

MARKETBEAT

Orlando

Office Q2 2019



ORLANDO OFFICE

Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
Orlando Employment	1.29M	1.33M	▲
Orlando Unemployment	3.1%	2.9%	■
U.S. Unemployment	3.9%	3.6%	▼

*Numbers above are monthly figures, March. 2019, FL Dept. Economic OPP

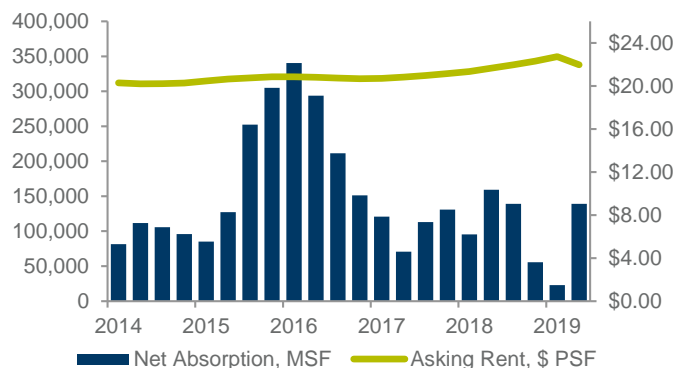
Market Indicators (Overall, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Vacancy	9.3%	9.3%	▼
YTD Net Absorption (sf)**	202k	86k	▼
Under Construction (sf)	716k	278k	■
Average Asking Rent*	\$22.36	\$23.33	▲

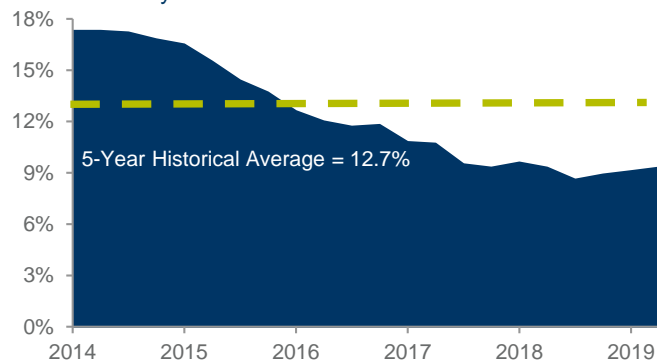
*Rental rates reflect gross asking \$psf/year **Overall absorption is not reflective of US Overview

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Orlando metro area continued to rank at the top of all major Florida markets in terms of job growth and lowest levels of unemployment. The unemployment rate hit 2.9% falling 20 basis points (bps) year-over-year (YOY), on the addition of 40,600 jobs.

The job growth rate of 3.1% was 60 bps above the statewide rate. Office landlords benefited from steady employment gains in office using sectors, which had a positive impact on demand, especially in Professional & Business Services which accounted for 36.2%, or 14,700 new jobs over the last 12 months.

Market Overview

Overall office vacancy fluctuated over the past four quarters on several large tenant move ins and move outs with the vacancy rate stable in the second quarter at 9.3%, no change YOY. Most movement in the region was organic shifts by tenants that gravitated towards new and upgraded buildings in several submarkets.

Vacancy inched higher in the CBD as over 70,000 square feet (sf) of space became vacant during the quarter, pushing the vacancy rate up 110 bps YOY to 9.8%. In the Tourist Corridor, new available space added to the market increased overall vacancy by 30 bps from one year ago to 7.2%. For Class A space, there was a slight uptick in vacancy to 7.7%, or 40 bps, over the same period. Class B overall vacancy in Orlando declined to 11.2%, a drop of 30 bps YOY with +128,000 sf of space taken off the market. Class C overall vacancy in the market declined to 11.9%, a drop of 150 bps YOY.

Despite the upward tick this quarter in office vacancy, tenant demand for space remained healthy resulting in 1.2 million square feet (msf) of space leased year-to-date (YTD). Leasing activity predominantly focused on Class A assets which represented approximately 54% of all market activity. The CBD and the Tourist Corridor submarkets had the majority of leasing activity with 244,000 and 295,000 sf, respectively. Overall absorption moved into positive territory as tenants began to backfill vacant space. YTD the metro region absorbed over +85,000 sf of space.

