

Solid Leasing During the First Quarter and Continued Strong Investment Interest Bodes Well for Orlando's Industrial Market in 2019

The U.S. economy remains well entrenched in the expansion phase of the business cycle, and Orlando's economy remained strong heading into 2019. Robust population and employment growth persist, along with vigorous investment activity and a surging e-commerce sector. Although there was a degree of uncertainty at the close of 2018 given stock market volatility and an extended government shutdown, the underlying economic fundamentals that drove growth through most of 2018 remain in place and are expected to drive continued growth this year. Orlando's unemployment rate has fallen 20 bps over the previous year to 3.4% and the steady pace of job growth has continued with over 27,000 new jobs added in the trailing 12-month period.

While net absorption was negative at the close of the first quarter, it was largely attributable to a handful of large spaces that came back onto the market. Leasing activity was solid during the first three months of the year, with two deals north of 100,000 sf taking place in the Orlando Central Park and Airport/Southeast submarkets, and several large industrial tenants are actively looking for space. Asking rental rates for all industrial types as a group have grown a modest 1.2% over the last year, however warehouse/distribution rents have grown by 6.5% in the trailing 12-month period. The overall vacancy rate has declined by 12 basis points since the first quarter of 2018, which is significant given that 3.7 million sf has delivered during that period of time. As the first quarter of a year is traditionally the slowest, and when vacancy increases due to space rollover, the mild negative net absorption at the end of the first quarter should be easily absorbed by the mid-year point.



12.7 million sf

of new space has delivered in the last 4 years, accounting for 11% of all industrial space in Orlando

Industrial Market Snapshot

- The Airport/Southeast submarket continues to dominate new development activity, accounting for 50% of all new industrial buildings under construction. Colony Industrial, Exeter Group, McDonald Development and Prologis all have significant projects underway in this area. Additionally, EastGroup Properties, Liberty Property Trust, McCraney Property Company, TA Realty and Becknell Industrial have all delivered new product over the last year.
- Industrial real estate remains a preferred asset class for institutional and private investors, and total investment sales volume is up 100.1% over the trailing 12-month period ending with March of 2019. As a result, while investor appetite remains fierce for assets, there are limited opportunities.
- As companies continue to expand and large tracts of land suitable for industrial uses are becoming harder to find in the heart of Orlando, growth is beginning to push west and northwest along the SR 429 corridor. The Northwest submarket has grown by over 1 million over the last two years, and the Groveland area of Lake County, a tertiary market just west of Orlando, has several significant parcels available that can accommodate large bulk distribution users.
- The Federal Reserve ("Fed") reversed course from its median interest rate forecast in 2018 where it had implied the likelihood of two additional interest rate hikes during 2019. The Fed decided to leave the target range for the Federal Funds rate unchanged between 2.25 and 2.5 percent, where it has been since December in a move widely expected by economists. While U.S. economic growth remains strong, external risks remain including the fate of Brexit, US-China trade relations, and tensions at the southern border.
- Nationwide, U.S. commercial property prices rose 6.3% over the trailing 12-month period ending February 2019, led primarily by gains in industrial property prices which posted an 8.2% year-over-year gain.

113.4 MSF

Total industrial inventory in the Orlando market

(79,382) SF

Direct Y-T-D net absorption as of 1Q-2019

5.31%

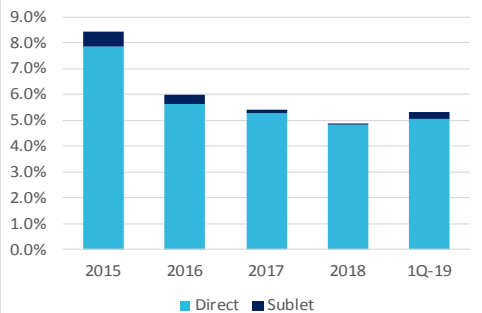
Overall Vacancy

\$6.70/SF/NNN

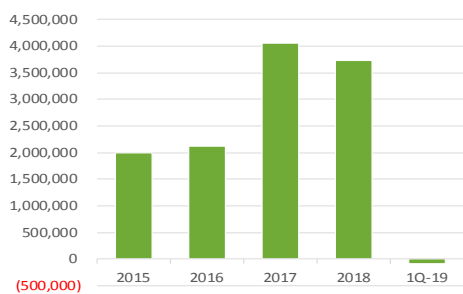
Average rental rate for industrial space

