

Market Analysis

Third Quarter 2019

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Riding the Employment Wave



Bolstered by its outstanding population and employment growth, its business-friendly tax climate and lower rates compared to neighboring metros, Orlando's office market continues to expand rapidly. Professional and business services added 16,900 positions as of July, a 6.4% increase year-over-year. The sector accounted for 17.9% of total employment, second only to the leisure and hospitality sector, which had a lower growth rate, at 3.6%. In total, office-using jobs were equal to 25.2% of the metro's employment pool, 340 basis points above the national average.

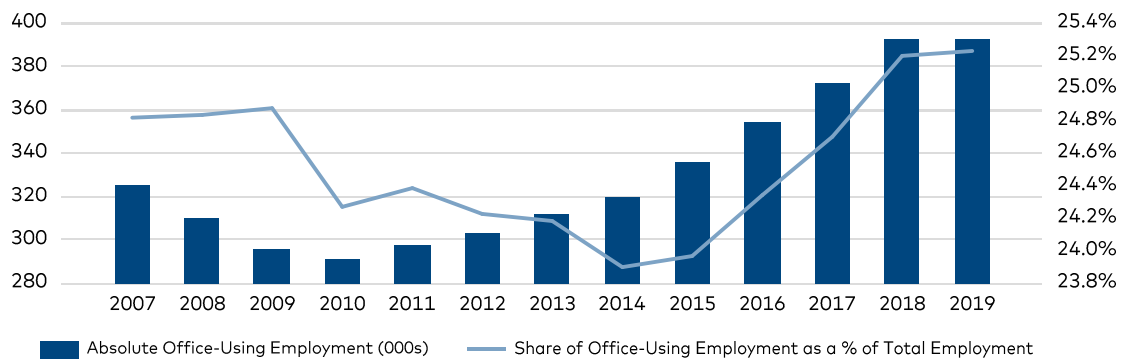
The metro was among the best-performing secondary office markets in terms of construction activity, with more than 1.5 million square feet underway in August. That was equal to 3.4% of existing inventory. And things are only looking up for Orlando, as roughly 1 million square feet is expected to come online next year, the highest level in a decade. The bulk of space under construction is already preleased. The largest office project underway, KPMG's training facility, was nearing completion in the metro's SE Orange County submarket as of August.

In line with national trends, however, transaction volume continued its downward motion, as investors focused increasingly on value-add opportunities. Some 2.6 million square feet traded for \$357.9 million year-to-date through August, a 31.2% decrease compared to the same period in 2018.

ECONOMIC SNAPSHOT

- Orlando gained 18,400 office-using jobs in the 12 months ending in July. Office-using employment accounted for 25.2% of the metro's total workforce. That's the highest level over the past decade and significantly above the national average of 21.8%. Professional and business services led growth with 16,900 positions (up 6.4%), while financial services and information gained a combined 1,500 jobs.
- Radial, formerly eBay Enterprise, is set to hire more than 1,800 seasonal customer care representatives in Orlando as part of the company's plans to add more than 21,000 seasonal workers across North America. Some of the new employees will have the option to transition to full-time positions after the peak season. The Pennsylvania-based e-commerce company has 1,150 full-time workers across its five customer service centers, including its Brevard County office at 915 S. Babcock St.
- UPS will also recruit as many as 1,000 full-time and part-time seasonal employees in Orlando, as part of a nationwide push for more than 100,000 seasonal workers.

