

MARKETBEAT

Orlando Office Q1 2019



ORLANDO OFFICE

Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
Orlando Employment	1.28M	1.33M	▲
Orlando Unemployment	3.4%	3.0%	■
U.S. Unemployment	4.1%	3.8%	▼

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

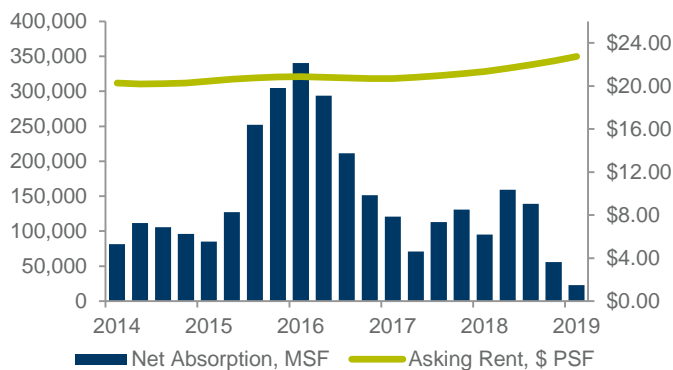
Market Indicators (Overall, All Classes)

	Q1 18	Q1 19	12-Month Forecast
Vacancy	9.5%	9.1%	▼
YTD Net Absorption (sf)	-102k	-233k	▼
Under Construction (sf)	891k	369k	■
Average Asking Rent*	\$21.57	\$23.22	▲

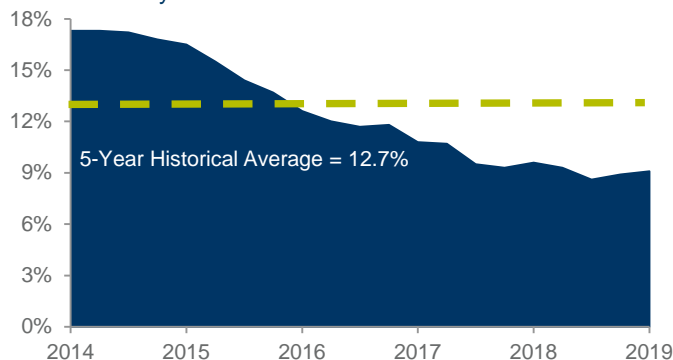
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Orlando metro area job growth of 3.9% over doubled the growth of the nation which was 1.7%. For the fourth-consecutive year, the region led in job creation in the state, generating 49,800 new jobs year-over-year (YOY) and pushing the unemployment rate to 3.2%, down 40 basis points (bps) in 12-months. Office landlords benefited from steady employment gains, which had a positive impact on office demand, especially in professional and business services which accounted for 42.2% of all job created and had the fastest annual job growth rate in the state.

Market Overview

The overall vacancy rate fell to 9.1%, down 50 bps from last year on sharp declines in Class B assets. The Tourist Corridor, the largest submarket in the region, had overall vacancy drop 140 bps, leaving less than 500,000 square feet (sf) of available space in the submarket. In the CBD, vacancy fell 40 bps to 7.1% YOY, as tenants from the legal, finance, tech, and engineering sectors took space. Vacancy in Class A space increased slightly to 7.5%, predominantly from new availabilities in suburban submarkets. One exception was Class A space vacancy in the Tourist Corridor declined to 6.8%, a 180 bps decrease over the same time last year with 66,024 sf of space being absorbed during the first quarter.

Large contiguous and unencumbered blocks of vacant space remained scarce in the market with only three spaces over 50,000 sf available in Lake Mary and/or the Tourist Corridor. The bulk of large leases signed during the quarter occurred in the Lake Mary submarket which has a greater stock of newer inventory and higher parking ratios than surrounding submarkets. Overall leasing activity remained steady with over 423,000 sf of space leased year-to-date. Leasing activity rose 6.0% in the Maitland submarket with almost 62,000 sf of space leased during the quarter. Space continued to dwindle in the Orlando CBD, with approximately 26,000 sf of space leased during the quarter, leaving less than 500,000 sf of available space in the submarket.

