

# Orlando

## Office market fundamentals are holding steady heading into the final quarter of 2019 with global headwinds on the horizon

The U.S. economy is beginning to show early signs of slowing after 10 years of expansion, however Florida added 213,000 private sector jobs in the first eight months of 2019 even as the global economy showed similar signs of a deceleration in growth. The Orlando area accounted for the highest job creation in the state, adding 49,600 new private-sector jobs in the last year. Heightened consumer confidence and an expansion of the business base in Orlando has resulted in strong economic performance with GDP growing by nearly 5% during 2018 and expected to grow at an annual base of 2.4% through 2023. While the concentration of entertainment-related employment in Orlando is four times the national average, jobs in the professional and business services sector have increased by 15,200 over the trailing 12 months ending in September 2019. 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.

Leasing activity was relatively brisk during the third quarter, with 10 deals over 10,000 sf taking place, the largest of which was Finastra's lease of the remaining 54,800 sf in The Edison at Primera I in Lake Mary. While net absorption has been somewhat slow so far this year, accounting for less than half of what was recorded at the same point one year prior, that will change during the fourth quarter when the largely pre-leased SunTrust Plaza at Church Street Station delivers. Rental rate growth remains impressive, rising 3.5% over the trailing 12-month period.



Class A net absorption is expected to rise during the fourth quarter following the delivery of a highly anticipated new downtown tower

### Office Market Snapshot

- With the largely preleased SunTrust Plaza at Church Street Station scheduled to deliver in downtown during the fourth quarter of this year, 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 and the landlord has indicated significant interest from several undisclosed potential tenants.
- After two years of development, the University of Central Florida's shared campus with Valencia College in the \$1.5 billion Creative Village mixed-use development opened in August. The future impact on Downtown Orlando will be significant as the campus is home to more than 7,700 students and 300 faculty and staff. Also downtown, Orlando Magic CEO Alex Martins announced that a 100,000-sf retail building would be breaking ground by the end of 2019, which will kick off work on the highly anticipated sports and entertainment district adjacent to I-4 in the urban core.
- The Federal Reserve reduced its policy rate by 25 basis points to a target range of 1.75% to 2% in September, the second interest rate cut from the central bank in two months, as the latest U.S. data suggested some softening in the U.S. economy.
- Altogether, there is \$3.6 billion in multifamily construction underway or planned in metro Orlando, and all of this growth is fueling the need for improved transportation and logistics networks, as well as the corresponding commercial development taking place throughout the market.
- Virgin Trains USA, formerly known as Brightline, broke ground during the summer on its \$4 billion Orlando to Miami route, which is projected to be complete by 2022. The project will create 10,000 construction jobs and is expected to be a significant economic driver in Central Florida. A future expansion of the line will create a link between OIA and the downtown Tampa area, with the potential to carry 9.5 million passengers annually traveling at speeds up to 120 mph.
- Approximately one-third of all flexible co-working space in the U.S. is provided by WeWork, which is undergoing a shakeup at the executive level, and which recently put a stop to its immediate U.S. expansion plans while it evaluates its market position and its duty to its investors. The co-working giant recently leased just over 70,000 sf at the iconic SunTrust Center in Downtown Orlando, the co-working company's first location in Central Florida.

