

Central Florida Office Market Report

Office Sector Saw Slight Setback In Second Quarter

Central Florida's office market saw a modest increase in supply as demand growth continued to be impacted from the pandemic with over 91,000 square feet of negative net absorption recorded, bringing year-to-date totals for the region to over 150,000 square feet of increased office supply since the start of 2021. Moderate effects from the pandemic held for the fifth consecutive quarter as companies await returning to the offices full time, but limited development continued to aid tight market fundamentals with three building completions, totaling just under 500,000 square feet were completed. Class C space led in growth, with approximately 118,000 square feet of positive absorption in the first half of the year, while lower-tier Class C space followed suit with 42,500 square feet absorbed. Higher-end Class A space struggled with approximately 311,000 square feet of negative net absorption through the first half of the year, causing the region's continued correction as vacancy rose 120 basis points from one year ago, to settle at 9.0%. Despite slowing market conditions and economic uncertainty, landlords have yet to ease on asking rents, as the overall average increased slightly from the previous quarter, to settle at \$25.88/SF, a 4.8% increase from one year ago. All three class sectors experienced slight increases from the previous quarter, while Class A space increased \$0.62/SF from one year ago to a new record high, closing the second quarter at \$29.57/SF. The Class B segment followed closely, increasing by \$0.48/SF to \$23.11/SF, while Class C space saw a slight drop from the \$17.73/SF average this time last year to \$17.50/SF.

Leasing and Demand

Leasing activity saw improvement from the 1.3 million square feet of activity during the previous quarter, with 456 transactions totaling over 1.6 million square feet in the second quarter and bringing year-to-date transactions to more than 3.0 million square feet at the midyear point. This was an increase of 500,000 square feet from the 2.5 million square feet leased at this time one year ago. Class A space held the top spot with 1.6 million square feet, while Class B followed closely, accounting for 1.3 million square feet. The medical industry held the number-one spot with 229,000 square feet of midsize to larger lease deals, while the business services sector trailed with 84,000 square feet for the second position. Insurance-related companies held the third spot, with 67,500 square feet, while the education, legal and retail industries struggled in the first half of the year with less than 11,000 square feet leased each.

Investment Sales

Sale transactions picked up from the previous quarter with 18 office buildings, totaling 1.1 million square feet, trading hands during second-quarter 2021, bringing year-to-date sales to 1.7 million square feet, with a value of \$284.3 million. This was up slightly from the 1.3 million square feet that sold for \$215.5 million during the same period one year ago. Investment activity remained tepid in the first half of 2021 as owners prefer to hold onto their office properties.

Current Conditions

The amount of supply being brought back to the market appeared to be slowing as impacts from the pandemic level off.

In a rare occurrence, lower-tier space from the Class C segment outperformed second-tier and higher-end space so far in 2021.

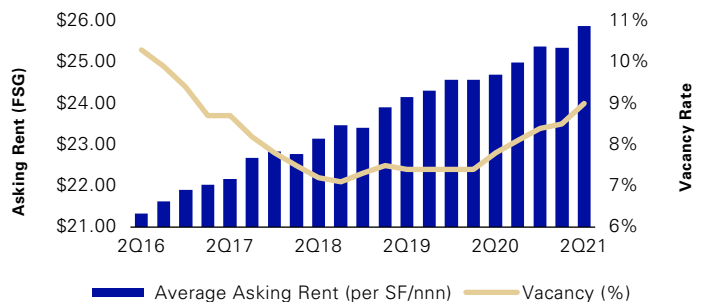
Leasing activity saw moderate improvements from one year ago as investment sales remained lackluster.

Limited development underway will continue to aid both Tampa and Orlando markets as developers hold off on breaking ground with new projects.

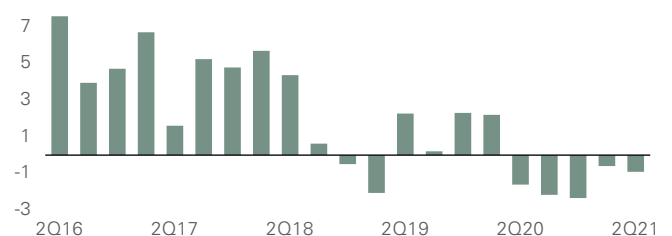
Sublease availability increased by more than 1.1 million square feet with approximately 3.2 million square feet of sublet opportunities throughout Central Florida.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, 100,000)



