

MARKETBEAT

Orlando

Office Q3 2019



ORLANDO OFFICE

Economic Indicators

	Q3 18	Q3 19	12-Month Forecast
Orlando Employment	1.29M	1.34M	▲
Orlando Unemployment	3.4%	3.3%	■
U.S. Unemployment	3.8%	3.7%	▲

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

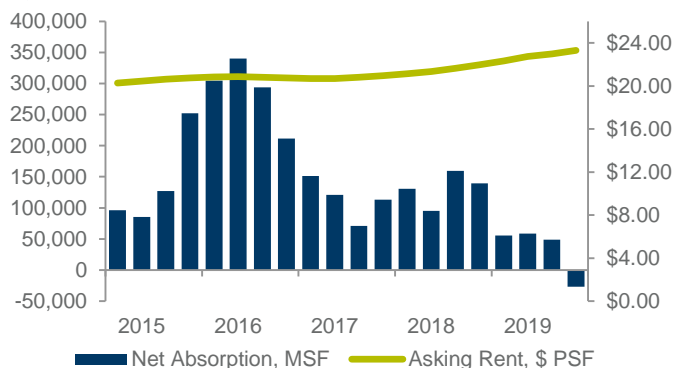
Market Indicators (Overall, All Classes)

	Q3 18	Q3 19	12-Month Forecast
Vacancy	8.6%	9.3%	▼
YTD Net Absorption (sf)**	391k	62k	▼
Under Construction (sf)	471k	387k	▲
Average Asking Rent*	\$22.46	\$23.80	▲

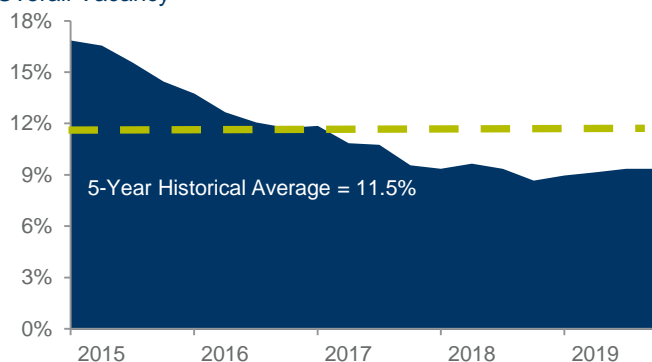
*Rental rates reflect gross asking \$psf/year **Overall absorption is not reflective of US Overview

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Over the last year the Orlando metro area unemployment rate hit 3.3% falling 10 basis points (bps) year-over-year (YOY), on the addition of 43,773 jobs, for an impressive job growth rate of 3.9%. 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 20,800 jobs, the highest annual job growth compared to all Florida metros. Population and job growth were forecasted to propel expansion in the region for the long term.

Market Overview

Tenant demand for space remained healthy in the Orlando market, resulting in approximately 500,000 square feet (sf) of space leased each quarter year-to-date (YTD). Leasing activity for Class A assets represented 50% of activity, with the bulk of leasing in the CBD submarket where businesses sought space to capitalize on the increasing density of young talent. That did not necessarily rule out suburban submarkets as some of the urban amenities (walkability/amenities/residential) can be found outside the CBD. The suburban submarkets of Maitland and the Tourist Corridor accounted for 30% of space leased YTD.

Office market demand showed a slight increase in the overall vacancy rate to 9.3%, up 70 basis points (bps) when compared to this time last year. In the span of five years the vacancy rate has fallen by 790 bps which represents 3.5 million square feet (msf) of vacant space absorbed by tenants. 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 30,000 sf of space became vacant during the quarter, pushing the vacancy rate up 410 bps YOY to 10.9%. In the Maitland submarket, new available space increased overall vacancy by 50 bps from one year ago to 9.8%. Notably, the Millenia submarket had a decrease in year-over-year vacancy of 660 bps to 6.6%, a low not seen for the market since third quarter of 2007.