Sales activity remained steady with investor sales totaling 1.2 msf YTD. Buyers were eager to acquire properties with strong fundamentals in a tightening market. The heightened transactional environment served as a catalyst to drive further investment activity.

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Overall rents were 4.3% higher in the last 12 months to \$23.33 per square foot (psf), full service. The two submarkets with the highest rents also led in rental rate growth YOY. Rents in Airport/Lake Nona increased 8.4% to \$31.40 psf with Class A product up by 6.9%, to \$31.66 psf, the highest growth rate YOY for a submarket.

CBD rents rose by 7.4% YOY to \$27.79 psf with Class A space posting a notable gain of 5.7% to \$28.20 psf as landlord confidence elevated rates in an effort to offset rising occupancy and build-out costs. The University/Research Park submarket had rents of \$22.58 psf, a 6.6% increase from the same time last year. For the overall market, Class A inventory and lower vacancy drove rental rates greater by 11.4% since year-end 2014.

Two speculative projects were under construction and set to deliver by yearend. The largest office construction project was the SunTrust Plaza, located in the CBD where preleasing was extremely strong and allowed the developer to raise asking rents on the remaining available space to \$40.00 psf. There was one 125,000 sf build-to-suit building that delivered during the second quarter in the Tourist Corridor submarket.

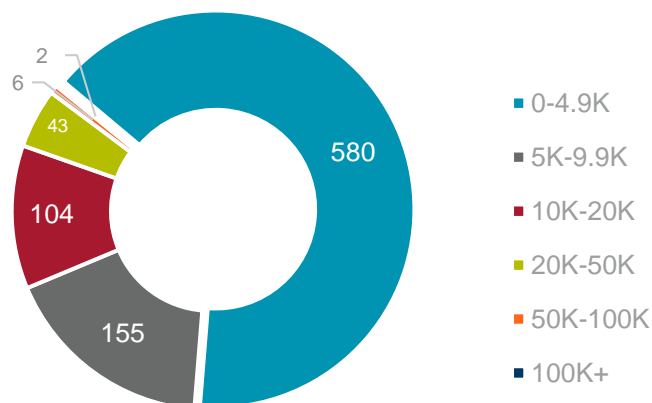
As tenants evaluated space utilization, over 195,000 sf of sublease space hit the market in the second quarter, up 47.1% over the same time last year.

Cushman & Wakefield anticipates tenant demand will continue to put downward pressure on vacancy rates which will drive ongoing rent growth in the near-term. Additionally, the diminishing supply of available space in core submarkets has resulted in a number of potential new office developments that could add several hundred thousand square feet to Orlando's office inventory over the next several years.

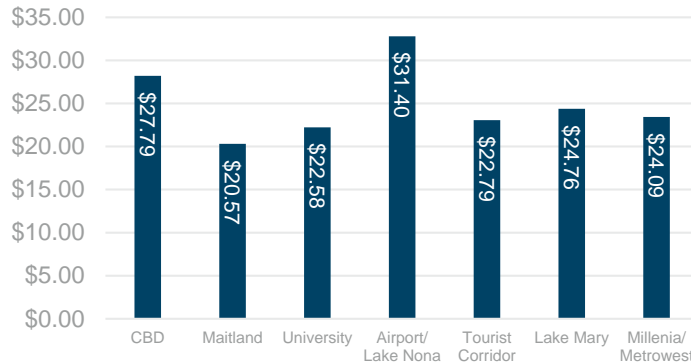
Market Highlights

- Orlando tourism industry had an economic impact of more than \$60 billion dollars over the last year.
- Office leasing activity remained on an upward trend as the influx of tenants touring the market remained consistent.
- Strong office fundamentals attracted both corporate users and investment management firms.

