3Q23

Orlando Office Market Overview

NEWMARK

Market Observations

Economy

- The market's unemployment rate ticked up by 5 basis points year over year to 2.6% but remained well below the five-year average of 4.8%.
- Although job growth pace has slowed compared with recent highs to 3.6% year over year, employment growth continues to outpace pre-pandemic levels, with 2019 growth averaging only 2.9%.
- All sectors, except information and construction, reported employment growth, with leisure/hospitality leading job gains at 7.7% over the past 12 months.
- Office-using jobs in the market eases from historical high to 388,300 employees, reflecting 14.6% growth since 2019.

Leasing Market Fundamentals

- Annual full-service asking rental rates reach an all-time historical high at $25.16/SF, a 1.3% increase year over year.
- Occupancy declined, pushing overall vacancy rates to increase by 130 basis points year over year, to a recent high of 11.7%.
- The under-construction pipeline remains muted but has inched up slowly to 628,712 SF in progress since the pandemic.
- Total leasing activity closed the quarter at 888,834 SF, averaging 4,467 SF per deal and reflecting an increase in deal size of 7.7% quarter over quarter and 1.5% year over year.

Major Transactions

- Spectrum's renewal for 82,260 SF at 65 Keller Rd in the Maitland Center submarket was the largest lease of the quarter.
- CAE's new lease for 68,132 SF at 6989 Lee Vista Rd was the quarter's second-largest deal.
- Renewals from Spectrum and Concorde Career Institute accounted for roughly half of the square footage of the top five largest deals during the quarter.

Outlook

- The Orlando office market will likely see continued suppressed growth this year. Office investment activity will remain low in the near term due to elevated inflation and a steeper cost of debt.
- The closing rent spread between Class A and Class B assets will likely push more tenants to shed unused space and lease smaller footprints in higher-quality assets.
- In the near term, vacancy rates are projected to increase as demand remains muted coupled with additional deliveries hitting the market before year-end 2023.

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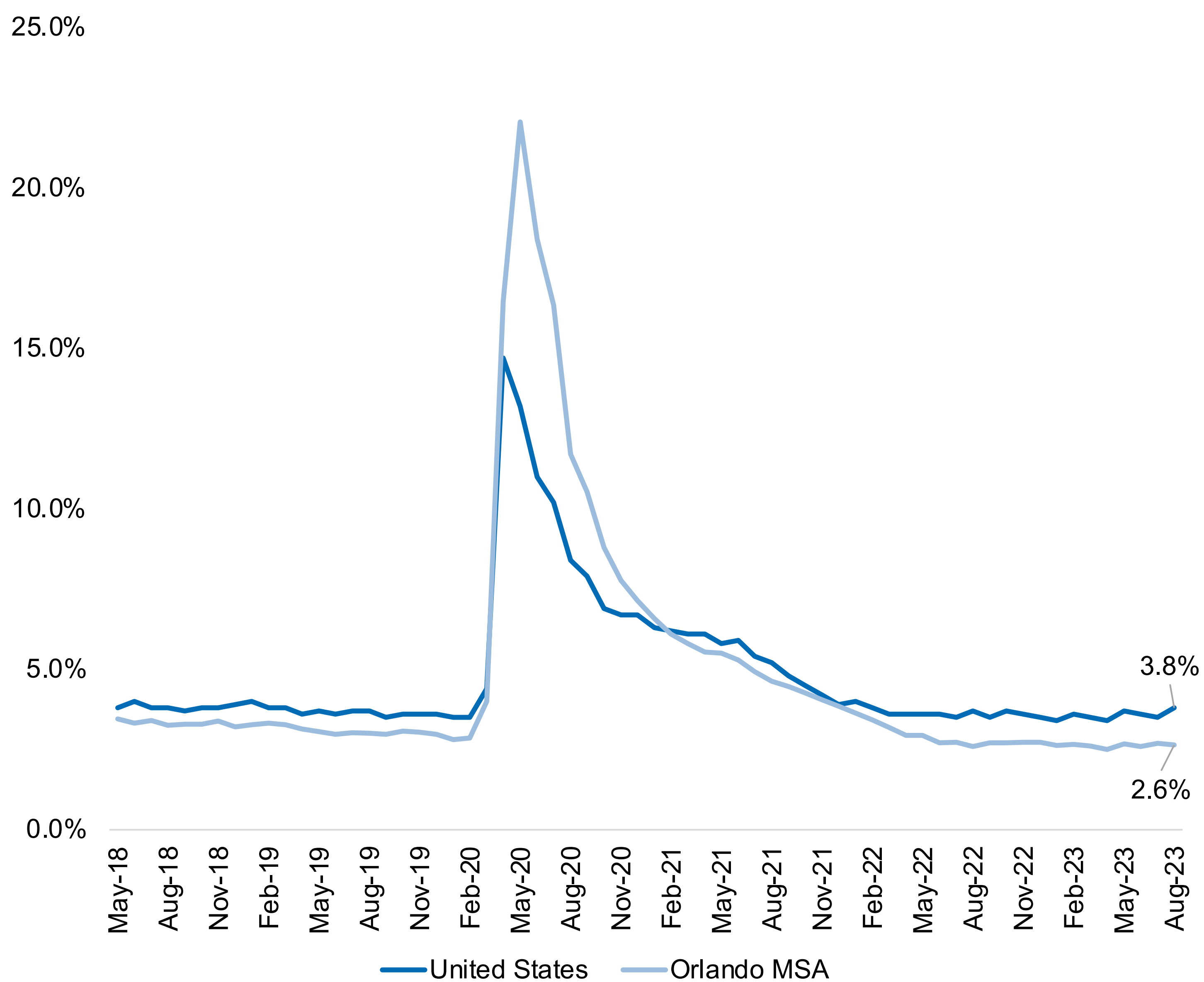
Economy