For Class A space, there was a slight uptick in vacancy to 7.7%, or 90 bps, over the same period. Class B overall vacancy in Orlando increased slightly to 11.3%, a drop of 10 bps YOY with -90,000 sf of space added to the market. Class C overall vacancy in the market increased to 11.5%, an increase of 220 bps YOY.

Despite the upward tick this quarter in office vacancy, investors made direct acquisitions of 1.6 msf YTD. Buyers were eager to acquire properties with strong fundamentals in core submarkets. The heightened transactional environment served as a catalyst to drive further investment activity. Over 1.2 msf of Class A assets traded hands during the first three-quarters of the year. Class B space accounted for 51% of overall investor sales in the market.

The two submarkets with the highest investor sales were The University/Research Park submarket where investment sales totaled 840,000 sf, and over 750,000 sf of space traded hands in the Maitland submarket. This heightened activity resulted in owners increasing rental rates for their desired returns.

Asking rates continued their upward momentum in response to ongoing demand. Overall rents were 6.0% higher in the last 12 months to \$23.80 psf, full service. Class A rents posted a 2.7% increase to 26.62 psf. CBD rents rose by 6.3% YOY to \$28.11 psf with Class A space in the submarket posting a notable gain of 3.5% to \$28.30 psf. Advances in rents were projected to continue as new speculative projects complete and add availabilities with higher asking rates.

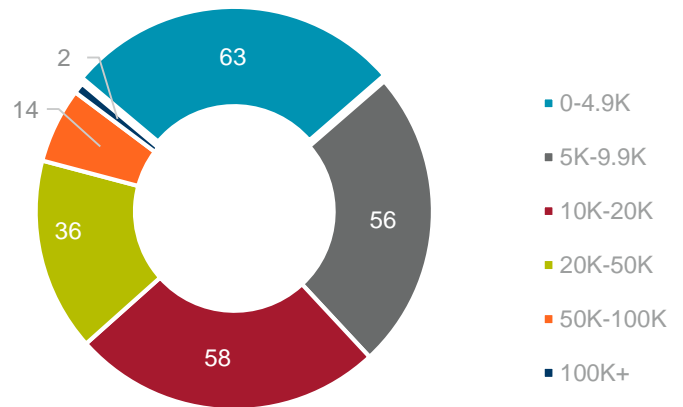
Overall absorption moved into positive territory as tenants began to backfill vacant space. YTD the metro region absorbed over 61,000 sf of space.

Two notable speculative projects in the metro region under construction included SunTrust Plaza, the largest office construction project, located in the CBD and The Edison at Primera, located in the Lake Mary submarket. The two projects will add over 300,000 sf of office inventory to the market.

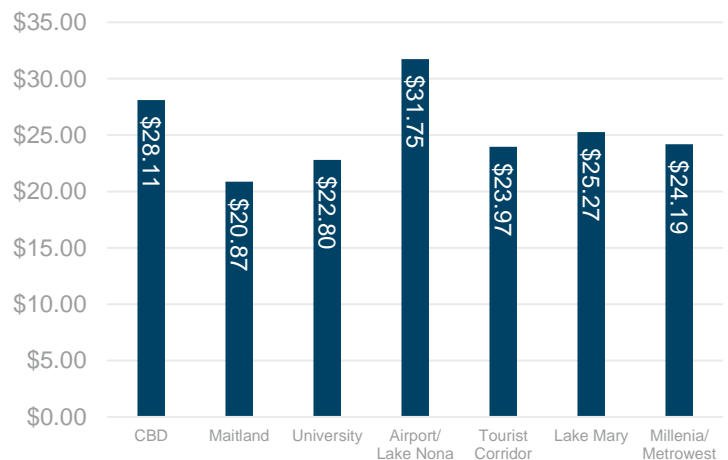
Market Highlights

- University of Central Florida's Downtown campus opened with the potential to bring over 7,000 students to the area each day
- Electronic Arts announced a planned move for its headquarters to a proposed 180,000-square-foot, five-story building in downtown Orlando's Creative Village
- Cushman & Wakefield forecasts growth in office market, especially in the CBD as downtown continues its transformation to a more urbanized submarket

