

Leasing Fundamentals Sound as New Development Remains Restrained

The end of the second quarter of 2019 marked 120 consecutive months of U.S. economic growth, the longest on record. The steady climb in investment sales over the past few years has been fueled by record amounts of institutional capital and private equity, and office-using employment has reached an all-time high. Strong data on U.S. consumer spending also resulted in upgraded estimates for economic growth during the second quarter, with economists at JPMorgan Chase raising their projections from 1% to 1.75%. By the end of March of this year, Florida's private sector businesses had created over 208,000 jobs over the trailing 12-month period and the City of Orlando had reached 48 straight months as the state's top location for job growth.

It was about one year ago when economists were predicting a coming recession in 2019, and although nothing can last forever there still seems to be plenty of gas left in Orlando's economic engine. Lenders have remained more disciplined during this cycle, even as investors replete with capital are pushing property prices higher and higher, narrowing opportunities for yield, and developers have been careful not to overbuild. For now, 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.



Three of the top 10 fastest growing cities in Florida are in the Orlando area, which currently has an unemployment rate of 2.8%.

Office Market Snapshot

- While leasing was a bit slower during the second quarter, several key deals were signed and are covered on page 4 of this report. The largest deals were Lockheed Martin Corp.'s lease of 136,000 sf that is being vacated by Sea World in SouthPark Center, and WeWork's lease of just over 70,000 sf at the iconic SunTrust Center in Downtown Orlando, making it the co-working company's first space in Central Florida.
- Virgin Trains USA, formerly known as Brightline, broke ground during the second quarter on its \$4 billion Orlando to Miami route, which is projected to be complete by 2022. The project will create 10,000 construction jobs and is expected to be a significant economic driver in Central Florida.
- Orlando was recently ranked 9th out of 379 metros for metro areas with a population of 1 million or more in Arkansas-based Walton Family Foundation's 'The Most Dynamic Metropolitans' report. Also noteworthy is that the U.S. Census Bureau's latest figures indicate that 3 of the top 10 fastest growing cities in Florida are in the Orlando area (Kissimmee, St. Cloud, and the City of Orlando itself).
- With the largely preleased SunTrust Plaza at Church Street Station scheduled to deliver in downtown during the third quarter of this year, attention is turning to its sister mixed-use property to be built on the site of current Church Street Ballroom. With a relative dearth of large contiguous blocks of quality class A space available in the market, the second tower is critical for luring new to market firms and the landlord has indicated significant interest from several undisclosed potential tenants. Similar to the first building, T2 at Church St. Station (as the building is called) will also feature roughly 200,000 sf of office space and a branded hotel flag. Groundbreaking is expected in January 2020 following the demolition of the Church Street ballroom later this fall.
- The University of Central Florida's shared campus with Valencia College in the \$1.5 billion Creative Village mixed-use development is expected to be open when classes begin this August. The impact on Downtown Orlando will be significant as the campus will be home to more than 7,700 students and 300 faculty and staff.

37.3 MSF

Total office inventory in the Orlando office market

114,554 SF

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

8.67%

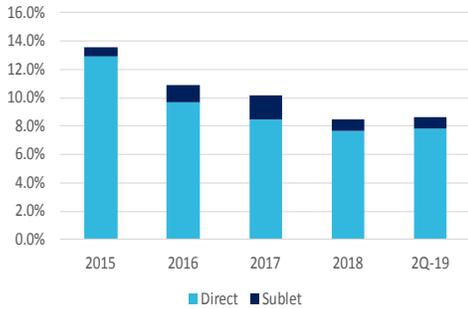
Overall Vacancy

\$27.33/SF/FS

Average rental rate for class A space

Statistical Snapshot

Vacancy Rate



YTD Net Absorption (SF)



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



Construction Pipeline



Orlando Office Market At A Glance

Demographics & Economy



75 million

Number of visitors to Orlando during 2018, a 4% increase over the previous year, which translates to a potential \$2 billion in spending in the region's \$70 billion tourism and travel industry



Jobs in the professional and business services sector have increased by 14,700 over the trailing 12 mos ending 2Q19 in Orlando