Rental rates rose across most of the metro area as high occupancies continued to push up rates. Overall rents were up 7.6% in the last 12-months to \$23.22 per square foot (psf). Lake Mary submarket rents rose to \$24.37 psf, a 16.0% increase from the same time last year on available space from new construction priced at the top of the market. Asking rental rates for Class A were \$27.15 psf during the quarter, up 7.5% YOY, and an increase of 8.7% over a 10-year span. The highest asking rents for Class A product in the Orlando metro area were in Airport/Lake Nona, where rents increased to \$32.79 psf.

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The tightness of the market, positive near-term economic outlook and growth in rental rates pushed several developers to propose new projects ready to break ground during 2019. One build-to-suit and two speculative projects are already under construction, all to be delivered this year. The largest office construction project were the SunTrust Plaza, located in the CBD where preleasing was extremely active which allowed the developer to raise the asking rent on the available space to \$40.00 psf.

Confidence in the market attracted new investors and continued institutional interest on stabilized suburban office assets. Investor's year-to-date sales volume increased 85.2% from same period last year as the growing labor force, attractive corporate setting and positive market fundamentals continued to draw investors to the Orlando area. Investment sales volume during the quarter was over 900,000 sf of space. The heightened transactional environment served as a catalyst to drive further investment activity.

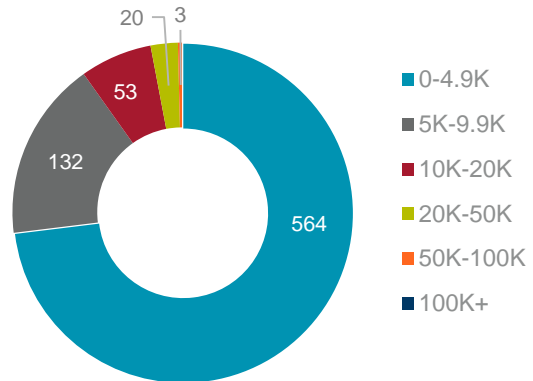
The tight labor market showed that the region remained a job generator and increasingly benefits from a strong net migration of new residents.

Orlando's metro region was undoubtedly an attractive option due to the completion of several new developments that service a wide variety of industries. The CBD submarket continued to stimulate interest and demand from existing and new-to-market tenants. The upcoming completion of the University of Central Florida's Downtown campus has the potential to bring over 7,000 students to the area each day. Along with the Orlando Sports & Entertainment District, a mixed-use project adjacent to the Amway Center, Orlando's CBD has in place factors to promote further growth in the office sector. Cushman & Wakefield forecasts growth in office market occupancies on strengthening tenant demand which will feed into rental rate gains in both Class A and B assets.

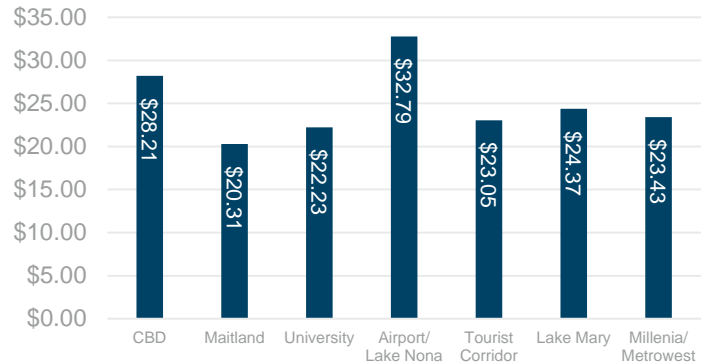
Market Highlights

- CBD rental rates for Class A space hit historic high of \$29.25 psf.
- Forbes ranks Orlando as one of the top 3 cities in the U.S. for future job growth.
- Avalon Business Center proposed a 38,000 sf office building to start construction in the second quarter.