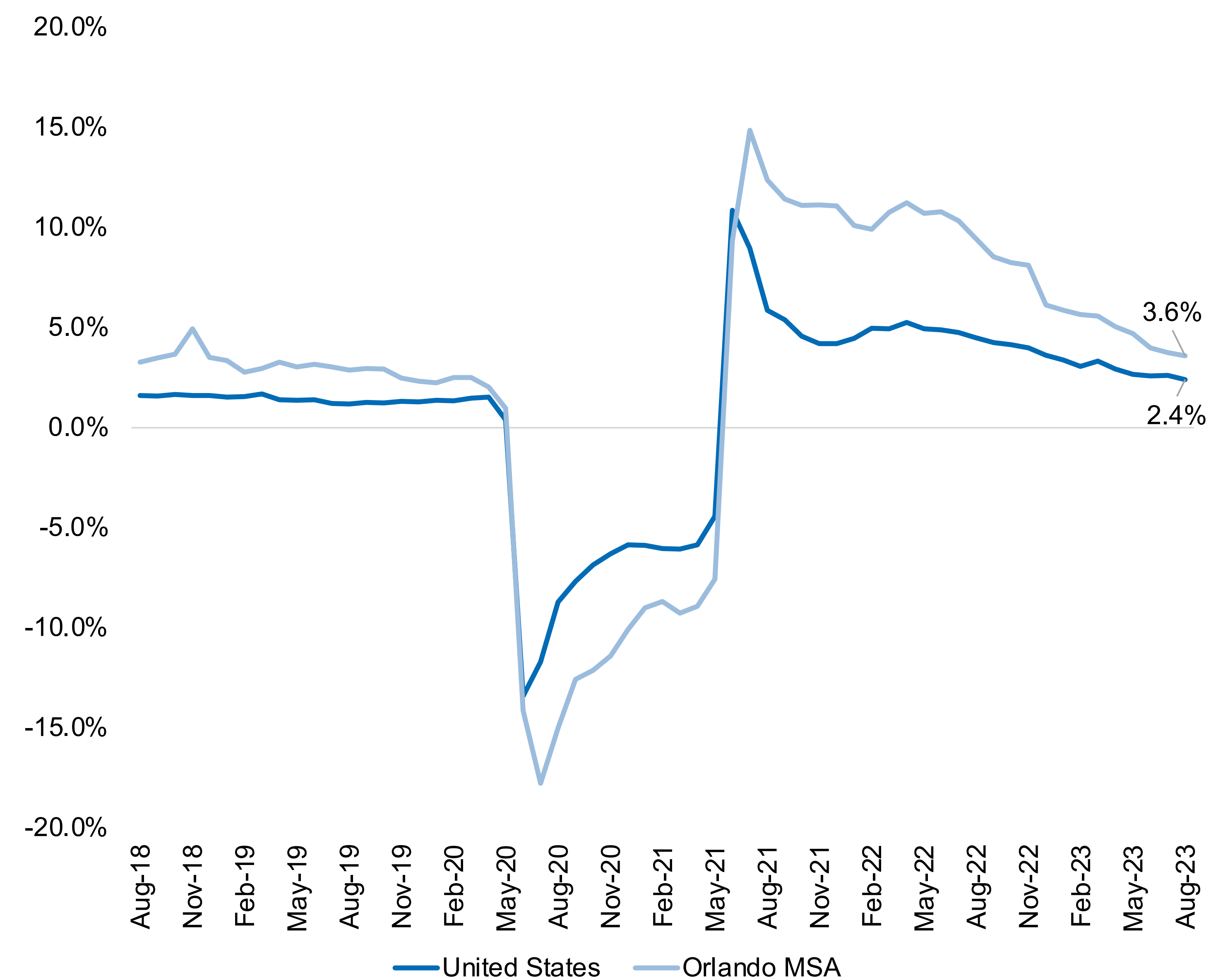
Metro Employment Trends Signal a Slowing Economy

The Orlando market has generally reported lower unemployment rates compared with the national average, while being an outperformer in employment growth. Although the region's unemployment rate increased by 5 basis points year over year, national economic headwinds have pushed employment year-over-year growth rate to slow by 552 basis points compared with the previous year.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

