

1Q25

Orlando Office Market Overview



NEWMARK

Market Observations

Economy

- The market's unemployment rate rose by 25 basis points year over year to 3.4% but remained well below the five-year average of 5.0%.
- Job growth slowed to 2.2% year over year, down 76 basis points from the prior year. The current annual job growth rate is on par with pre-pandemic levels, with February 2020 growth at 1.8%.
- Most sectors reported positive employment growth year over year, while manufacturing contracted. Mining and construction led job gains at 4.7% over the past 12 months.
- Office-using jobs increased 1.6% year over year to 412,240 employees but remain 0.2% below the historical high reported in September 2023.

Major Transactions

- Mitsubishi Power Americas inked the quarter's largest deal, signing up for 109,600 SF at The Edison at Primera in the Lake Mary submarket.
- Orange County's renewal at 200 S Orange Ave. for 49,307 SF was the second largest deal of the quarter.
- Notable transactions during the quarter come from a mix of tenant industries, indicating there is still appetite for space among various occupiers in the market.
- The five-largest transactions in the first quarter of 2025 were all direct-new deals, highlighting tenant confidence in the market.

Leasing Market Fundamentals

- Annual full-service asking rental rates reached a new historical high of \$26.02/SF, reflecting a 5.1% increase year over year. Class A rents increased 3.6% year over year to a new high of \$27.37/SF.
- The first quarter of 2025 realized 51,721 SF of positive absorption but demand remains muted overall. As a result of supply outpacing demand, the vacancy rate rose by 60 basis points year over year to 13.0%.
- The under-construction pipeline remains muted with 189,168 SF in progress, accounting for only 0.3% of the market's overall inventory.
- Total leasing activity closed the quarter at 789,253SF, up 6.0% from the previous quarter, with an average lease size of 3,195 SF. Class A leasing accounted for 48.8% of the quarter's activity by square feet, with the average deal size roughly double the market average at 6,214 SF.

Outlook

- In 2025, the Orlando office market will likely see modest growth, due to the gradual impact of recent decreases in interest rates, which are slowly stimulating market activity.
- Premium office spaces in Orlando's key submarkets will continue to see increases in rental prices and occupancy levels. The ongoing flight-to-quality trend underscores the ongoing demand for top-tier office properties, despite the constrained supply.
- Orlando's office market outlook is positive, driven by strong office-using employment and a diverse labor force which attracts varied business sectors, ensuring ongoing demand for office space.

1. Economy
2. Leasing Market Fundamentals

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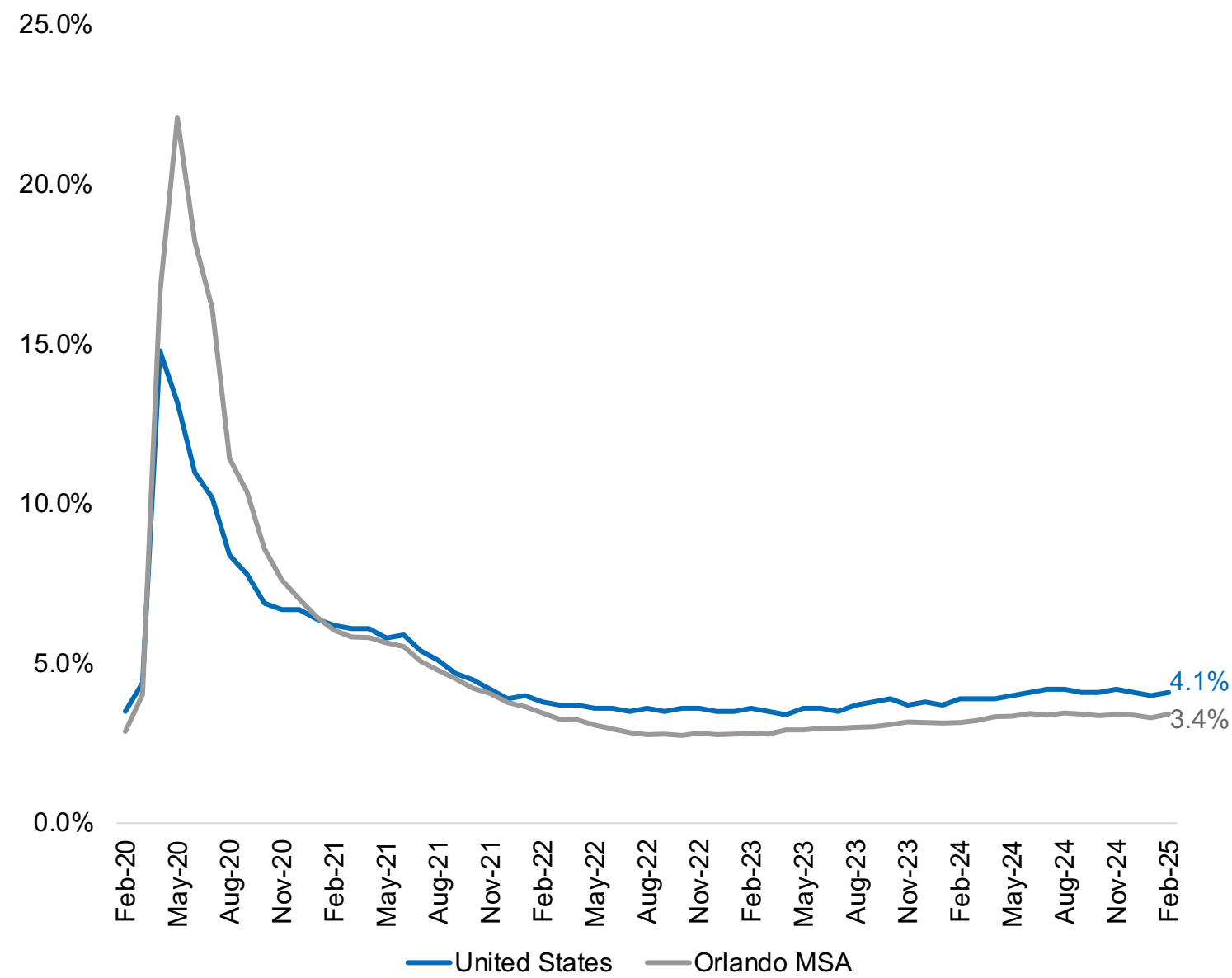
Economy



