

MARKET REPORT

OFFICE

Orlando Metro Area

IPA INSTITUTIONAL
PROPERTY
ADVISORS

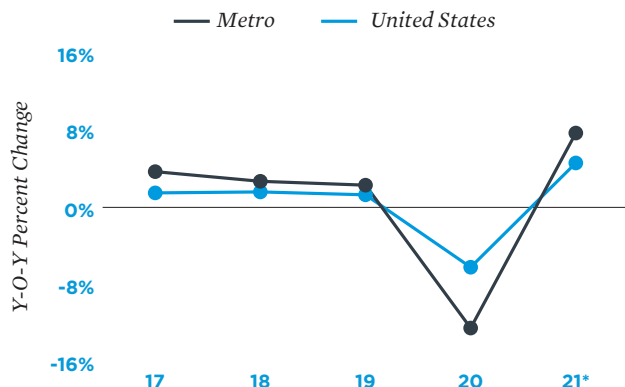
4Q/21

Orlando Office Sector Marks Turning Point as Job Growth Sets Record Pace

Demand turned positive in the second quarter. Uncertainty from the pandemic diminished leasing activity, which prompted over 1.6 million square feet of negative net absorption from July 2020 to March 2021. Vacancy increased 300 basis points during that span. However, Florida reopened its economy sooner than most states, which accelerated job growth in the metro. Office users responded by absorbing approximately 670,000 square feet in the second quarter, contracting metrowide vacancy 60 basis points to 12.9 percent, among the lowest rates in the country. Furthermore, local firms pre-leased more than 1 million square feet during the period, highlighting the optimistic outlook. That momentum is expected to continue throughout the second half, although not enough to entirely offset the rise in availability during the nine-month period ending in March.

Construction pipeline begins to dwindle. Completions will taper in 2021, following the largest supply increase in over a decade last year. Only three projects currently under construction total more than 40,000 square feet. Developers have taken a more disciplined approach, limiting the amount of speculative supply entering the market. As of August, nearly two-thirds of the 413,000 square feet currently underway has a tenant in place. Limited speculative supply additions will aid the office sector recovery as many new buildings will likely require some type of pre-leasing activity before breaking ground.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook



**90,000
JOBS**

will be created

EMPLOYMENT:

Following the loss of 167,200 positions last year, total employment will expand by 7.7 percent in 2021, one of the highest rates in the nation. The metro's traditionally office-using sectors will add 10,000 jobs this year.



**820,000
SQ. FT.**

will be completed

CONSTRUCTION:

Deliveries this year will fall well short of the 2.1 million square feet completed in 2020. Nevertheless, supply additions are close to the trailing-five-year average of 877,000 square feet and will expand the metro's office inventory by 1 percent.



**30
BASIS POINT**

increase in vacancy

VACANCY:

Despite improvement in the second half, vacancy will finish the year up from the 2020 rate. However, the rise in availability will be modest, inching vacancy up to 12.4 percent this year, one the lowest rates in the U.S.



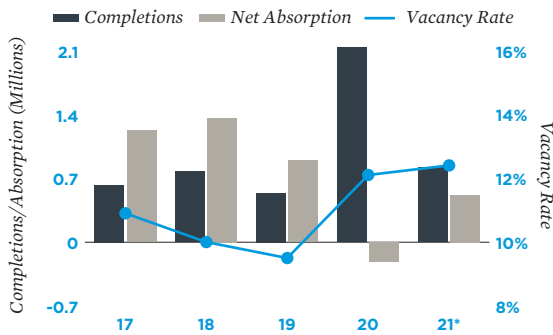
**2.0%
INCREASE**

in asking rent

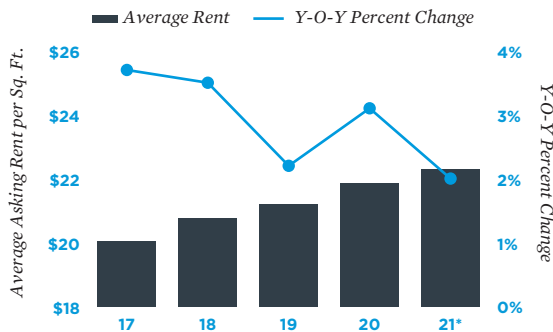
RENT:

Improving office demand will result in the metro's ninth consecutive year of positive annual rent growth. The average effective rent will rise to \$22.30 per square foot by year-end.

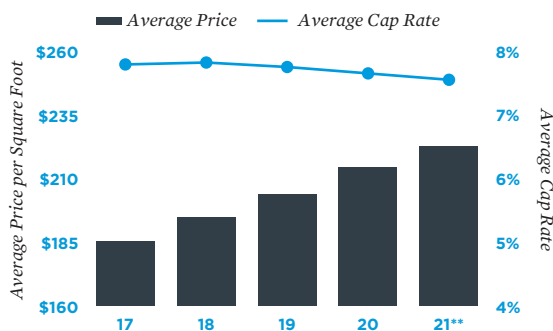
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q
Sources: CoStar Group, Inc.; Real Capital Analytics

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2Q21 – 12-Month Period

CONSTRUCTION
892,000 sq. ft. completed

- Construction activity declined in the metro over the past year ended in June, expanding inventory by 1.1 percent. Developers added 1.9 million square feet during the previous 12-month period.
- Deliveries were concentrated in Orange County, which received over 75 percent of completions over the past four quarters.

VACANCY
220 basis point increase in vacancy Y-O-Y

- The addition of nearly 1.9 million square feet of vacant stock over the past year elevated office availability in Orlando to 12.9 percent.
- Despite being up on an annual basis, Class A availability could be at a turning point. Vacancy in the segment experienced the first substantial quarterly decline since 2019 in June of this year.

RENT
1.4% increase in the average asking rent Y-O-Y

- Despite rising levels of vacancy, the average asking rent increased over the past 12 months to \$22.05 per square foot.
- The average asking rent in Class B/C assets advanced 2.0 percent year over year in June. Asking rents in Class A properties inched up 0.5 percent during that same span.

Investment Highlights

- Sales activity has remained relatively steady over the past four quarters relative to the previous 12-month period, with nearly one-third of all transactions occurring during the second quarter of this year.
- Owners held on to office investments while buyers continued to enter the market, which contributed to elevated pricing during the past year. The average sale price jumped over 6 percent to \$222 per square foot. The metro's average cap rate remains the highest of any major Florida market at 7.5 percent.
- Transaction velocity in medical office properties climbed about 20 percent over the past 12 months, relative to the previous year long span. Assets in this sector traded at a mean price of \$205 per square foot, with first-year returns averaging in the mid-8 percent range.
- Opportunities for investors seeking lower entry costs were present in Seminole County. Office assets here changed hands well below the market average with yields in the low-8 percent band.