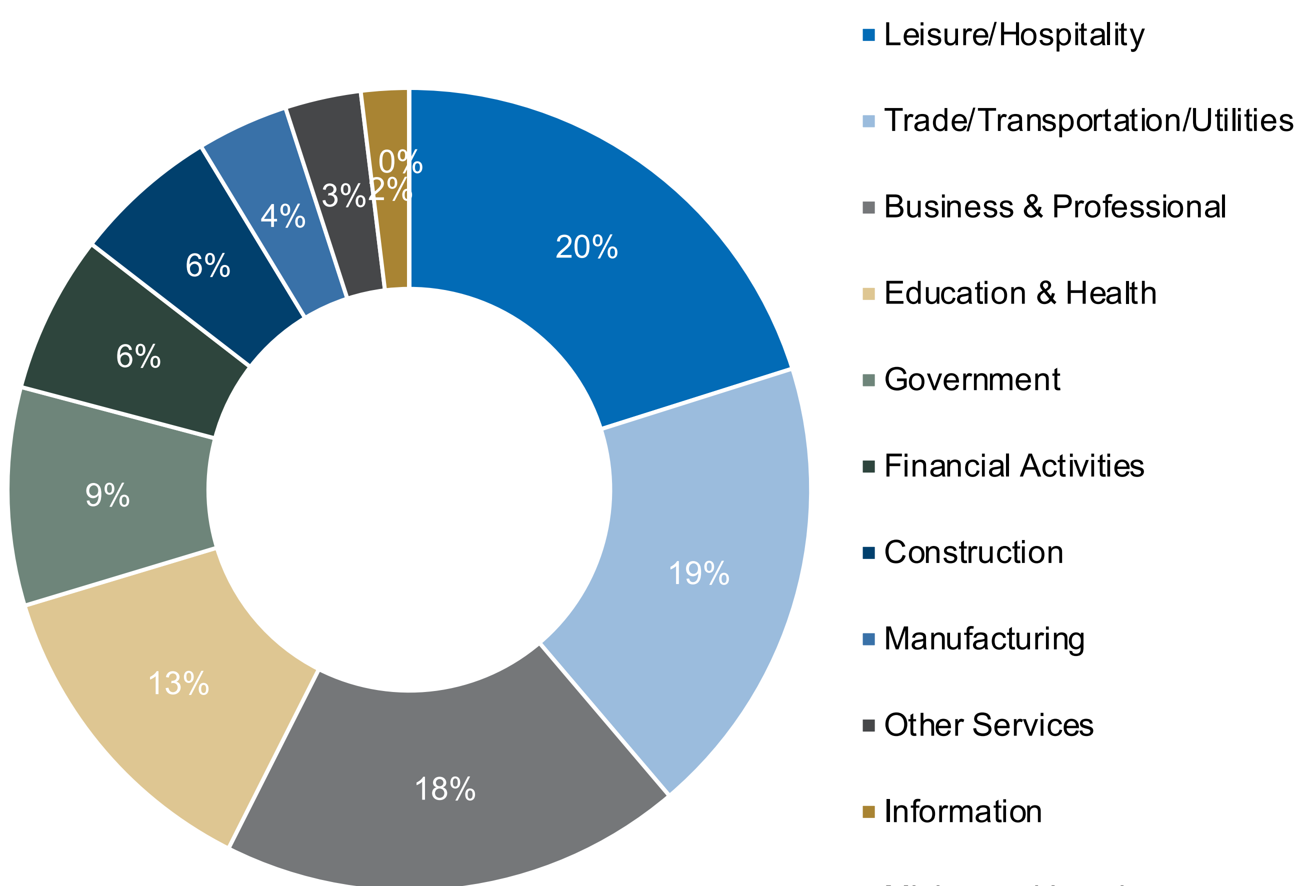


Source: U.S. Bureau of Labor Statistics, Orlando MSA

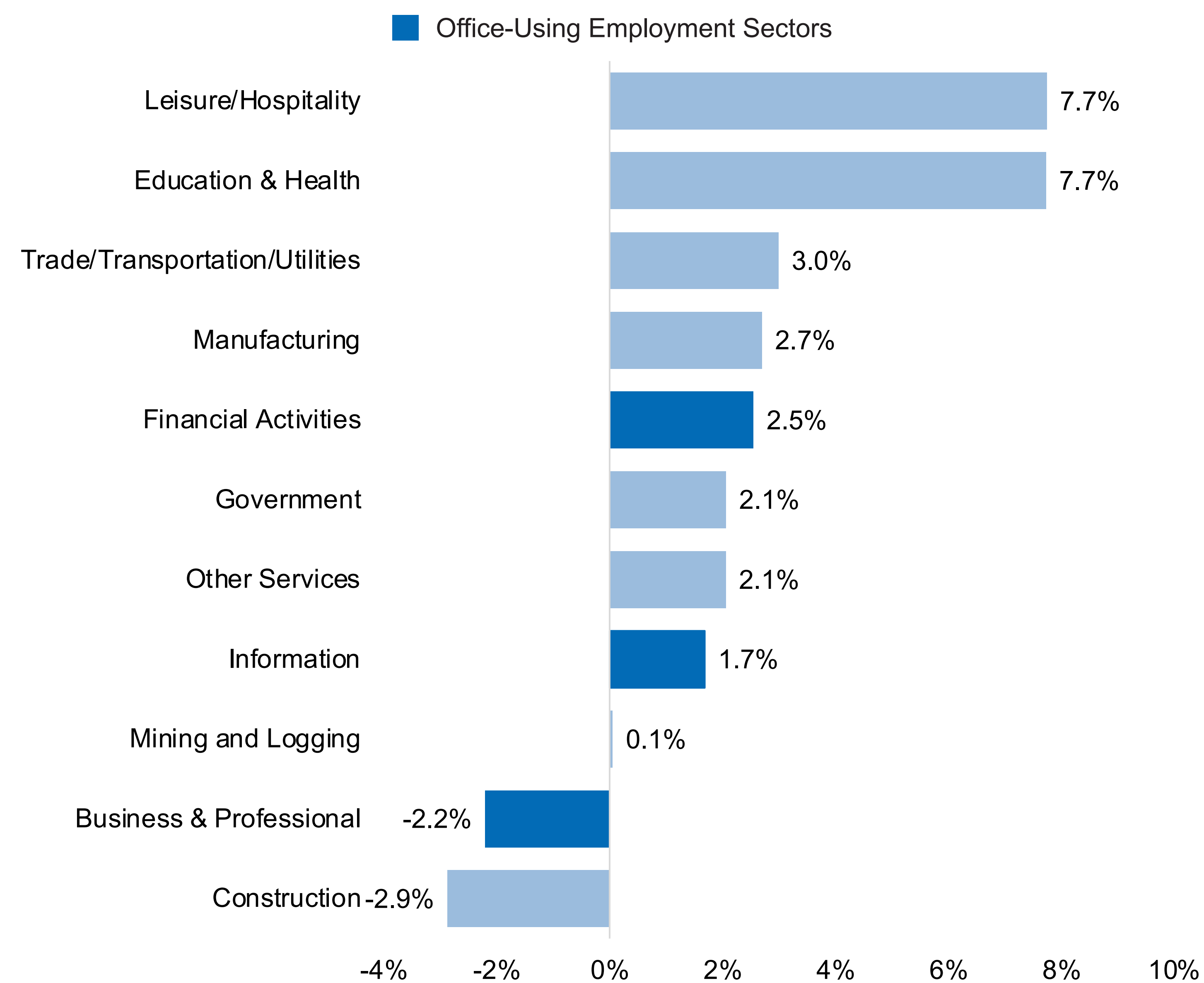
Employment Growth Continues across Most Office Sectors

Known for its tourism sector, the Orlando market's top two employment industries account for 38.8% of the market share. The office-using employment's business and professional sector is the third-largest industry sector in the metroplex at 18.6%. All industries in the metro, except for construction and business and professional, reported growth, with office-using industries reporting year-over-year growth ranging widely from a decrease of 2.2% to an increase of 2.5%.