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	126.5M	126.1M	125.7M	↑
Vacancy Rate	9.0%	8.5%	7.8%	↓
Quarterly Net Absorption (SF)	(91,719)	(58,666)	58,469	↑
Average Asking Rent/SF	\$25.88	25.35	\$24.70	↑
Under Construction (SF)	432,000	899,532	1.3M	↓
Deliveries	467,532	67,148	302,136	↓

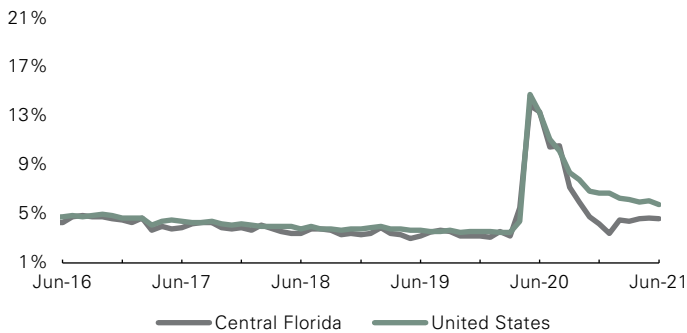
Economic Conditions

The region's unemployment dropped to 5.0%, after peaking this time last year to 17.7% when the height of the national shutdown from the pandemic impacted Central Florida's job market. Over 207,000 jobs were added back as the recovery has begun and economic improvements continued to be felt as things return to normal. The Orlando market led the region with the addition of 110,000 jobs while Tampa followed closely with over 97,000 jobs added to the market from one year ago. Tampa tied with Palm Beach for the lowest unemployment rate for Florida's major markets at 4.6%. Orlando moved out of holding the highest unemployment, falling below Miami with a 5.4% rate at the close of second-quarter 2020. This was a significant recovery from the 22.6% rate recorded this time last year.

The region's strong ties to tourism and theme park visits during Florida's travel season turned the corner from the pandemic with the leisure and hospitality industry adding more than 93,500 jobs from this time last year. Orlando's tourism industry made up 60,000 of the gains while Tampa's tourism sector saw over 33,500 more jobs from one year ago. All other sectors trailed with the professional and business services sector coming in second, totaling over 39,600 added from this time last year. One sector recorded a year-over-year net loss with government jobs decreasing by 4,300 from this time last year.

Unemployment Rate

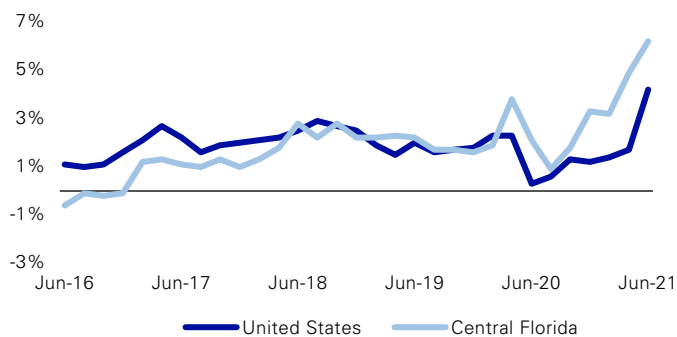
Central Florida, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

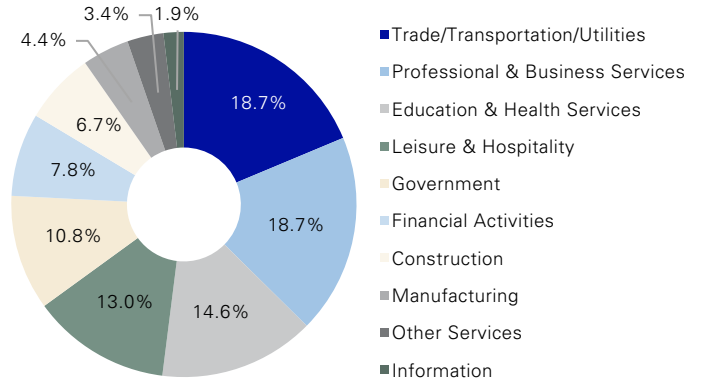
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

