

Office market headwinds building as we move into the fourth quarter

Orlando’s economy, which is supported in good measure by the leisure and hospitality sector, continues to recover from the damage inflicted by COVID-19 beginning this past spring, although the overall picture is not as bleak as previously feared. While unemployment rose as high as 21.1% in May of this year, it had fallen to 11.0% as of August, according to the Bureau of Labor Statistics. Early projections call for the rate to decline further in September, although tourism and hospitality industry layoffs will likely continue in the near term.

The shadow of sublease space still looms

Overall vacancy rose slightly over the previous quarter to 10.94%, although the anticipated glut of sublease space is slower than expected to appear. That may change by the end of 2021 as companies evaluate their current floor plates and their percentage of employees that will return to the office full time. It is likely that a majority of those decisions will not be made until well into 2021 when the overall economic picture becomes more clear.

Leasing activity beginning to accelerate

The pandemic temporarily interrupted tenant demand however the third quarter saw many companies (especially government services and defense-related companies) return to the deal table and leasing velocity has begun to accelerate. The largest transaction during the third quarter took place when

the General Services Administration leased the still-to-be-renovated 500 N Orange building in Downtown Orlando. The 113,000-sf deal is reflective of the urban core’s continued appeal, particularly to users seeking proximity to restaurants, retail, and entertainment. The Internal Revenue Service will also be relocating from Maitland to Downtown Orlando in 2021 following their lease of 28,118 sf at Seaside Plaza, leaving a large block of contiguous space available at the 850 building in Maitland Center.

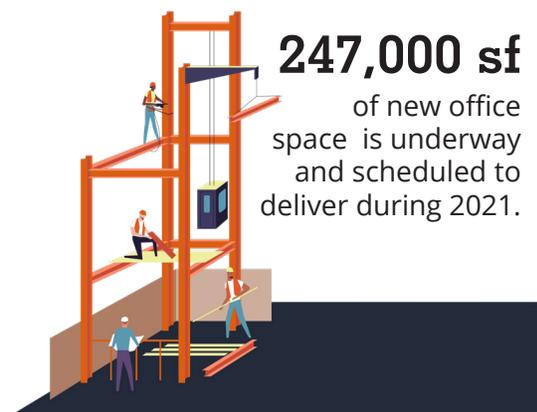
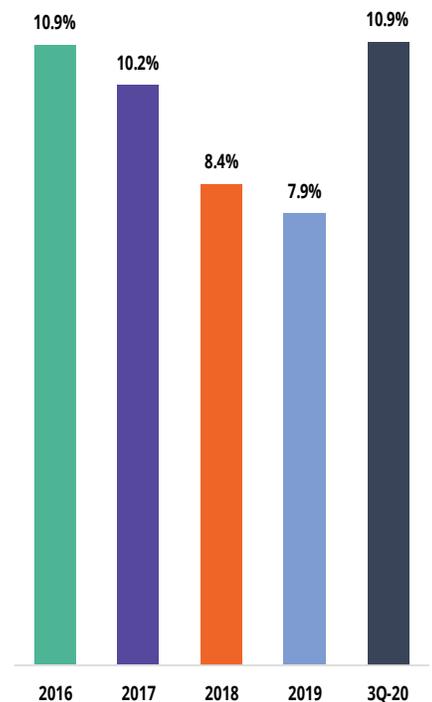
Investment activity remains muted

Total investment volume for the trailing 12-month period ending September 2020 was -40.2% at \$345.7 million, however there is quite a bit of patient capital waiting in the wings. Investors hoping to secure significant deals have so far been disappointed.

Looking ahead toward 2021

The fear that personified the beginning of the current pandemic continues to fade and is being replaced by a sense of optimism that the effect of the virus on the property markets – outside of the hospitality and retail sectors - will prove to be manageable (for most) in the long run. Business continues to forge ahead, and although tomorrow’s workplace needs may not be fully evident today, it has become clear that both companies and their workforces eagerly await a return to normal. That said, headwinds will persist into 2021 as companies further evaluate their future space needs.