Employment by Industry, August 2023



Employment Growth by Industry, 12-Month % Change, August 2023

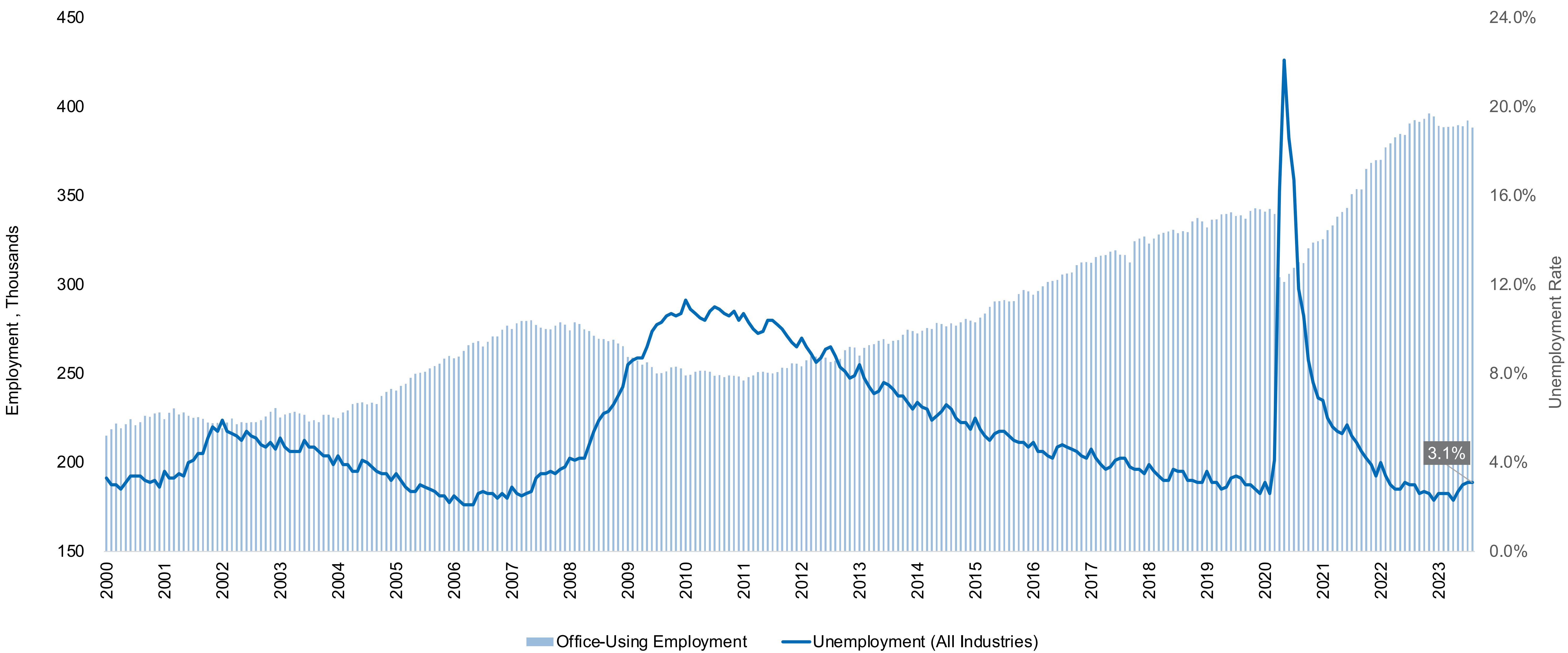


Source: U.S. Bureau of Labor Statistics, Orlando MSA

Overall Office-Using Employment Eases from Historical Highs

Office-using employment in the Orlando market continues to remain elevated at 388,300 employees as of the end of August 2023, easing from the historical high of 396,300 employees reported in November 2022. Currently, the non-seasonally adjusted unemployment rate is at 3.1%, on par with the 3.1% average levels reported in 2019, indicating that other industries outside of office-using jobs are part of the contributing factor in rising unemployment rate in the market.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Orlando MSA
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

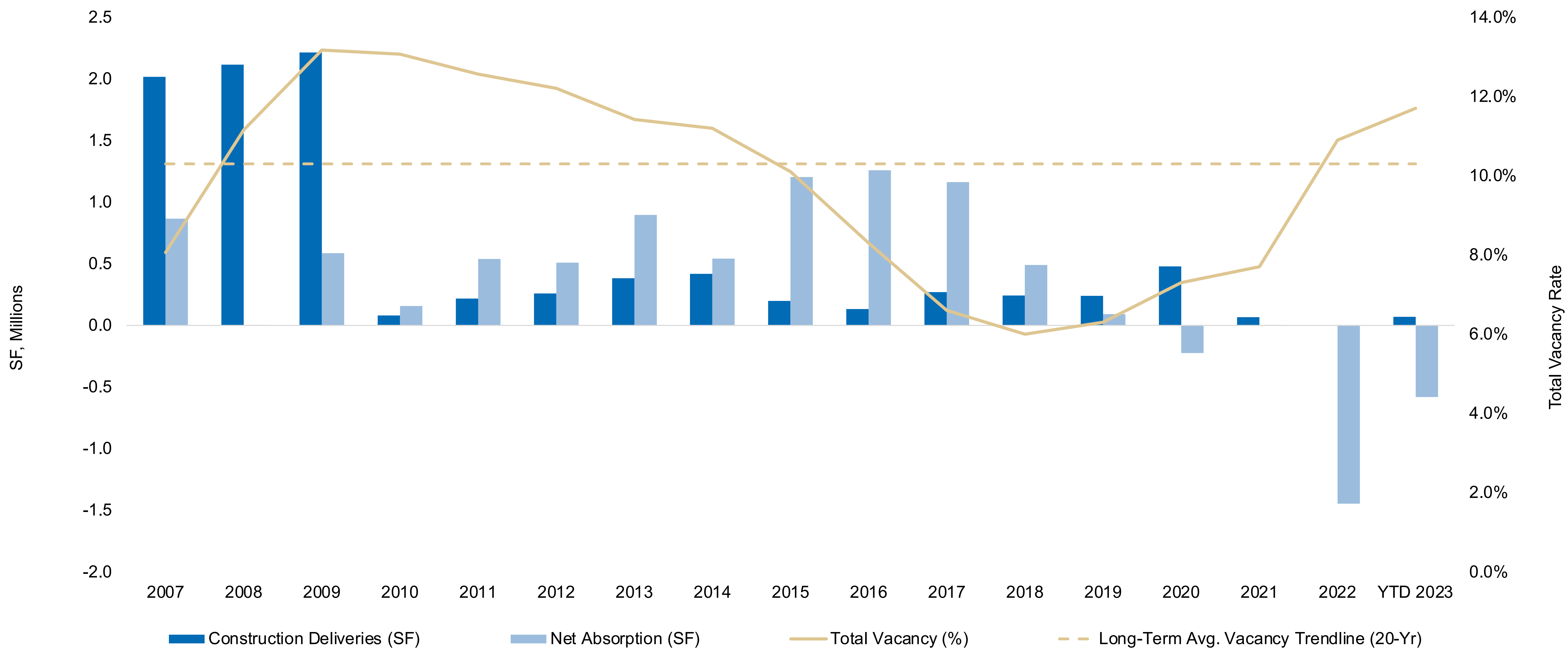
3Q23

Leasing Market Fundamentals

Vacancy Increases as Occupancies Remain Muted

The Orlando office vacancy rate increased by 130 basis points year over year, to a recent high of 11.7% in the third quarter of 2023. Since the pandemic, occupancies have slowed in the market, with minimal deliveries occurring. As a result, vacancy rates continued to increase since the pandemic but remain below peaks levels witnessed following the Global Financial Crisis.

