

Orlando's office market was resilient in 2023; however economic headwinds, space give-backs, and a declining trend in average lease size resulted in negative absorption during the first six months of the year. Demand grew sharply in the second half of the year, with 608,000 SF of absorption taking place during Q4-23; however the surge was short lived and negative to flat demand for office space is expected during 2024.

The current vacancy rate of 8.5% has moved only slightly in the past year but remains well below its historical high of 14.4% following the last economic downturn. Office occupancies are expected to decline further in 2024. One bright spot is that new leases signed over the last year significantly exceed the number of renewals, with more than 60 new deals signed larger than 10,000 SF. Additional space give-backs in the months ahead are a concern and will prevent any meaningful vacancy decline in the near term.

The impact of hybrid work has structurally reduced demand per worker for office space. With companies planning for today's headcount rather than factoring in room to grow, year over year leasing activity is down by approximately 20%.

New supply has had little impact on overall fundamentals. Although Orlando has seen roughly 1.2 million SF deliver over the past 12 months, much of the new space is comprised of office/medical space and there is only 727,333 SF currently underway.

Plenty of leasing activity is taking place, but both deal volume and average lease size have been slowly trending downward in recent quarters. Sublet space remains elevated with sublease space currently totaling 2.1 million SF and comprising 1.9% of total inventory.

Looking ahead, net absorption of office space is projected to remain markedly negative for the next several quarters as leases reach their expiration in a weakening demand environment.

The pace of rent growth has been decelerating since peaking at close to 7% in mid-2022, which is very close to when CPI peaked. Looking ahead, CoStar is projecting it will turn negative by the end of 2024 and stay negative for several quarters until an expected improvement in demand in 2025.

Improving demand is not solely responsible for the modest rise in average rents, however. Rapidly growing insurance rates are forcing upward movement in building operating expenses, and that increase is reflected in the pace of rent growth. Landlords are also hesitant to reduce face rents, opting instead to propose an attractive incentive package. Tenant improvement allowances are also a sticking point in negotiations, as rising construction costs are impacting how much of a contribution a landlord can reasonably make.

The cumulative weight of elevated interest rates, a weakening in overall office-using demand, NOI loss due to higher vacancies, and tightening underwriting standards in the current environment have significantly dampened office investment activity in the past year. Annual sales volume during 2023 was just under \$400 million, which represented a decline of roughly 50% over 2022. Investment activity was driven in part by office/medical acquisitions, which comprised 25% of the year's total deals and more than 30% of its sales volume. Average pricing moved downward as well, declining from an average price of \$2 million in 2022 to \$1.7 million in 2023.

Given the economic headwinds facing investors, many are likely to remain on the sidelines through much of 2024, and therefore investment volume in the near term is expected to remain muted.