Office-Using Employment



Source: Bureau of Labor Statistics (BLS). Data as of July 2019

Employment Growth by Sector as of July 2019 (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	279	17.9%	16,900	6.4%
70	Leisure and Hospitality	305	19.6%	10,500	3.6%
65	Education and Health Services	199	12.8%	9,400	5.0%
15	Mining, Logging and Construction	105	6.7%	7,700	7.9%
30	Manufacturing	77	4.9%	4,200	5.8%
40	Trade, Transportation and Utilities	278	17.8%	2,800	1.0%
90	Government	149	9.5%	2,600	1.8%
55	Financial Activities	86	5.5%	1,400	1.7%
80	Other Services	53	3.4%	600	1.1%
50	Information	28	1.8%	100	0.4%

Source: Bureau of Labor Statistics (BLS). Data as of July 2019

LEASING | Vacancy

- Orlando's office vacancy rate was 11.6% as of August—180 basis points below the national average—due to strong demand and rather limited supply. Class A space was 8% vacant, while Class B properties had a vacancy rate of 16.2%.
- Office vacancy rates were lowest in high-demand submarkets with solid development activity over the past ten years, such as Tourist Corridor (3.5%) and University (5.9%). In total, 1.6 million square feet came online in the two submarkets over the past decade, equal to 3.2% of Orlando's stock.

LEASING | Listings

- In August, the average asking rates averaged \$20.47 per square foot, a 5.4% decrease over the last 12 months—the second-biggest loss in the nation. On average, Class A space was listed at \$27.59 per square foot, while was listed for significantly less, at \$19.23 per square foot.
- Asking prices were highest in submarkets with newer inventory and relatively few Class B properties, such as Lake Mary (\$25.55 per square foot) and Celebration (\$25.38 per square foot).

COWORKING

- As of August, coworking providers operated 705,850 square feet in Orlando (1.3% of total stock). More than 40% of the shared working space is located in Downtown Orlando, where WeWork signed the largest individual coworking lease year-to-date through August: 70,000 square feet at Piedmont Office Realty Trust's SunTrust Center.
- Regus was the metro's top provider of shared office space as of August, with 10 locations equal to 25% of the total coworking space in Orlando.

Vacancy by Submarket

Top Submarkets	Vacancy Rate (%)
Tourist Corridor	3.5%
University	5.9%
Southeast Orlando	6.6%
Celebration	7.0%
Northeast Orlando	7.7%

Source: Yardi® Matrix. Data as of August 2019

Note: Vacancy including sublease

Available Properties

Top Submarkets	Square Feet Available	Properties Available
Downtown Orlando	660,024	27
Maitland	525,145	40
Metro West-Park Central	487,631	23
Altamonte Springs	423,181	21
Brevard County	385,481	37
Total Market	4,175,630	356

Source: Yardi® Matrix. Data as of August 2019

Top Coworking Tenants (Square Feet)

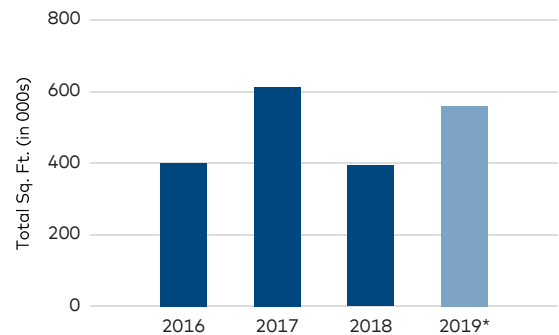
Coworking Tenant/Operators	No. of Locations	Square Feet Leased
Regus	10	168,296
WeWork	1	70,000
Orlando Office Center	6	41,870
YourOffice	2	38,794
Orlando Furnished Office Suites	1	38,420

Source: Yardi® Matrix. Data as of August 2019

SUPPLY

- Almost 1.6 million square feet was underway in Orlando as of August, equal to 3.4% of existing stock and 50 basis points above the national average of 2.9%. The metro is one of the top-performing secondary office markets in the country, as solid demographic gains continue to push up demand for new, high-quality office.
- With four projects totaling 562,000 square feet scheduled to come online by the end of 2019, completions are expected to surpass last year's deliveries by more than 40%. Developers are projected to add almost 1 million square feet of new product to the market during next year, which is already shaping up as the best year for construction activity in the past decade.
- Tavistock Group's upcoming KPMG Lakehouse in SE Orange County—a small suburban submarket with limited inventory—accounts for roughly half of Orlando's development pipeline. The 780,000-square-foot project on Lake Nona Boulevard will serve as the firm's training facility for out-of-town workers. When completed in the first quarter of 2020, the property will increase the submarket's stock by approximately 75%.
- In Altamonte Springs, SuperChannel is building the 300,000-square-foot Majesty Building, which broke ground almost two decades ago. The project accounts for 9.1% of the submarket's existing stock and is projected to reach completion by the end of the year.
- Lincoln Property Co.'s SunTrust Plaza at Church Street Station, a mixed-use project under construction in Downtown Orlando, will feature 200,000 square feet of office and more than 110,000 square feet of hotel space. The project accounts for 3.1% of the submarket's stock and is scheduled for completion this fall.