Historical Construction Deliveries, Net Absorption, and Vacancy

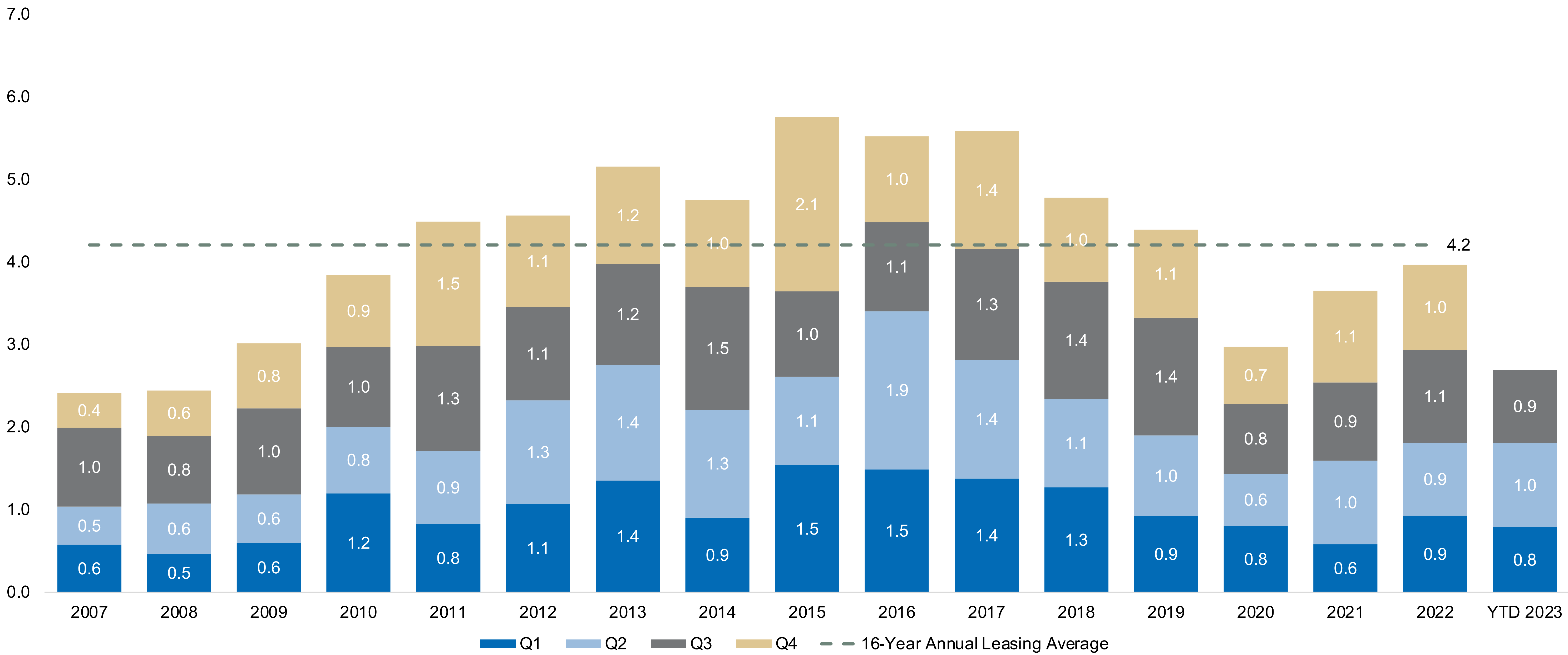


Source: Newmark Research, CoStar

Declining Deal Activity Results in Slowing Leasing Activity

Leasing activity in the market continues to slow, with 2023 year-to-date activity totaling 2.7 MSF, drifting from the average since 2007 of 3.1 MSF. Since 2007, third-quarter leasing activity averaged 1.1 MSF, with the third quarter of 2023 below historical averages at 888,834 SF. Deal size averaged 4,467 SF in the third quarter of 2023, an average of 321 SF more than the previous quarter and 66 SF more than a year ago. The slowing leasing activity pace is largely attributed to fewer deals being done, likely impacted by a more challenging debt liquidity environment preventing larger deals from occurring as easily.

Total Leasing Activity (msf)

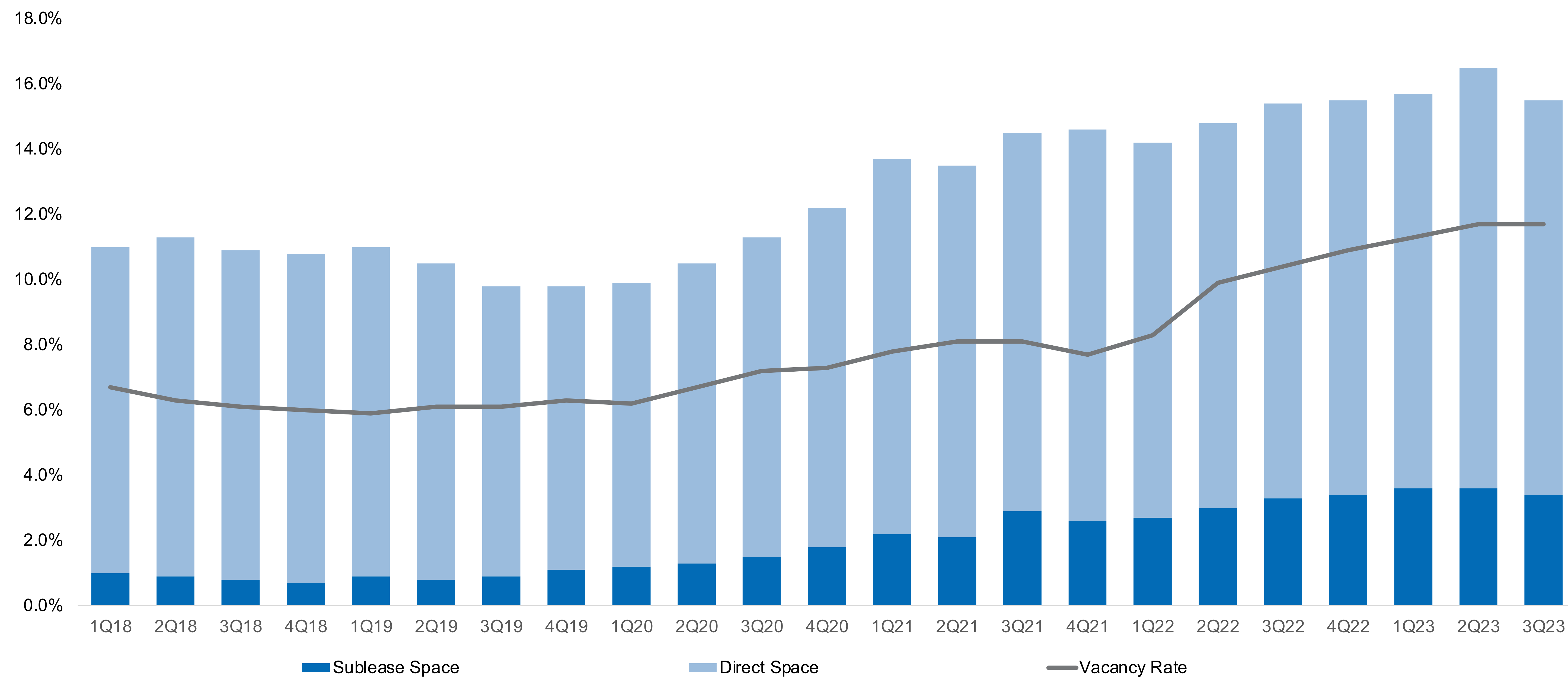


Source: Newmark Research, CoStar

Availability Decreases from Recent High

Sublease availability in the Orlando market has continued to slowly inch upward since the pandemic. As of the end of the third quarter of 2023, sublease availability in the market was at 3.4%, easing slightly from the 3.6% reported in the first half of the year. Following a similar trajectory, direct availability has also continued to increase since the pandemic and remained elevated in the third quarter of 2023 at 12.1%. As a result, vacancies have continued to increase, with an overall rate of 11.7% as of quarter-end.

