

Orlando's office market has been relatively resilient, but economic headwinds and increasing vacancy due to space give-backs and a declining trend in overall lease size are resulting in a weakening demand. The impact of hybrid work continues to weigh on the market and year over year leasing activity is down.

The vacancy rate has been flat over the last two quarters at 8.6% and remains well below the national vacancy rate of 13.3%. Other than tourism, Orlando's economy is not overexposed to a single industry. The defense, simulation and training, and technology sectors are the most active, partly due to an expansion in aerospace business related to nearby Cape Canaveral. For this reason, Orlando is a little better insulated than many metro areas in the Sun Belt. For now, market conditions remain stable despite the negative absorption recorded so far this year, and vacancy remains in line with the 10-year historical average.

Healthy leasing activity is taking place, but both deal volume and average lease size have been slowly trending downward in recently. Sublet space continues to hover near record levels but Orlando's sublease space has declined by more than 10% in the past year.

Vacancy forecasts range from mid-9% by the end of 2023 to a high of 11% by the end of 2024. Net absorption is projected to remain negative for the next several quarters as leasing activity is likely to continue slowing through the end of 2024. Office occupancies are expected to decline further due to structural shifts and the larger economy going through a period of uncertainty.

Rent growth continues to show improvement with market rents up over the trailing 12-month period to a current \$28.20/SF on a full-service basis. The metro has been significantly outpacing overall US rent growth, which is anemic at 0.7%. The pace of rent growth in Orlando is currently the slowest of Florida's primary office markets and is expected to decelerate to nearly -3% by the end of 2023. Rapidly growing insurance rates are forcing upward movement in building operating expenses, and that increase is reflected in the pace of rent growth. Rent growth is projected to take several quarters before moving back into positive territory in 2025.

Despite an increase in face asking rents, the market still faces uncertainty and owners/landlords continue to show a willingness to offer concessions and TI packages to close large lease deals. Orlando remains a tenant's market and rent abatement on three to five-year deals is commonly being offered at one month per year of lease term and some landlords are dropping annual escalations from 3% to 2.5% on longer-term deals.

Office development activity has taken place over the past three years, although speculative development is occurring at a slower pace and there is little spec supply under construction. There is roughly 1.2 million SF of new office underway, much of which is composed of medical office space in pockets of strong population growth.

The cumulative weight of rising interest rates, a weakening in overall office demand, dwindling returns, and tightening underwriting standards have significantly depressed office investment activity in the past year. YTD office sales volume is down 69.9% from 2022, which was down 48.1% from 2021.

Notably, over the last 12 months, 80% of sales have been by private investors, although they comprise only 39% of the asset ownership in the Orlando market.

Debt has become much more expensive, and many investors are likely to remain on the sidelines into 2024 and so investment volume in the near term is expected to remain muted.

