

Fundamentals Remain Strong in Orlando as Vacancy Remains Below 9% and Construction Cranes Continue to Dot the Skyline

Orlando's economy once again proved robust during the first quarter with continued strong population and employment growth, vigorous investment activity and healthy leasing. Although the U.S. as a whole ended 2018 with stock market volatility, economic uncertainty and a government shutdown, the outlook for Orlando looks bright in 2019 and the underlying economic fundamentals that drove growth through most of 2018 remain in place and are expected to drive continued growth this year. Orlando's unemployment rate has fallen 20 bps over the previous year to 3.2% and the steady pace of job growth has continued with over 27,000 new jobs added in the trailing 12-month period.

Asking rents are up \$0.72 per sf, or 3.1%, over the last year across all properties, with class A rents down slightly as strong leasing has left fewer prime spaces available. Net absorption was solid during the first quarter, accounting for 160,270 sf, 78% of which was comprised of class A space. Negative absorption in Downtown Orlando was largely attributable to Signature Flight Support's relocation to the Lake Nona area and in Lake Mary/Heathrow it was due to a single large block of space coming back on the market. Once again, with limited large blocks of quality space available there is an increased likelihood of additional speculative construction later in the year.



Strong job growth is driving multifamily construction as one apartment was delivered for every seven jobs created in the last year

Office Market Snapshot

- Several key leasing announcements were made during the first quarter, including Deloitte's lease of another 50,000 sf at 1001 Heathrow Park Lane in Lake Mary, Brazil-based Invel's lease of over 30,000 sf for a new global headquarters at Lake Nona's Guidewell Innovation Center, ClosetMaid's 13,000-sf lease for a new corporate office in Lake Nona Town Center, and technology repair company UBreakiFix Co.'s 30,000-sf lease for new headquarters space in MetroWest's Veranda Park.
- Virgin Trains, formerly Brightline, moved a step closer to completing its much-anticipated \$2.3 billion Orlando-to-Miami link after receiving \$950 million in new bonds from the Florida Development Finance Corp. Construction on the route is scheduled for April 2019 and will offer connections at Walt Disney World, a not-yet disclosed SunRail station, and Orlando International Airport.
- KPMG, LLP, which is in the process of completing a 780,000-sf training center in the Lake Nona area, is reportedly looking for another 60,000 sf for a call center operation in Orlando. Their new corporate training campus is expected to open in January 2020.
- The Federal Reserve ('Fed') reversed course from its median interest rate forecast in 2018 where it had implied the likelihood of two additional interest rate hikes during 2019. The Fed decided to leave the target range for the Federal Funds rate unchanged between 2.25 and 2.5 percent, where it has been since December in a move widely expected by economists. While U.S. economic growth remains strong, external risks remain including the fate of Brexit, US-China trade relations, and tensions at the southern border.
- SunTrust Plaza at Church Street Station is scheduled to deliver in downtown during the third quarter of this year, with Atlanta-based SunTrust Banks, Inc. and HuntonBrady Architects leasing large blocks of space and relocating from elsewhere in the urban core. The highly anticipated class A tower, which is largely preleased, will also include a 180-room AC Hotel by Marriott, and is situated alongside I-4 in close proximity to the downtown SunRail station and the planned sports and entertainment development district adjacent to the Amway Arena.

37.5 MSF

Total office inventory in the Orlando office market

170,270 SF

Direct Y-T-D net absorption as of 1Q-2019

8.45%

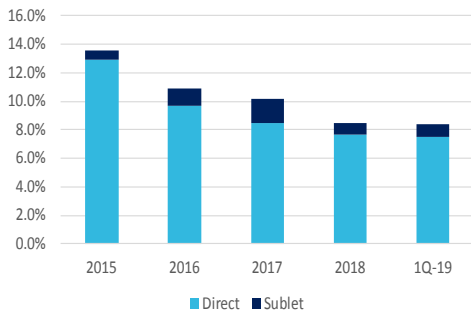
Overall Vacancy

\$26.44/SF/FS

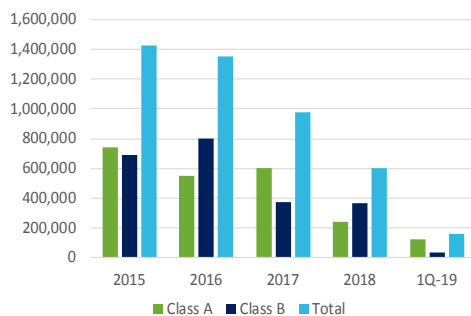
Average rental rate for class A space

Statistical Snapshot

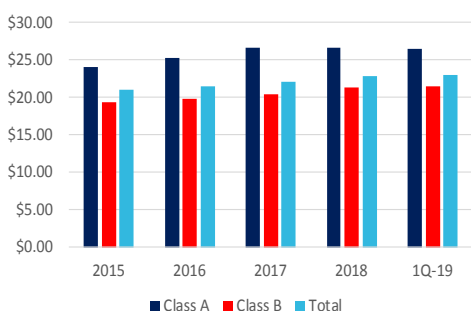
Vacancy Rate



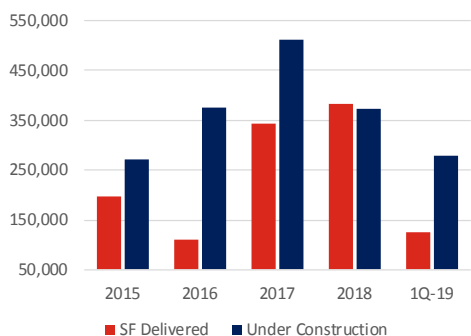
YTD Net Absorption (SF)