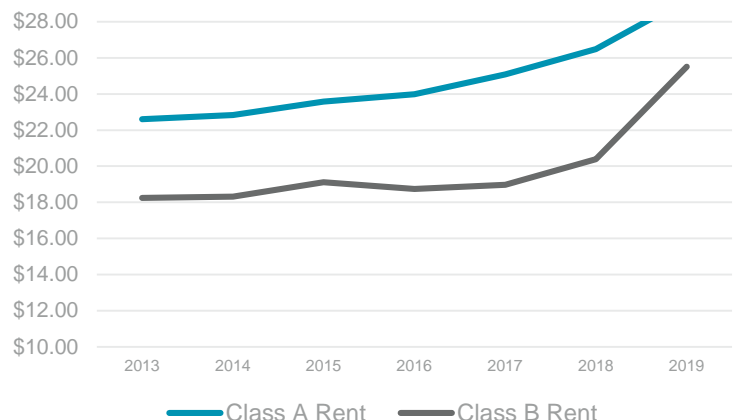
Availability by Size Segment
OVERALL VACANCIES IN ONE SUITE



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	23,649	487,526	7.1%	-85,678	-85,678	25,673	217,000	\$28.16	\$29.25
Maitland	5,666,900	16,543	497,034	9.1%	-11,984	-11,984	118,882	0	\$20.31	\$22.52
Altamonte	1,532,942	0	166,679	10.9%	-28,345	-28,345	11,371	0	\$16.82	\$21.43
Longwood	677,469	0	112,216	16.6%	-7,735	-7,735	12,541	0	\$19.78	\$0.00
Lee Road	887,897	0	82,337	9.3%	-12,468	-12,468	9,773	0	\$21.14	\$0.00
University	3,700,921	56,952	267,771	8.8%	15,606	15,606	57,828	0	\$22.23	\$26.30
436 Corridor	1,890,613	0	197,781	10.5%	12,922	12,922	16,186	0	\$17.72	\$0.00
Winter Park	1,380,311	20,977	78,203	7.2%	455	455	17,950	26,716	\$24.88	\$26.21
Airport/Lake Nona	1,217,382	1,243	192,752	15.9%	-9,589	-9,589	31,165	0	\$32.79	\$32.98
Tourist Corridor	5,776,724	30,584	472,435	8.7%	30,545	30,545	22,652	125,028	\$23.05	\$26.50
Lake Mary	4,552,843	50,290	425,032	10.4%	-89,708	-89,708	61,652	0	\$24.37	\$26.17
Millenia/Metrowest	2,063,259	11,456	140,726	7.4%	-47,325	-47,325	37,511	0	\$23.43	\$24.51
Suburban	29,347,261	188,045	2,632,966	9.6%	-147,626	-147,626	397,511	151,744	\$22.32	\$26.41
ORLANDO TOTALS	36,579,210	211,694	3,120,492	9.1%	-233,304	-233,304	423,184	368,744	\$23.22	\$27.15

*Rental rates reflect gross asking \$psf/year
**Does not include renewals

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	20,124,094	143,105	1,363,744	7.5%	-166,940	-166,940	194,544	368,744	0	\$27.15
Class B	14,040,099	63,974	1,494,902	11.1%	-36,282	-36,282	220,701	0	0	\$20.51
Class C	2,415,017	4,615	261,846	11.0%	-30,082	-30,082	7,939	0	0	\$18.64

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
7141 South Kirkman Road	100,500	Disney	New Lease	Tourist Corridor
1001 Heathrow Park	59,000	Deloitte LLP	Renewal	Lake Mary
2600 Lucien Way	49,543	Adventist Health Care System	New Lease	Maitland

*Renewal – Not included in Leasing Activity Statistics.