3.1%
MAY-2018



2.8%
MAY-2019

change in Orlando's unemployment rate

Development



\$2 billion

in new development projects planned or underway in Orlando's 1,000-AC central business district



85,000

are employed in Central Florida's construction industry, about 15% of the state's total



278K

square feet of office space currently under construction



Virgin Trains USA has broken ground on its Orlando to Miami route, part of a \$4 billion expansion to be completed in 2022

Ultimate I-4 Project



\$2.3 BILLION RENOVATION underway on 21-mile stretch of I-4



\$3.6 BILLION in multifamily construction underway or planned in metro Orlando

Market Influencers



\$843 million

in total office sales volume during the trailing-12 mos ending 2Q19



3.2%

average rental rate increase over the trailing 12-mos ending 2Q-2019

ORLANDO MSA TOTAL

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Avg Rent Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	17,153,497	939,844	267,806	\$27.33	94.52%	5.48%	1.56%	7.04%	277,813	65,558
Class B	20,174,011	1,978,867	51,249	\$21.41	90.19%	9.81%	0.25%	10.06%	0	48,996
Total	37,327,508	2,918,711	319,055	\$23.32	92.18%	7.82%	0.85%	8.67%	277,813	114,554

CBD

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	4,088,654	269,257	123,281	\$27.35	93.41%	6.59%	3.02%	9.60%	217,000	(22,195)
Class B	3,036,412	315,232	0	\$25.97	89.62%	10.38%	0.00%	10.38%	0	(40,681)
Total	7,125,066	584,489	123,281	\$26.61	91.80%	8.20%	1.73%	9.93%	217,000	(62,876)

Non-CBD / Suburban

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	13,064,843	670,587	144,525	\$27.32	94.87%	5.13%	1.11%	6.24%	60,813	87,753
Class B	17,137,599	1,663,635	51,249	\$20.55	90.29%	9.71%	0.30%	10.01%	0	89,677
Total	30,202,442	2,334,222	195,774	\$22.49	92.27%	7.73%	0.65%	8.38%	60,813	177,430

436 Corridor

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	339,475	12,681	14,186	\$26.73	96.26%	3.74%	4.18%	7.91%	0	4,088
Class B	1,000,992	64,041	6,470	\$19.52	93.60%	6.40%	0.65%	7.04%	0	29,666
Total	1,340,467	76,722	20,656	\$20.71	94.28%	5.72%	1.54%	7.26%	0	33,754

Altamonte / Longwood

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	2,458,157	383,806	0	\$18.31	84.39%	15.61%	0.00%	15.61%	0	(56,173)
Total	2,458,157	383,806	0	\$18.31	84.39%	15.61%	0.00%	15.61%	0	(56,173)

Downtown Orlando

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	4,088,654	269,257	123,281	\$27.35	93.41%	6.59%	3.02%	9.60%	217,000	(22,195)
Class B	3,036,412	315,232	0	\$25.97	89.62%	10.38%	0.00%	10.38%	0	(40,681)
Total	7,125,066	584,489	123,281	\$26.61	91.80%	8.20%	1.73%	9.93%	217,000	(62,876)

Lake Mary / Heathrow

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	3,889,831	251,738	55,243	\$27.09	93.53%	6.47%	1.42%	7.89%	0	(31,250)
Class B	1,730,864	176,939	5,000	\$20.25	89.78%	10.22%	0.29%	10.51%	0	43,384
Total	5,620,695	428,677	60,243	\$24.27	92.37%	7.63%	1.07%	8.70%	0	12,134

Maitland

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	2,036,647	65,034	5,072	\$26.18	96.81%	3.19%	0.25%	3.44%	0	(22,944)
Class B	3,973,999	375,126	28,609	\$20.34	90.56%	9.44%	0.72%	10.16%	0	19,250
Total	6,010,646	440,160	33,681	\$21.20	92.68%	7.32%	0.56%	7.88%	0	(3,694)

Southeast Orlando

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	998,205	114,793	2,444	\$29.80	88.50%	11.50%	0.24%	11.74%	0	49,473
Class B	425,439	3,669	0	\$22.83	99.14%	0.86%	0.00%	0.86%	0	10,779
Total	1,423,644	118,462	2,444	\$29.59	91.68%	8.32%	0.17%	8.49%	0	60,252