## 37.3 MSF

Total office inventory in the Orlando office market

## 232,956 SF

Direct Y-T-D net absorption as of 3Q-2019

## 8.32%

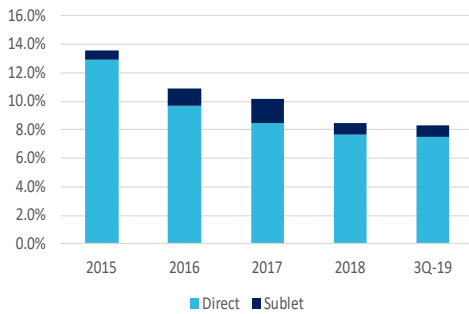
Overall Vacancy

## \$27.38/SF/FS

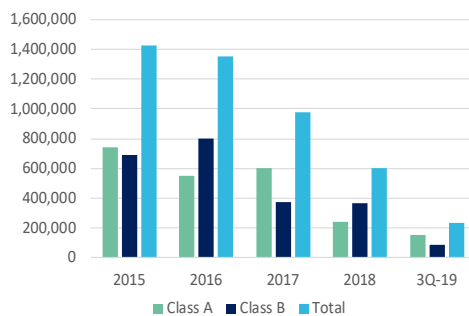
Average rental rate for class A space

## Statistical Snapshot

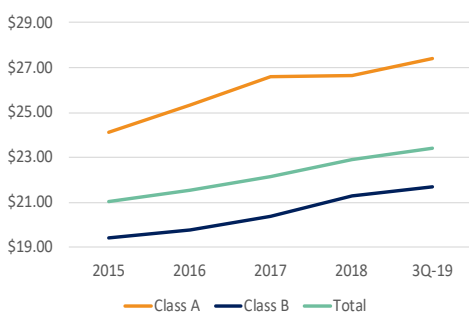
## Vacancy Rate



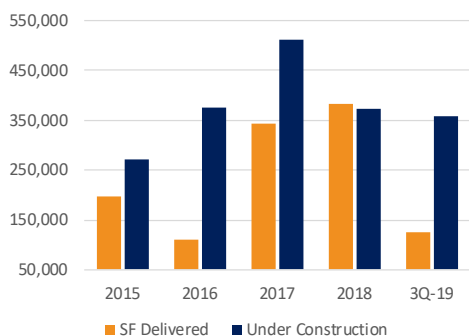
## YTD Net Absorption (SF)



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



## Construction Pipeline



## Orlando Office Market At A Glance

## Demographics &amp; Economy



**213,000**  
private sector jobs  
added to the state of  
Florida in the first eight  
months of 2019

**5%**

in metro GDP during  
2018 with growth  
of 2.4% per annum  
expected through 2023



Jobs in the professional and  
business services sector have  
increased by 15,200 over the  
trailing 12 mos ending 3Q19  
in Orlando

**3.3%** **3.2%**  
AUG-2018  AUG-2019  
change in Orlando's unemployment rate

## Development



**8,000**

# of faculty and staff at the  
newly opened shared campus  
for University of Central Florida  
and Valencia College in downtown's \$1.5 billion  
mixed-use Creative Village project



**357K**  
square feet of  
office space  
currently under  
construction

## Phase II

Lincoln Property Company is  
moving forward on plans for a  
second mixed-use tower. The 32-story class  
A tower will be approximately 500,000 sf.



Deadline extended to  
1/2020 to negotiate  
right of way for the  
planned Virgin Trains  
USA route from Orlando  
to Tampa via the  
Interstate 4 corridor

Ultimate I-4  
Project

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



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

## Market Influencers



**\$584  
million**

in total office sales volume during  
the trailing-12 mos ending 3Q19



**3.5%**  
average rental rate  
increase over the  
trailing 12-mos  
ending 3Q-2019

## 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	855,065	195,137	\$27.38	95.02%	4.98%	1.14%	6.12%	357,316	150,337
Class B	20,174,011	1,945,244	109,244	\$21.69	90.36%	9.64%	0.54%	10.18%	0	82,619
<b>Total</b>	<b>37,327,508</b>	<b>2,800,309</b>	<b>304,381</b>	<b>\$23.43</b>	<b>92.50%</b>	<b>7.50%</b>	<b>0.82%</b>	<b>8.32%</b>	<b>357,316</b>	<b>232,956</b>

## 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	258,586	80,907	\$28.17	93.68%	6.32%	1.98%	8.30%	221,000	(11,524)
Class B	3,036,412	350,150	13,617	\$26.01	88.47%	11.53%	0.45%	11.98%	0	(75,599)
<b>Total</b>	<b>7,125,066</b>	<b>608,736</b>	<b>94,524</b>	<b>\$26.93</b>	<b>91.46%</b>	<b>8.54%</b>	<b>1.33%</b>	<b>9.87%</b>	<b>221,000</b>	<b>(87,123)</b>