Historical 5-Year Vacancy Trend



37.7 MSF

Total office inventory in the Orlando office market

(579,293) SF

Direct Y-T-D net absorption as of 3Q-2020

10.94%

Overall vacancy

\$28.89/SF/FS

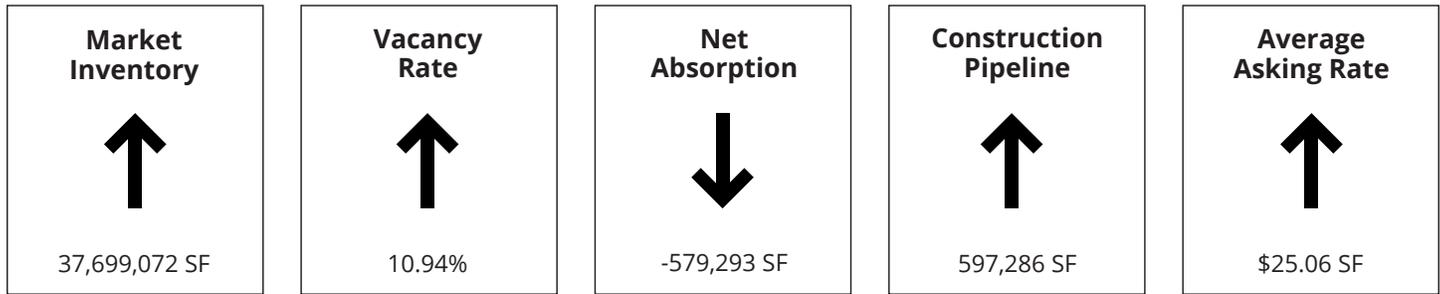
Average rental rate for class A space

Market by the numbers

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	17,502,203	1,201,617	363,841	\$28.89	93.13%	6.87%	2.08%	8.94%	530,000	(268,061)
Class B	20,196,869	2,314,822	242,309	\$23.08	88.54%	11.46%	1.20%	12.66%	67,286	(311,232)
Total	37,699,072	3,516,439	606,150	\$25.06	90.67%	9.33%	1.61%	10.94%	597,286	(579,293)
CBD										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF		% Occupied	% Vacant	% Sublet Vacant	% Total Vacancy	Under Construction	Net Absorption
Class A	4,301,044	338,074	184,103	\$30.89	92.14%	7.86%	4.28%	12.14%	180,000	(92,706)
Class B	3,164,708	541,699	41,287	\$28.20	82.88%	17.12%	1.30%	18.42%	0	(4,667)
Total	7,465,752	879,773	225,390	\$29.23	88.22%	11.78%	3.02%	14.80%	180,000	(97,373)
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	13,201,159	863,543	179,738	\$28.11	93.46%	6.54%	1.36%	7.90%	350,000	(175,355)
Class B	17,032,161	1,773,123	201,022	\$21.51	89.59%	10.41%	1.18%	11.59%	67,286	(306,565)
Total	30,233,320	2,636,666	380,760	\$23.67	91.28%	8.72%	1.26%	9.98%	417,286	(481,920)
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	8,400	5,515	\$27.81	97.53%	2.47%	1.62%	4.10%	0	9,737
Class B	1,000,992	67,362	13,152	\$21.31	93.27%	6.73%	1.31%	8.04%	0	(26,948)
Total	1,340,467	75,762	18,667	\$22.03	94.35%	5.65%	1.39%	7.04%	0	(17,211)
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	421,810	15,526	\$18.83	82.84%	17.16%	0.63%	17.79%	0	(7,366)
Total	2,458,157	421,810	15,526	\$18.83	82.84%	17.16%	0.63%	17.79%	0	(7,366)
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	4,301,044	338,074	184,103	\$30.89	92.14%	7.86%	4.28%	12.14%	180,000	(92,706)
Class B	3,164,708	541,699	41,287	\$28.20	82.88%	17.12%	1.30%	18.42%	0	(4,667)
Total	7,465,752	879,773	225,390	\$29.23	88.22%	11.78%	3.02%	14.80%	180,000	(97,373)
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	3,999,431	372,159	94,105	\$28.12	90.69%	9.31%	2.35%	11.66%	0	(91,504)
Class B	1,730,864	145,138	53,714	\$18.62	91.61%	8.39%	3.10%	11.49%	0	(17,557)
Total	5,730,295	517,297	147,819	\$25.46	90.97%	9.03%	2.58%	11.61%	0	(109,061)
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	132,200	3,595	\$26.50	93.51%	6.49%	0.18%	6.67%	0	(33,345)
Class B	3,907,004	363,201	57,265	\$21.05	90.70%	9.30%	1.47%	10.76%	0	(15,898)
Total	5,943,651	495,401	60,860	\$22.50	91.67%	8.33%	1.02%	9.36%	0	(49,243)
Airport/Lake Nona										
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	66,721	11,962	\$28.62	93.32%	6.68%	1.20%	7.88%	0	39,454
Class B	455,640	7,667	0	\$22.00	98.32%	1.68%	0.00%	1.68%	0	(3,563)
Total	1,453,845	74,388	11,962	\$27.94	94.88%	5.12%	0.82%	5.94%	0	35,891
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	163,465	45,163	\$26.96	96.14%	3.86%	1.08%	4.94%	350,000	(78,106)
Class B	2,996,250	253,704	5,472	\$22.24	91.53%	8.47%	0.18%	8.65%	0	(73,605)
Total	7,168,734	417,169	50,635	\$24.09	94.22%	5.78%	0.71%	6.49%	350,000	(151,711)
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	97,381	15,991	\$27.11	92.67%	7.33%	1.20%	8.53%	0	(38,609)
Class B	3,245,451	442,121	53,406	\$24.60	86.38%	13.62%	1.65%	15.27%	67,286	(190,993)
Total	4,574,857	539,502	69,397	\$25.05	88.21%	11.79%	1.52%	13.31%	67,286	(229,602)
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	325,511	23,217	3,407	\$48.12	92.87%	7.13%	1.05%	8.18%	0	17,018
Class B	1,237,803	72,120	2,487	\$24.01	94.17%	5.83%	0.20%	6.03%	0	29,365
Total	1,563,314	95,337	5,894	\$29.88	93.90%	6.10%	0.38%	6.48%	0	46,383