Southwest Orlando

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	4,172,484	140,455	67,580	\$27.40	97.68%	2.32%	1.47%	3.79%	0	116,614
Class B	3,064,894	306,613	1,229	\$21.66	90.00%	10.00%	0.04%	10.04%	0	(25,729)
Total	7,237,378	447,068	68,809	\$23.46	94.42%	5.58%	0.86%	6.44%	0	90,885

University / Research

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	1,329,406	85,886	0	\$25.51	93.54%	6.46%	0.00%	6.46%	34,097	(28,228)
Class B	3,245,451	273,694	9,941	\$22.40	91.57%	8.43%	0.31%	8.74%	0	64,461
Total	4,574,857	359,580	9,941	\$23.14	92.14%	7.86%	0.22%	8.08%	34,097	36,233

Winter Park / Lee Road

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Lease Rate	% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	298,795	0	0	\$0.00	100.00%	0.00%	0.00%	0.00%	26,716	0
Class B	1,237,803	79,747	0	\$23.04	93.56%	6.44%	0.00%	6.44%	0	4,039
Total	1,536,598	79,747	0	\$23.04	94.81%	5.19%	0.00%	5.19%	26,716	4,039

Reporting Methodology: This report includes all class 'A' and 'B' office buildings and parks 20,000 SF and greater in the Orlando MSA that are not owner occupied, office medical, or government owned. All rents are reported on a full-service gross basis. The information in this report has been collected by the Avison Young research team via sources that are deemed reliable but is not guaranteed.

Net absorption of office space was down slightly over the first quarter of the year but still healthy at 114,554 sf, with strong absorption of class A office space in the Southwest submarket.

Leading Indicators (Y-0-Y 2Q-2018 to 2Q-2019)

Vacancy Rate	Net Absorption	Average Asking Rate (FS)	New Construction	Total Employment
8.67%	114,554 SF	\$23.32	277,813 SF	1.32 MM

Significant Second Quarter 2019 Lease Transactions - Sorted by SF

Tenant	Property	SF Leased	Type	Submarket
Alight Solutions	Discovery Point	142,000	Renewal	University/Research
Lockheed Martin Corp.	SouthPark Center	136,000	New	Southwest
WeWork Cos.	SunTrust Center	71,244	New	Downtown Orlando
General Dynamics Information*	Challenger Tech Center II	21,029	New	University/Research
Allscripts	Millenia Lakes I	16,000	New	Southwest
GEICO*	111 N Orange Ave	10,909	New	Downtown Orlando
TelAffects	Heathrow International Business Center	9,996	New	Lake Mary/Heathrow
Jacobs Engineering Group	SunTrust Center	7,034	New	Downtown Orlando
Rubenstein Law	SunTrust Center	6,272	New	Downtown Orlando
PaySmart USA	Heathrow International Business Center	5,949	New	Lake Mary/Heathrow

*Avison Young handled this transaction

Significant Second Quarter 2019 Sales Transactions - Sorted by Sale Price

Property	SF	Sale Price	Price/SF	Buyer	Submarket
University Park (5 bldgs)	388,863	\$67,357,859	\$173	IP Capital Partners	University/Research
Siemens Building	225,608	\$53,750,000	\$238	Real Capital Solutions	University/Research
Discovery Point	364,000	\$49,500,000	\$136	Tower Realty Partners/DRA Advisors	University/Research
Highwoods Properties Portfolio	186,832	\$32,500,000	\$174	New York Life	Southwest Orlando
<i>Berkshire at MetroWest</i>	<i>99,000</i>	<i>\$17,200,000</i>	<i>\$174</i>	<i>New York Life</i>	<i>Southwest Orlando</i>
<i>Windsor at Metro Center</i>	<i>87,832</i>	<i>\$15,300,000</i>	<i>\$174</i>	<i>New York Life</i>	<i>Southwest Orlando</i>
Contact Pointe	95,076	\$15,000,000	\$158	Exeter	Lake Mary/Heathrow

Considerable sales activity in the University/Research submarket comprised 78% of all sales during the second quarter, totaling \$170.6 million and accounting for over 978,000 sf. Major renovations are planned for Discovery Point, currently occupied by Alight Solutions, which will be downsizing into 142,000 sf and freeing up more than 200,000 sf of new multi-tenant, class A office space.