Average Asking Rent Rate (\$/SF/FS)



Construction Pipeline



Orlando Office Market At A Glance

Demographics & Economy



126.1 million
Number of visitors to Florida during 2018, breaking a record for the 8th year in a row

27,524
increase in total non-farm employment since 1Q-2018

54,000
new professional and business services jobs added in Florida during 2018

3.4%
FEB-2018
3.2%
FEB-2019
change in Orlando's unemployment rate

Development



\$2 billion
in new development projects planned or underway in Orlando's 1,000-AC central business district



Construction employment in Orlando grew by 1,600 jobs in February - on pace to surpass a peak benchmark set in the summer of 2007



Ultimate I-4 Project

\$2.3 BILLION RENOVATION
underway on 21-mile stretch of I-4



278K
square feet of office space currently under construction



\$3.6 BILLION
in multifamily construction underway or planned in metro Orlando

Market Influencers



\$698 million

in total office sales volume during the T-12 months ending 1Q19



3.1%
average rental rate increase over the trailing 12-months ending 1Q-2019



Up to 5 different companies are reportedly searching for 50,000 - 75,000 sf of call center or regional headquarters space in metro Orlando as of 1Q-19

ORLANDO MSA TOTAL

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Avg Rent Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	17,153,497	866,011	304,659	\$26.44	94.95%	5.05%	1.78%	6.82%	277,813	123,052
Class B	20,316,292	1,961,695	33,091	\$21.48	90.34%	9.66%	0.16%	9.82%	0	37,218
Total	37,469,789	2,827,706	337,750	\$23.00	92.45%	7.55%	0.90%	8.45%	277,813	160,270

CBD

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	4,088,654	243,642	134,454	\$26.85	94.04%	5.96%	3.29%	9.25%	217,000	(12,919)
Class B	3,036,412	334,948	12,886	\$25.27	88.97%	11.03%	0.42%	11.46%	0	(60,397)
Total	7,125,066	578,590	147,340	\$25.93	91.88%	8.12%	2.07%	10.19%	217,000	(73,316)

Non-CBD / Suburban

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	13,064,840	622,369	170,205	\$26.28	95.24%	4.76%	1.30%	6.07%	60,813	135,971
Class B	17,279,880	1,626,747	20,205	\$20.71	90.59%	9.41%	0.12%	9.53%	0	97,615
Total	30,344,723	2,249,116	190,410	\$22.25	92.59%	7.41%	0.63%	8.04%	60,813	233,586

436 Corridor

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	339,475	14,681	0	\$27.00	95.68%	4.32%	0.00%	4.32%	0	2,088
Class B	1,000,992	73,057	6,470	\$19.41	92.70%	7.30%	0.65%	7.94%	0	20,650
Total	1,340,467	87,738	6,470	\$20.68	93.45%	6.55%	0.48%	7.03%	0	22,738

Altamonte / Longwood

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	2,458,157	321,750	0	\$18.23	86.91%	13.09%	0.00%	13.09%	0	5,883
Total	2,458,157	321,750	0	\$18.23	86.91%	13.09%	0.00%	13.09%	0	5,883

Downtown Orlando

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	4,088,654	243,642	134,454	\$26.85	94.04%	5.96%	3.29%	9.25%	217,000	(12,919)
Class B	3,036,412	334,948	12,886	\$25.27	88.97%	11.03%	0.42%	11.46%	0	(60,397)
Total	7,125,066	578,590	147,340	\$25.93	91.88%	8.12%	2.07%	10.19%	217,000	(73,316)

Lake Mary / Heathrow

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	3,889,831	259,097	46,285	\$24.58	93.34%	6.66%	1.19%	7.85%	0	(38,609)
Class B	1,873,145	206,215	5,000	\$20.46	88.99%	11.01%	0.27%	11.28%	0	28,720
Total	5,762,976	465,312	51,285	\$22.76	91.93%	8.07%	0.89%	8.96%	0	(9,889)

Maitland

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	2,036,647	46,158	20,138	\$24.80	97.73%	2.27%	0.99%	3.26%	0	(4,068)
Class B	3,973,999	398,409	918	\$19.97	89.97%	10.03%	0.02%	10.05%	0	(4,033)
Total	6,010,646	444,567	21,056	\$20.47	92.60%	7.40%	0.35%	7.75%	0	(8,101)