Available Space as Percent of Overall Market

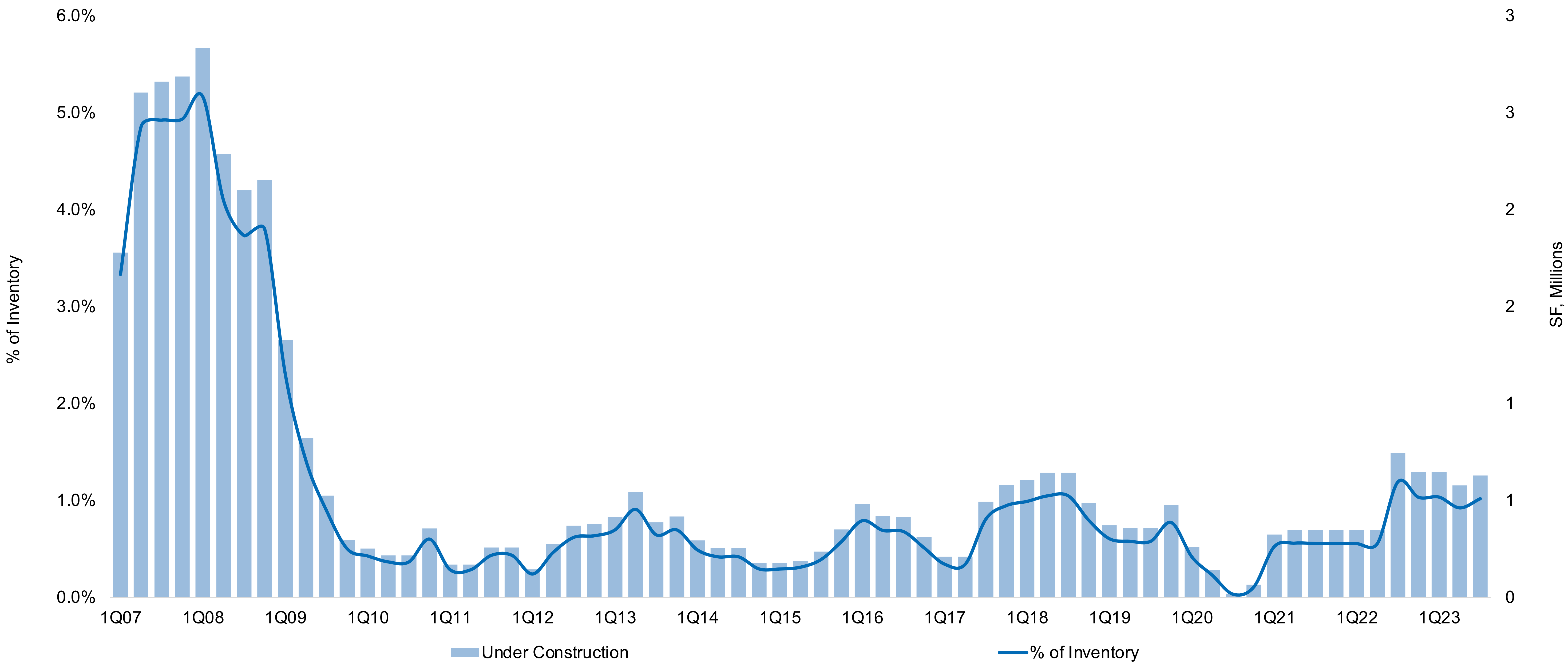


Source: Newmark Research, CoStar

Construction Activity Inches Upward

Construction activity has inched upward following the pandemic but continues to remain relatively muted. As of the third quarter of 2023, the market had 628,712 SF under construction, accounting for 1.0% of the market's inventory, indicating there is less risk of overbuilding.