Office Completions (Square Feet)



Source: Yardi® Matrix. Data as of August 2019
*Total Year Projections

Construction Activity

Top Submarkets	Square Feet Under Construction
SE Orange County	780,000
Altamonte Springs	300,000
Downtown Orlando	200,000
Lake Mary	108,000
Northwest Orlando	55,000
Total Market	1,547,741

Source: Yardi® Matrix. Data as of August 2019

Construction Distribution

Top Submarkets	% of Inventory
SE Orange County	177.8%
Altamonte Springs	9.1%
Lake County	6.8%
Northwest Orlando	5.3%
Downtown Orlando	3.1%
Total Market	3.0%

Source: Yardi® Matrix. Data as of August 2019

INVESTMENT TRANSACTIONS

- In the first eight months of 2019, sales volume totaled some \$358 million, about 30% less than the same eight-month period of last year. Investment activity has been slowing down in Orlando, with transactions amounting to \$654 million in 2018, significantly less than 2017's peak level of \$855 million. Value-add opportunities accounted for 65% of the 23 deals closed year-to-date through August. As a result, office assets sold for an average of \$138 per square foot, almost half the national average of \$264 per square foot.
- Deals completed in two of the metro's largest office submarkets—University and Maitland—accounted for almost 65% of Orlando's total transaction volume year-to-date through August. These submarkets are dominated by modern, high-quality office properties.
- In the metro's largest transaction closed year-to-date through August, Crocker Partners sold Orlando University Business Center to IP Capital Partners for \$67.4 million. Tower Realty Partners' \$49.5 million acquisition of 2300 Discovery Drive from Warmack Investments completes the list of big-dollar deals in the University submarket.
- In February, Jefferson River Capital acquired the 197,000-square-foot Reserve at Maitland in a \$33.5 million deal from Taurus Investment Holdings. The sale closed shortly after the company's purchase of the LeeVista Center campus in Southeast Orlando from Liberty Property Trust for \$23.4 million.
- In Brevard County—where Class B and Class C assets account for more than 80% of the inventory—an individual investor sold the 37,200-square-foot Financial Center at Merritt Square to Southeast Petro Distributors for \$2.8 million, or a record-low \$75 per square foot. That's about 33% less than the price per square foot recorded when the building last changed ownership, in August 2000.

Transaction Volume

Top Submarkets	Total Transaction Square Feet	Total Transaction Volume (000s)
University	912,829	\$129,229
Maitland	635,257	\$102,650
Southeast Orlando	285,140	\$41,025
Lake Mary	196,760	\$33,500
Metro West-Park Central	182,741	\$32,500
Total Market	2,600,719	\$357,914

Source: Yardi® Matrix. Data as of August 2019

Average Price

Top Submarkets	Avg. Price Per Square Foot
Metro West-Park Central	\$177.85
Lake Mary	\$170.26
Maitland	\$161.59
Southeast Orlando	\$143.88
University	\$141.57

Source: Yardi® Matrix. Data as of August 2019

Investment Activity

Top Buyers	Total Transaction Square Feet	Total Transaction Volume (000s)
IP Capital Partners	396,506	\$67,358
Jefferson River Capital	347,586	\$56,900
Tower Realty Partners	373,823	\$49,521
KBS Realty Advisors	241,659	\$48,500
Vision Properties	182,741	\$32,500

Source: Yardi® Matrix. Data as of August 2019



What to Know About Office Investment in Orlando

By Adina Marcut

While hospitality and health care are Orlando's economic powerhouses, other sectors are starting to gain traction. Berkadia Managing Director Michael Weinberg shares the reasons that make Orlando appealing for office investment.