University Park



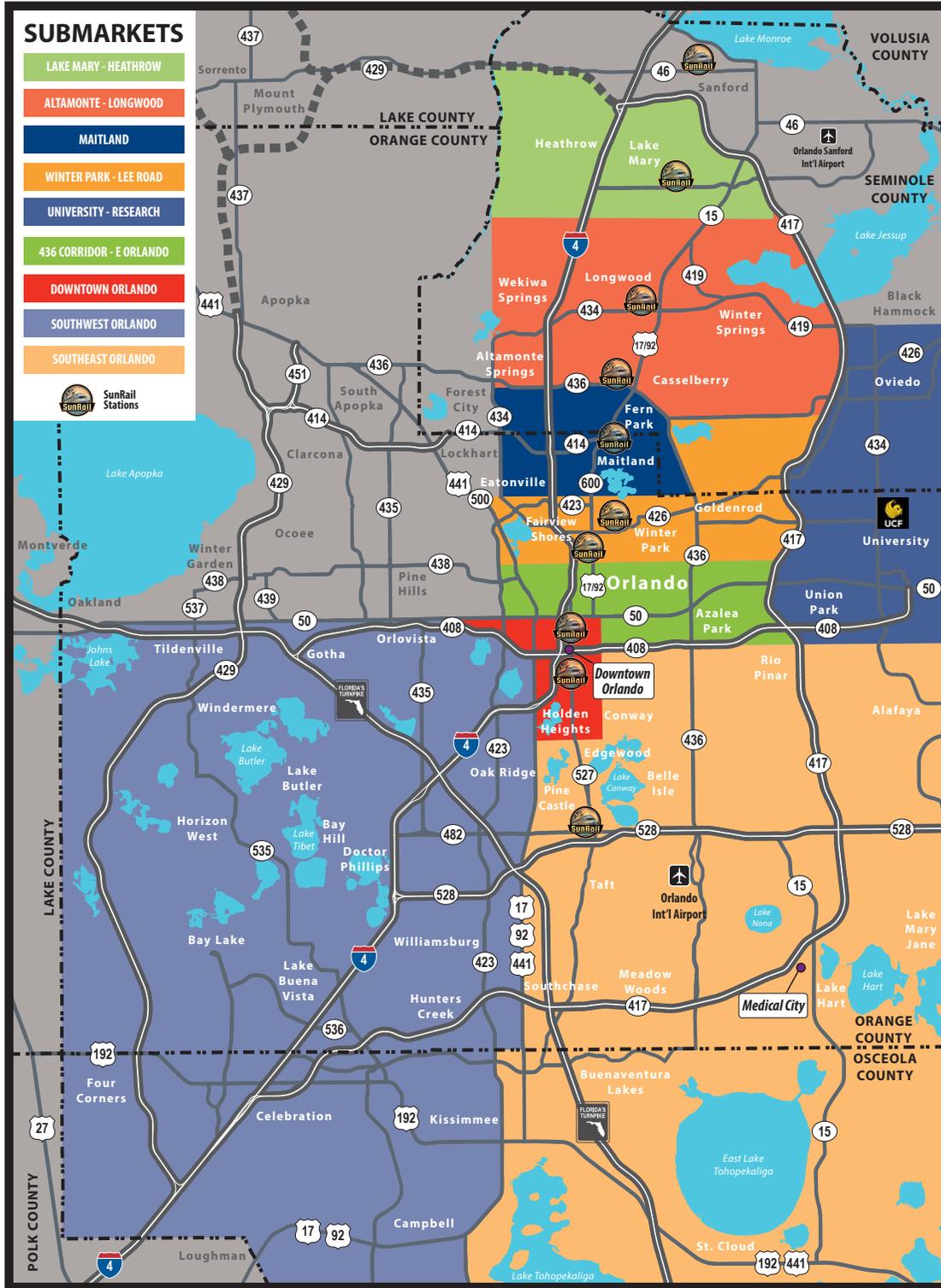
Siemens Building



Discovery Point

Orlando Office Market Report

Second Quarter 2019



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