

The Orlando office market has held up relatively well compared to many metros across the country over the last year. Orlando's office market remains relatively resilient despite economic headwinds, with a restrained pace of speculative development and slight compression in the market cap rate. Moving through 2023, the continued downsizing of many tenants combined with a general slowing in anticipated demand is going to lead to a lingering, slow recovery.

Vacancy has increased slightly, currently at 8.7%, following several successive quarters where it hovered in the 8% range. It remains well below the historical high of 14.4% following the last economic downturn as well as the current national vacancy rate of 13.0%. New supply has compounded the issue as Orlando has seen roughly 735,000 SF delivered over the past 12 months with another 1.3 million SF currently under construction.

The shorter-term leases that were signed early on in the pandemic are now beginning to roll over, a primary cause of the negative absorption recorded during Q1-23. Sublet space remains on the heavy side, with Orlando second only to the Tampa area for the total amount of available sublease space in the state of Florida. As of the current quarter, sublease space totals 2.3 million SF and comprises 2.2% of total inventory. Most of it is comprised of larger blocks of space that will take longer to move and is not a reflection of the conditions facing the majority of the market.

Leasing activity is likely to slow through the end of 2024, as many office occupiers continue to evaluate their true space needs, and structural changes impacting workplace occupancies are expected to be a drag on overall vacancy in the year ahead, especially with a looming recession on the horizon. Net absorption of space is projected to decline as office demand tapers once companies establish their long-term work strategies. The impact on office demand became apparent during Q1-23, and net absorption over the trailing year has declined to -299,000 SF as vacancy has grown.

Owner/landlords are showing a willingness to offer concessions and TI packages to close large lease deals. There will be notable pressure on office asking rents over the near term as office occupiers contemplate their future space needs, which could force a deceleration in rent growth rather than a decline in actual rents. Looking ahead, rent growth is expected to decelerate to slightly negative territory by the end of 2023.

Office development activity has taken place throughout the pandemic, although speculative development is occurring at a slower pace than in previous years. There is currently roughly 1.3 million SF of new office underway, much of which is composed of medical office space in pockets of strong population growth throughout the market. Speculative construction has tapered over the preceding two-year period and there is little spec supply underway.

The sales volume so far this year has started off with a whimper, with quarterly sales volume during Q1-23 accounting for less than \$90 million. Looking ahead, many potential buyers are expected to remain on the sidelines throughout 2023 as the Fed remains committed to rising interest rates to tame inflation. As a result, investment volume this year is expected to be very muted.

While there will likely be an uptick in distressed office assets in many US markets in 2023, Orlando has strong owners - particularly in the urban core and therefore fewer such deals are expected here.