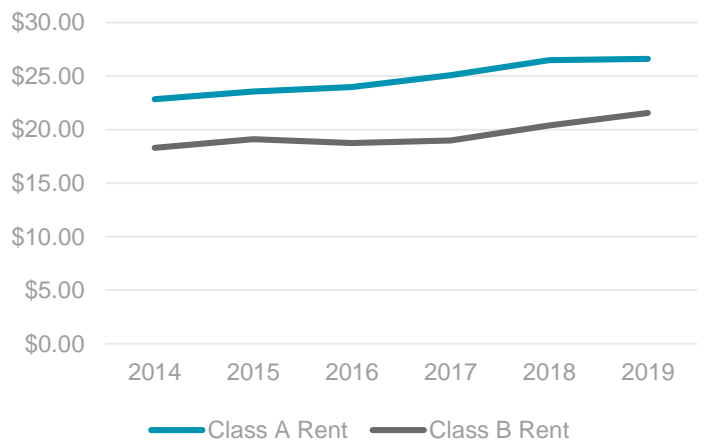
Availability by Size Segment
OVERALL VACANCIES IN ONE SUITE



Full Service Asking Rents by Submarket



CLASS A & B Asking Rent Trend



MARKETBEAT

Orlando Office Q3 2019



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	7,176,894	47,659	732,044	10.9%	-104,577	-98,628	264,225	217,000	\$28.11	\$28.46
Maitland	5,666,900	28,609	524,885	9.8%	-36,735	-56,876	223,843	0	\$20.87	\$22.26
Altamonte	1,537,256	3,248	273,201	18.0%	-45,286	-138,527	39,643	0	\$17.28	\$21.44
Longwood	677,469	0	150,994	22.3%	-14,436	-46,513	17,072	0	\$19.44	N/A
Lee Road	887,897	0	60,367	6.8%	1,500	9,502	26,868	0	\$21.47	N/A
University	3,703,020	14,249	300,410	8.5%	-12,859	46,184	195,960	0	\$22.80	\$26.88
436 Corridor	1,890,613	0	125,436	6.6%	16,255	53,352	111,763	0	\$18.61	N/A
Winter Park	1,380,311	0	87,893	6.4%	-6,580	-3,265	45,263	26,716	\$24.92	\$32.00
Airport/Lake Nona	1,217,382	2,444	120,107	10.1%	37,710	59,810	44,696	34,097	\$31.75	\$31.95
Tourist Corridor	5,901,724	22,773	342,146	6.2%	51,829	311,916	272,699	0	\$23.97	\$26.00
Lake Mary	4,552,843	41,330	414,227	10.0%	14,019	-61,420	123,876	109,600	\$25.27	\$26.38
Millenia/Metrowest	2,063,259	16,937	114,835	6.4%	-12,731	-13,659	145,016	0	\$24.19	\$25.64
Suburban	29,478,674	129,590	2,514,501	9.0%	-7,314	160,504	1,246,699	170,413	\$22.40	\$25.72
ORLANDO TOTALS	36,655,568	177,249	3,246,545	9.3%	-111,891	61,876	1,510,924	387,413	\$23.80	\$26.62