Southeast Orlando

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	998,205	99,973	1,243	\$31.82	89.98%	10.02%	0.12%	10.14%	0	64,293
Class B	425,439	5,051	0	\$22.52	98.81%	1.19%	0.00%	1.19%	0	9,397
Total	1,423,644	105,024	1,243	\$31.38	92.62%	7.38%	0.09%	7.46%	0	73,690

Southwest Orlando

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	4,172,484	119,534	96,539	\$26.49	98.03%	1.97%	2.16%	4.14%	0	137,535
Class B	3,064,894	289,617	4,672	\$22.25	90.55%	9.45%	0.15%	9.60%	0	(8,733)
Total	7,237,378	409,151	101,211	\$23.49	94.86%	5.14%	1.31%	6.45%	0	128,802

University / Research

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	1,329,406	82,926	6,000	\$25.27	93.76%	6.24%	0.45%	6.69%	34,097	(25,268)
Class B	3,245,451	240,609	3,145	\$22.96	92.59%	7.41%	0.10%	7.51%	0	53,984
Total	4,574,857	323,535	9,145	\$23.55	92.93%	7.07%	0.20%	7.27%	34,097	28,716

Winter Park / Lee Road

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	298,795	0	0	\$0.00	100.00%	0.00%	0.00%	0.00%	26,716	0
Class B	1,237,803	92,039	0	\$23.29	92.56%	7.44%	0.00%	7.44%	0	(8,253)
Total	1,536,598	92,039	0	\$23.29	94.01%	5.99%	0.00%	5.99%	26,716	(8,253)

Reporting Methodology: This report includes all class 'A' and 'B' office buildings and parks 20,000 SF and greater in the Orlando MSA that are not owner occupied, office medical, or government owned. All rents are reported on a full-service gross basis. The information in this report has been collected by the Avison Young research team via sources that are deemed reliable but is not guaranteed.

Net absorption of office space was strong during the first quarter, accounting for 160,270 sf, 78% of which was comprised of class A space.

Leading Indicators (Y-O-Y 1Q-2018 to 1Q-2019)

Vacancy Rate	Net Absorption	Average Asking Rate (FS)	New Construction	Total Employment
8.45%	160,270 SF	\$23.00	277,813 SF	1.32 MM

Significant First Quarter 2019 Lease Transactions - Sorted by SF

Tenant	Property	SF Leased	Type	Submarket
Deloitte	1001 Heathrow Park Lane	49,777	New	Lake Mary/Heathrow
Invel (Global HQ)	Guidewell Innovation Center	32,022	New	Southeast Orlando
UBreakiFix Co. (HQ)	Veranda Park	30,000	New	Southwest
ClosetMaid (HQ)	Lake Nona Town Center II	26,334	New	Southeast Orlando
Hilton	Millenia Lakes III	20,277	New	Southwest
Forensic Engineering	Quadrangle Corporate Park One	13,000	New	University/Research
Western & Southern Life Assurance	The Paragon Building	12,838	New	Maitland
Cowen, Inc.*	400 TownPark	12,474	New	Lake Mary/Heathrow
Vitality Home Healthcare	TerraCotta Business Park	11,797	New	Southeast Orlando
Eckler Industries, LLC*	Challenger Tech Center III	10,970	New	University/Research
FAC	Heathrow International Business Center	10,325	New	Lake Mary/Heathrow

* Avison Young handled this transaction

Significant First Quarter 2019 Sales Transactions - Sorted by Sale Price

Property	SF	Sale Price	Price/SF	Buyer	Submarket
Maitland Promenade I	229,837	\$48,500,000	\$211	KBS Realty Advisors	Maitland
Reserve at Maitland	196,835	\$33,500,000	\$170	Jefferson River Capital LLC	Maitland
1000 Business Center Dr	87,066	\$18,500,000	\$212	Gladstone Commercial	Lake Mary/Heathrow
850 Trafalgar Ct	149,074	\$13,800,000	\$93	TerraCap Management, LLC	Maitland
37 N Orange Ave	97,579	\$13,700,000	\$140	Novel Coworking	Downtown Orlando
6989 Lee Vista Blvd	68,132	\$12,470,252	\$183	Jefferson River Capital LLC	Southeast Orlando
2600 Lucien Way - Southwoods	49,453	\$6,850,000	\$139	Adventist Health System	Maitland



Maitland Promenade

Institutional Investment Sales Activity Strong in Maitland During 1Q-19

A flurry of investment sales activity in the Maitland submarket accounted for 70% of all sales during the first quarter, totaling \$102.6 million and accounting for over 625,000 sf. The largest sale so far this year was KBS Realty Advisors' acquisition of Maitland Promenade I, a 229,837-sf class A office building. The property sold for \$48.5 million, or \$211 per sf. Jefferson River Capital LLC and TerraCap Management, LLC also made significant acquisitions in the Maitland submarket during the first quarter.



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