Source: CoStar Property

ORLANDO MSA Office Market



Total Office Space
104,131,932 SF



Under Construction
1,179,347 SF



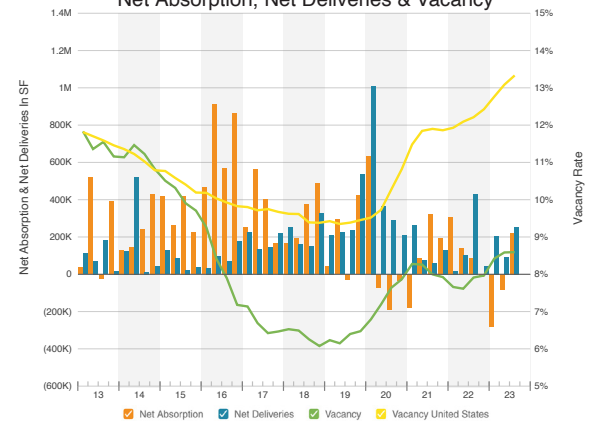
International Companies
150+

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

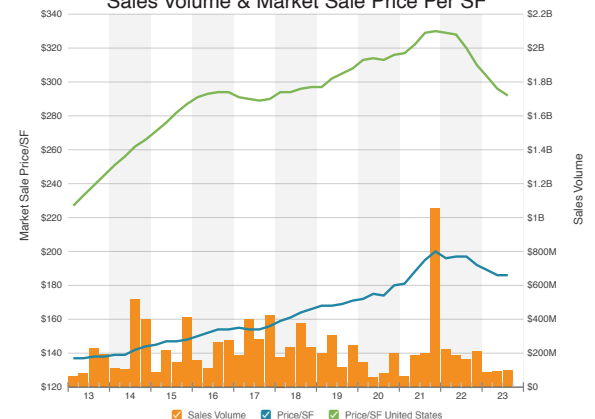
Quarterly Trends



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	632	5,014,892	212,459	5.6%	(63,844)	0	0	\$26.15
Altamonte/Douglas	460	4,745,693	496,489	11.5%	(9,700)	4,200	0	\$22.68
Apopka	121	786,649	14,765	1.9%	11,490	0	24,990	\$27.69
Casselberry	278	2,120,799	90,625	5.9%	57,642	9,830	27,343	\$23.53
Downtown Orlando	496	13,238,525	1,194,650	10.1%	(89,815)	0	0	\$30.11
East Seminole Outlying	94	568,395	12,811	2.3%	6,466	0	0	\$24.01
Kissimmee	384	3,155,018	109,318	3.5%	29,219	52,500	35,422	\$26.85
Lake County	1,112	6,036,677	256,346	4.3%	49,699	26,713	16,000	\$26.59
Lake Mary	298	8,814,922	1,145,752	13.8%	(103,714)	162,629	84,000	\$27.27
Lee Road	141	1,317,526	110,596	8.4%	(19,289)	0	0	\$23.34
Longwood	196	1,436,251	191,521	13.6%	(69,544)	0	0	\$21.49
Maitland	98	991,110	71,608	7.3%	(16,141)	0	0	\$24.36
Maitland Center	176	7,927,149	1,033,977	14.4%	17,745	(31,340)	0	\$24.86
Metro West	158	2,147,288	263,660	12.6%	(176,130)	0	0	\$27.70
NW Orange Outlying	50	552,443	7,675	3.7%	7,423	0	16,000	\$24.40
Orlando Airport	46	1,251,296	62,028	5.0%	(3,589)	0	0	\$28.43
Orlando Central Park	184	3,827,085	541,456	14.6%	(115,868)	0	0	\$24.23
Osceola Outlying	146	2,920,539	107,946	3.7%	11,829	5,000	17,300	\$32.54
Sanford	261	1,537,288	57,053	3.9%	17,492	0	0	\$20.34
SE Orange Outlying	175	4,465,624	294,530	6.8%	98,723	169,785	311,567	\$35.88
South Orange	396	2,561,917	87,328	3.7%	(22,579)	0	54,000	\$31.56
St. Cloud	117	571,477	2,992	0.5%	5,718	0	0	\$27.92
SW Orange Outlying	91	1,431,898	15,332	2.0%	62,912	0	51,992	\$36.23
Tourist Corridor	241	9,916,830	716,160	7.4%	134,951	51,472	303,020	\$29.67
University	49	2,133,255	329,937	15.5%	15,388	0	0	\$29.24
University Research	50	3,174,130	308,008	10.0%	(22,565)	68,703	57,735	\$27.61
W Seminole Outlying	55	372,329	5,418	1.5%	5,546	0	0	\$21.27
West Colonial	605	3,905,832	308,780	8.0%	12,338	0	37,440	\$29.00
West University	65	1,048,167	81,341	7.8%	(3,020)	0	0	\$28.94
Winter Park	585	6,160,928	221,280	3.7%	10,581	76,412	142,538	\$33.89
Totals	7,760	104,131,932	8,351,841	8.6%	(160,636)	595,904	1,179,347	\$28.20

CBD	496	13,238,525	1,194,650	10.1%	(89,815)	0	0	\$30.11
Suburban	5,729	68,437,999	4,880,426	7.5%	114,478	627,244	1,125,347	\$28.47
Urban	1,535	22,455,408	2,276,765	11.0%	(185,299)	(31,340)	54,000	\$26.21

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	1,827	17,249,139	1,170,811	7.1%	(156,026)	27,259	220,520	\$21.89
Polk County	1,736	14,496,316	626,196	4.9%	(103)	16,398	40,000	\$21.73
Volusia County	2,016	14,529,695	506,674	3.6%	188,350	3,415	14,392	\$22.39

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	348,955	8,419,599,231	1,013,004,734	13.3%	(54,554,328)	\$45,214,708	115,201,976	\$35.14

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	\$19.6 B	8.6%	\$28.20	2.4%	104.1 M	1.2 M	1.1%	(160,636) M	\$200	\$98.9 M
2023 2q	\$19.6 B	8.6%	\$28.10	3.7%	103.9 M	1.3 M	1.3%	(294,847) M	\$196	\$92.1 M
2023 1q	\$20.0 B	8.4%	\$27.96	5.1%	103.8 M	1.3 M	1.2%	(68,904) M	\$228	\$86.0 M
2022 4q	\$20.2 B	8.0%	\$27.75	5.4%	103.6 M	1.4 M	1.3%	520,802 M	\$213	\$212.0 M