Employment By Industry

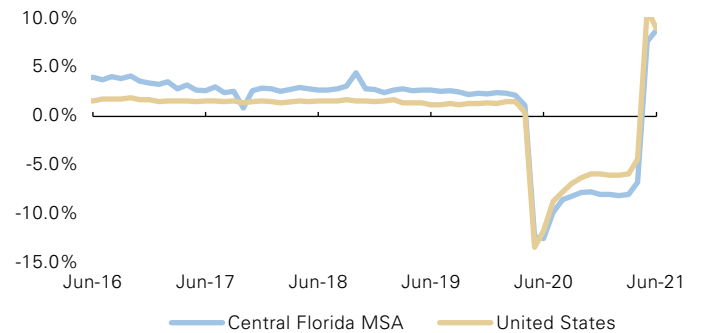
Central Florida MSA, Jun 2021 | Not seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

Payroll Employment

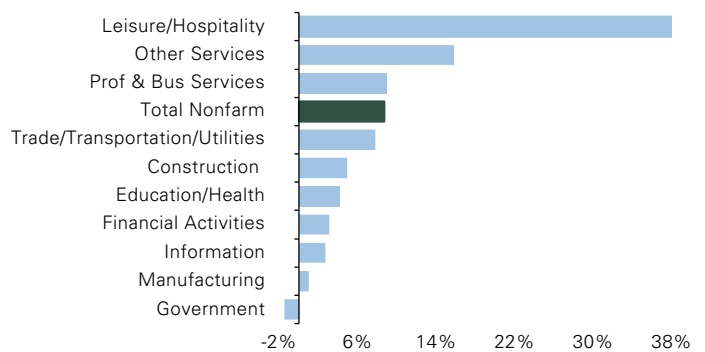
Total Nonfarm, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

Central Florida, Jun 2021, MSA, 12-Month % Change



Source: U.S. Bureau of Labor Statistics | Not Seasonally Adjusted



Tampa / Saint Petersburg Office Market

Tampa Bay's market saw a slight correction during second-quarter 2021 with over 95,000 square feet of negative net absorption. After the office sector's improved first-quarter performance, demand still outpaced supply by over 117,500 square feet of absorbed space for the first half of this year. Unfortunately, the completion of five buildings totaling more than 734,000 square feet was the contributing factor for the increase in vacancy of 110 basis points from one year ago, to settle at 10.3%. This is the first time in four years the office segment saw vacancy go over the 10% mark. The Class B segment lead the market in demand during the first half of 2021, recording over 224,500 square feet of positive absorption, while lower-tier Class C space saw a more balanced approach between demand and supply with a modest 12,000 square feet of absorbed space. The Class A segment saw approximately 120,000 square feet of supply returned to the market during the first half of this year.

Regardless of the impacts from the pandemic and increased availability, the average asking rate pushed upward to a new record high of \$27.34/SF as landlords kept from lowering asking rents. The increase in high-end space pushed up the average rate in the Class A segment by \$1.38/SF to \$31.93/SF from this time last year, while Class B space followed with a \$0.88/SF increase to \$24.04/SF at the close of second-quarter 2021. Two buildings, totaling 432,000 square feet, remained under construction with most of the space remaining available for lease, which will likely push overall vacancy slightly higher. The Water Street building in Tampa's Central Business District submarket accounts for 405,000 square feet of the construction activity, with 80% still available for lease.

Leasing and Demand

The market saw leasing activity improve from the 400,000 square feet of activity leased one year ago, as 214 lease deals totaling over 757,000 square feet were transacted during second-quarter 2021. This was level from the previous quarter, bringing year-to-date transaction activity to 1.6 million square feet leased. A modest improvement from the 1.4 million square feet of deals signed this time last year. Class A led with 917,000 square feet, while Class B recorded 633,000 square feet, holding consistent with recent quarter leasing. There were 25 midsize to large lease deals totaling 405,000 square feet, as medical related companies held the top spot with 178,000 square feet leased. Financial companies followed with 45,000 square feet, while insurance companies followed closely with 42,000 square feet to round out the top three.

Investment Sales

Tampa's office market accounted for 12 sale transactions, totaling a meager 640,108 square feet during second-quarter 2021. Over 1.1 million square feet valued at \$210.4 million at the midyear point this year. This was a moderate improvement from the 781,000 square feet that sold for \$126.2 million one year ago. The average price per square foot ticked upward to \$184/SF from the \$162/SF one year ago. Three Class A transactions totaling 443,000 square feet occurred in the first half of this year as sale activity will likely remain tepid through the second half of 2021.

Current Conditions

Tampa's office sector saw a modest course correction after a strong first-quarter performance.

