INVESTMENT FORECAST

Office

Orlando

IPA | INSTITUTIONAL PROPERTY ADVISORS

2022

Corporate Expansions Underpin Orlando Office Demand as Rent Growth Stimulates Mid-Tier Deal Flow

Limited development coincides with rapid economic growth. Positive net absorption returned to Orlando in the second half of last year, providing an optimistic outlook for office fundamentals entering 2022. Although vacancy increased on a year-over-year basis in 2021, the rate still remains 350 basis points below the national average. Further brightening the metro's outlook, the area's affordability and growing talent pool are enticing business relocations and expansions. Disney, InnovaCare Health and Checkr represent notable employers that recently announced plans to expand their local office footprints. Robust population and employment growth will bolster tenant demand for both traditional and medical office spaces this year, likely resulting in an uptick in leasing activity. Furthermore, developers are moderating the amount of supply entering the market, with only 450,000 square feet of space scheduled to deliver in 2022. This combination will allow for net absorption to outpace supply additions. As a result, vacancy will fall 150 basis points below its long-term average in the coming year.

Class B trades drive investment activity. Steady rent growth throughout the health crisis prompted many investors to return from the sidelines, lifting transaction velocity back to pre-pandemic levels in 2021. Sale prices are surging due to limited listings on the market and buyers shifting their focus to properties with long-term leases in place, compressing the average cap rate to the low 7 percent range. Robust rent growth and higher occupancy rates are stimulating buyer interest for Class B assets in Orange County, particularly in the Tourist Corridor, Downtown Orlando and Orlando Central Park neighborhoods. Yield-driven investors seeking opportunities to upgrade and retenant older buildings are active in Seminole County, especially in the Altamonte-Douglas and Lake Mary submarkets. Properties here are trading with entry costs well below the market average, with first-year returns in the mid-8 percent range.

2022 Market Forecast

Employment up 6.3% — Employment growth exceeds 5.0 percent for the second consecutive year with the addition of 80,000 jobs in 2022.

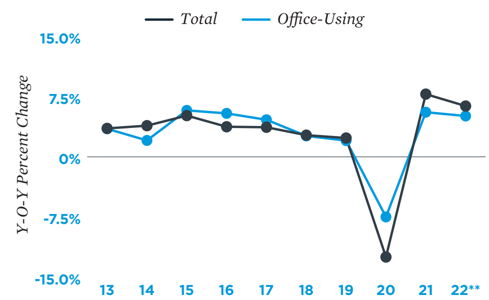
Construction 450,000 sq. ft. — Construction activity continues to moderate, reaching the lowest level since 2016 as developers expand stock by 0.5 percent. The bulk of deliveries are concentrated in Orange County.

Vacancy down 70 bps — Limited supply pressure and improved tenant demand will aid metrowide vacancy this year. The rate will fall to 12.2 percent following a 70-basis-point increase registered in 2021.

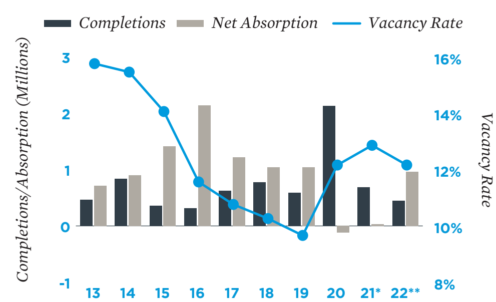
Rent up 3.0% — Accelerated leasing velocity in Orlando allows for rent growth to exceed the national pace of increase this year, lifting the average asking rate to $23.15 per square foot.

Investment — Robust population growth in Orlando will bolster the need for health services, likely drawing additional investor interest to medical office assets over the coming year.

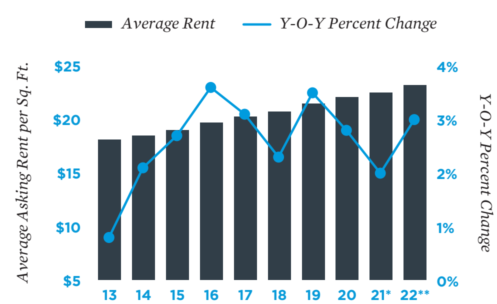
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.