MARKET REPORT

Industrial

Orlando Metro Area

IPA | INSTITUTIONAL PROPERTY ADVISORS

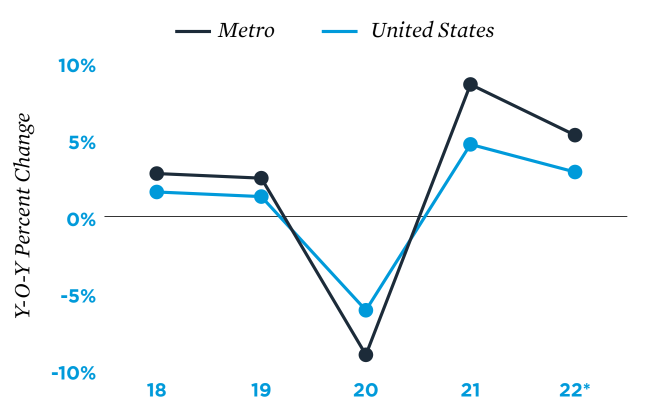
Midyear 2022

Demand Outpacing Supply Amid Orlando's Largest Development Wave in 15 Years

Vacancy approaches all-time low. Since the second quarter of 2020, demand for industrial space has surged forward. Availability fell by 340 basis points over the past seven quarters to 3.5 percent entering April. A notable rise in online shopping and population growth that outpaces all other major Florida markets has bolstered the need for last-mile facilities. Additionally, labor shortages in the trucking industry elevated the need for more intermediate stops on the supply chain, benefiting centrally-located metros like Orlando. A surge in leasing occurred as a result, with firms absorbing over 5 million square feet year-over-year ending in March. Nearly 70 percent of all space taken off the market on a net basis during this span occurred in Southeast and Northwest Orange County, particularly in areas proximate to State Road 429 and Orlando International Airport.

Developers are bullish on Orlando's future. Robust demand for modern distribution and warehouse space is fueling development activity in the metro. There is over 4 million square feet underway, with the bulk of near-term completions slated in Northwest and Southeast Orange County. Notable projects include McCoy Logistics Center and Apopka Commerce Center, accounting for nearly half of all space in the active pipeline. Although the majority of projects under construction remain available for lease as of June, recent leasing trends indicate newly delivered space will be absorbed quickly. Metrowide vacancy is projected to remain at a historic low, while new supply places upward pressure on rental rates this year.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Industrial 2022 Outlook

70,000 JOBS
will be created

EMPLOYMENT:

Headcounts in the metro's manufacturing sector were nearly 3,000 positions above the pre-pandemic level entering June. By year-end, total employment in Orlando will rise by 5.3 percent, the second-highest rate among major Florida markets.

4,100,000 SQ. FT.
will be completed

CONSTRUCTION:

Annual supply additions reach the highest level since 2007, with developers increasing industrial inventory by 2.8 percent. The growth rate in Orlando outpaces the national average by roughly 40 basis points.

10 BASIS POINT
decrease in vacancy

VACANCY:

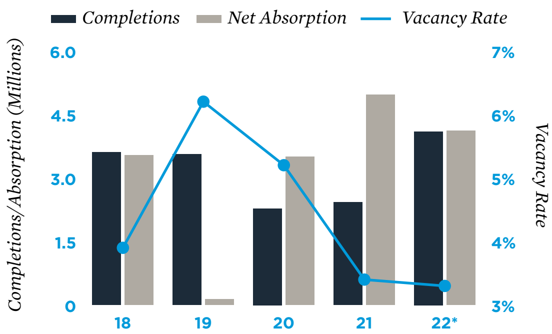
Tenants will absorb more than 4 million square feet this year, facilitating the third consecutive year of annual vacancy compression. Availability will fall to 3.3 percent, the lowest year-end rate on record.

12.1% INCREASE
in asking rent

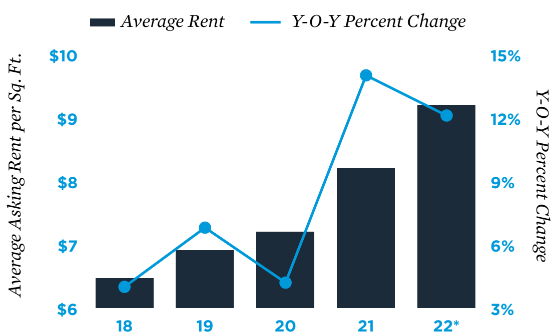
RENT:

Historically tight market conditions and robust development promotes double-digit rent growth for the second straight year, building off the 14 percent surge recorded in 2021. The average asking rent will ascend to $9.20 per square foot.

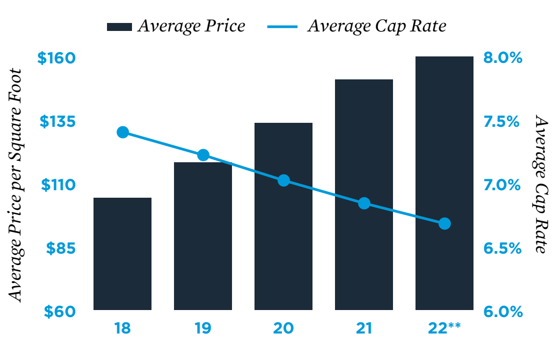
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Industrial
Al Pontius
Senior Vice President, Director
Tel: (415) 963-3000 | apontius@ipausa.com

For information on national industrial trends, contact:
John Chang
Senior Vice President, Director | Research & Advisory Services
Tel: (602) 707-9700 | jchang@ipausa.com

Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

2,732,000 sq. ft. completed

- Developers increased industrial inventory by 1.9 percent over the past year ending in March, with more than 1.2 million square feet of space delivering in the first quarter of 2022.
- Over half of all supply additions during this span occurred in Northwest and Southeast Orange County.

VACANCY

180 basis point decrease in vacancy Y-O-Y

- All but one of Orlando's seven submarkets recorded year-over-year vacancy compression in the first quarter, bringing metrowide availability down to 3.5 percent, over 250 basis points below the 2019 rate.
- Vacancy in Northwest and Southeast Orange County contracted by at least 200 basis points amid hefty supply waves in these locales.

RENT

17.6% increase in the average asking rent Y-O-Y

- Lake County, Northwest Orange County, Southwest Orange County and Seminole County all recorded annual rent gains exceeding 15 percent over the past four quarters ending in March.
- The average asking rent rose to $8.63 per square foot at the end of the first quarter, nearly 25 percent above the pre-pandemic high.

Investment Highlights

- Robust population growth, historically tight vacancies and Orlando's central positioning in the state continue to heighten investor interest for industrial assets. Transaction velocity reached a two-decade high over the past year ending in March, increasing nearly 15 percent relative to the previous yearlong span. An influx of non-local buyers, particularly from New York, are elevating competition for available listings. The average sale price rose around 16 percent over the past year as a result, with the mean first-year return falling to the mid-6 percent span.
- Investment activity was most pronounced in Northwest and Southeast Orange County, the metro's two largest submarkets by inventory. Older warehouses under 100,000 square feet are targeted most often, with cap rates averaging in the mid-5 percent range. Investors have also shown a willingness to pay a premium for newer distribution and manufacturing facilities in these locales.
- Seminole County has observed a noticeable uptick in deals over the past year, as buyers target assets proximate to the I-4 Corridor. Rental rates here have grown over 25 percent in the past year, and are roughly 10 percent higher than any other submarket in the metro on average.