

MARKET REPORT

Office
Orlando Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

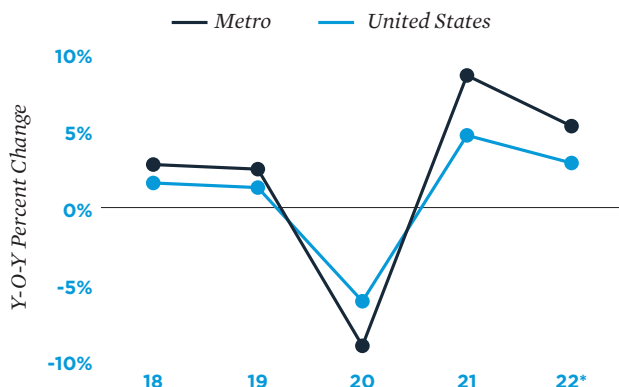
2Q/22

State-Leading Population and Office-Using Job Growth Propel Demand in Orlando

Confidence growing in the office sector. Orlando's office market is off to a strong start in 2022, with firms taking over 250,000 square feet of office space off the market in the first quarter alone, surpassing net absorption totals in the last two years combined. Availability decreased by 30 basis points during this three-month span and is projected to fall even further by year-end. Recent progress has been joined by robust hiring in traditional office-using sectors, with headcounts rising nearly 10 percent year-over-year ending in April. Additionally, many firms are exhibiting renewed confidence in the office market, evidenced by Eating Recovery Center, Astronics Test Systems and Luminar Technologies committing to new deals, with each totaling over 50,000 square feet within the past four quarters. Moving forward, Orlando's regionally lower office rents and growing workforce have the potential to attract firms returning to in-person work or looking to relocate to Florida.

Population growth spurs medical office builds. Development is projected to nearly double last year's pace, with total inventory expected to increase by 1.3 percent in 2022. Medical office properties comprised much of this space, with projects located in pockets of strong populace expansion. This year's pipeline is highlighted by the AdventHealth Lego Building in Winter Park, which totals 300,000 square feet. Even though the pace of construction is above the historic average, newly-developed space is expected to be absorbed quickly and is unlikely to place upward pressure on vacancy.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



**70,000
JOBS**
will be created

EMPLOYMENT:

Staff counts in the metro's traditional office-using sectors exceeded pre-pandemic levels in 2021, and are expected to increase 3.9 percent annually in 2022. Overall, the metro's job count will rise by 5.3 percent, driven by leisure and hospitality hiring.



**1,090,000
SQ. FT.**
will be completed

CONSTRUCTION:

Developers expand office stock by at least 1 percent for the third time in five years, with the bulk of near-term completions slated for Orange County. This year's delivery volume exceeds the trailing 10-year average of 690,000 square feet.



**40
BASIS POINT**
decrease in vacancy

VACANCY:

Net absorption eclipses the 1 million-square-foot threshold, stimulating the first annual vacancy compression since 2019. At 12.7 percent, local availability will rank as the second lowest among major Florida metros.

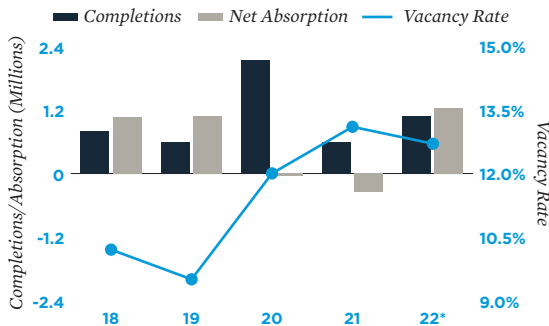


**3.5%
INCREASE**
in asking rent

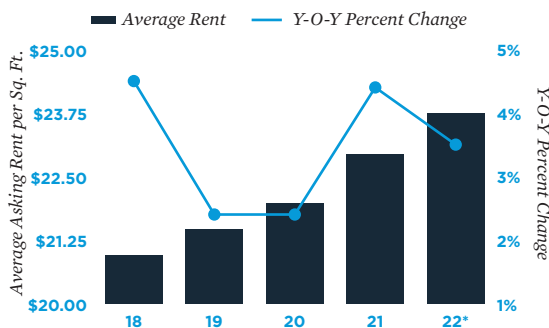
RENT:

Aided by the return of positive net absorption, asking rents elevate on an annual basis for the 10th consecutive year to \$23.75 per square foot. Still, among major Florida markets, only Jacksonville boasts a lower average asking rate than Orlando.

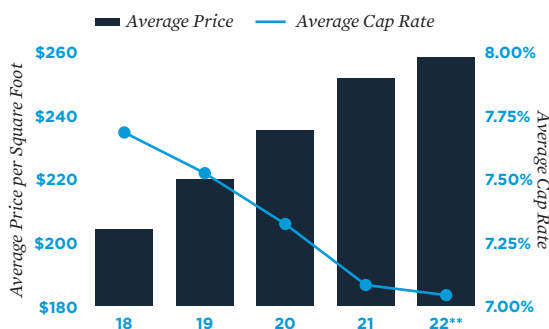
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

344,000 sq. ft. completed

- Development over the past 12 months ending in March slowed considerably relative to the 1 million square feet that delivered during the previous yearlong span.
- Supply additions were heavily concentrated in Orange and Seminole counties during the most recent yearlong span.



VACANCY

50 basis point decrease in vacancy Y-O-Y

- Orlando recorded positive net absorption over the past two quarters, which helped lower metrowide vacancy to 12.8 percent in March, a rate roughly 320 basis points below the national average.
- Availability in Class B/C offices contracted 160 basis points over the past four quarters, while vacancy in the Class A sector rose 140 basis points.



RENT

3.8% increase in the average asking rent Y-O-Y

- Recent overall vacancy compression accelerated the pace of rent growth. The average asking rate rose to \$22.87 per square foot in March, marking an all-time high for Orlando.
- Average marketed rents in Orange and Osceola counties increased by more than 4 percent during this time period.

Investment Highlights

- Buyer interest in Orlando has heightened, aided by vacancy compression and the second-highest average cap rate for office assets among major Florida metros. Over the past year ending in March, transaction velocity increased by roughly 75 percent, with elevated competition for listings lifting the average sale price 8 percent to \$258 per square foot. Price growth compressed the mean cap rate to the low-7 percent range.
- Recent population expansion and future growth projections are lifting investor demand for local medical office properties. Class B assets built within the past 20 years that comprise less than 50,000 square feet are changing hands most frequently, with cap rates averaging in the low-6 percent span. In Lake County, pricing often exceeds \$400 per square foot.
- Investors seeking mid-tier offices are active in Orlando's Central Park and downtown, along with Southwest and Southeast Orange County. Fully-occupied buildings in the \$1 million to \$10 million price tranche are highly sought after, with first-year returns that can reach the low- to mid-7 percent range. Meanwhile, institutional buyers targeting Class A offices are finding opportunities in Lake Mary and the Tourist Corridor, and are primarily acquiring these properties through portfolio sales.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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