Orlando - Q3 2020

Market Report

After a long standstill, movement in the market has begun, albeit slowly and cautiously. As the state of Florida is now in phase 3 of its reopening plan and restrictions have been lifted some employers are encouraging a return to office now. Yet many employers, such as Microsoft, Google, Uber, and Ford Motor Co., are erring on the side of caution and pushing back their return-to-office until summer 2021. It commonly takes 6-12 months or longer to negotiate a lease, complete tenant improvements with permitting and occupy space. Because of this lengthy lead time, decision makers have begun to assess their needs in anticipation of a summer (or sooner) RTO. In some ways Orlando is faring better than other metros because the main modus of transportation is the car and workers feel safer returning now than in other cities where solitary commuting is not an option. Orlando also has strong subsectors of medical, defense and tech that have been supporting office occupier demand. In other ways Orlando is faring worse than other metros as many companies that occupy space locally support the tourism and leisure industries which are still struggling to recover. In that regard Orlando continues to be particularly exposed.

Industrial has performed the strongest of the subsectors during the pandemic and continues to see high demand and quick absorption of space. While Costar Group anticipates an increase in vacancy rate in 2021 in this sector, as well, it is not due to a withdrawal of occupiers but rather to a large delivery of space; 4.5 million SF is expected to be delivered in 2020. Low vacancy and strong rent growth has aided speculative industrial development in Orlando for the past several years. Even with this large delivery of space, the vacancy rate will only uptick slightly as much of this new construction is pre-leased or built-to-suit, such as Amazon's 855,000 SF distribution center in Lake Nona.

Vacancy	Average Rent	Net Absorption
8.3%	$23.34/SF	-169,004 SF

Class A & B Office

Rental and Vacancy Rates

Direct Asking Rent ($/SF)	Total Vacancy Rate		YoY Change
$28.66	CBD | Class A	12.8%	▲ 0.7%
$23.59	CBD | Class B	17.3%	▼ 4.8%
$27.33	Total CBD	12.3%	▼ 0.8%
$27.61	Submarket | Class A	7.2%	▲ 0.5%
$21.45	Submarket | Class B	8.9%	▲ 0.4%
$22.61	Total Submarket	7.6%	▲ 0.5%
$11.29	Industrial | Flex	7.5%	▲ 0.5%
$6.83	Industrial | Warehouse	6.2%	▼ 0.3%
$7.74	Total Industrial	6.4%	▼ 0.3%

Recent Transactions

	Tenant	Size	Submarket	Type	Sector
1	Pitney Bowes	116,252 SF	SW Orange Co.	Industrial	Mailing Services
2	GSA	113,300 SF	Downtown Orlando	Office	Government
3	Northrop Grumman	85,117 SF	University Research	Office	Defense
4	IRS	28,118 SF	Downtown Orlando	Office	Government
5	Dept. of Homeland Security	27,840 SF	Airport	Office	Government
6	Richelieu Hardware	23,502 SF	NW Orange Co.	Industrial	Distributing
7	Hydradyne	22,992 SF	SW Orange Co.	Industrial	Manufacturing
8	Hostdime.com	18,192 SF	NW Orange Co.	Office	Data Center
9	SAP	17,294 SF	Lake Mary	Office	Technology
10	Universal Engineering Services	16,406 SF	SW Orange Co.	Office	Engineering

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Market Trends

According to a recent survey by Digital.com, 70% of employees working from home want to go back to their workplace.

Even though rent growth in Orlando has outpaced the national average for the past five years it took until 2018 to rise above pre-recession levels. In the face of the pandemic, we expect rent gains to slow and potentially fall negative for a time being due to the many businesses looking to downsize.

While the office vacancy rate in Orlando has risen with the increase of sublease space offered to the market, it still lies at a relatively low 8% YTD. Vacancy in this sector is expected to rise through 2021.

Occupier's Perspective

With a rise in vacancy predicted, an anticipated dip in asking rents forthwith should actually prove now a good time to reevaluate your current lease. There are many options available to you even if you are several years from your lease end date.

There's a lot of risk for landlords of tenants defaulting now more than normal. While landlords will be sharpening their pencils to retain tenancy, occupiers must also expect to show financials and prove they are a worthy investment for the ownership.

Subleasing space may be a great option for your company. Generally speaking, the term is shorter than a direct deal, the rates are competitive and oftentimes furniture or other perks may be included. Additionally, the space is 'move-in' ready.