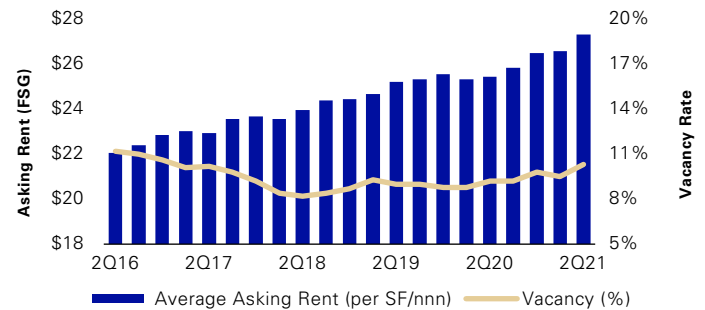
Two office deliveries totaling over 388,000 square feet were the contributing factors for vacancy increases during the second quarter.

The overall average asking rate continued to tick upward as increased availability from Class A properties impacted the market.

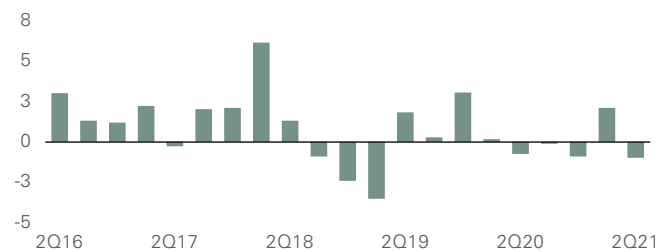
Tampa's office segment saw an increase of 695,000 square feet in sublease available space from one year ago, with more than 1.9 million square feet of sublet opportunities on the market.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, 100,000)



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	61.4M	61.4	60.9M	↑
Vacancy Rate	10.3%	9.5%	9.2%	↑
Quarterly Net Absorption (SF)	(95,925)	213,457	(73,213)	↑
Average Asking Rent/SF	\$27.34	\$26.60	\$25.46	↑
Under Construction (SF)	432,000	853,845	1.2M	↓
Deliveries	388,155	46,148	192,536	↔

Tampa / Saint Petersburg Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Average Asking Rent (Price/SF)
Clearwater CBD	1,048,562	0	3.5 %	-6,610	-6,095	\$18.54	\$19.78	\$19.29
St. Petersburg CBD	2,499,492	0	4.1 %	20,316	38,688	\$32.93	\$27.57	\$30.36
Tampa CBD	6,882,419	405,000	8.1 %	-25,426	-52,373	\$34.54	\$28.32	\$32.55
CBD Total	10,430,473	405,000	6.7 %	-11,720	-19,780	\$33.75	\$26.97	\$31.38
Bayside	2,030,340	0	13.3 %	-3,956	58,547	\$24.76	\$22.06	\$23.52
East Tampa	8,631,954	0	13.6 %	-123,606	2,708	\$27.14	\$22.55	\$25.08
Gateway	4,180,743	0	10.3 %	-20,298	-4,211	\$26.16	\$22.99	\$24.03
Manatee/Bradenton	2,182,325	0	2.9 %	-1,307	-602	N / A	\$26.21	\$25.92
North Pinellas	3,586,811	0	13.1 %	10,450	-18	\$21.77	\$18.93	\$19.45
NW Hillsborough	4,507,171	0	11.1 %	-21,767	-79,158	\$28.86	\$23.49	\$24.14
Pasco County	1,100,939	0	19.1 %	10,255	9,727	\$28.07	\$15.96	\$21.24
Polk County	3,395,797	0	2.6 %	5,382	12,929	\$17.75	\$20.42	\$18.36
S Pinellas	708,016	0	9.7 %	3,279	6,988	N / A	\$19.76	\$17.37
S Tampa	1,018,035	0	2.5 %	2,092	6,751	N / A	\$29.57	\$29.51
Sarasota	5,592,480	27,000	6.7 %	-9,850	-5,530	\$31.93	\$27.66	\$26.25
SE Hillsborough	193,462	0	17.5 %	-2,208	-2,208	N / A	N / A	N / A
Westshore	14,303,064	0	13.7 %	67,329	131,389	\$37.35	\$26.92	\$33.12
Suburban Total	51,431,137	27,000	11.0 %	-84,205	137,312	\$31.54	\$23.84	\$26.79
Totals	61,861,610	432,000	10.3 %	-95,925	117,532	\$31.93	\$24.04	\$27.34