Source: CoStar Property

ORLANDO MSA Office Market



Total Office Space
105,319,429 SF



Under Construction
727,333 SF



International Companies
150+

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

Quarterly Trends

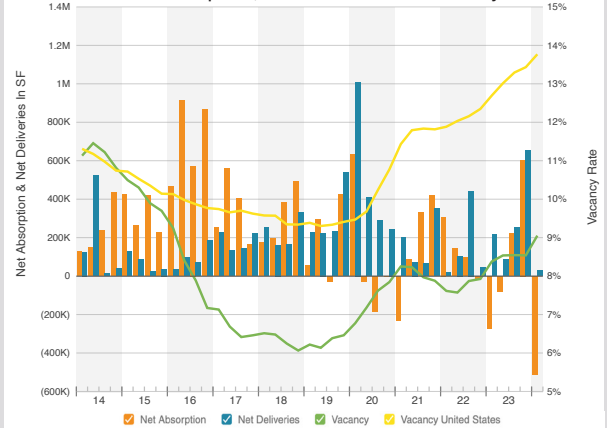
NET ABSORPTION

VACANCY RATE

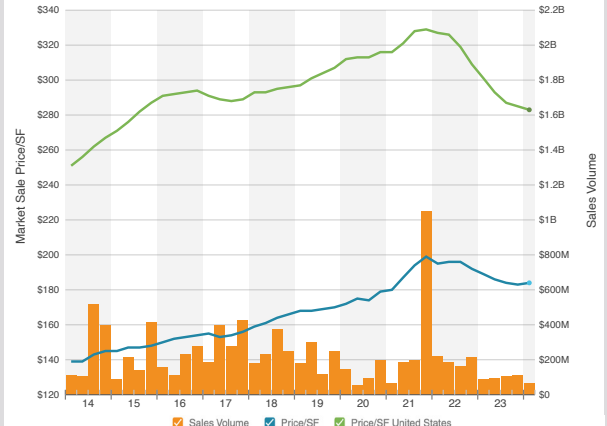
CONSTRUCTION

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	632	5,017,390	173,014	4.4%	5,253	0	0	\$26.92
Altamonte/Douglas	459	4,729,876	444,926	10.2%	19,478	0	4,200	\$23.44
Apopka	121	786,258	16,974	2.2%	4,066	0	29,590	\$28.23
Casselberry	281	2,146,984	87,364	5.8%	43,768	9,830	27,343	\$23.78
Downtown Orlando	497	13,569,393	1,007,737	7.9%	220,374	0	0	\$30.55
East Seminole Outlying	94	570,379	10,226	1.8%	8,651	0	0	\$24.63
Kissimmee	387	3,166,712	127,771	4.1%	(20,957)	8,500	35,422	\$29.12
Lake County	1,120	6,093,049	246,995	4.1%	49,851	25,621	22,160	\$26.38
Lake Mary	298	8,806,380	1,042,751	12.5%	58,336	162,629	28,000	\$26.91
Lee Road	142	1,331,803	109,196	8.3%	(28,175)	0	0	\$24.33
Longwood	196	1,433,393	153,077	10.8%	(15,200)	0	0	\$22.29
Maitland	97	994,884	71,387	7.2%	(21,189)	0	0	\$24.11
Maitland Center	176	7,960,677	1,310,318	17.5%	(285,483)	(31,340)	0	\$25.17
Metro West	158	2,142,104	203,252	11.4%	(106,302)	0	0	\$27.97
NW Orange Outlying	50	552,443	8,705	1.6%	12,867	0	16,000	\$24.48
Orlando Airport	47	1,253,840	66,972	5.3%	(9,776)	0	0	\$28.50
Orlando Central Park	185	3,837,807	403,192	11.6%	74,881	0	0	\$24.30
Osceola Outlying	148	2,983,692	114,272	3.8%	(10,432)	11,660	82,000	\$33.05
Sanford	262	1,538,663	63,112	4.2%	4,633	0	0	\$20.88
SE Orange Outlying	174	4,711,622	553,121	12.2%	91,741	448,702	77,650	\$36.24
South Orange	396	2,565,192	99,580	3.9%	(28,967)	0	166,138	\$31.72
St. Cloud	117	571,477	931	0.2%	6,443	0	0	\$28.73
SW Orange Outlying	90	1,422,938	25,800	1.8%	49,405	0	51,992	\$36.57
Tourist Corridor	244	10,275,131	704,735	7.1%	421,242	358,671	3,500	\$30.17
University	49	2,133,670	368,375	18.5%	(30,120)	0	0	\$28.67
University Research	51	3,237,330	343,402	10.9%	29,251	126,438	0	\$27.56
W Seminole Outlying	55	372,329	11,444	3.1%	(208)	0	0	\$22.07
West Colonial	605	3,913,047	283,975	7.4%	19,613	0	40,800	\$29.52
West University	65	1,048,167	78,391	7.8%	(4,180)	0	0	\$29.37
Winter Park	585	6,152,799	324,768	5.5%	(88,146)	76,412	142,538	\$33.88
Totals	7,781	105,319,429	8,455,763	8.5%	470,718	1,197,123	727,333	\$28.54

CBD	497	13,569,393	1,007,737	7.9%	220,374	0	0	\$30.55
Suburban	5,749	69,240,416	5,022,160	7.6%	535,969	1,228,463	561,195	\$28.82
Urban	1,535	22,509,620	2,425,866	11.6%	(285,625)	(31,340)	166,138	\$26.48

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	1,831	17,306,179	1,194,581	7.0%	(129,179)	37,259	109,000	\$22.09
Polk County	1,737	14,517,941	561,346	4.5%	18	36,398	10,875	\$21.76
Volusia County	2,015	14,576,294	529,409	3.7%	161,886	3,415	74,392	\$23.22

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	349,719	8,437,577,107	1,019,359,363	13.5%	(56,979,564)	40,498,736	103,486,464	\$35.19

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 4q	\$19.5 B	8.5%	\$28.54	2.5%	105.3 M	0.7 M	0.7%	470,718	\$168	\$111.3 M
2023 3q	\$19.6 B	8.5%	\$28.42	3.0%	104.7 M	1.3 M	1.3%	(154,172)	\$208	\$109.5 M
2023 2q	\$19.8 B	8.5%	\$28.27	4.4%	104.4 M	1.4 M	1.3%	(280,994)	\$200	\$91.6 M
2023 1q	\$20.1 B	8.4%	\$28.10	6.0%	104.3 M	1.2 M	1.2%	(61,389)	\$225	\$86.0 M