Source: CoStar Property

ORLANDO MSA Office Market



Total Office Space
103,584,742 SF



Under Construction
1,264,781 SF



International Companies
150+

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

Quarterly Trends



NET ABSORPTION



VACANCY RATE

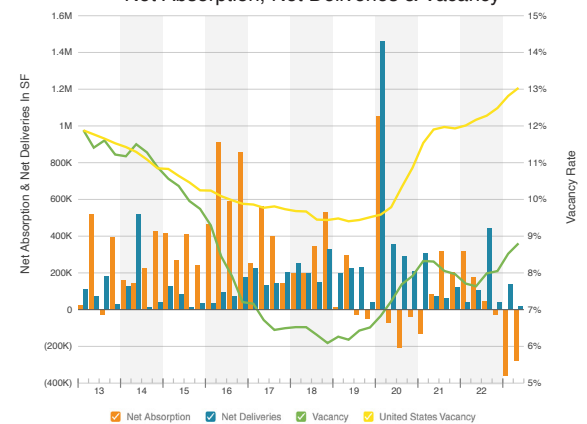


CONSTRUCTION

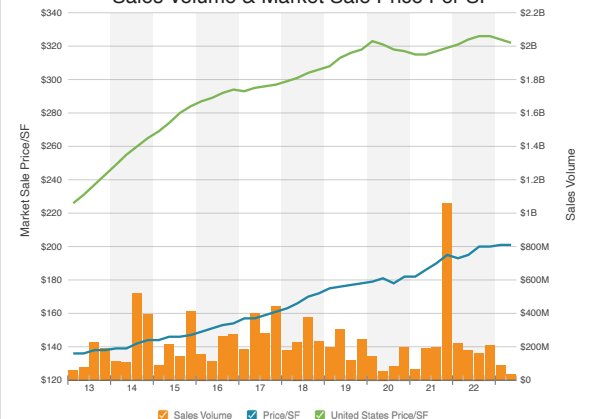


ASKING RATES

Net Absorption, Net Deliveries & Vacancy



Sales Volume & Market Sale Price Per SF



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
	# Blds	Total RBA	Available SF	Vac %				
436 Corridor	630	4,989,818	195,224	5.4%	1,530	0	0	\$25.54
Altamonte/Douglas	459	4,702,856	438,322	10.2%	24,734	0	0	\$22.45
Apopka	122	796,764	22,639	2.8%	11,411	0	0	\$26.48
Casselberry	277	2,071,906	114,353	8.1%	15,741	29,039	0	\$23.39
Downtown Orlando	496	13,205,926	1,429,753	11.4%	(69,758)	0	0	\$29.37
East Seminole Outlying	94	568,126	15,111	2.9%	1,912	8,800	0	\$23.05
Kissimmee	375	3,118,868	115,033	3.8%	12,346	53,000	8,500	\$26.32
Lake County	1,093	5,933,214	308,095	5.3%	(115,849)	8,770	6,000	\$25.83
Lake Mary	296	8,666,654	1,182,146	14.4%	(498,177)	0	218,629	\$26.55
Lee Road	140	1,313,535	71,429	6.0%	7,860	0	0	\$23.00
Longwood	196	1,435,225	167,828	11.7%	(70,720)	0	0	\$21.60
Maitland	97	986,074	38,610	4.9%	(15,295)	0	0	\$23.36
Maitland Center	174	7,916,517	1,070,436	14.3%	(117,549)	(31,340)	0	\$24.47
Metro West	158	2,165,721	156,577	7.3%	(50,127)	0	0	\$26.53
NW Orange Outlying	50	552,443	15,416	3.4%	10,414	0	26,000	\$22.16
Orlando Airport	44	1,232,764	42,046	4.1%	12,915	0	0	\$27.31
Orlando Central Park	188	4,031,032	539,588	13.6%	75,375	0	0	\$23.16
Osceola Outlying	145	2,888,117	98,644	3.4%	64,802	24,280	6,660	\$31.98
Sanford	256	1,503,134	53,352	4.3%	11,486	0	0	\$21.42
SE Orange Outlying	172	4,457,697	312,443	7.2%	99,141	221,927	296,352	\$35.33
South Orange	394	2,594,930	76,254	3.0%	(26,507)	0	54,000	\$30.94
St. Cloud	119	574,350	5,166	0.9%	(2,391)	0	0	\$27.85
SW Orange Outlying	91	1,397,038	48,992	4.4%	71,820	58,088	37,992	\$35.80
Tourist Corridor	240	9,919,135	734,298	7.6%	(89,089)	0	307,320	\$28.58
University	49	2,133,086	330,767	16.8%	13,137	0	0	\$27.83
University Research	49	3,105,861	247,889	8.0%	13,081	0	126,438	\$26.92
W Seminole Outlying	55	370,945	4,759	2.0%	6,600	0	0	\$20.54
West Colonial	600	3,862,930	287,358	8.4%	56,830	50,750	12,800	\$27.65
West University	64	1,079,325	121,955	11.3%	(27,792)	0	0	\$28.43
Winter Park	587	6,010,751	193,476	3.4%	273,328	312,292	164,090	\$32.52
Totals	7,710	103,584,742	8,437,959	8.7%	(298,791)	735,606	1,264,781	\$27.44

CBD	496	13,205,926	1,429,753	11.4%	(69,758)	0	0	\$29.37
Suburban	5,682	67,727,359	4,757,327	7.5%	(159,724)	766,946	1,210,781	\$27.71
Urban	1,532	22,651,457	2,250,879	10.7%	(69,309)	(31,340)	54,000	\$25.49

Brevard, Polk & Volusia Counties (Adjacent)

Market	Existing Inventory		Vacancy		12 Month Net Absorption SF	12 Month Delivered SF	Under Const SF	Quoted Rates
	# Blds	Total RBA	Available SF	Vac %				
Brevard County	1,820	16,743,075	1,100,510	6.8%	(131,214)	20,000	156,895	\$21.29
Polk County	1,712	14,862,804	697,168	4.9%	186,013	158,430	119,148	\$21.39
Volusia County	2,011	14,339,206	603,364	4.3%	96,383	19,670	14,392	\$21.67

United States

Market	Existing Inventory		Vacancy		12 Month Net Absorption SF	12 Month Delivered SF	Under Const SF	Quoted Rates
	# Blds	Total RBA	Available SF	Vac %				
Entire US	347,415	8,367,686,136	973,839,253	12.8%	(26,651,052)	46,457,182	134,521,120	\$35.25

Period	Asset Value	Vacancy Rate	Availability 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 1q	\$21.6 B	8.7%	12.0%	\$27.44	2.8%	103.6 M	1.3 M	1.2%	(298,791)	\$228	\$86.2 M
2022 4q	\$21.5 B	8.1%	11.4%	\$27.40	3.6%	103.4 M	1.4 M	1.4%	525,478	\$216	\$209.3 M
2022 3q	\$21.4 B	8.0%	11.5%	\$27.31	4.9%	103.4 M	1.3 M	1.3%	748,237	\$182	\$162.2 M
2022 2q	\$20.9 B	7.7%	11.0%	\$27.02	6.0%	103.0 M	1.7 M	1.7%	1,018,074	\$161	\$178.8 M