Statistical Snapshot

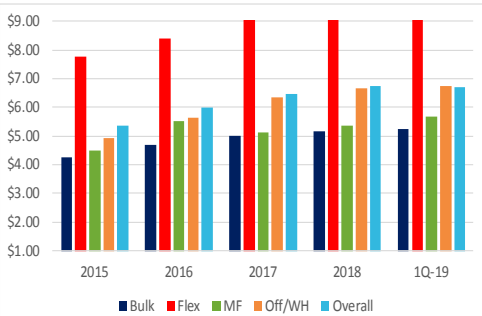
Vacancy Rate



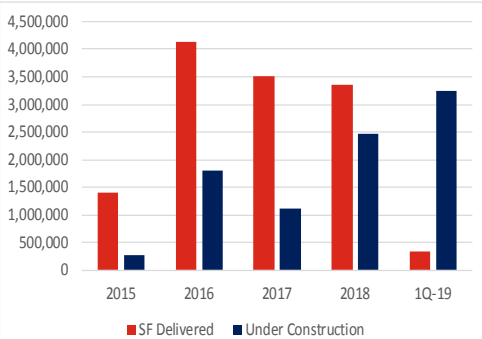
YTD Net Absorption (SF)



Average Asking Rent Rate (\$/SF/NNN)



Construction Pipeline



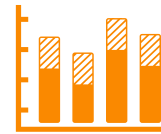
Orlando Industrial Market At A Glance

Demographics & Economy



The U.S. economy remains well entrenched in the expansion phase of the business cycle

The U.S. GDP growth rate is expected to remain between the ideal 2% to 3% range in 2019 and unemployment is forecast to continue at the natural rate.



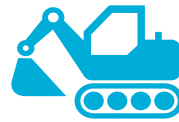
3.4%
FEB-2018
change in Orlando's unemployment rate

↓

3.2%
FEB-2019

27,524
increase in total non-farm employment since 1Q-2018

Development



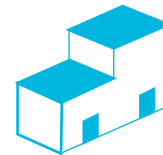
3.2 million
square feet currently under construction



11%
OF ALL INDUSTRIAL SPACE IN ORLANDO
has been delivered between 1Q15 and 1Q19



Retail supply chain reconfiguration is driving demand for new warehouse/distribution space



Clear heights are increasing - new Class A distribution buildings average 32'

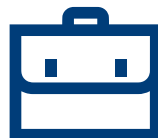
Market Influencers



\$697 million
in total industrial sales volume during the T-12 months ending 1Q19



6.5%
average rental rate increase for W/D space over the trailing 12-months ending 1Q-2019



Institutional capital continues to chase industrial real estate in the Southeast U.S.



The Amazon Effect continues to have a significant effect on the industrial market