## 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	13,064,843	596,479	114,230	\$27.04	95.43%	4.57%	0.87%	5.44%	136,316	161,861
Class B	17,137,599	1,595,094	95,627	\$20.74	90.69%	9.31%	0.56%	9.87%	0	158,218
<b>Total</b>	<b>30,202,442</b>	<b>2,191,573</b>	<b>209,857</b>	<b>\$22.45</b>	<b>92.74%</b>	<b>7.26%</b>	<b>0.69%</b>	<b>7.95%</b>	<b>136,316</b>	<b>320,079</b>

## 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	16,413	0	\$27.50	95.17%	4.83%	0.00%	4.83%	0	356
Class B	1,000,992	55,074	6,470	\$19.61	94.50%	5.50%	0.65%	6.15%	0	38,633
<b>Total</b>	<b>1,340,467</b>	<b>71,487</b>	<b>6,470</b>	<b>\$21.42</b>	<b>94.67%</b>	<b>5.33%</b>	<b>0.48%</b>	<b>5.82%</b>	<b>0</b>	<b>38,989</b>

## 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	400,431	0	\$18.52	83.71%	16.29%	0.00%	16.29%	0	(72,798)
<b>Total</b>	<b>2,458,157</b>	<b>400,431</b>	<b>0</b>	<b>\$18.52</b>	<b>83.71%</b>	<b>16.29%</b>	<b>0.00%</b>	<b>16.29%</b>	<b>0</b>	<b>(72,798)</b>

## 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	258,586	80,907	\$28.17	93.68%	6.32%	1.98%	8.30%	221,000	(11,524)
Class B	3,036,412	350,150	13,617	\$26.01	88.47%	11.53%	0.45%	11.98%	0	(75,599)
<b>Total</b>	<b>7,125,066</b>	<b>608,736</b>	<b>94,524</b>	<b>\$26.93</b>	<b>91.46%</b>	<b>8.54%</b>	<b>1.33%</b>	<b>9.87%</b>	<b>221,000</b>	<b>(87,123)</b>

## 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	166,728	57,994	\$26.27	95.71%	4.29%	1.49%	5.78%	109,600	53,760
Class B	1,730,864	122,410	17,000	\$18.48	92.93%	7.07%	0.98%	8.05%	0	97,913
<b>Total</b>	<b>5,620,695</b>	<b>289,138</b>	<b>74,994</b>	<b>\$22.97</b>	<b>94.86%</b>	<b>5.14%</b>	<b>1.33%</b>	<b>6.48%</b>	<b>109,600</b>	<b>151,673</b>

## 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	111,623	18,661	\$25.81	94.52%	5.48%	0.92%	6.40%	0	(69,533)
Class B	3,973,999	374,345	49,620	\$20.33	90.58%	9.42%	1.25%	10.67%	0	20,031
<b>Total</b>	<b>6,010,646</b>	<b>485,968</b>	<b>68,281</b>	<b>\$21.58</b>	<b>91.91%</b>	<b>8.09%</b>	<b>1.14%</b>	<b>9.22%</b>	<b>0</b>	<b>(49,502)</b>

## 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	113,675	2,444	\$29.82	88.61%	11.39%	0.24%	11.63%	0	50,591
Class B	425,439	6,684	0	\$22.70	98.43%	1.57%	0.00%	1.57%	0	7,764
<b>Total</b>	<b>1,423,644</b>	<b>120,359</b>	<b>2,444</b>	<b>\$29.42</b>	<b>91.55%</b>	<b>8.45%</b>	<b>0.17%</b>	<b>8.63%</b>	<b>0</b>	<b>58,355</b>

## 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	127,296	30,007	\$26.44	97.09%	2.91%	0.57%	3.48%	0	129,773
Class B	3,064,894	293,428	1,229	\$22.44	90.43%	9.57%	0.04%	9.61%	0	(12,544)
<b>Total</b>	<b>7,237,378</b>	<b>420,724</b>	<b>31,236</b>	<b>\$23.65</b>	<b>94.27%</b>	<b>5.73%</b>	<b>0.34%</b>	<b>6.08%</b>	<b>0</b>	<b>117,229</b>

