

Healthy Leasing and New Development Activity Bolstering Orlando's Industrial Market, Despite the Negative Absorption Recorded at Mid-Year 2019

With the U.S. industrial sector remaining the preferred asset class for investors nationwide, the end of the second quarter of 2019 marked 120 consecutive months of U.S. economic growth, the longest on record. In a year of significant portfolio transactions nationwide, another massive industrial acquisition was announced during the second quarter when private equity firm Blackstone agreed to pay nearly \$19 billion to Singapore-based Global Logistics Properties for a 179 million-sf portfolio of urban infill logistics properties. The move will nearly double Blackstone's national industrial footprint and will result in one of the largest private real estate deals on record in the U.S.

While net absorption remained negative at the close of the second quarter, it was solely attributable to a single large distribution center landing on the market after its owner vacated due to bankruptcy. Taking the impact of that block of space out of the equation, absorption would have been just over 850,000 sf at mid-year. Several key leasing deals were completed, with four deals north of 100,000 sf taking place in the Orlando Central Park and Airport/Southeast submarkets. Asking rental rates for all industrial types as a group have declined slightly over the last year, however warehouse/distribution rents have grown by 7.1% in the trailing 12-month period. The overall vacancy rate has risen by 107 basis points since the second quarter of 2018, which once again is largely attributable to the distribution center discussed above. That said, the negative net absorption recorded so far this year should be able to be absorbed during the third quarter.



13.6 million sf

of new space has delivered in the last 4 years, accounting for 12% of all industrial space in Orlando

Industrial Market Snapshot

- International beverage giant Coca-Cola has confirmed plans to build a new 269,839 sf facility in Blue Scope Property Group's 178-acre, 2.4 million-sf Mid-Florida Logistics Park in the Northwest submarket. Earlier this year, Goya Foods revealed it was planning a 330,000 sf facility in the park. Missouri-based BlueScope is also planning a 113,159-sf development in north Seminole County to be called Sanford Logistics Center, which will likely be completed during the second quarter of 2020. That building has been 50% preleased by Marine Fasteners, Inc.
- U.S. cold storage demand is expected to accelerate over the next several years as the 'grocery wars' heat up and online grocery sales continue to rise. The Food Marketing Institute and research firm Nielsen have projected that online grocery sales will increase by 13% over the next 3 years, and new space will likely be needed as refrigerated warehouses comprise less than 3% of the total U.S. industrial market. Not surprisingly, investment in refrigerated/cold storage space has grown by 42% in the last three years. All of this is good news for Orlando, which just had a 1.1 million-sf

block of warehouse and freezer/cooler space hit the market after Winn-Dixie vacated its massive distribution center in the Silver Star submarket. The property should garner considerable interest but may take longer than average to fully lease up given its sheer size and current configuration as approximately 70% is warehouse and 30% is freezer/cooler space.

- The Federal Reserve ("Fed") is holding the federal funds target range steady until late July, when it is anticipated that Fed Chair Jerome Powell could make the case for a 0.25-point interest rate cut to keep fundamentals in check.
- Some of the significant pent-up demand for industrial space has been satisfied with recent industrial deliveries, however several developers are moving forward on larger scale projects. Colony Industrial, McCraney Property Co., McDonald Development Co., Prologis, EastGroup and Foundry Commercial are all underway with significant projects in the Orlando market and several other planned industrial projects are in the early planning stages.