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

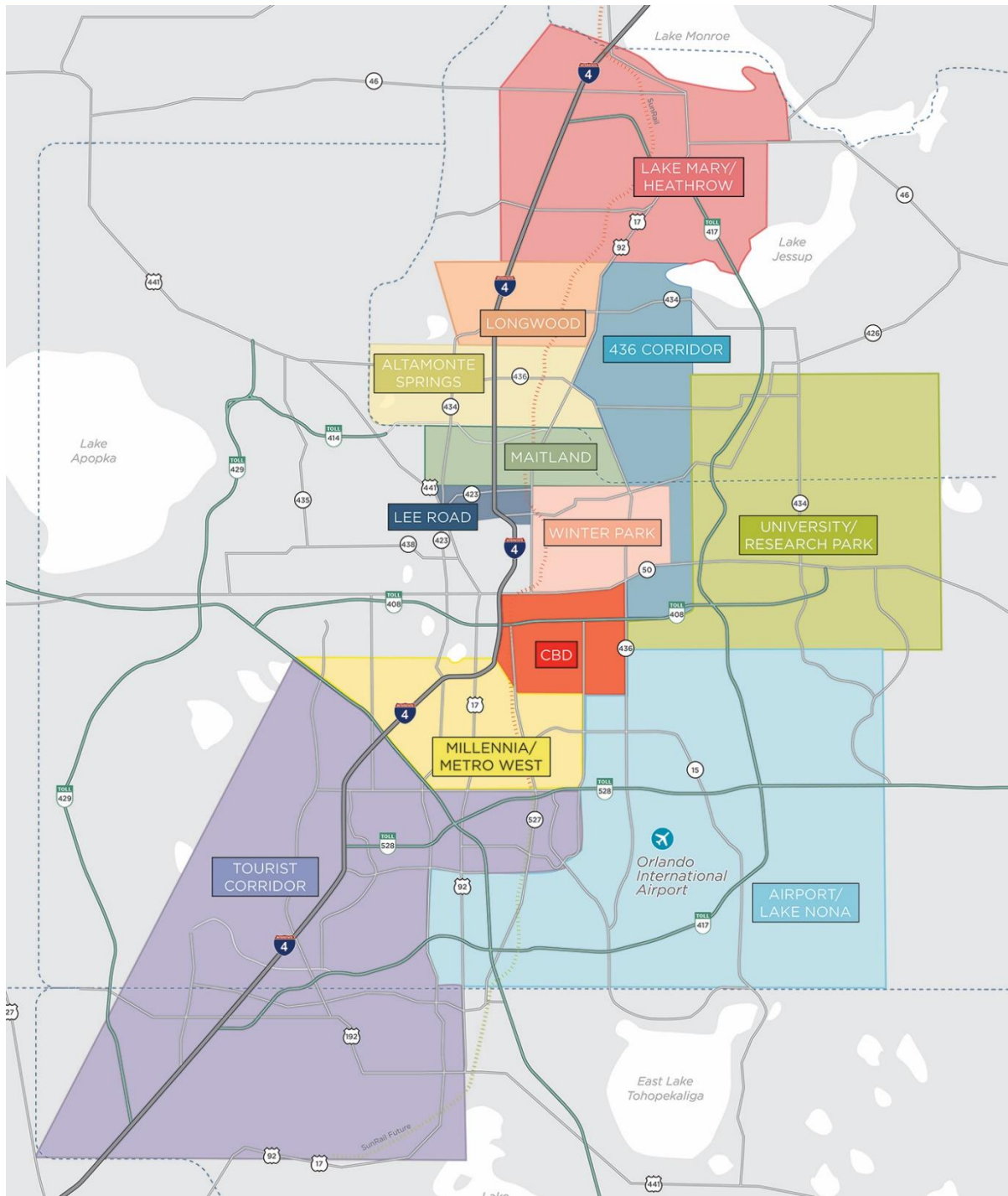
CLASSES	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	YTD CNSTR COMPLETIONS	OVERALL AVERAGE ASKING RENT
Class A	20,248,258	165,354	1,400,455	7.7%	-26,919	-36,724	753,668	387,413	125,000	\$26.62
Class B	13,987,979	11,895	1,568,416	11.3%	-83,749	105,026	659,796	0	0	\$21.55
Class C	2,419,331	0	277,674	11.5%	-1,223	-6,426	97,460	0	0	\$19.84

Key Lease Transactions Q3 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1060 Sand Pond Road	52,995	Confidential	New Lease	Lake Mary
3862 Quadrangle Boulevard	40,383	Cubic Engineering	New Lease	CBD
5900 Lake Ellenor Drive	16,766	Further	New Lease	Tourist Corridor

Key Sales Transactions Q3 2019

PROPERTY	SF	BUYER	PRICE / \$PSF	SUBMARKET
4901 Vineland Road	157,291	Warmack Investments	\$38,250,000/\$243	Millenia/Metrowest



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