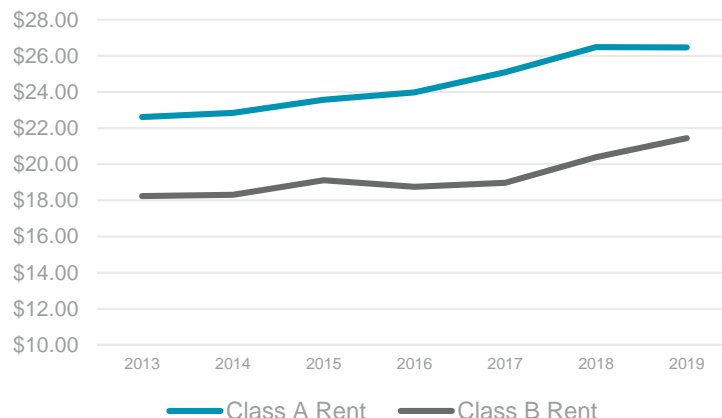
Availability by Size Segment
OVERALL VACANCIES IN ONE SUITE



Full Service Asking Rents by Submarket



CLASS A & B Asking Rent Trend



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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET ABSORPTION (SF)***	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)	OVERALL AVERAGE ASKING RENT (CLASS A)*
CBD	7,231,949	43,033	662,529	9.8%	49,540	-32,179	244,409	217,000	\$27.79	\$28.20
Maitland	5,666,900	30,086	514,990	9.6%	-36,012	-32,930	194,059	0	\$20.57	\$22.19
Altamonte	1,537,256	0	251,371	16.4%	-55,715	-85,311	25,735	0	\$16.84	\$21.34
Longwood	677,469	0	141,324	20.9%	-31,116	-36,843	15,156	0	\$19.51	\$0.00
Lee Road	887,897	0	61,867	7.0%	6,494	8,002	21,759	0	\$21.38	\$0.00
University	3,703,020	10,962	257,501	7.2%	-91	50,066	128,313	0	\$22.58	\$26.87
436 Corridor	1,890,613	0	148,561	7.9%	13,125	33,707	60,985	0	\$17.85	\$0.00
Winter Park	1,380,311	14,186	81,313	6.9%	2,860	3,315	25,251	26,716	\$24.06	\$28.03
Airport/Lake Nona	1,217,382	3,687	160,553	13.5%	27,290	18,121	31,165	34,097	\$31.40	\$31.66
Tourist Corridor	5,901,724	24,169	400,334	7.2%	218,854	253,086	295,029	0	\$22.79	\$26.02
Lake Mary	4,552,843	48,714	430,516	10.5%	-2,974	-80,641	75,999	0	\$24.76	\$26.27
Millenia/Metrowest	2,063,259	14,120	113,446	6.2%	19,493	-12,771	56,592	0	\$24.09	\$25.61
Suburban	29,478,674	145,924	2,561,776	9.2%	162,208	117,801	930,043	60,813	\$22.09	\$25.73
ORLANDO TOTALS	36,710,623	188,957	3,224,305	9.3%	211,748	85,622	1,174,452	277,813	\$23.33	\$26.47

*Rental rates reflect gross asking \$psf/year

**Does not include renewals

***Overall absorption is not reflective of US Overview

CLASSES	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	YTD CNSTR COMPLETIONS YTD	OVERALL AVERAGE ASKING RENT
Class A	20,248,258	168,845	1,390,029	7.7%	76,426	-55,904	634,947	277,813	125,000	\$26.47
Class B	14,043,034	18,907	1,548,672	11.2%	97,964	128,949	527,614	0	0	\$21.44
Class C	2,419,331	1,205	285,604	11.9%	37,358	12,577	11,891	0	0	\$18.18

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
9205 SouthPark Center Loop	136,709	Lockheed Martin	New Lease	Tourist Corridor
200 South Orange Ave	71,105	WeWork	New Lease	CBD
501 W Church Street	15,000	AssistRX Holdings	New Lease	CBD

*Renewal – Not included in Leasing Activity Statistics.