114.4 MSF

Total industrial inventory in the Orlando market

(185,961) SF

Direct Y-T-D net absorption as of 2Q-2019

6.42%

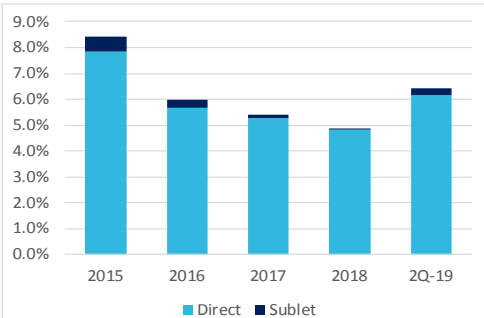
Overall Vacancy

\$6.56/SF/NNN

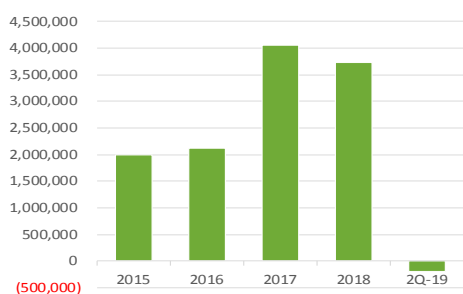
Average rental rate for industrial space

Statistical Snapshot

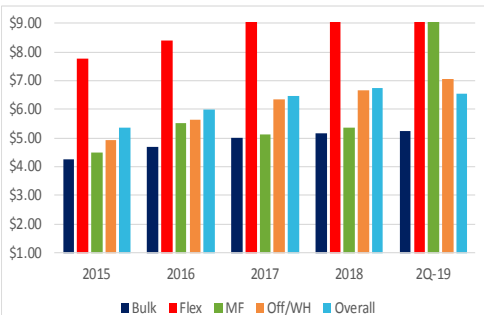
Vacancy Rate



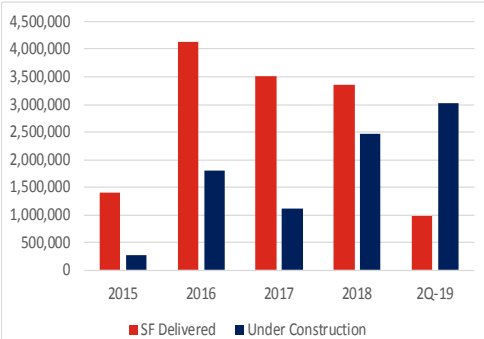
YTD Net Absorption (SF)



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



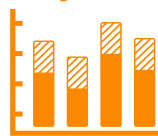
Construction Pipeline



Orlando Industrial Market At A Glance

Demographics & Economy

The U.S. 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.



27,059
increase in total non-farm employment since 2Q-2018

3.1% **2.8%**
MAY-2018 **MAY-2019**
change in Orlando's unemployment rate

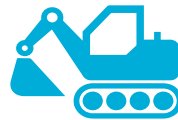


The U.S. economy remains well entrenched in the expansion phase of the business cycle but there are potential tailwinds on the horizon



Development

3 million
square feet currently under construction



12%
OF ALL INDUSTRIAL SPACE IN ORLANDO
has been delivered in the last 4 years



Retail supply chain reconfiguration continues to drive demand for new warehouse/distribution space



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

Market Influencers

\$541 million
in total industrial sales volume during the T-12 months ending 2Q19



7.1%
average rental rate increase for W/D space over the trailing 12-months ending 2Q-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 Industrial Market Report