ORLANDO MSA TOTAL											
Class Breakdown	Total RSF	Lease Rate	Direct Vacant SF	Sublet Vacant SF	Occupancy	Direct Vacancy	Sublet Vacancy	Total Vacancy	Under Construction	YTD Absorption	
Bulk Distribution	39,051,802	\$5.23	2,577,011	285,000	93.40%	6.60%	0.73%	7.33%	1,738,772	(190,626)	
Flex	14,048,891	\$10.93	885,955	3,843	93.69%	6.31%	0.03%	6.33%	0	57,973	
Manufacturing	6,565,835	\$5.68	70,098	0	98.93%	1.07%	0.00%	1.07%	0	30,100	
Warehouse / Distribution	53,713,886	\$6.76	2,179,143	14,984	95.94%	4.06%	0.03%	4.08%	1,510,173	23,171	
Market Total	113,380,414	\$6.70	5,712,207	303,827	94.96%	5.04%	0.27%	5.31%	3,248,945	(79,382)	
Northwest											
Class Breakdown	Total RSF	Lease Rate	Direct Vacant SF	Sublet Vacant SF	Occupancy	Direct Vacancy	Sublet Vacancy	Total Vacancy	Under Construction	YTD Absorption	
Bulk Distribution	1,072,949	\$6.07	149,636	0	86.05%	13.95%	0.00%	13.95%	402,582	0	
Flex	500,738	\$6.99	12,750	0	97.45%	2.55%	0.00%	2.55%	0	10,989	
Manufacturing	1,126,395	\$0.00	0	0	100.00%	0.00%	0.00%	0.00%	0	0	
Warehouse / Distribution	3,841,167	\$7.69	77,740	0	97.98%	2.02%	0.00%	2.02%	313,366	36,650	
Northwest Total	6,541,249	\$6.65	240,126	0	96.33%	3.67%	0.00%	3.67%	715,948	47,639	
Silver Star											
Class Breakdown	Total RSF	Lease Rate	Direct Vacant SF	Sublet Vacant SF	Occupancy	Direct Vacancy	Sublet Vacancy	Total Vacancy	Under Construction	YTD Absorption	
Bulk Distribution	3,365,354	\$5.75	42,800	0	98.73%	1.27%	0.00%	1.27%	0	0	
Flex	1,286,291	\$8.82	70,421	0	94.53%	5.47%	0.00%	5.47%	0	9,622	
Manufacturing	1,167,132	\$6.85	5,600	0	99.52%	0.48%	0.00%	0.48%	0	5,700	
Warehouse / Distribution	8,230,946	\$7.81	204,481	2,000	97.52%	2.48%	0.02%	2.51%	282,912	10,933	
Silver Star Total	14,049,723	\$7.74	323,302	2,000	97.70%	2.30%	0.01%	2.32%	282,912	26,255	
Longwood/Lake Mary/Sanford											
Class Breakdown	Total RSF	Lease Rate	Direct Vacant SF	Sublet Vacant SF	Occupancy	Direct Vacancy	Sublet Vacancy	Total Vacancy	Under Construction	YTD Absorption	
Bulk Distribution	1,250,450	\$4.95	318,895	0	74.50%	25.50%	0.00%	25.50%	0	0	
Flex	1,919,303	\$9.35	157,056	0	91.82%	8.18%	0.00%	8.18%	0	9,217	
Manufacturing	1,673,031	\$5.58	64,498	0	96.14%	3.86%	0.00%	3.86%	0	5,000	
Warehouse / Distribution	5,787,446	\$6.81	328,334	0	94.33%	5.67%	0.00%	5.67%	0	(39,123)	
Longwood/Lake Mary/Sanford Total	10,630,230	\$6.49	868,783	0	91.83%	8.17%	0.00%	8.17%	0	(24,906)	
North Central											
Class Breakdown	Total RSF	Lease Rate	Direct Vacant SF	Sublet Vacant SF	Occupancy	Direct Vacancy	Sublet Vacancy	Total Vacancy	Under Construction	YTD Absorption	
Flex	1,238,596	\$9.53	98,409	0	92.05%	7.95%	0.00%	7.95%	0	3,305	
Manufacturing	306,586	\$0.00	0	0	100.00%	0.00%	0.00%	0.00%	0	19,400	
Warehouse / Distribution	1,070,988	\$8.68	17,550	9,200	98.36%	1.64%	0.86%	2.50%	0	9,435	
North Central Total	2,616,170	\$9.40	115,959	9,200	95.57%	4.43%	0.35%	4.78%	0	32,140	
Central Orlando											
Class Breakdown	Total RSF	Lease Rate	Direct Vacant SF	Sublet Vacant SF	Occupancy	Direct Vacancy	Sublet Vacancy	Total Vacancy	Under Construction	YTD Absorption	
Bulk Distribution	316,943	\$0.00	0	0	100.00%	0.00%	0.00%	0.00%	0	0	
Flex	528,969	\$0.00	0	0	100.00%	0.00%	0.00%	0.00%	0	0	
Manufacturing	510,500	\$0.00	0	0	100.00%	0.00%	0.00%	0.00%	0	0	
Warehouse / Distribution	3,228,925	\$7.50	75,586	0	97.66%	2.34%	0.00%	2.34%	0	29,343	
Central Orlando Total	4,585,337	\$7.50	75,586	0	98.35%	1.65%	0.00%	1.65%	0	29,343	
Osceola County											
