

INVESTMENT FORECAST

OFFICE
Orlando Metro Area

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2020

Available Space Sparse; Expanding Development Pipeline Contains More Speculative Projects

Robust economic and employment gains bolster office demand. Orlando's vacancy rate rests at the cyclical low and is among the tightest in the nation as companies moving to and expanding in the market are depleting available office space. Inventory additions in 2020 will reach the highest level in 10 years and include more speculative space. The increase should benefit prospective tenants who have found it challenging to locate large floor plates. Two of the biggest projects underway, KPMG's Training and Development Facility in Lake Nona and the SunTrust Plaza at Church Street Station in downtown Orlando, were originally expected in 2019, but deliveries were delayed into 2020. SunTrust's 28-story tower will debut in the second quarter with nearly all of the 220,000 square feet pre-leased. In addition, a sizable portion of the space being vacated by the financial firm in the SunTrust Center is already being backfilled. Demand is not only heightened for Class A inventory, but throughout the metro, new residential development is generating the need for small offices for professionals who service the growing population. Increased leasing has reduced Class B/C vacancy into the single digits in most submarkets and is pushing rent higher.

Vibrant demand drivers capture investor attention. Orlando's economy is firing on all cylinders as job and population growth are among the strongest in the nation and tourism rates are setting records. These healthy conditions are attracting a wider range of buyers to the metro, including a larger institutional presence. Investors are also coming from larger Florida markets, lured by lower entry costs and the potential for higher yields. Cap rates averaging in mid-7 percent bracket are at least 80 basis points above these metros. The added competition for a limited supply of listings has constrained deal flow and contributed to the average price rising to a new high. Buyers remain most active near large employment hubs along Interstate 4, particularly Maitland Center.

2020 Market Forecast

- Employment** up 2.9%

Orlando remains one of the nation's top job creators as 40,000 workers are added to payrolls in 2020. During this time, office-using employment will jump 3.1 percent.
- Construction** 1.5 million sq. ft.

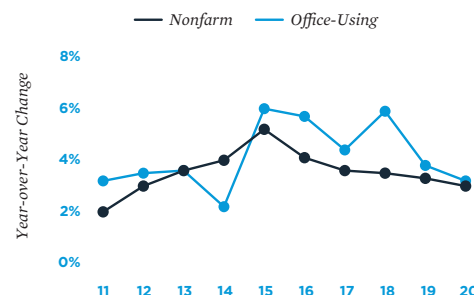
Deliveries more than triple last year's 450,000 square feet as the construction pipeline continues to expand. This year's total includes roughly 135,000 square feet of medical office space.
- Vacancy** down 60 bps

Strong leasing moves net absorption above new inventory, dropping vacancy to 9.3 percent in 2020, the lowest level of the cycle.
- Rent** up 3.0%

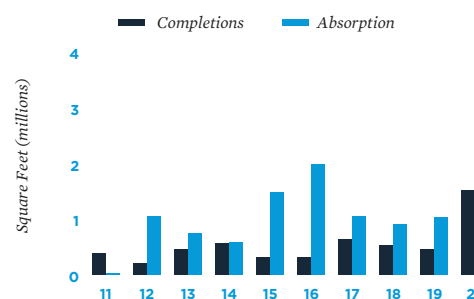
Matching last year's 3.0 percent advance, the average asking rent ends 2020 at \$23.66 per square foot.
- Investment**

Demand for office space near the SunRail rail line is increasing, boosting development around stations and attracting investors to properties along the route.

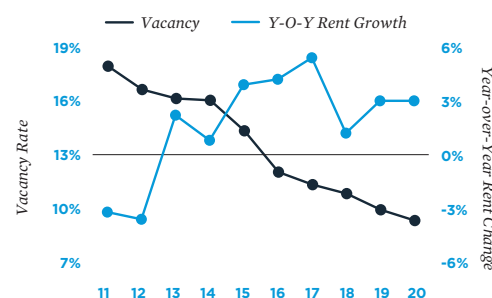
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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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 December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.