

Orlando

Deal activity beginning to pick up even as headwinds are expected to persist in 1H-2021

The office vacancy rate in Orlando continues to rise following a year of diminishing demand for office space as a shift to working remotely continues to impact the market. The current overall vacancy rate is up 47 basis points (bps) over the trailing 90-day period ending December 2020, with additional upward pressure expected during the first half of 2021. While tenant demand was fairly subdued earlier in the year, leasing began to pick up in the 3rd quarter and was healthy at the end of the year with several key deals taking place, including six new deals greater than 20,000 sf.

Flexibility expected to endure

2020 was a year like no other. The pandemic is accelerating structural shifts and changing how tenants view their office environments. While the trend of de-densification is beginning to take root, most companies are expected to return to the office with new objectives for how they will utilize their space. Moving forward, many new office developments are expected to focus on flexible building design, incorporating wellness into their footprints, and/or providing a mixed-use component in order to create a more 'livable' workspace for employees.

A return of investment activity

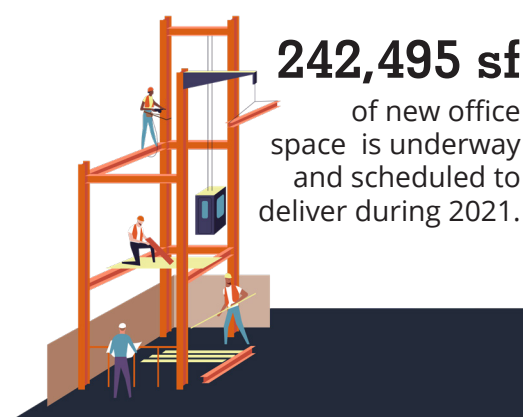
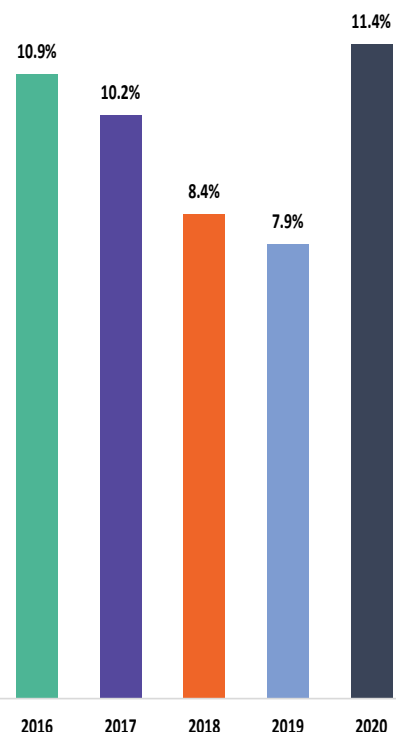
While U.S. office investment volume was down considerably during 2020, there is approximately \$200 billion in investment capital expected to come off the sidelines in 2021 that will be targeting commercial real estate. Total investment volume for the trailing 12-month period ending December 2020 in the Orlando

market was -54.0% at \$311.6 million due in large part to the ongoing impact of the pandemic, however there were several notable sales during the fourth quarter. The largest transaction during that time was Piedmont Office Realty Trust's purchase of a 10-story office building at 222 S Orange Ave that is immediately adjacent to downtown's signature office building. The 128,296-sf property sold for \$20 million, or \$156 per sf, and the new owner is underway on a building renovation that will position it with a standard more in line with its class A+ neighbor. Notably, there were also two significant transactions in the University/Research and Southwest markets with prices well above \$200 per sf in the Quadrangle and SouthPark Center

Looking ahead toward 2021

With new deal activity beginning to pick up toward the end of the year and more tenants willing to sign traditional term deals beyond the short-term renewals that dominated the conversation for two quarters, there is optimism that Orlando's office market will begin to approach a return to normal by the end of 2021. For now, sublease space is on the rise and rental rates have the potential to decelerate in the near-term. The fear that personified the beginning of the current pandemic continues to fade and with a contentious election cycle behind us and COVID-19 vaccine distribution in front of us, attention can now turn to promoting job growth and reversing the occupancy losses sustained during 2020.

