

# MARKET REPORT

Office  
Orlando Metro Area

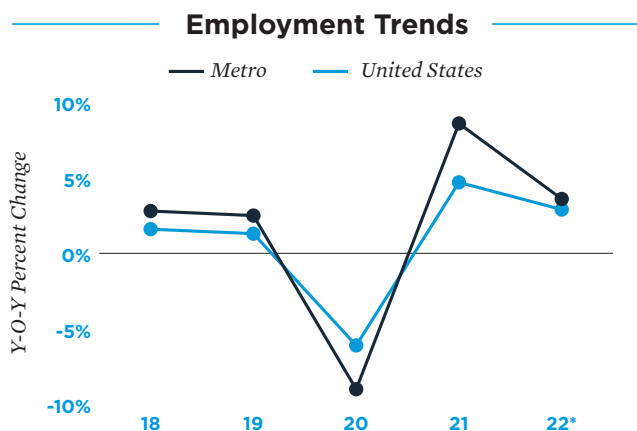
IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

4Q/22

## Major Orlando Employers' Return to In-Person Work Supports Positive Office Absorption

**Sector growth underpinned by large company relocations.** Office fundamentals are off to a good start in 2022, with the 425,000 square feet of net absorption in the first half exceeding what was relinquished during 2021. Demand is being driven by relocations and expansions, as a broader return-to-office movement plays out in Orlando. Disney, which is relocating its office to Lake Nona, released a statement expecting workers to return to the office on a more regular basis after the Labor Day weekend. InnovaCare has also made plans to move into Lake Nona's 'Medical City' to capitalize on the community's thriving life science cluster. A return to in-person work by firms that support these larger corporations and other major employers in Orlando is making Class B/C properties more desirable compared to their higher-cost counterparts. Segment vacancy declined by 110 basis points over the past year ended in June.

**Office-using needs are evolving.** During the second quarter of 2022, Class B/C vacancy tightened to 9.4 percent, beaten only by Miami across the state. In contrast, the Class A segment has faced headwinds recently, with segment availability shifting up by 210 basis points year-over-year in June, as three of the last four quarters reported negative net absorption. In the near term, some companies that remain on a hybrid work schedule may fail to renew their leases at higher-quality offices, reducing the demand for Class A properties when less-expensive options suffice.



\* Forecast  
Sources: BLS; CoStar Group, Inc.

## Office 2022 Outlook



48,000

**JOBS**

*will be created*

### EMPLOYMENT:

Hiring slows in the second half of 2022, as local unemployment is historically low. Still, the metro records a 3.6 percent annual rate of job growth. As of August, the number of traditional office-using positions exceeded the pre-pandemic metric by 25,000 roles.



1,006,000

**SQ. FT.**

*will be completed*

### CONSTRUCTION:

Annual delivery volume surpasses the 2021 total by 400,000 square feet, as Orlando ranks second among major Florida markets in completions. Most of the space finalized this year will come online during the second half.



10

**BASIS POINT**

*decrease in vacancy*

### VACANCY:

Vacancy compresses this year to 13 percent, as the volume of net absorption exceeds the combined tally from the previous three years. A return to office will help vacancy decline modestly, as about 500,000 square feet of speculative space hits the market.



3.9%

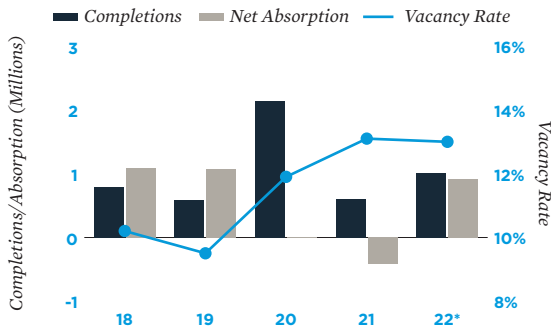
**INCREASE**

*in asking rent*

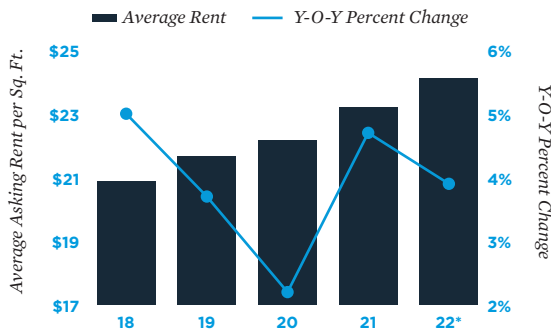
### RENT:

The average asking rent will climb to \$24.10 per square foot this year as larger Class A speculative properties are added to the metro's inventory. A 280,000-square-foot building in Lake Nona Town Center highlights the list of sizable completions.

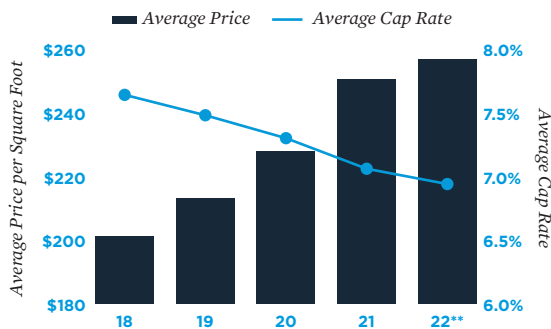
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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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: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

## 2Q 2022 - 12-Month Period



### CONSTRUCTION

**389,000** sq. ft. completed

- Over the past 12 months ending in June, the Orange County submarket accounted for three-fourths of total completions, which was consistent with previous years. These deliveries grew local stock by 0.5 percent.
- With large projects still ongoing, the first two quarters of 2022 reported a six-year low in terms of opening half completions.



### VACANCY

**10** basis point increase in vacancy Y-O-Y

- Metro vacancy was unchanged from the first quarter at 12.7 percent in June, as net absorption was positive for a third straight quarter.
- Firms targeting lower-cost floorplans are committing to existing properties, as minimal mid-tier space was completed over the past year. This has compressed Class B/C vacancy below pre-pandemic levels to 9.4 percent.



### RENT

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

- The last three quarters have seen rent growth above the 10-year average, elevating the mean marketed rate to \$23.27 per square foot in June.
- Class B/C properties noted greater rent advancements over the 12-month interval, as a collection of firms are opting to lease lower- and mid-tier office spaces amid longer-term adoptions of hybrid work models.

## Investment Highlights

- During the four-quarter period ending in June, Orlando's Downtown area recorded more sales than the previous three years combined. At an average age among trades of 66, investors may be targeting older Class B and C buildings in this central location for renovation potential.
- Osceola County has reported a large vacancy compression over the last year, tightening to 4 percent, the lowest across the metro. This has coincided with gains in local marketed rents during the first half of 2022, pushing the average asking rate to \$21.36 per square foot in June. The standout performance has attracted investor attention, as transaction volume was lifted by 50 percent over the 12 months ending in September.
- About 1.9 million square feet in medical office space is currently in the pipeline to help meet the healthcare needs of increased in-migration by retirees within the 65-plus age bracket. Orange County medical properties have been trading more often over the four quarters ending in September. Class B/C assets here are changing hands with the highest frequency. Cap rates for these spaces were in the mid-5 to low-7 range during that period.