Describe Orlando's current office landscape. What opportunities does this market offer?

Bolstered by nation-leading job and population growth, Orlando has experienced strong demand for office space over the past few years. We've had one of the lowest office vacancy rates in our market's history, and more capital is pouring into the area, including institutional and cross-border money, which previously would not have considered Orlando. There's tremendous opportunity for investors to plant a flag in the ground now before it's too late to capitalize on the growth.

Tell us more about Orlando's best submarkets for office investment. What attracts investors to them?

Some of the larger trades in the entire Orlando market over the past five years have been in Lake Mary—these include portfolio investments made by Starwood, Parmenter and others. South Orlando, which surges when homebuilding and hospitality are vibrant, is also very active right now. Westwood Corporate Center sold for nearly \$58 million and Millennia Park One sold to a 1031 buyer for around \$38.3 million. This submarket is also seeing some development activity from catering to the



increased demand from tourism and population growth. The University of Central Florida area, which benefits from the rapid growth at the university but also increased governmental and defense spending, has held steady over the years.

What are the challenges and risks investors face in the metro today, and how can they overcome them?

It's difficult to ignore the macro trends of a slowing economy, and when the national economy slows, historically Orlando has suffered more than other markets due to its reliance on tourism. However, this time around, Orlando has a much more diversified economy, so I don't think it will feel the brunt of any economic downturn.

Orlando's coworking footprint is expanding. How do you see demand for this type of workspace going into 2020?

I see this type of space remaining relevant, but there will certainly be winners and losers—it depends on who can operate profitably to maintain occupancy. Most of the coworking growth has been downtown, highlighted by the recently inked 70,000-square-foot WeWork deal at SunTrust Center. There are many others in downtown Orlando that have popped up, like Industrious Office, Pipeline, Venture X and Canv, which have leased space, and even Novel Coworking, which bought the historic Angebilt Building.

What factors will influence the business in the next 12 months?

Obviously, continued job and population growth is key. Orlando is projected to outpace the national average in job growth over the next five years—some sources project it will be double or triple the national job growth rate. Looking ahead, the lack of big blocks of office space poses a challenge for our region in attracting new companies or growing existing ones.



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Industrial Park Sells for Record Price

JLL represented WGCC Properties LLC in the disposition of the Class A, 140,929-square-foot asset to KKR.



Self Storage Development Underway in Orlando

The 108,924-square-foot facility, which will include 750 climate-controlled storage units, is scheduled for completion in late 2019.