Historical 5-Year Vacancy Trend



37.7 MSF

Total office inventory in the Orlando office market

(643,003) SF

Direct Y-T-D net absorption as of 4Q-2020

11.41%






Overall Vacancy

\$28.83/SF/FS

Average rental rate for class A space

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	1,278,893	533,662	\$28.83	92.69%	7.31%	3.05%	10.36%	475,000	(345,337)
Class B	20,196,869	2,272,252	215,840	\$22.75	88.75%	11.25%	1.07%	12.32%	67,495	(297,666)
Total	37,699,072	3,551,145	749,502	\$24.94	90.58%	9.42%	1.99%	11.41%	542,495	(643,003)
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	352,793	165,547	\$30.80	91.80%	8.20%	3.85%	12.05%	175,000	(107,425)
Class B	3,164,708	530,349	39,379	\$28.27	83.24%	16.76%	1.24%	18.00%	0	(22,321)
Total	7,465,752	883,142	204,926	\$29.28	88.17%	11.83%	2.74%	14.57%	175,000	(129,746)
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	926,100	368,115	\$28.08	92.98%	7.02%	2.79%	9.80%	300,000	(237,912)
Class B	17,032,161	1,741,903	176,461	\$21.07	89.77%	10.23%	1.04%	11.26%	67,495	(275,345)
Total	30,233,320	2,668,003	544,576	\$23.50	91.18%	8.82%	1.80%	10.63%	367,495	(513,257)
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	17,958	0	\$28.09	94.71%	5.29%	0.00%	5.29%	0	179
Class B	1,000,992	67,404	12,728	\$21.36	93.27%	6.73%	1.27%	8.01%	0	(26,990)
Total	1,340,467	85,362	12,728	\$22.78	93.63%	6.37%	0.95%	7.32%	0	(26,811)
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	420,611	4,171	\$18.32	82.89%	17.11%	0.17%	17.28%	0	(6,167)
Total	2,458,157	420,611	4,171	\$18.32	82.89%	17.11%	0.17%	17.28%	0	(6,167)
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	352,793	165,547	\$30.80	91.80%	8.20%	3.85%	12.05%	175,000	(107,425)
Class B	3,164,708	530,349	39,379	\$28.27	83.24%	16.76%	1.24%	18.00%	0	(22,321)
Total	7,465,752	883,142	204,926	\$29.28	88.17%	11.83%	2.74%	14.57%	175,000	(129,746)
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	353,750	289,080	\$27.92	91.15%	8.85%	7.23%	16.07%	0	(73,095)
Class B	1,730,864	153,814	33,543	\$19.06	91.11%	8.89%	1.94%	10.82%	0	(26,233)
Total	5,730,295	507,564	322,623	\$25.24	91.14%	8.86%	5.63%	14.49%	0	(99,328)
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	156,519	0	\$26.57	92.31%	7.69%	0.00%	7.69%	0	(57,664)
Class B	3,907,004	400,665	66,324	\$21.00	89.74%	10.26%	1.70%	11.95%	0	(53,362)
Total	5,943,651	557,184	66,324	\$22.57	90.63%	9.37%	1.12%	10.49%	0	(111,026)
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	69,138	11,962	\$28.23	93.07%	6.93%	1.20%	8.12%	0	37,037
Class B	455,640	21,886	0	\$22.35	95.20%	4.80%	0.00%	4.80%	0	(17,782)
Total	1,453,845	91,024	11,962	\$26.82	93.74%	6.26%	0.82%	7.08%	0	19,255
Southwest Orlando										
Class Breakdown	Total RSF	Direct Vacant SF								

Leading Indicators (Y-O-Y Q4-2019 to Q4-2020)

Market Inventory  37,699,072 SF	Vacancy Rate  11.41%	Net Absorption  -643,003 SF	Construction Pipeline  542,495 SF	Average Asking Rate  \$24.94 SF
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Significant Fourth Quarter 2020 Lease Transactions - Sorted by SF

Tenant	Property	Type	SF	Submarket
Northrop Grumman	Discovery Point	New	85,117	University/Research
CapTel*	Challenger Tech Center II	Renewal	51,888	University/Research
State of Florida/DEO*	6101 Chancellor Dr	Renewal	46,886	Airport/Lake Nona
Bluegreen Vacations Corp.	700 SouthPark Center	New	43,710	Southwest
Interplan	Centerpointe Two	New	28,540	Altamonte/Longwood
High Key	Discovery One	New	25,209	University/Research
Henderson Agency	5551 Vanguard	New	22,368	Southwest
CoPilot	Maitland Green I	New	20,038	Maitland
Cole Engineering	Alafaya Corporate Center I	New	14,542	University/Research
Turbine Technology*	Challenger Tech Center III	Renewal	6,896	University/Research

