

Market Report

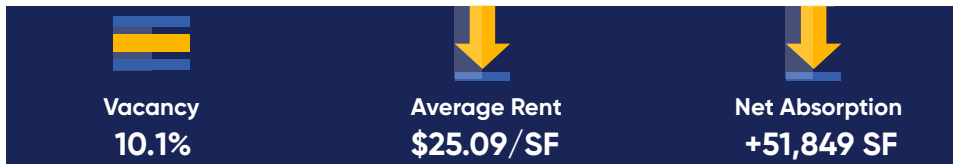


Recession enigma. We have now had 2 consecutive quarters of negative growth, which has traditionally defined a recession. However, what is lacking are large scale layoffs. The labor market continues to be tight giving workers an upper hand on how and where they work. The pandemic gave those workers a taste of working remotely and management hasn't forced the issue of bringing the workforce back to the office for fear of losing talent.

The Federal Reserve is doing what it must to decrease demand to stabilize pricing by increasing interest rates. A tighter monetary policy should do the trick, but a "soft landing" is tricky to navigate. If all the goes right, maybe this "recession" can be averted, but most pundits feel this to be unlikely.

What this means for the office market is a continued wait-and-see. There have not been widescale layoffs, but we are continuing to see national firms reducing their footprint. The most notably was Disney pausing their relocation of 2,000 high paying jobs from California to Orlando. Fortunately, regional, and local companies have picked up the slack.

For the second quarter of 2022, activity in the market was neutral as evidenced by a modest increase in net absorption. In some submarkets, building parking lots are near empty, indicating a deep underutilization of office space.



Class A & B Office

Rental and Vacancy Rates

Direct Asking Rent (\$/SF)	Total Vacancy Rate	YoY Change
\$31.10	CBD Class A 10.8%	▼ 6.1%
\$24.95	CBD Class B 13.3%	▲ 4.3%
\$29.46	Total CBD 11.4%	▼ 3.8%
\$28.37	Submarket Class A 11.1%	▲ 2.6%
\$23.10	Submarket Class B 8.9%	▼ .5%
\$24.77	Total Submarket 9.7%	▼ .6%
\$12.25	Industrial Flex 5.9%	▼ 2.8%
\$8.40	Industrial Warehouse 3.1%	▼ 1.6%
\$9.01	Total Industrial 3.5%	▼ 1.9%

Recent Transactions

Tenant	Size	Submarket	Type	Sector
1 KPMG	74,747	SE Orange County	Office	Finance & Insurance
2 Kimley-Horn	39,642	Downtown Orlando	Office	Engineering
3 NVR, Inc.	25,900	Tourist Corridor	Office	Construction
4 Kimley-Horn	24,926	Downtown Orlando	Office	Professional Services
5 Regions Bank	18,003	Downtown Orlando	Office	Banking
6 Circles Logistics, Inc.	13,641	Tourist Corridor	Office	Transportation/Warehouse
7 Landsea Homes	13,409	436 Corridor	Office	Homebuilder
8 The Coco-Cola Company	294,787	SW Orange County	Industrial	Manufacturing
9 DHL	169,384	SE Orange County	Industrial	Transportation/Warehouse
10 WDW Creative Costuming	145,540	SE Orange County	Industrial	Manufacturing
11 Ascot Creative Costuming	125,085	SE Orange County	Industrial	Manufacturing
12 Pinto Transport, Inc.	73,247	SE Orange County	Industrial	Transportation/Warehouse

Market Trends



Interestingly, rental rates have increased on average by 3% per year since the pandemic even though vacancy and net absorption are muted.



Sublease space is still abundant at 2.2% of the total inventory and a good option to consider for those in a position to relocate in the next 12 months.



Industrial is still hot. With over 10M square feet under construction (5.4% of the total market), we should begin to see a leveling of rental rates which are at historic highs.

Occupier's Perspective



According to Google mobility data, workplace occupancy is down by as much as 38% in Orlando, the highest rate within Florida's primary office markets. Many occupiers continue to evaluate their true space needs moving forward, and hybrid work trends are expected to force a drag on overall vacancy in the year ahead.



Supply chain issues and a tight workforce, continue to wreak havoc on construction timetables and costs. However, we are beginning to see construction pricing stabilize albeit at historic highs.



During unpredictable times such as now, landlords tend to offer higher concession packages for credit companies willing to commit to longer term leases.