Office Under Construction and % of Inventory

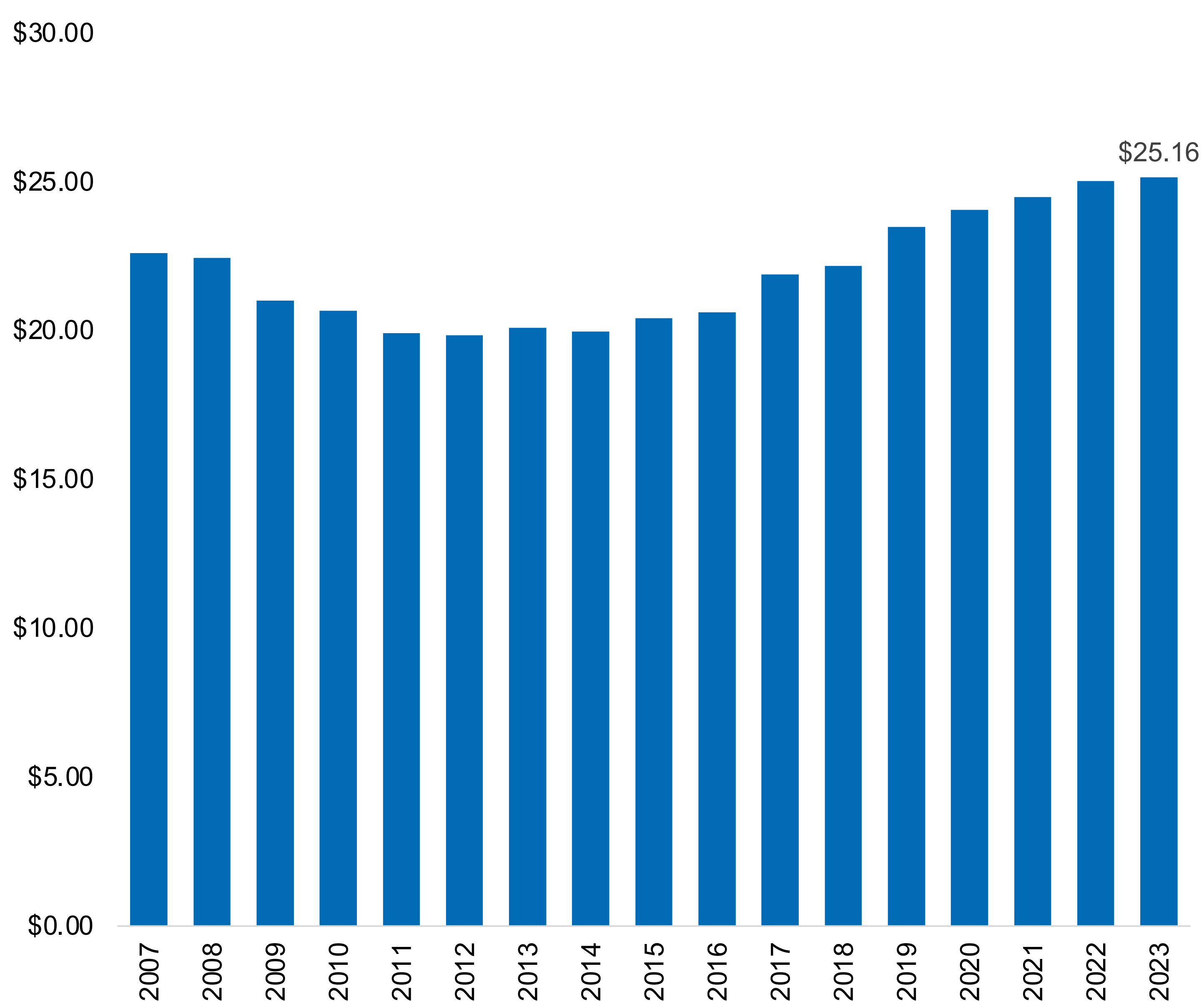


Source: Newmark Research, CoStar

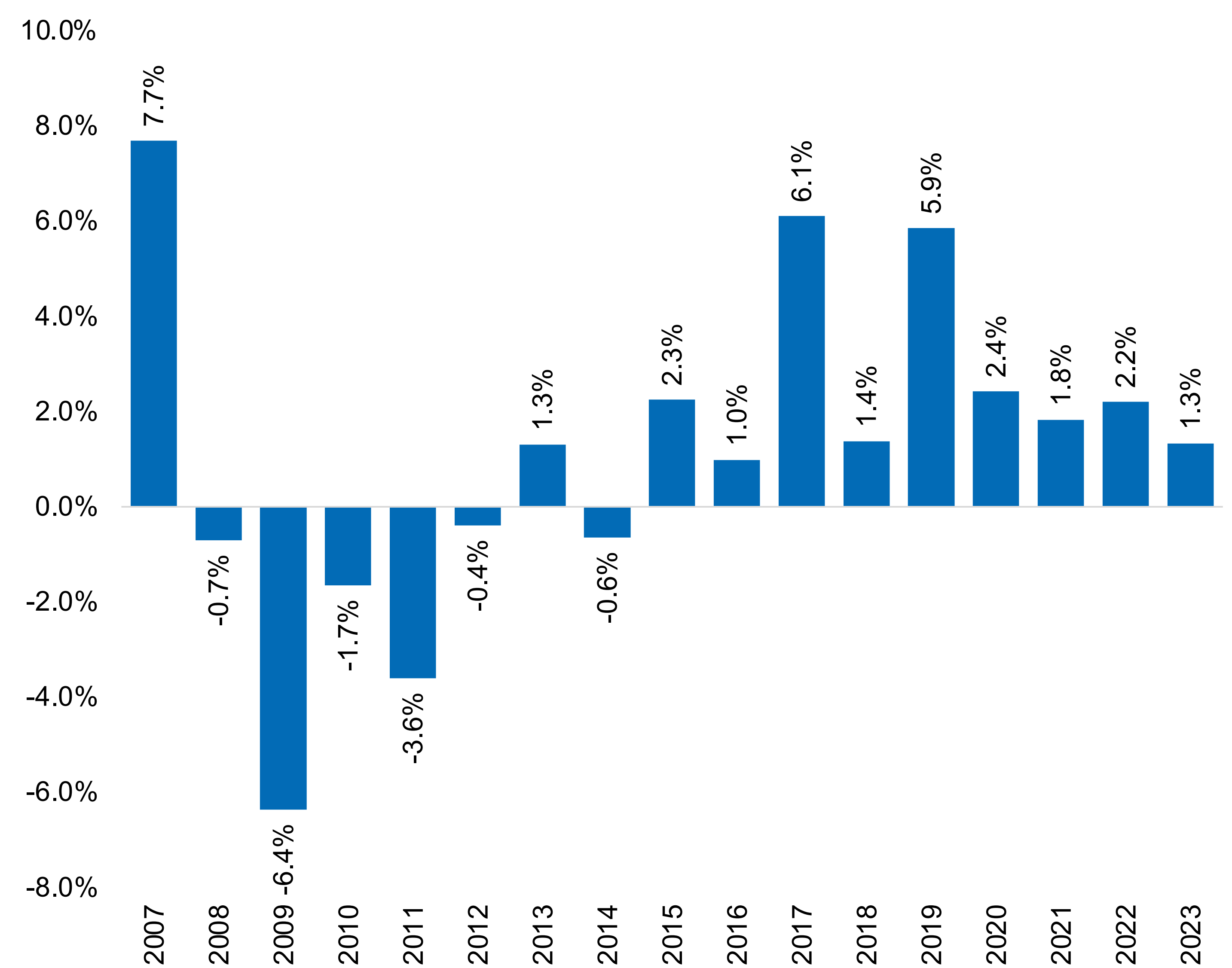
Rents Reach All-Time High

Rents fell slightly in the third quarter of 2023 from the all-time historical high of $25.27/SF to $25.16/SF. Year over year, rental rates in the market have grown by 1.3%. Rent growth in the market is generally attributed to higher-quality space availability as bolstered by more delivery of new product in recent quarters. Asking rents are likely to remain elevated in a market impacted by inflation and increasing operating costs.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