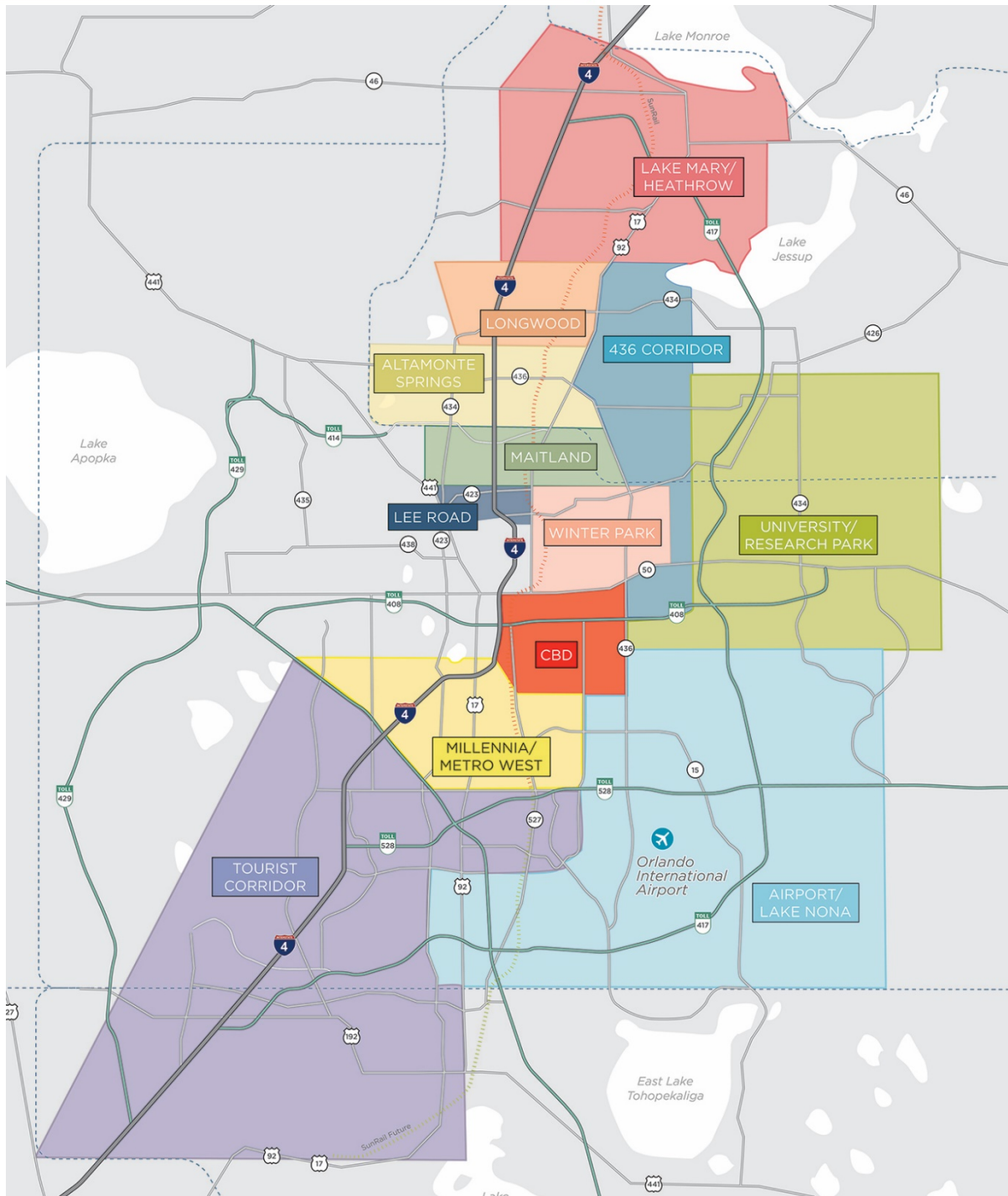
Key Sales Transactions Q1 2019

PROPERTY	SF	BUYER	PRICE / \$PSF	SUBMARKET
485 N Keller Road	229,837	KBS Realty Advisors	\$48,500,000/ \$211	Maitland
3 Property Portfolio	196,835	Jefferson River Capital LLC	\$33,500,000/ \$170	Maitland

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Cushman & Wakefield of Florida, LLC
20 N Orange. Ste. 300
Orlando, FL 32801

For more information, contact:
Valerie Tatum
Senior Analyst
Tel: +1 954 377 0492
valerie.tatum@cushwake.com

Chris Owen
Director, Florida Research
Tel: +1 407 541 4417
chris.owen@cushwake.com

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