Orlando - Q2 2020

Market Report

Corporate America: A Fly in Amber

With regards to office space decisions, a great freeze has settled over most of Corporate America in Q2. As decision-makers are faced with ever-changing data on public safety, timing the "Return-to-Office" has become a company-by-company decision with many only returning on a volunteer basis as of now. But the recurring theme among economists and surveys by peers such as Gensler is that return we will—the 'office' is not going anywhere. Indeed, 70% of respondents to Gensler's May survey say they want to spend most of their week in the office. Only 12% of respondents said that they wanted to work from home full-time. While we were all surprised at how seamlessly most of Corporate America transitioned to working from home, it has become evident that certain things cannot be reproduced through a Zoom meeting, such as impromptu collaborations and socializing that inspire many ideas, innovations and critical problem-solving, not to mention the WFH platform begins to erode a company's culture. Another driving factor of office space's survival is the fact that commercial leases extend 5, 7, 10 years on average and a tenant cannot easily extricate themselves. It is evident that some adjustments will need to be made to bolster employee confidence in returning, such as creating a new workplace design that allows employees more square feet or alternating shifts in schedules. Adaptability is what will get businesses through this season. A hybrid adaptation of work-from-home and in-office is likely the direction most companies will follow moving out of the pandemic.

From March to May, Orlando lost 220,000 jobs; 70% of which were in leisure and hospitality. As Orlando has begun its phased reopening, these jobs are coming back, albeit slowly. Jobs grew by 31,000 in June. Although the CARES act certainly helped tide things over, the ramifications of this mass unemployment are still to be determined. The Retail sector has obviously been affected the greatest, with notable store-closures and bankruptcies. Industrial is faring the best as e-commerce continues to boom and 'last-mile' logistical centers are in demand. The Office sector is falling somewhere in the middle; the blessing being Orlando's supply was not overdeveloped to begin with.

Vacancy	Average Rent	Net Absorption
8.9%	$23.49/SF	-66,893 SF

Class A & B Office

Rental and Vacancy Rates

Direct Asking Rent ($/SF)	Total Vacancy Rate		YoY Change
$28.53	CBD | Class A	12.1%	0.9%
$23.36	CBD | Class B	22.1%	0.8%
$27.19	Total CBD	13.1%	0.8%
$27.81	Submarket | Class A	6.7%	1.3%
$21.03	Submarket | Class B	8.5%	0.3%
$22.32	Total Submarket	7.1%	0.5%
$11.52	Industrial | Flex	7.0%	0.5%
$7.05	Industrial | Warehouse	6.5%	0.4%
$7.55	Total Industrial	6.7%	0.4%

Recent Transactions

	Tenant	Size	Submarket	Type	Sector
1	Amazon	1,086,384	NW Orlando	Industrial	E-Commerce
2	Amazon	561,750	Airport	Industrial	E-Commerce
3	GCR	37,346	Lake Mary	Office	Software
4	Adventist Health	36,016	NW Orlando	Industrial	Health Care
5	KH&S	27,836	SW Orlando	Industrial	Construction
6	The Ames Company	27,277	Lake Nona	Office	Manufacturing
7	Northwestern Mutual	26,000	CBD	Office	Insurance
8	Halcyon Underwriters	11,388	Maitland	Office	Insurance

Market Trends

Cities without mass transit as the main modus of transportation, such as Orlando, will recover normalcy faster economists say. Suburban office as opposed to central business districts similarly will fare better as people can maintain social distancing in their cars or on bicycles.

According to WalletHub, Florida's tax burden (property, income and sales tax as compared to an individual's income) is 5th lowest in the US. As we come out of this pandemic, companies may look to relocate to more business-friendly states, such as Florida.

Central Florida's unemployment hit a whopping 22.4% in May 2020. In May 2019 it was 2.9%. While many jobs were regained in June and July, Orlando's unemployment rate is still well above the national average.

Occupier's Perspective

If plans are to incorporate remote work into your long-term workplace strategies it will be important to reevaluate your space utilization and shed what you no longer need.

While rent growth in Orlando has been exceeding 3% annually, we are forecasting a dip in asking rates in 2021.

We are beginning to see and anticipate more sublease space to come on the market as companies reevaluate their office needs which will apply pricing pressure on landlord's direct space.