

MARKET REPORT

INDUSTRIAL

Orlando Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

2H/19

Industrial Sector Rides the Wave of Orlando's Booming Economy; Buyers Active Throughout the Metro

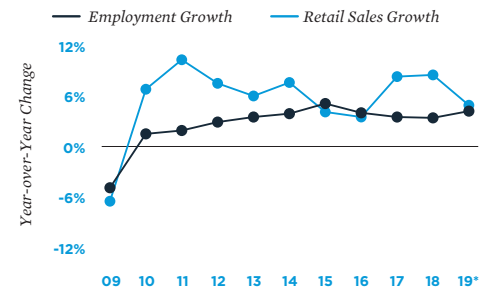
A robust economy and significant population gains are generating a need for industrial space. Orlando had one of the strongest job markets in the nation over the past four quarters, which is attracting new residents and increasing demand for more goods and services. As a result, companies are requiring more warehouse and distribution space. Deliveries in 2019 will decline slightly from last year's 11-year peak; however, a rise in speculative construction plus the recent closure of the 1 million-square-foot former Winn-Dixie distribution center will push annual vacancy up. Inventory growth has been focused on Southeast Orange County in recent years, a trend that will continue in the quarters ahead. A new industrial park is expected to get underway in 2020 near West Taft Vineland Road and South Orange Avenue that could accommodate up to 1 million square feet. Construction is also picking up significantly in Apopka and Ocoee in Northwest Orange County, where facilities of more than 300,000 square feet are underway for Coca-Cola and Goya. Although vacancy has ticked up from last year's cyclical low, rents are still climbing at a vigorous clip.

Lower entry costs and the potential for higher yields than South Florida markets keep buyers interested in Orlando. Investors are prevalent throughout the metro, significantly outpacing the inventory of available listings. The tight supply could slow transaction activity in the quarters ahead. Year over year in the second quarter, the average price for industrial assets reached \$113 per square foot, up an annual 17 percent, tying Fort Lauderdale for the highest growth rate among major Florida markets. Large distribution and warehouses needed to service the growing population are particularly sought by institutional investors. So far in 2019, these buildings have changed hands above \$130 per square foot with cap rates dipping into the 5 percent territory. At the other end of the spectrum, older Class B/C warehouses with less than 75,000 square feet in the Seminole County submarket traded at an average less than \$60 per square foot. Many assets in this tranche are being listed at cap rates above 8 percent.

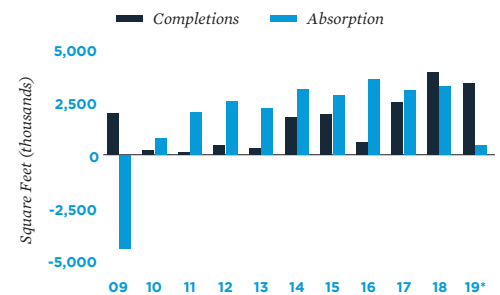
2019 Market Forecast

- Employment** up 4.2%
Employment growth will again reach one of the highest rates in the nation as employers create 55,000 positions, building on last year's 3.4 percent gain.
- Construction** 3.4 million sq. ft.
Deliveries decline from last year's 3.9 million square feet, a figure boosted by the completion of Amazon's 2.4 million-square-foot warehouse.
- Vacancy** up 200 bps
A surge in speculative deliveries causes new inventory to exceed net absorption, raising the vacancy rate to 6.2 percent at year end. During 2018, a 40-basis-point increase was noted.
- Rent** up 6.1%
The rise in vacancy will not inhibit rent growth as strong demand for space along major transit corridors keeps rents climbing. In 2019, the average asking rent advances to \$6.61 per square foot, building on last year's 5.8 percent gain.
- Investment**
The metro's robust population growth, central location within Florida and convenient access to the interstate network make Orlando assets attractive to investors.

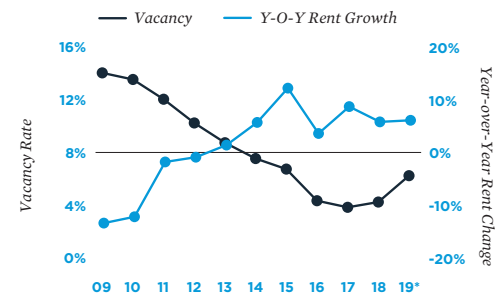
Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



* Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; Moody's Analytics

For information on national industrial trends, contact:

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of September 2019. 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 industrial data are made during the third 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.