

Orlando's industrial market has been expanding at a rapid pace, driven largely by population growth. Vacancy is compressed at 3.8% as of Q3-23 and has remained flat over the past year thanks to a strong pace of leasing and is well below the national average of 5.1%. That will soon change, however, as the looming delivery of more than 4 million SF in Q4-23 will push vacancy north to around 5% by the end of the year.

Industrial demand has rebounded after a disappointing start to the year but is projected to fall short of new supply added during the year by approximately 50%. Many developers are increasingly pivoting back to planning buildings between 100,000 SF and 200,000 SF in size, which historically has been the bulk of leasing interest in Central Florida. There is also strong tenant appetite for buildings between 20,000 SF and 50,000 SF, however that segment of the market is the tightest in terms of vacancy, and most of the larger properties underway will not be demised to accommodate smaller deals.

There is a clear downward trend in the total number of deals being completed, as well as the average lease size. In the last 12 months ending with September 2023, the number of total deals is down nearly 10%, and total leasing volume is down by a more substantial 25%. Changing tenant needs have also led to a downshift in the average lease size, which has declined by nearly 20%.

Industrial rent growth has begun to moderate after peaking at an annual pace of more than 16% during Q2-23, and a continued deceleration is expected through the end of 2024. The pace of growth is now 13.9%, well ahead of the US average of 7.0%, and is expected to land in the mid-7% range by the end of 2024 as the 10.4 million SF currently under construction comes to market. In the meantime, the combination of a very tight vacancy rate and a healthy pace of tenant demand is keeping rent growth solid.

Leasing interest in spaces 25,000 SF and smaller is very brisk, and therefore little to no concessions are being offered. There is a pocket of weakness that exists in larger buildings 500,000 SF and greater in size given lessened demand for large blocks of distribution space, and landlords for those projects will increasingly be forced to reconsider their willingness to drop their rates. That said, strong demand persists for buildings up to 100,000 SF, and therefore rent growth in this range is likely to remain healthy in the near term.

Roughly 5.2 million SF of new space has delivered over the past year, with another 10.4 million SF currently under construction. There is more space set to deliver in 2023 than at any other time in the preceding decade. Despite the elevated construction activity, net absorption has kept pace with new deliveries for the most part, although that is forecast to change by 2024.

Pricing for Orlando industrial assets has remained elevated for several years, but the investment environment has changed dramatically in recent months. The Federal Reserve ("Fed") raised interest rates several times this year and debt has become much more expensive. While there is still capital available, it is coming primarily from private investors. However, a growing number of investors are having trouble getting deals to add up as rising cap rates are forcing a downtick in the value of properties. As a result, price discovery has become more of an issue.

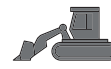
Given the economic headwinds facing investors, many are likely to remain on the sidelines well into 2024. As a result, while investment sales have been strong with \$690 million in sales volume so far in 2023, total investment activity for the year is expected to fall well short of the \$1.9 billion in 2022.