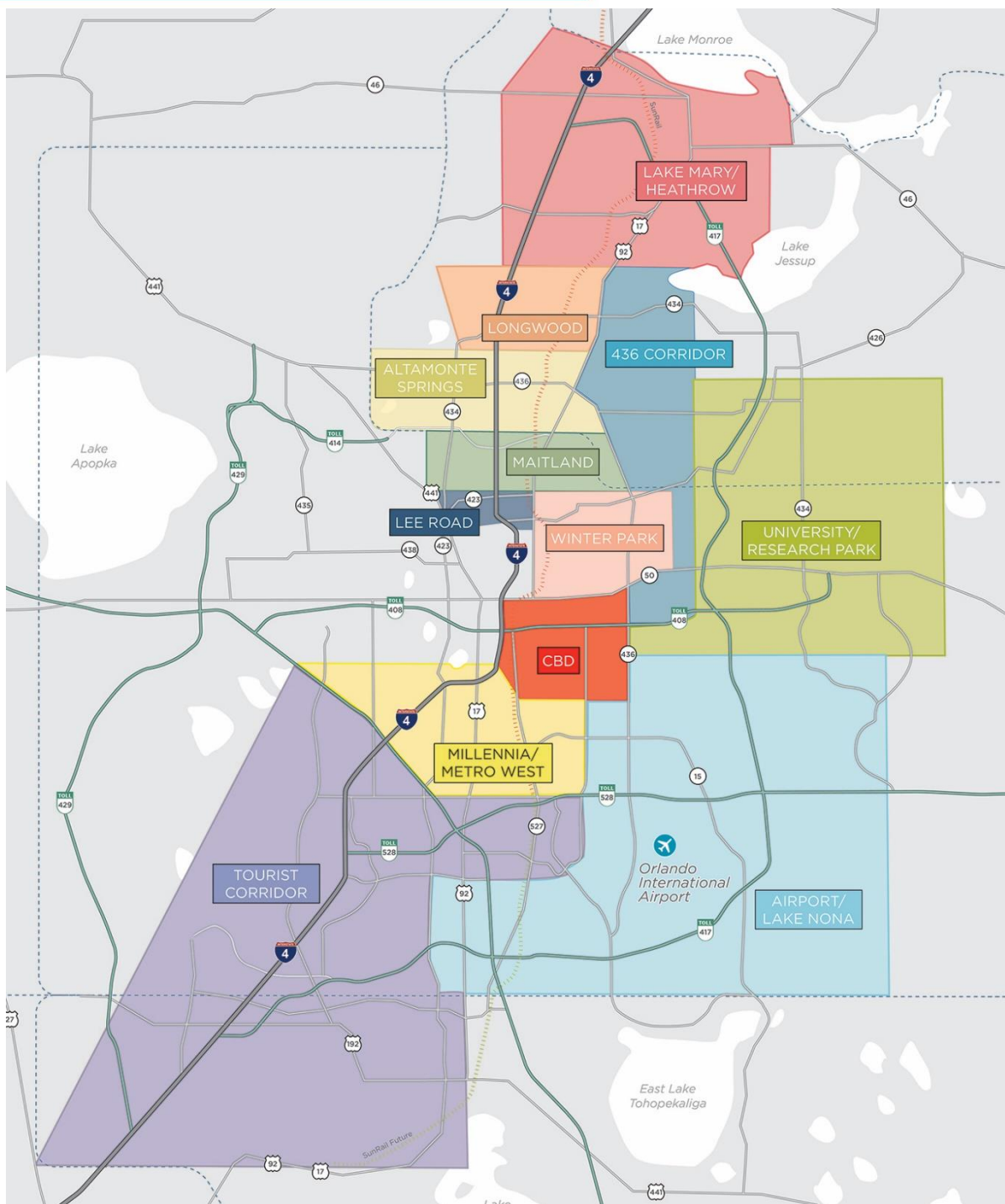
Key Sales Transactions Q2 2019

PROPERTY	SF	BUYER	PRICE / \$PSF	SUBMARKET
11842 Corporate Boulevard	226,548	Real Capital Solutions	\$53,750,000/ \$237	University/Research Park
3210 Lake Emma Road	92,127	Exeter Property Group	\$15,000,000/ \$163	Lake Mary/Heathrow
950 S Winter Park Drive	42,098	Realty Capital	\$4,250,000/ \$93	436 Corridor/Casselberry

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