ORLANDO

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EXECUTIVE SUMMARY

- Strong population and employment growth continue to fuel Orlando's real estate market. Three of the top 10 fastest growing cities in Florida are in the Orlando area, which currently has an unemployment rate of 2.7%.
- While office development remains restrained, industrial construction is occurring at a breakneck pace. Key projects are underway in the Airport/ Southeast, Orlando Central Park, Silver Star and Northwest submarkets.
- Over $3.6 billion is in the current multifamily development pipeline due to accelerating population growth. Much of this is concentrated in the urban core.
- Institutional and private investors continue to chase yield in Orlando although yield compression is limiting opportunities following several successive yields of robust investment activity.

Economic and real estate fundamentals in Orlando are solid heading into 2020, with several key developments in the construction pipeline and multiple large tenants scouring the market as of year-end 2019. Continued yield compression may limit investment sales volume in the near term, however net absorption of leased space is expected to remain strong and robust employment and population growth will fuel the local market in 2020.

Heightened consumer confidence and an expansion of the business base in Orlando has resulted in strong economic performance with GDP expected to grow at an annual base of 2.4% through 2023. Research compiled by Oxford Economics also indicates that the anticipated growth in professional services through 2023 should exceed other large Florida metros by a wide margin. Altogether, there is $3.6 billion in multifamily construction underway or planned in metro Orlando, and this growth is fueling the need for improved transportation and logistics networks, as well as the corresponding commercial development taking place throughout the market.

Local market fundamentals were robust through 2019, with brisk leasing, vigorous investment activity, and healthy levels of net absorption. Continued restraint on the part of office developers has resulted in a lack of oversupply, and while new industrial development seems to be occurring at a breakneck pace, the needs and requirements of the flourishing e-commerce sector and associated distributors and last-mile delivery providers will ensure the sector's vitality in 2020. The advent of automation in both process and transport in the supply chain also has the potential to change the sector meaningfully by improving the efficiency of logistics while increasing safety and reducing labor costs.

KEY MARKET METRICS – 2020 EXPECTATIONS

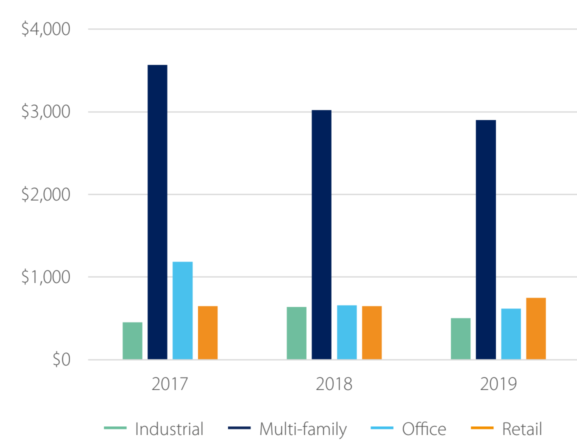
Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑	↑↑	↑
Vacant Space	↑	→	↑↑
Construction Levels	↓↓↓	↑↑	↓↓
Leasing Volume	→	↑	↑
Investment Volume	↑	↑↑	→

Following the delivery of the much-anticipated SunTrust Plaza at Church Street Station in downtown, attention is turning to its sister mixed-use property to be built on the site of the current Church Street Ballroom. With a relative dearth of large contiguous blocks of quality class A space available in the market, the planned second tower is critical for luring new to market firms. The University of Central Florida's shared campus with Valencia College in the $1.5 billion Creative Village mixed-use development also delivered in 2019. The future impact on Downtown Orlando will be significant as the campus is home to more than 7,700 students. Also noteworthy was Orlando Magic CEO Alex Martins' announcement that a 100,000-sf retail building would be breaking ground by early 2020, which will kick off work on the highly anticipated sports and entertainment district adjacent to I-4 in the urban core.

Florida is ranked at the top for tax advantage, according to a 2019 Tax Foundation analysis, and looking forward, Orlando will experience strong population inflows over time as the state and local taxes (SALT) provisions of the 2017 Tax Cuts and Jobs Act promote outmigration from higher tax states like New York.

TOTAL INVESTMENT VOLUME



Source: Real Capital Analytics

Investment sales activity during 2019 was substantial with $4.7 billion in total investment volume in the office, industrial, retail and multifamily sectors, although it was a 25.5% decline over the previous year as a result of fewer large portfolio sales. An absence of inflationary pressures is creating the likelihood of a period of ultra-low or negative rates, creating the possibility of further yield compression and thus the search for yield is unlikely to get any easier any time soon. Lower interest rates will likely extend the real estate cycle, and as investors continue their search for significant returns this is likely to increase demand for real estate in Orlando.

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