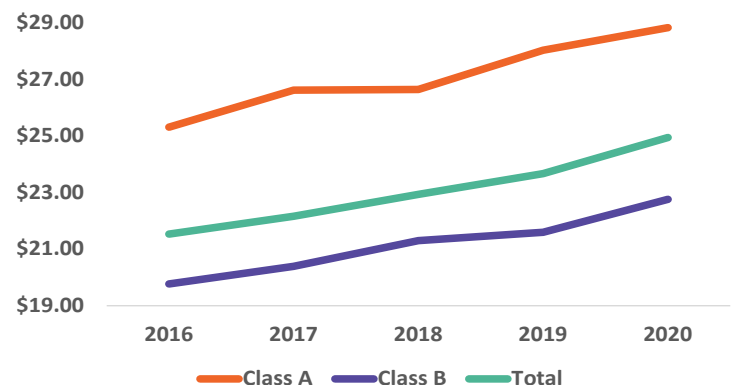
*Avison Young handled this transaction

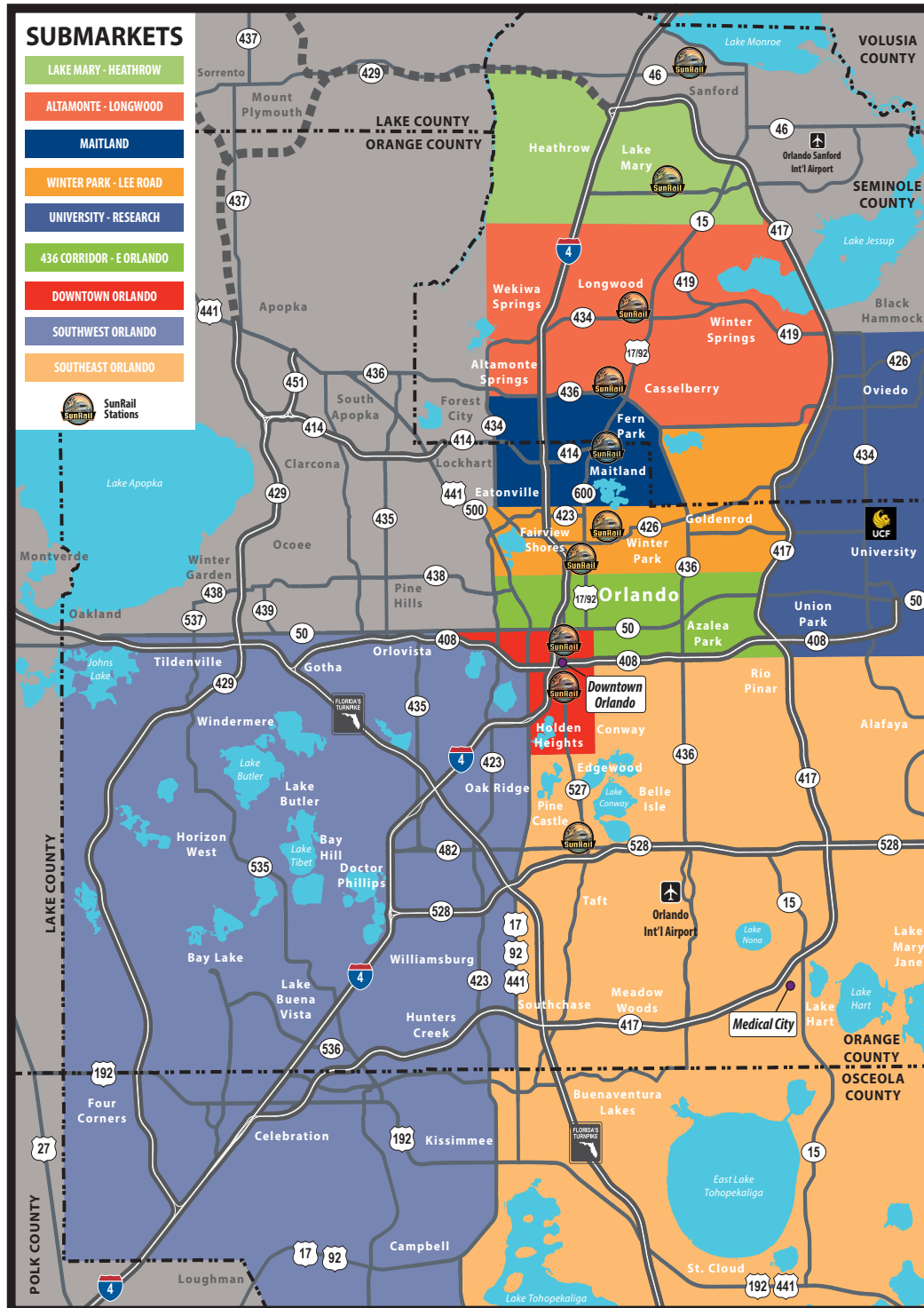
Significant Fourth Quarter 2020 Sales Transactions - Sorted by Price

Property	SF	Sale Price	Price/SF	Buyer	Submarket
222 S Orange Ave	128,296	\$20,000,000	\$156	Piedmont Office Realty Trust	Downtown Orlando
Quadrangle Corporate Park	82,175	\$19,000,000	\$231	Zaragon Holdings, Inc.	University/Research
9200 Southpark Center Loop	59,927	\$14,250,000	\$238	Sentinel Net Lease	Southwest

Rents have begun to moderate, due in part to a steady increase in sublease space.

Asking rents have declined slightly since the end of the third quarter (down 3.4%, or \$0.12 per sf), however they are still up 5.1% over the trailing 12-month period ending December 2020.





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