## 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	54,512	5,124	\$26.84	95.90%	4.10%	0.39%	4.49%	0	3,146
Class B	3,245,451	231,653	15,818	\$22.11	92.86%	7.14%	0.49%	7.63%	0	106,502
<b>Total</b>	<b>4,574,857</b>	<b>286,165</b>	<b>20,942</b>	<b>\$23.01</b>	<b>93.74%</b>	<b>6.26%</b>	<b>0.46%</b>	<b>6.71%</b>	<b>0</b>	<b>109,648</b>

## 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	6,232	0	\$32.00	97.91%	2.09%	0.00%	2.09%	26,716	(6,232)
Class B	1,237,803	111,069	5,490	\$25.71	91.03%	8.97%	0.44%	9.42%	0	(27,283)
<b>Total</b>	<b>1,536,598</b>	<b>117,301</b>	<b>5,490</b>	<b>\$26.05</b>	<b>92.37%</b>	<b>7.63%</b>	<b>0.36%</b>	<b>7.99%</b>	<b>26,716</b>	<b>(33,515)</b>

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.

**Solid net absorption in the Lake Mary/Heathrow submarket has offset the impact of the negative net absorption recorded in the Downtown Orlando and Maitland areas where large blocks of space recently came available.**

### Leading Indicators (Y-O-Y 3Q-2018 to 3Q-2019)

Vacancy Rate	Net Absorption	Average Asking Rate (FS)	New Construction	Total Employment
↓	↓	↑	↓	↑
8.32%	232,956 SF	\$23.43	357,316 SF	1.35 MM

### Significant Third Quarter 2019 Lease Transactions - Sorted by SF

Tenant	Property	SF Leased	Type	Submarket
Finastra	The Edison at Primera	54,800	New	Lake Mary/Heathrow
Bright House	1060 Sand Pond Rd	53,000	New	Lake Mary/Heathrow
Cubic Corporation	Concourse @ Quadrangle III	40,383	New	University/Research
General Dynamics Mission Systems	Research Pointe II	32,812	New	University/Research
Confidential Tenant	One Orlando Centre	19,967	New	Downtown Orlando
Horizon Engineering Group	The American Building	15,558	New	Maitland
Motility Software Solutions	Maitland Lakes	11,965	New	Maitland
Beep, Inc.	Lake Nona Town Center II	10,902	New	Southeast Orlando
MHP SA*	400 TownPark	8,927	Expansion	Lake Mary/Heathrow
Paysmart USA*	Heathrow International Business Center 400	6,396	New	Lake Mary/Heathrow

\* Avison Young handled this transaction

### Significant Third Quarter 2019 Sales Transactions - Sorted by Sale Price

Property	SF	Sale Price	Price/SF	Buyer	Submarket
Millenia Park One	157,291	\$38,250,000	\$243	Warmack Investments	Southwest
Premier Point North & South	95,269	\$11,750,000	\$123	Escape 19B, LLC	Altamonte/Longwood

### Decline in Investment Sales Volume Mirroring a National Trend

Investment sales activity during the third quarter was a bit muted, down 65.1% year-over-year, however that is partly due to the fact that so many properties have already traded hands within the last few years. Two significant transactions did occur, the largest of which was IP Capital Partners' sale of Millenia Park One to Colorado-based Warmack Investments. The class A building was 92% occupied at the time of the sale, which occurred early in the third quarter. Currently there are 15 office properties on the market for sale, however only four are under contract at this time.

Nationwide, office deal volume is down 33% year-over-year as of the end of August, largely due to frayed nerves on the part of investors heading into the summer as political tensions in Washington, D.C. reached a boiling point. That said, Real Capital Analytics reports that a decline in the 10-year US Treasury has moderated, evidence that much of that earlier tension has dwindled.



Millenia Park I



Premier Point



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