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.

Leading Indicators (Y-O-Y Q3-2019 to Q3-2020)



Significant Third Quarter 2020 Lease Transactions - Sorted by SF

Tenant	Property	Type	SF	Submarket
General Services Administration	500 N Orange Ave	New	113,000	Downtown Orlando
Diamond Resorts International	8415 Southpark Cir	Renewal	98,384	Southwest
Lensar*	Discovery Tech Center	Renewal	33,946	University/Research
Nemours Children's Clinic	1717 S Orange Ave	Renewal	30,870	Southwest
Internal Revenue Service	Seaside Plaza	New	28,118	Downtown Orlando
Department of Homeland Security	6643 Hazeltine National Dr	Renewal	27,840	Airport/Lake Nona
SAP	Primera V	New	17,294	Lake Mary/Heathrow
Morgan & Morgan	Sanlando Center 2	New	14,348	Altamonte/Longwood
Amadeus Airport IT Americas, Inc	Citadel International	Renewal	11,096	Airport/Lake Nona
Luminar Technologies	Discovery Lakes	Sublease	8,977	University/Research
Lockheed Martin*	Challenger Tech Center	New	8,539	University/Research

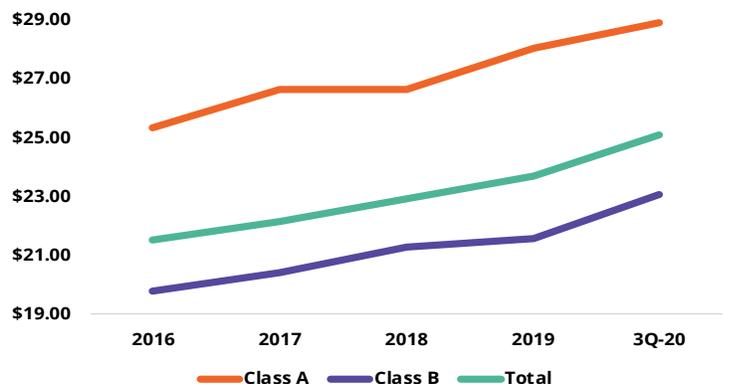
*Avison Young handled this transaction

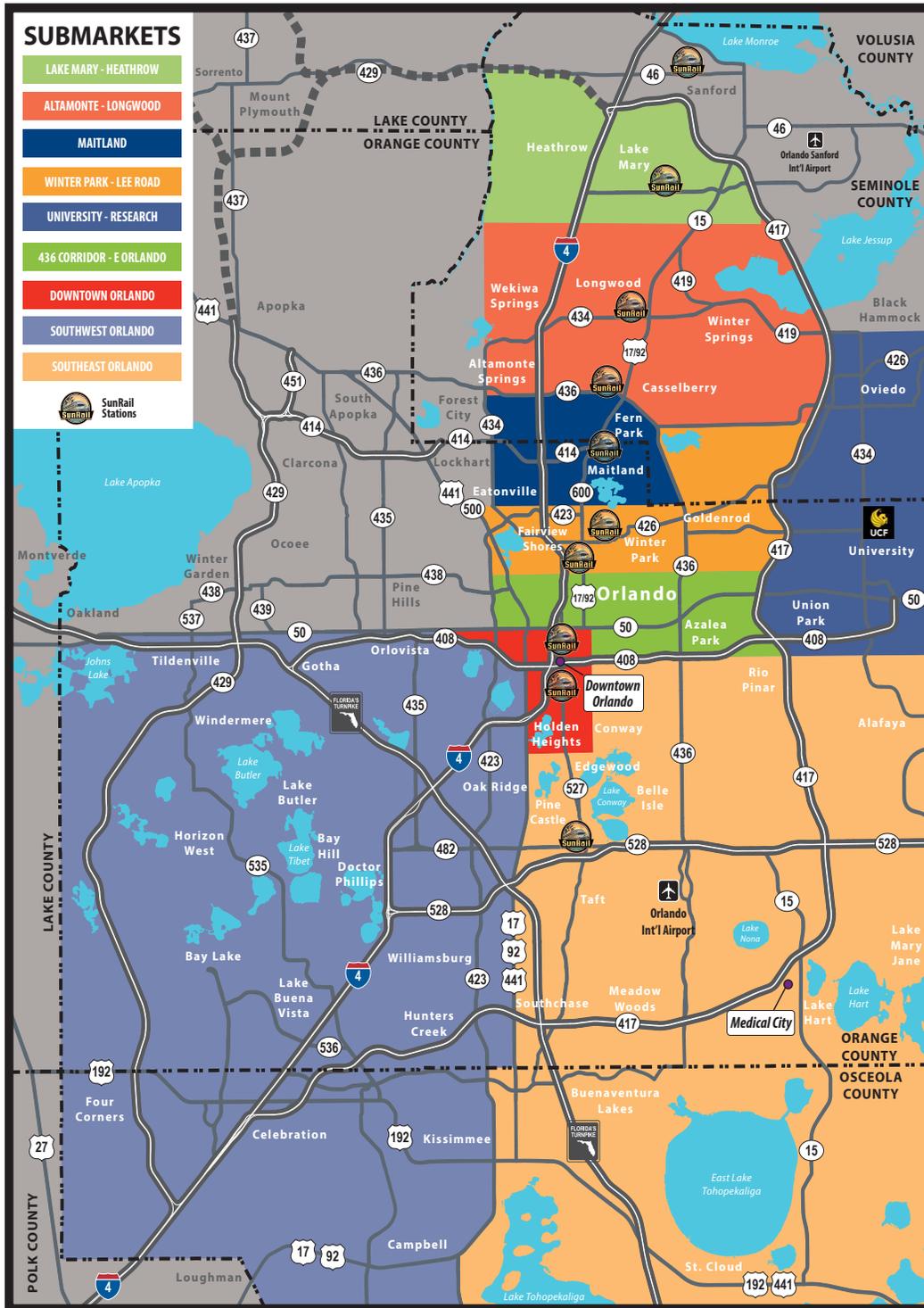
Significant Third Quarter 2020 Sales Transactions - Sorted by SF

Property	SF	Sale Price	Price/SF	Buyer	Submarket
North Lake Business Park	270,555	\$28,500,000	\$105	Taurus Investment Holdings, LLC	Altamonte/Longwood

Asking rents largely holding steady amid a slow uptick in leasing velocity

There was a slight increase in rents over the preceding quarter of 0.5%, which is notable given a slight decline was feared. Asking rents remain firm in much of Orlando's office market, with the most notable increases reported in Downtown Orlando (+1.1%) and the University/Research submarket (+2.0%).





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