Second Quarter 2019

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	39,543,615	\$5.23	3,873,002	252,556	90.21%	9.79%	0.64%	10.43%	1,177,022	(753,897)
Flex	14,173,185	\$10.96	912,169	8,998	93.56%	6.44%	0.06%	6.50%	0	103,434
Manufacturing	6,565,835	\$10.00	9,175	0	99.86%	0.14%	0.00%	0.14%	0	91,023
Warehouse / Distribution	54,103,050	\$7.05	2,231,423	54,521	95.88%	4.12%	0.10%	4.23%	1,840,071	373,479
Market Total	114,385,685	\$6.56	7,025,769	316,075	93.86%	6.14%	0.28%	6.42%	3,017,093	(185,961)
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	\$0.00	0	0	100.00%	0.00%	0.00%	0.00%	402,582	149,636
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	3,904,419	\$8.91	50,769	0	98.70%	1.30%	0.00%	1.30%	250,114	126,873
Northwest Total	6,604,501	\$8.53	63,519	0	99.04%	0.96%	0.00%	0.96%	652,696	287,498
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	3,295,417	\$5.75	1,099,928	0	66.62%	33.38%	0.00%	33.38%	0	(1,057,128)
Flex	1,286,291	\$8.41	60,736	0	95.28%	4.72%	0.00%	4.72%	0	19,307
Manufacturing	1,167,132	\$0.00	0	0	100.00%	0.00%	0.00%	0.00%	0	11,300
Warehouse / Distribution	8,513,858	\$7.20	500,130	2,000	94.13%	5.87%	0.02%	5.90%	0	(1,804)
Silver Star Total	14,262,698	\$6.29	1,660,794	2,000	88.36%	11.64%	0.01%	11.66%	0	(1,028,325)
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	238,206	0	80.95%	19.05%	0.00%	19.05%	0	80,689
Flex	1,919,303	\$10.15	162,584	5,155	91.53%	8.47%	0.27%	8.74%	0	3,689
Manufacturing	1,673,031	\$10.00	9,175	0	99.45%	0.55%	0.00%	0.55%	0	60,323
Warehouse / Distribution	5,787,446	\$6.98	340,065	0	94.12%	5.88%	0.00%	5.88%	27,000	(50,854)
Longwood/Lake Mary/Sanford Total	10,630,230	\$7.06	750,030	5,155	92.94%	7.06%	0.05%	7.10%	27,000	93,847
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	\$9.83	89,760	0	92.75%	7.25%	0.00%	7.25%	0	11,954
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	2,000	98.36%	1.64%	0.19%	1.83%	0	9,435
North Central Total	2,616,170	\$9.64	107,310	2,000	95.90%	4.10%	0.08%	4.18%	0	40,789
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	3,271,925	\$7.30	124,111	0	96.21%	3.79%	0.00%	3.79%	0	23,818
Central Orlando Total	4,628,337	\$7.30	124,111	0	97.32%	2.68%	0.00%	2.68%	0	23,818
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	\$8.25	45,887	0	97.16%	2.84%	0.00%	2.84%	0	64,943
Osceola County Total	4,874,996	\$8.22	59,835	0	98.87%	1.13%	0.00%	1.13%	0	64,943
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	\$7.27	24,793	0	95.96%	4.04%	0.00%	4.04%	0	(8,800)
Warehouse / Distribution	3,579,490	\$6.41	162,613	9,816	95.46%	4.54%	0.27%	4.82%	0	(124,510)
33rd Street Total	4,406,164	\$6.52	187,406	9,816	95.75%	4.25%	0.22%	4.48%	0	(133,310)
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	\$10.42	140,010	0	90.36%	9.64%	0.00%	9.64%	0	(68,590)
Manufacturing	363,787	\$0.00	0	0	100.00%	0.00%	0.00%	0.00%	0	0
Warehouse / Distribution	1,847,129	\$6.19	58,100	0	96.85%	3.15%	0.00%	3.15%	0	6,200
University/East Side Total	4,013,352	\$9.18	198,110	0	95.06%	4.94%	0.00%	4.94%	0	(62,390)
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	\$4.96	377,473	16,000	95.73%	4.27%	0.18%	4.45%	0	72,906
Flex	2,627,752	\$11.30	68,625	0	97.39%	2.61%	0.00%	2.61%	0	10,348
Warehouse / Distribution	4,037,394	\$7.52	25,149	0	99.38%	0.62%	0.00%	0.62%	196,920	(21,437)
Orlando Central Park Total	15,500,106	\$6.02	471,247	16,000	96.96%	3.04%	0.10%	3.14%	196,920	61,817
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	15,302,790	\$5.03	1,619,616	144,556	89.42%	10.58%	0.94%	11.53%	324,440	0
Flex	2,417,570	\$12.59	290,101	3,843	88.00%	12.00%	0.16%	12.16%	0	100,863
Warehouse / Distribution	16,446,921	\$6.99	842,547	3,784	94.88%	5.12%	0.02%	5.15%	1,366,037	209,819
Airport/Southeast Total	34,167,281	\$6.43	2,752,264	152,183	91.94%	8.06%	0.45%	8.50%	1,690,477	310,682
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	\$4.50	50,000	0	97.16%	2.84%	0.00%	2.84%	0	0
Flex	1,102,135	\$14.09	48,862	0	95.57%	4.43%	0.00%	4.43%	0	23,674
Warehouse / Distribution	3,621,380	\$5.85	46,002	36,921	98.73%	1.27%	1.02%	2.29%	0	130,996
Southwest Total	6,487,167	\$8.16	144,864	36,921	97.77%	2.23%	0.57%	2.80%	0	154,670
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	\$5.13	487,779	92,000	91.57%	8.43%	1.59%	10.01%	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	\$5.16	506,279	92,000	91.83%	8.17%	1.49%	9.66%	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.