Class Breakdown	Total RSF	Lease Rate	Direct Vacant SF	Sublet Vacant SF	Occupancy	Direct Vacancy	Sublet Vacancy	Total Vacancy	Under Construction	YTD Absorption	
Bulk Distribution	1,353,699	\$0.00	0	0	100.00%	0.00%	0.00%	0.00%	0	0	
Flex	485,875	\$8.09	13,948	0	98.15%	1.85%	0.00%	1.85%	0	0	
Manufacturing	1,418,404	\$0.00	0	0	100.00%	0.00%	0.00%	0.00%	0	0	
Warehouse / Distribution	1,617,018	\$8.15	56,442	0	96.51%	3.49%	0.00%	3.49%	0	54,388	
Osceola County Total	4,874,996	\$8.14	70,390	0	98.66%	1.34%	0.00%	1.34%	0	54,388	
33rd Street											
Class Breakdown	Total RSF	Lease Rate	Direct Vacant SF	Sublet Vacant SF	Occupancy	Direct Vacancy	Sublet Vacancy	Total Vacancy	Under Construction	YTD Absorption	
Bulk Distribution	213,000	\$0.00	0	0	100.00%	0.00%	0.00%	0.00%	0	0	
Flex	613,674	\$10.05	11,793	0	98.08%	1.92%	0.00%	1.92%	0	4,200	
Warehouse / Distribution	3,579,490	\$6.28	142,466	0	96.02%	3.98%	0.00%	3.98%	0	(117,787)	
33rd Street Total	4,406,164	\$6.57	154,259	0	96.50%	3.50%	0.00%	3.50%	0	(113,587)	
University/East Side											
Class Breakdown	Total RSF	Lease Rate	Direct Vacant SF	Sublet Vacant SF	Occupancy	Direct Vacancy	Sublet Vacancy	Total Vacancy	Under Construction	YTD Absorption	
Bulk Distribution	350,154	\$0.00	0	0	100.00%	0.00%	0.00%	0.00%	0	0	
Flex	1,452,282	\$11.09	100,441	0	93.08%	6.92%	0.00%	6.92%	0	(29,021)	
Manufacturing	363,787	\$0.00	0	0	100.00%	0.00%	0.00%	0.00%	0	0	
Warehouse / Distribution	1,847,129	\$5.97	58,300	0	96.84%	3.16%	0.00%	3.16%	0	6,000	
University/East Side Total	4,013,352	\$9.21	158,741	0	96.04%	3.96%	0.00%	3.96%	0	(23,021)	
Orlando Central Park											
Class Breakdown	Total RSF	Lease Rate	Direct Vacant SF	Sublet Vacant SF	Occupancy	Direct Vacancy	Sublet Vacancy	Total Vacancy	Under Construction	YTD Absorption	
Bulk Distribution	8,834,960	\$5.47	606,805	0	93.13%	6.87%	0.00%	6.87%	0	(156,426)	
Flex	2,627,752	\$11.80	66,861	0	97.46%	2.54%	0.00%	2.54%	0	12,112	
Warehouse / Distribution	4,037,394	\$8.14	11,944	0	99.70%	0.30%	0.00%	0.30%	196,920	(8,232)	
Orlando Central Park Total	15,500,106	\$6.13	685,610	0	95.58%	4.42%	0.00%	4.42%	196,920	(152,546)	
Airport/Southeast											
Class Breakdown	Total RSF	Lease Rate	Direct Vacant SF	Sublet Vacant SF	Occupancy	Direct Vacancy	Sublet Vacancy	Total Vacancy	Under Construction	YTD Absorption	
Bulk Distribution	14,741,040	\$5.01	845,866	193,000	94.26%	5.74%	1.31%	7.05%	886,190	0	
Flex	2,293,276	\$12.23	299,401	3,843	93.66%	13.06%	0.17%	13.22%	0	19,888	
Warehouse / Distribution	16,446,921	\$6.58	1,042,302	3,784	93.66%	6.34%	0.02%	6.36%	716,975	10,064	
Airport/Southeast Total	33,481,237	\$6.75	2,187,569	200,627	93.47%	6.53%	0.60%	7.13%	1,603,165	29,952	
Southwest											
Class Breakdown	Total RSF	Lease Rate	Direct Vacant SF	Sublet Vacant SF	Occupancy	Direct Vacancy	Sublet Vacancy	Total Vacancy	Under Construction	YTD Absorption	
Bulk Distribution	1,763,652	\$5.85	34,200	0	98.06%	1.94%	0.00%	1.94%	0	(34,200)	
Flex	1,102,135	\$14.01	54,875	0	95.02%	4.98%	0.00%	4.98%	0	17,661	
Warehouse / Distribution	3,621,380	\$5.50	145,498	0	95.98%	4.02%	0.00%	4.02%	0	31,500	
Southwest Total	6,487,167	\$7.54	234,573	0	96.38%	3.62%	0.00%	3.62%	0	14,961	
Davenport											
Class Breakdown	Total RSF	Lease Rate	Direct Vacant SF	Sublet Vacant SF	Occupancy	Direct Vacancy	Sublet Vacancy	Total Vacancy	Under Construction	YTD Absorption	
Bulk Distribution	5,789,601	\$5.15	578,809	92,000	90.00%	10.00%	1.59%	11.59%	450,000	0	
Warehouse / Distribution	405,082	\$5.95	18,500	0	95.43%	4.57%	0.00%	4.57%	0	0	
Davenport Total	6,194,683	\$5.17	597,309	92,000	90.36%	9.64%	1.49%	11.13%	450,000	0	