Shopping Center Commands \$12M

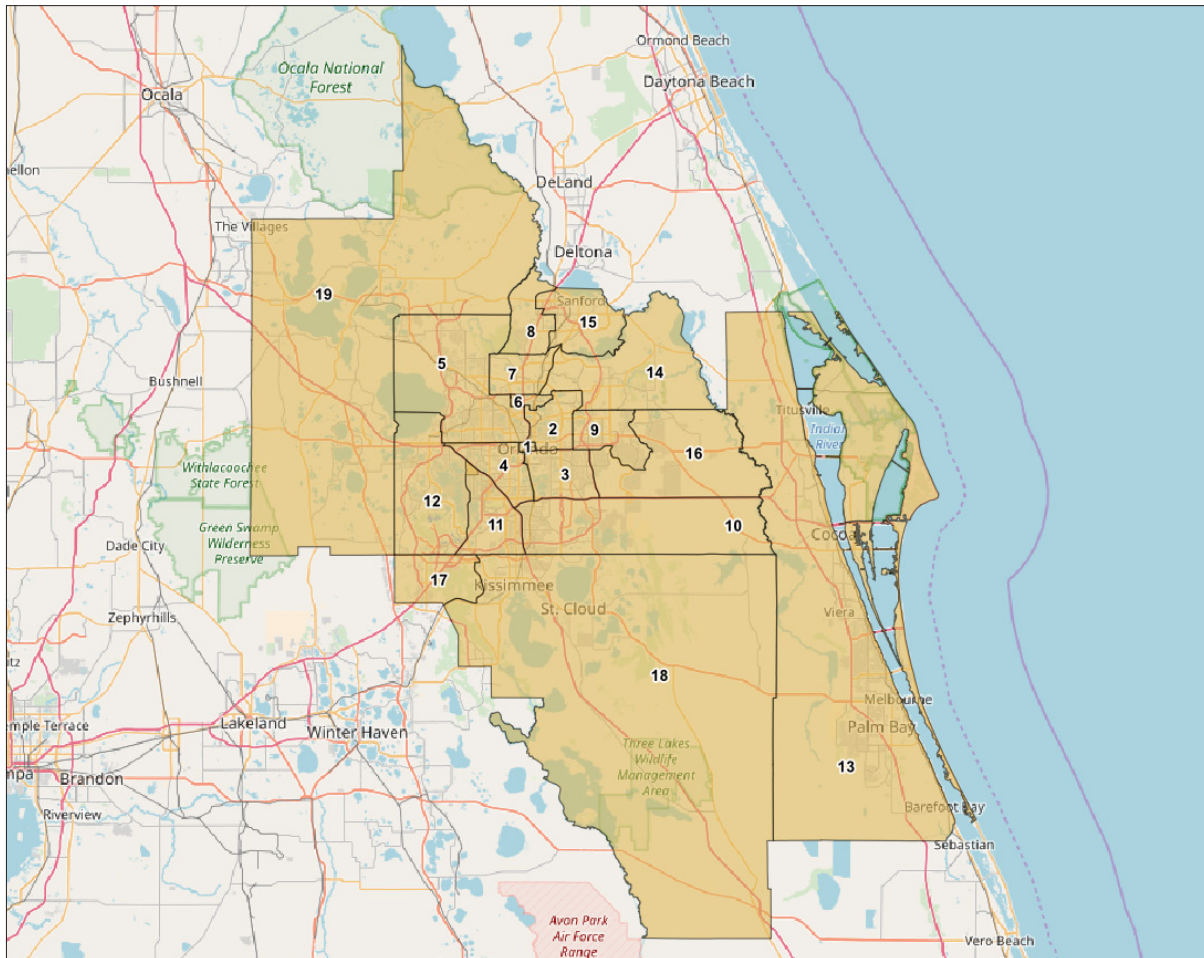
Corporate Property Group sold the three-building asset completed in 2018. SRS Real Estate Partners negotiated the deal on behalf of the seller.



Metro Storage Expands Florida Holdings

The company acquired a 641-unit self storage facility located roughly 7 miles from downtown Orlando.

YARDI MATRIX OFFICE SUBMARKETS | Metropolitan Orlando



Area #	Submarket
1	Downtown Orlando
2	Northeast Orlando
3	Southeast Orlando
4	Metro West-Park Central
5	Northwest Orlando
6	Maitland
7	Altamonte Springs
8	Lake Mary
9	University
10	SE Orange County

Area #	Submarket
11	Tourist Corridor
12	Southwest Orange County
13	Brevard County
14	East Seminole County
15	Sanford
16	East Orange County
17	Celebration
18	Kissimmee
19	Lake County

OFFICE REPORT DEFINITIONS AND METHODOLOGY

- Office using employment is defined as all jobs within the Professional and Business Services, Financial Activities and Information sectors.
- Rents shown in the listing section are reported on a Full Service (FSG) basis. Yardi Matrix subscribers have access to both listed rents and FSG equivalent rents.
- Class A and A+/Trophy buildings are combined for reporting purposes.
- Yardi Matrix tracks properties with 50,000 square feet or more.

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