Taking the Winn-Dixie distribution center out of the equation, net absorption has recovered impressively from the tepid activity reported during the first quarter, due in large part to strong leasing and the recent delivery of several partly preleased industrial developments.

Leading Indicators (Y-O-Y 2Q-2018 to 2Q-2019)

Vacancy Rate	Net Absorption	Average Asking Rate (NNN)	New Construction	Total Employment
6.42%	(185,961) SF	\$6.56/SF	3,017,093 SF	1.32 MM

Significant Second Quarter 2019 Lease Transactions - Sorted by SF

Tenant	Property	Type	SF	Submarket
Oceaneering International	Horizon Commerce Park XI	135,067	New	Airport/Southeast
Lucky's Market	Orlando Central Park 300	120,388	New	Orlando Central Park
US Ventures	Horizon Commerce Park IX	114,191	New	Airport/Southeast
Confidential IT Distributor	Orlando Corporate Center	106,575	New	Orlando Central Park
Ally Building Solutions	Crownpointe VI	99,496	New	Southwest
Confidential Tenant	Northwest Distribution Ctr C	89,578	New	Northwest
Confidential Tenant	Northwest Distribution Ctr B	60,058	New	Northwest
All Points	2663 Tradeport Dr	42,128	New	Airport/Southeast
Right Rug	5159 L B McLeod Rd	40,320	New	33rd Street
Impact Lighting	3100 Pennington Dr	20,400	New	Silver Star
OPS International, Inc.*	4600 LB McLeod Rd	11,100	New	33rd Street
Granite Construction, Inc.	Lee Vista Distribution Center III	10,957	Sublease	Airport/Southeast

* Avison Young handled this transaction

Significant Second Quarter 2019 Sales Transactions - Sorted by Sale Price

Property	SF	Sale Price	Price/SF	Buyer	Submarket
Lee Vista Business Center Bldg 'G'	159,884	\$15,500,000	\$97	Colony Capital Inc.	Airport/Southeast
Altamonte Commerce Center*	185,600	\$14,850,000	\$80	SunCap Opportunity Fund	North Central
1225-1275 Bennett Dr	118,629	\$5,575,000	\$47	Z Asset Management	Longwood/Lake Mary/Sanford
4304 Metric Dr	51,083	\$3,325,000	\$65	Red Bell Partners	University/East Side