Tampa / Saint Petersburg Lease / User Transactions

Tenant	Building	Submarket	Type	Square Feet
Progressive Insurance	Westshore Corp Ctr-600 Westshore Blvd	Westshore	Direct	55,107
Jacobs Engineering Group, Inc	Lincoln Ctr-5401 W Kennedy Blvd	Westshore	Renewal	33,503
QuoteWizard.Com	Woodland Corp Ctr K-7725 Woodland Ctr Blvd	NW Hillsborough	Sublease	22,115

Tampa / Saint Petersburg Select Sale Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
Kforce-1001 E Palm Ave	Tampa CBD	\$20,000,000	\$156	128,000
Highwood Preserve VII-18216 Crane Nest Dr	East Tampa	\$43,000,000	\$373	115,230
Lakewood Ranch-9000 Town Ctr Pky	Manatee/Bradenton	\$20,250,000	\$200	101,312

Orlando Office Market

The Orlando market saw a balanced approach between demand and supply after four consecutive quarterly corrections with a moderate 4,206 square feet of absorbed space during second-quarter 2021. The improvement was not significant enough to keep absorption positive, with approximately 268,000 square feet of negative net absorption through the first half of this year. In a strange turn of events, the Class C segment led in demand with 30,000 square feet of absorbed space so far in 2021. Class B space saw slight corrections, recording over 106,000 square feet of negative absorption, as the higher-end Class A sector felt the brunt of the pandemic's impacts with inventory over 191,000 square feet of supply returned to the market. Overall vacancy ticked up 190 basis points to 9.0% from this time last year. Although this is the highest vacancy recorded in over five years, Orlando continued to boast the lowest office vacancy of all major markets in the nation. One contributing factor was the disciplined approach of speculative development during this economic cycle. There are no significant office buildings currently under construction, with only one completion this year totaling 21,000 square feet. The lack of new office inventory will aid the office sector's recovery as new buildings will likely require some type of pre-leasing activity before breaking ground.

Orlando's average asking rate ticked upward from the previous quarter to \$23.95/SF but remained the most affordable throughout Central and South Florida. Year-over-year, Orlando experienced the slowest rate growth with a \$0.22/SF increase from this time last year. For the most part, landlords have held asking rents level, but increased space from Class A space contributed to the slight rises in the overall average over the past year. However, higher-end space did see a slight dip from the \$27.12/SF average one year ago to \$26.64/SF, as the Class B weighted average followed suit, decreasing by \$0.12/SF to \$21.79/SF from this time last year.

Leasing and Demand

Leasing activity rebounded from the 512,000 square feet signed during the previous quarter, with 242 deals totaling 910,000 square feet leased in second-quarter 2021. Overall activity totaled over 1.4 million square feet at the midyear point, an increase of 300,000 square feet from total office space leased one year ago. Class A regained the lead with 700,000 square feet, while the Class B segment trailed closely with 660,000 square feet. The medical industry led in midsize and larger lease deals with over 53,000 square feet signed for, while business services companies came in second with 43,000 square feet at the midyear point. Orlando continued to struggle with midsize to larger lease deals in the first half of 2021 as most leases signed remained below the 5,000-square-foot threshold.

Investment Sales

Owners are holding onto office investments, as Orlando's tight market conditions and disciplined construction activity will allow the office segment to weather the storm from the pandemic. Six office sales totaling a meager 443,000 square feet took place during second-quarter 2021. This, coupled with the tepid first quarter sales, combining for 527,000 square feet for \$73.9 million. This is level with the 522,000 square feet that sold for \$89.3 million during the same time last year.

Current Conditions

Orlando's office sector saw its third quarterly correction where supply outpaced demand by more than 250,000 square feet.

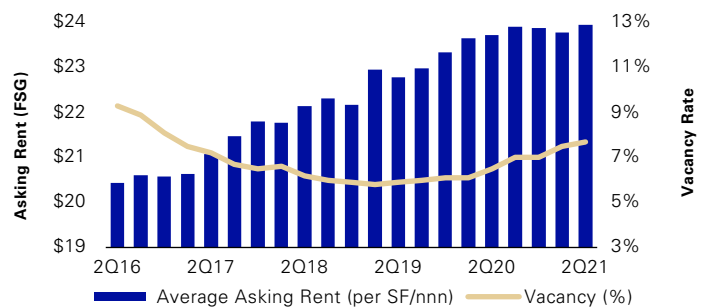
Orlando's last office building that was under construction completed this quarter, totaling only 45,687 square feet. Despite the recent slowdown in demand, the disciplined approach to construction has limited significant impacts to vacancy.