Source: CoStar Property

ORLANDO MSA Industrial Market



Total Industrial Space
196,506,218 SF



Under Construction
10,399,849 SF



18 Industrial Centers
500,000 SF +

Orlando MSA (Orange, Seminole, Lake & Polk Counties) | Source: CoStar Property

Quarterly Trends



NET ABSORPTION



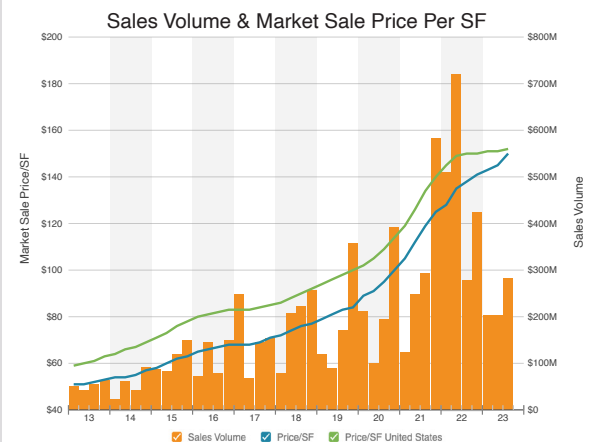
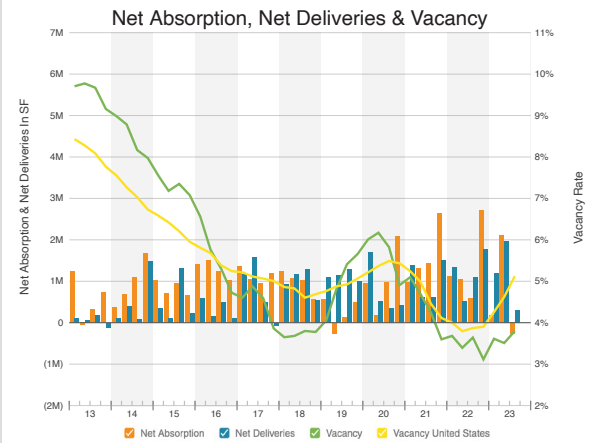
VACANCY RATE



CONSTRUCTION



ASKING RATES



Orlando MSA (Lake, Orange, Osceola & Seminole Counties)

Market	Existing Inventory		Vacancy		12 Month Net Absorption SF	12 Month Delivered SF	Under Const SF	Quoted Rates
	# Bids	Total RBA	Available SF	Vac %				
Lake County	695	12,783,910	422,781	3.6%	590,065	135,767	2,759,322	\$11.00
NE Orange County	150	1,759,802	3,477	0.2%	22,424	0	0	\$17.74
NW Orange County	1,651	44,318,733	2,232,541	6.1%	1,059,574	2,152,216	3,416,631	\$12.79
Osceola County	370	9,587,892	263,594	3.6%	671,785	717,417	1,044,362	\$13.96
SE Orange County	1,600	61,849,090	1,300,682	2.4%	1,412,136	1,222,946	3,015,834	\$13.52
Seminole County	1,585	30,467,876	1,068,967	4.1%	287,673	717,659	163,700	\$14.00
SW Orange County	732	35,738,915	745,592	3.4%	702,079	297,840	0	\$13.46
Totals	6,783	196,506,218	6,037,634	3.8%	4,745,736	5,243,845	10,399,849	\$13.28

Brevard, Polk & Volusia Counties (Adjacent)

Market	Existing Inventory		Vacancy		12 Month Net Absorption SF	12 Month Delivered SF	Under Const SF	Quoted Rates
	# Bids	Total RBA	Available SF	Vac %				
Brevard County	1,522	31,834,703	670,310	2.3%	219,094	116,153	217,186	\$12.61
Polk County	1,799	83,820,129	4,620,086	5.9%	1,283,886	2,769,537	2,202,240	\$8.49
Volusia County	1,700	27,362,340	438,014	5.3%	94,767	1,064,704	1,335,385	\$10.74

United States

Market	Existing Inventory		Vacancy		12 Month Net Absorption SF	12 Month Delivered SF	Under Const SF	Quoted Rates
	# Bids	Total RBA	Available SF	Vac %				
Entire US	477,869	18,609,085,994	811,804,577	5.1%	244,847,792	497,036,160	533,063,200	\$11.74

Period	Asset Value	Vacancy Rate	Market Rent/SF	Annual Rent Growth	Inventory SF	Under Constr SF	Under Constr %	12 Month Net Absorption SF	Market Price/SF	Sales Volume
2023 3q	\$31.1 B	3.8%	\$13.28	14.6%	196.5 M	10.4 M	5.3%	4.7 M	\$121	\$282.7 M
2023 2q	\$30.0 B	3.5%	\$12.88	15.6%	196.2 M	10.0 M	5.1%	5.6 M	\$148	\$203.3 M
2022 1q	\$29.7 B	3.6%	\$12.48	16.3%	194.2 M	9.3 M	4.8%	4.6 M	\$136	\$203.8 M
2022 4q	\$29.2 B	3.1%	\$12.02	15.8%	193.0 M	9.2 M	4.8%	5.5 M	\$147	\$423.8 M

Source: CoStar Property®