* Avison Young is handling the leasing and management of this property

McDonald Development Sells Recently Built Speculative Project for \$15.5 Million

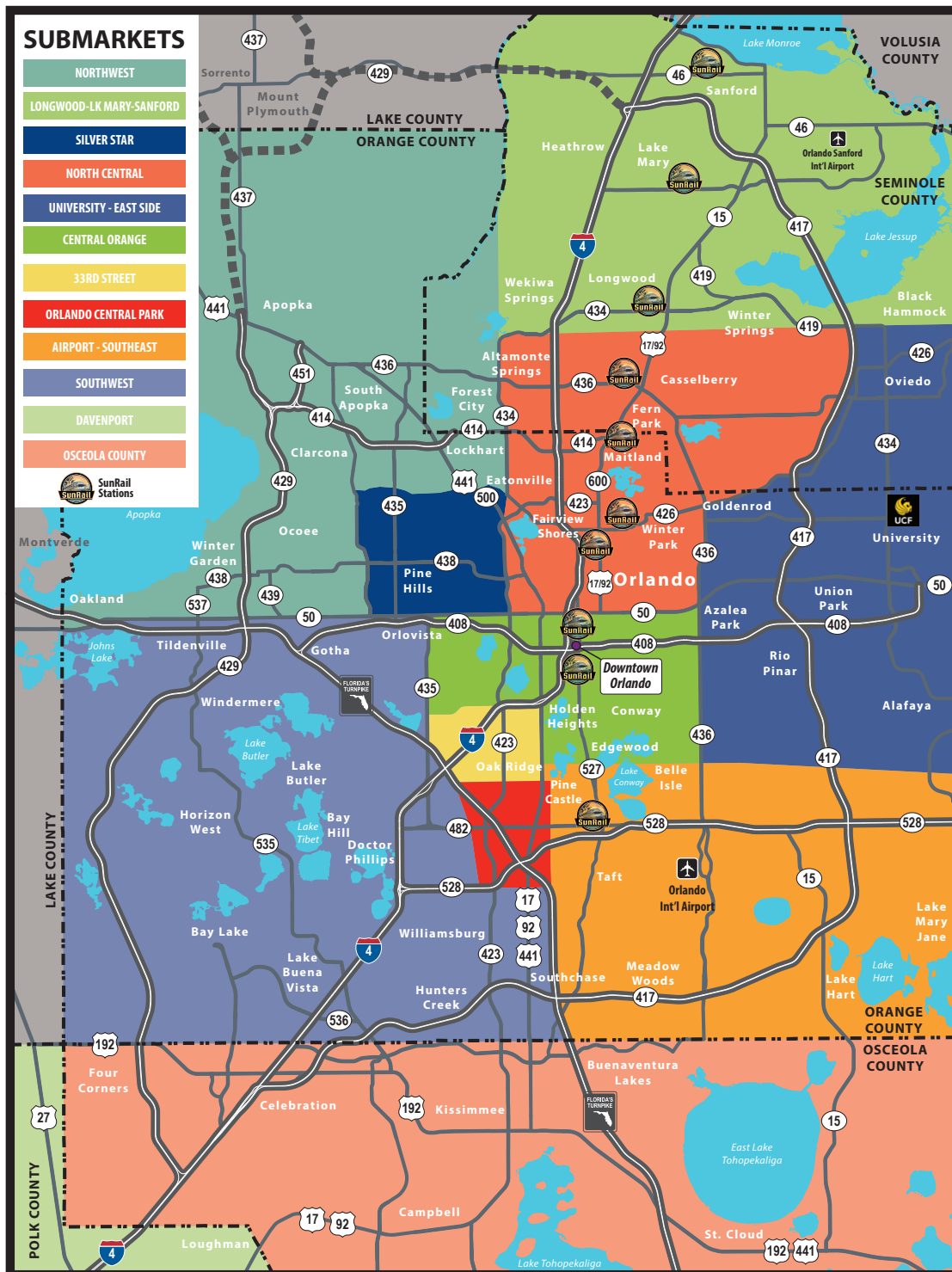
Investment activity within the industrial sector remains so solid that there are reports of new speculative construction in Orlando going on the market prior to their delivery, although nothing has yet to close. In May, Atlanta-based McDonald Development sold a recently completed warehouse/distribution building in its 81-acre master-planned business park in the Airport/Southeast submarket. Built in 2018, the 159,884-sf building was purchased by Los Angeles-based Colony Capital, which had previously purchased three other buildings in the park in 2016.



Lee Vista Business Center 'G'

Orlando Industrial Market Report

Second Quarter 2019



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