Average asking rates held steady, seeing very little change from this time last year as most landlords hold asking rents level.

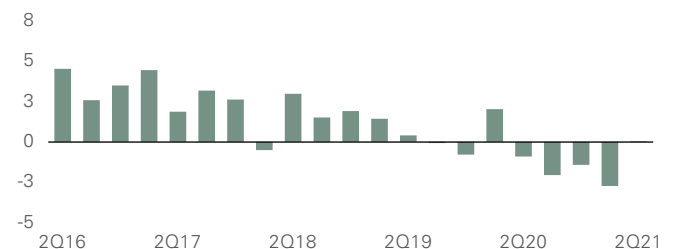
Sublease space increased to 1.3 million square feet available, an increase of 444,000 square feet from the available sublet space reported this time last year.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF, 100,000)



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	64.7M	64.6M	64.5M	↔
Vacancy Rate	7.7%	7.5%	6.5%	↓
Quarterly Net Absorption (SF)	4,206	(272,123)	(87,867)	↑
Average Asking Rent/SF	\$23.95	\$23.78	\$23.73	↑
Under Construction (SF)	0	45,687	141,267	↑
Deliveries	45,687	21,000	109,600	↓

Orlando Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Average Asking Rent (Price/SF)
Downtown Orlando	8,357,932	0	11.1 %	8,652	52,209	\$29.08	\$25.85	\$28.29
436 Corridor/Casselberry	1,895,830	0	7.6 %	-548	2,006	-	\$21.56	\$20.11
Altamonte Springs/Longwood	3,319,355	0	12.3 %	29,162	4,231	\$22.00	\$19.06	\$19.37
Brevard County	6,427,667	0	4.1 %	-13,212	-8,207	\$23.35	\$20.94	\$20.47
Celebration/Kissimmee	2,636,198	0	3.8 %	10,341	-26,494	\$27.00	\$25.78	\$25.56
Dr. Phillips/Tourist Corridor	7,247,378	0	4.4 %	25,705	-11,338	\$27.58	\$26.17	\$26.57
Lake County/Clermont	788,272	0	4.9 %	1,010	1,010	\$28.50	\$20.86	\$21.86
Lake Mary	6,973,767	0	8.8 %	-14,393	-67,993	\$25.94	\$21.28	\$24.14
Maitland/Maitland Center	6,450,540	0	11.7 %	-45,474	-155,559	\$23.52	\$22.36	\$22.95
MetroWest/Millennia	2,242,831	0	4.5 %	4,453	5,703	\$27.98	\$27.20	\$27.02
NW Orlando	382,544	0	2.7 %	-1,979	-1,919	\$18.25	\$22.75	\$20.74
Orlando Airport/Lake Nona	1,850,178	0	11.8 %	24,840	1,896	\$29.16	N / A	\$27.61
South Orlando/Central Park	3,306,424	0	9.8 %	-6,000	-25,369	\$22.17	\$17.18	\$17.64
University/ University Research	6,189,126	0	6.6 %	52,928	33,662	\$25.06	\$24.93	\$25.02
West Colonial	1,584,699	0	5.3 %	-29,240	-24,034	N / A	\$22.36	\$20.85
Winter Pk/Baldwin Pk/Lee Rd	4,456,726	0	5.0 %	-43,579	-48,631	\$29.26	\$23.24	\$24.31
Winter Springs/Oviedo	568,192	0	3.2 %	1,540	910	\$33.50	\$22.88	\$27.03
Suburban Total	56,319,727	0	7.2 %	-4,446	-320,126	\$25.45	\$21.44	\$22.84
Totals	64,677,659	0	7.7 %	4,206	-267,917	\$26.64	\$21.79	\$23.95

Orlando Lease / User Transactions				
Tenant	Building	Submarket	Type	Square Feet
Disney	Celebration Office Ctr III-1390 Celebration Blvd	Celebration/Kissimmee	Renewal	100,923
TogetherHealth	Primera Office Twr V-255 Primera Blvd	Lake Mary	Sublease	46,341
Assured Partners, Inc	CNL Ctr I-450 S Orange Ave	Downtown Orlando	Direct	43,888

Orlando Select Sale Transactions				
Building	Submarket	Sale Price	Price/SF	Square Feet
20 North Orange Ave	Downtown Orlando	\$47,390,000	\$169	279,780
Citizen's Bld-1300 Citizens Blvd	Lake County/Clermont	\$3,230,000	\$75	43,000

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