to larger companies. The margins on these types of buildings and rent are razor thin. Liberty and Duke are going to be going head to head for those handful of tenants that can fill 10,000 - 30,000 square feet. That's a battle we are not interested in being a part of.

We have re-crafted our investment strategy based on these shifting market conditions and also applied a few lessons learned from the Great Recession. Our new investment strategy focuses on unique properties that provide us with pricing power to obtain our desired margins. Unique properties is a very broad term, but can be summarized by a property where a prospective tenant cannot walk across the street and rent the same building and space for a lower rate. During the Great Recession we were constantly going head to head on rents with neighboring landlords and it was a very tiring experience. Unique properties give you pricing power in a market where just building more is not an option.

In addition to focusing on unique properties, we are paying close attention to the new urbanism trends and people's desire to return from the suburbs and live closer together. The live, work, play theme is taking hold in South Florida as both Baby Boomers and Millennials converge on the same urban pockets for lifestyle amenities. These trends will dictate future development and we feel there are a lot of opportunities looking east in these new pockets of higher density. These opportunities include repurposing old warehouses to serve the new urban neighborhoods and any other types of infill development to support these trends.

Our most recent acquisitions have all performed very well. They were acquired and re-leased immediately at fantastic rent rates. Our most recent acquisition is a 13 acre industrial development that we plan to build 7 single tenant industrial buildings for lease or build to suit. We feel the industrial market and construction market in South Florida has a number of years left in this cycle and we look forward to taking our time developing this park out with the proper tenants for the long term.

That was the high level update for the overall market and also Mack Industrial. The individual property pages contain financial highlights and detailed information regarding operations.