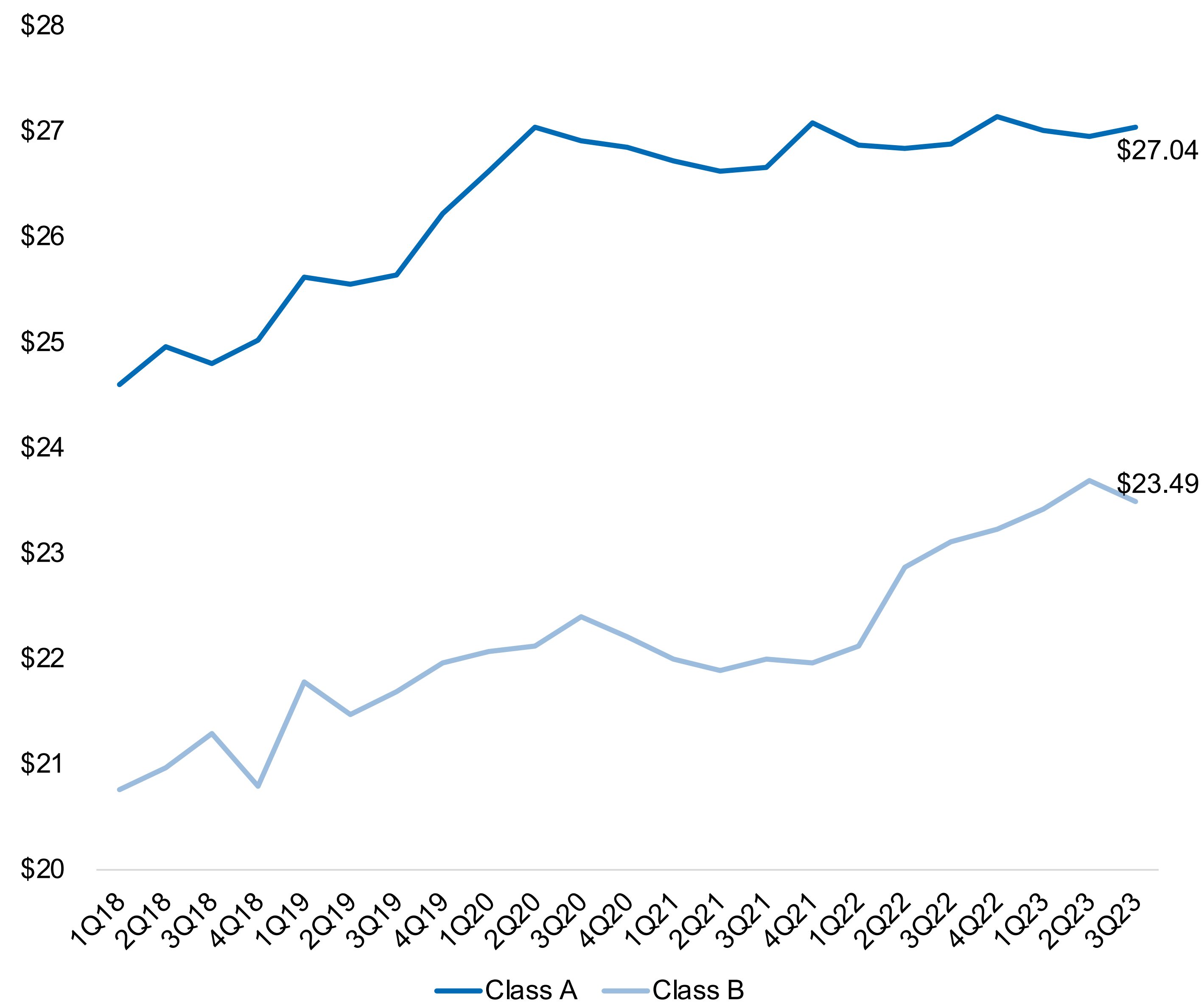


Source: Newmark Research, CoStar

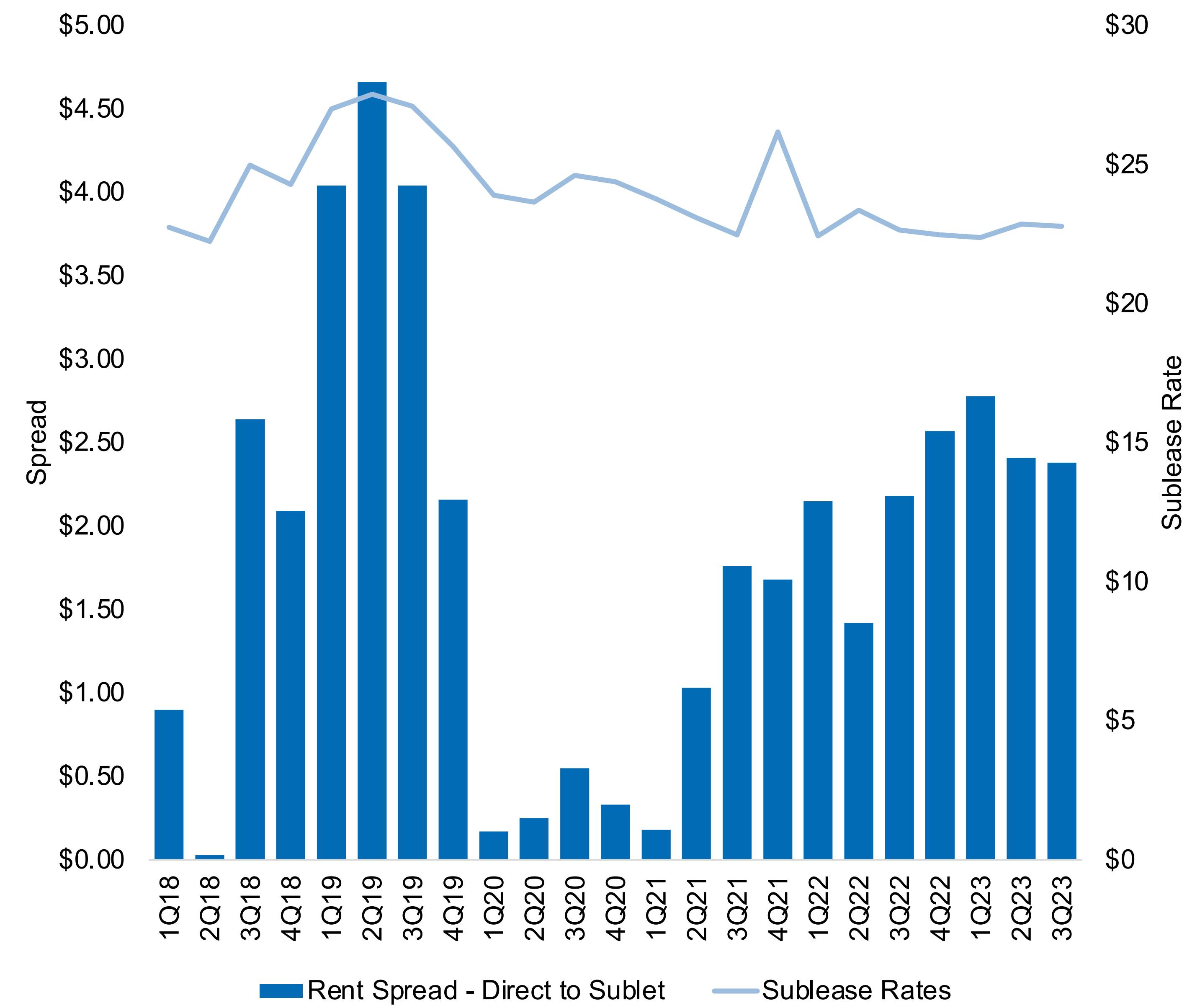
Decreasing Rent Spread on Class A Assets

As of the end of the third quarter of 2023, Class A rents ended at $27.04/SF, while Class B reported $23.49/SF. Rent difference between the two assets is at $3.55/SF, a 10.1% spread decrease since 2019. The closing rent spread between Class A and Class B assets will likely push more tenants to shed unused space and lease smaller footprints in higher-quality assets. Sublease rates have flattened in recent quarters, with asking sublease rents decreasing by 0.3% quarter over quarter.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Flight-to-Quality Leasing Activity Increases

Despite slowing leasing activity in the market, flight to quality increases as a trend in the market due to the closing spread in rental rates on Class A spaces. As of the end of the third quarter of 2023, Class A space accounted for 42.5% of the market's leasing activity by SF, but only 28.6% of the market's deal volume. Average leases signed in Class A space were 6,625 SF and continue to remain larger than the average market deal size of 4,467 SF.

Notable 3Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Spectrum	65 Keller Rd	Maitland Center	Renewal	82,260
Telecommunications company Spectrum renewed its lease for 82,260 SF at 65 Keller Rd.				
CAE	6989 Lee Vista Blvd	Orlando Airport	Direct New	68,132
CAE, a simulation technology manufacturer, leased 68,132 SF at 6989 Lee Vista Blvd in the Orlando Airport submarket.				
AssistRX	9400 Southpark Circle	Tourist Corridor	Sublease	59,918
AssistRX, a developer of specialty therapy initiation platform, subleased 59,918 SF at 9400 Southpark Center Loop.				
Concorde Career Institute	3444 McCrory Pl	436 Corridor	Renewal	41,449
Healthcare education company Concorde Career Institute renewed its lease of 41,449 SF at 3444 McCrory Pl.				
Burns & McDonnell	495 N Keller Rd	Maitland Center	Direct New	32,190
Burns & McDonnell signed for 32,190 SF on the 3rd floor at 495 N Keller Rd in the Maitland Center submarket.				

Source: Newmark Research, CoStar

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Orlando Office Submarket Map

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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