MARKET REPORT

Office

Orlando Metro Area

INSTITUTIONAL PROPERTY ADVISORS

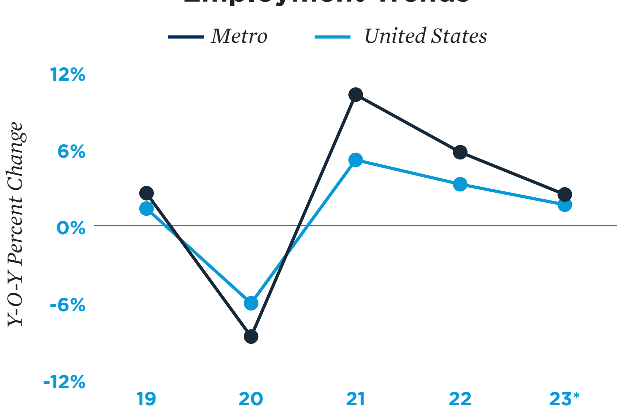
4Q/23

Nation-Leading Household Growth Limits Effects of Class A Volatility on Orlando's Office Landscape

Medical segment's space demand stands out. Orlando's household count expanded by 5.2 percent, setting the highest pace among major U.S. metros over the year ended in June. Recent growth motivated expansions among essential household service providers, such as law or financial advisors, and health care administrators. Health services providers, specifically, absorbed a net of 156,000 square feet of medical offices in that span, keeping the sector's vacancy rate below the long-term mean of 10.0 percent. Sustained space demand in the segment is, however, contrasting net relinquishments of Class A properties, which noted a record vacancy rate of 21.5 percent in June. With operators already easing top-tier asking rates by 0.9 percent on average in that span, the metro's mean marketed rent is projected to bump down this year for the first time since 2011.

Top-tier landscape should recover. Despite the Class A sector's recent volatility, multiple factors suggest that vacancy in the sector could soon stabilize. Nearly 60 percent of the 1.2 million square feet underway metrowide was pre-leased as of September, as a large portion of the pipeline was built-to-suit or designated for medical tenants. Over time, this should steer prospective users to existing builds and limit upward vacancy pressures, as less new space comes online available for lease. At the same time, Orlando's average asking rent was $2.40 per square foot below every other major Florida metro in June, which could draw in budget-conscious firms moving forward.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2023 Outlook

34,000 JOBS
will be created

EMPLOYMENT:

The education and health services sector added 7,300 personnel over the first eight months, accounting for roughly 31 percent of the overall job gain in that span. By year-end, the total headcount will rise by 2.4 percent.

1,120,000 SQ. FT.
will be completed

CONSTRUCTION:

Stock growth advances to 1.4 percent in 2023. Nearly 500,000 square feet is slated for Outlying Southeast Orange County, followed by 218,000 and 157,000 square feet in Lake Mary and Winter Park, respectively.

170 BASIS POINT
increase in vacancy

VACANCY:

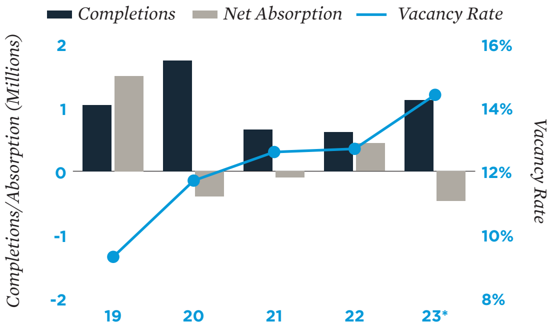
Near-term increases in vacancy are likely to sprout from the Class A sector, which already noted a 260-basis-point climb through the first six months of the year. The marketwide vacancy rate will close out 2023 at 14.4 percent.

0.9% DECREASE
in asking rent

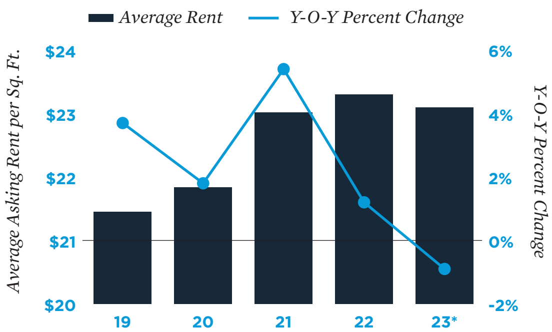
RENT:

Downward rent momentum among many Class A properties will weigh on the marketwide average asking rate this year. While the metric falls to $23.10 per square foot in 2023, it remains 7.7 percent higher than 2019.

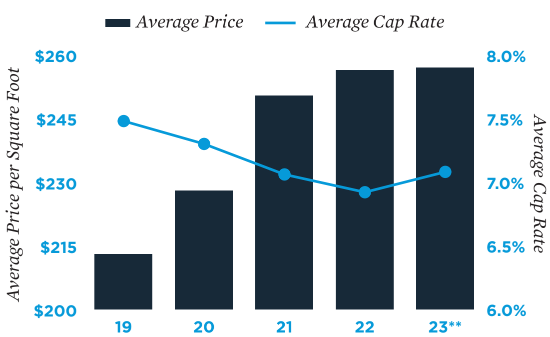
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: $250

2Q 2023 - 12-Month Period

CONSTRUCTION

707,000 sq. ft. completed

- While the 0.9 percent stock expansion over the year ended in June was the strongest among major north and central Florida markets, it remained 40 basis points lower than the metro's long-term average.
- Orlando's proportion of Class B/C inventory remained the lowest among major Florida metros, at roughly 64.5 percent of total stock in June.

VACANCY

140 basis point increase in vacancy Y-O-Y

- Orange County, which houses 72 percent of Orlando's office stock, noted a metro-high 180 basis point vacancy increase to 14.0 percent. This local rise contributed to an elevation in the marketwide rate to 13.6 percent in June.
- While having much less stock, both Osceola and Lake counties recorded vacancies in June that were at least 50 basis points under their 2019 rates.

RENT

1.3% increase in the average asking rent Y-O-Y

- Class B/C average asking rent grew 2.6 percent, mitigating a Class A decline, and lifting the overall mean marketed rent to $23.66 per square foot.
- The mean asking rent for Class B/C offices rose 15.1 percent since the end of 2019, to $21.60 per square foot. This was the third-largest climb among major metros in the span, behind Miami-Dade and West Palm Beach.

Investment Highlights

- While the average per-square-foot pricing for office assets declined by 1.4 percent on a national scale over the year ended in June, entry costs in Orlando rose by a similar clip. Transactions for medical spaces continue to comprise a large portion of Orlando's overall office investment, with strong performance in this sector recently commanding per-square-foot prices frequently above the metro average of $257 during the span. Some of these opportunities were for triple-net leases, an especially attractive investment amid rising owner expenses from insurance and inflation.
- Trading activity for traditional office space has been highest thus far in Orlando Central Park. With vacancy in the area sliding as of late, some buyers have been able to acquire discounted properties with deferred maintenance or for redevelopment projects. Nearly all sales that have completed here in 2023 have been at price points under $120 per square foot.
- Still-active investors keeping track of leasing data may look to the Tourist Corridor moving forward. South College, Centene, Marriott, and QuinStreet all moved into Class A spaces here in the first seven months, with USHealth Advisors and Brite Homes also leasing mid-tier offices.