Reporting Methodology: This report includes all industrial buildings and parks 20,000 SF and greater in the Orlando MSA that are not government owned. All rents are reported on a triple-net basis and are direct weighted averages calculated on total available space. The information in this report has been collected by the Avison Young research team via sources that are deemed reliable but not guaranteed.

The U.S. economy remains well entrenched in the expansion phase of the business cycle, and Orlando's economy remains strong.

Leading Indicators (Y-O-Y 1Q-2018 to 1Q-2019)

Vacancy Rate	Net Absorption	Average Asking Rate (NNN)	New Construction	Total Employment
				
5.31%	(79,382) SF	\$6.70/SF	3,248,945 SF	1.32 MM

Significant First Quarter 2019 Lease Transactions - Sorted by SF

Tenant	Property	Type	SF	Submarket
Amcor	10260 Ringhaver	Renewal	500,000	Airport/Southeast
PrimeSource Building Products	2100 Directors Row	New	165,000	Orlando Central Park
Sealy	1091 Gills	New	141,680	Airport/Southeast
Iron Mountain*	7466 Chancellor Dr	Renewal	100,045	Orlando Central Park
Amarr Doors	West Park 11	New	48,939	33rd Street
FARO Technologies	250 Technology Park	Renewal	46,481	Longwood/Lake Mary/Sanford
Ocean Blue Logistics	8810 Boggy Creek Rd	New	45,010	Airport/Southeast
Vital Pharmaceuticals	Parksouth Distribution 9550	New	38,050	Orlando Central Park
Benada Aluminum Products	343 Monroe Rd	New	31,200	Longwood/LM/Sanford
Dream-Away Mattress	Princeton Oaks 300	New	26,402	Silver Star
Smart Baking	671-675 Hickman Cir	New	18,670	Longwood/Lake Mary/Sanford
Stairmasterz	Princeton Oaks 100	New	16,035	Silver Star
SunRun	1000 Gills Dr	New	16,000	Airport/Southeast
Andersen of Central Florida*	997 W Kennedy Blvd	New	14,441	Silver Star

* Avison Young handled this transaction

Significant First Quarter 2019 Sales Transactions - Sorted by Sale Price

Property	SF	Sale Price	Price/SF	Buyer	Submarket
American Industrial Center (28 bldgs)	823,166	\$49,000,000	\$60	Blue Vista	Longwood/Lake Mary/Sanford
8601 Transport Dr	143,000	\$18,500,000	\$129	Graham Commercial	Airport/Southeast
6200/6923 Lee Vista Blvd	150,751	\$10,929,748	\$73	JRC Lee Vista Investors LLC	Airport/Southeast
1800 Crown Way	126,867	\$5,800,000	\$46	Equity Investments, LLC	Silver Star
783 Thorpe Rd	42,000	\$3,690,000	\$88	Commercial Properties	Airport/Southeast
777 W Central Blvd	56,200	\$3,100,000	\$55	TBDTR, LLC	Central Orlando
140 Maritime Dr	33,193	\$2,785,000	\$84	Imola Holdings, Inc.	Longwood/Lake Mary/Sanford
4632 36th St	21,609	\$2,650,000	\$123	Individual Investor	33rd Street



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