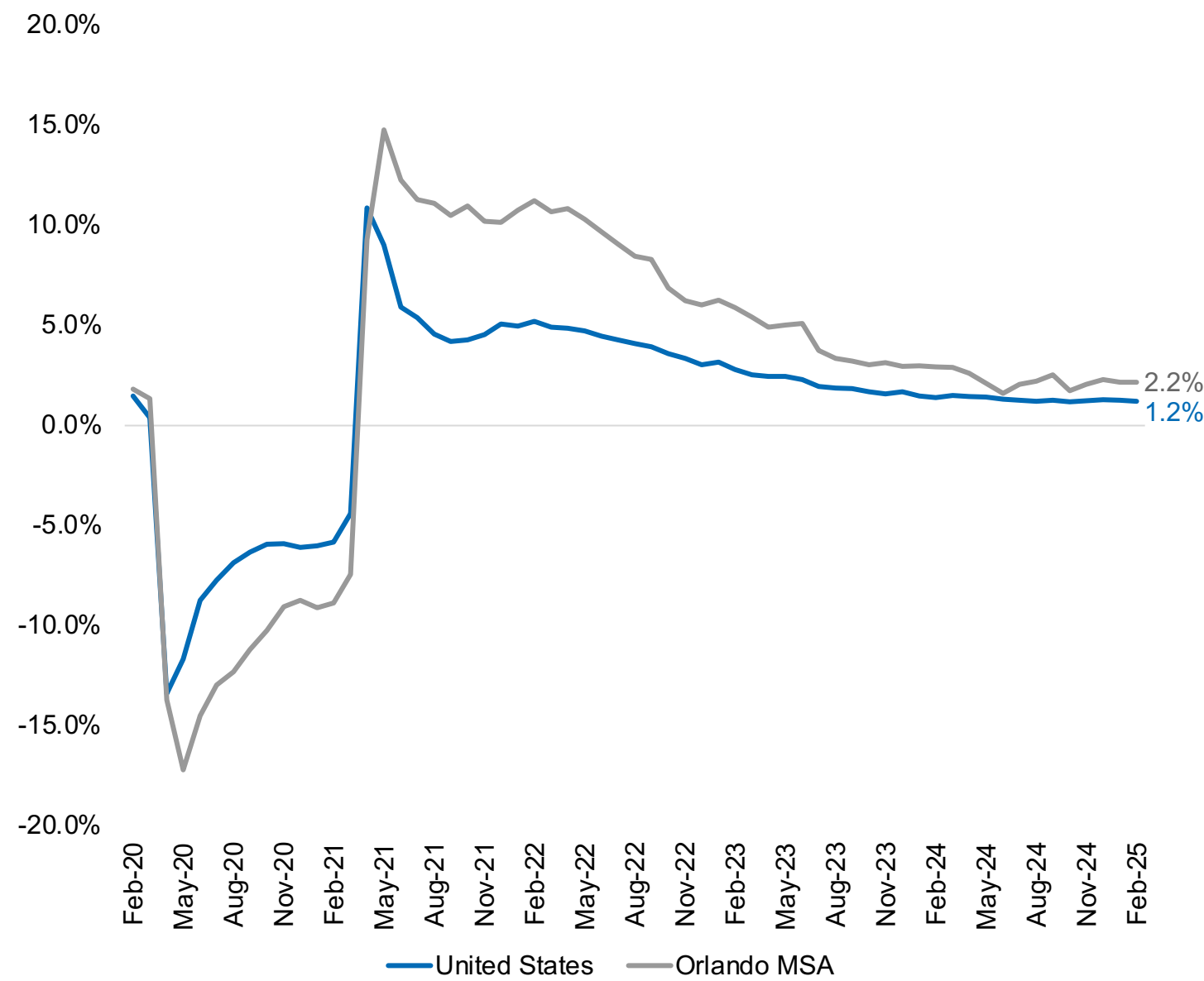
Metro Employment Trends Continue Slow Growth

The Orlando market has generally reported lower unemployment rates compared with the national average, while being an outperformer in employment growth. National headwinds have pushed the region’s unemployment rate to increase by 25 basis points year over year to 3.4% but remains below the national average of 4.1% for February 2025. Meanwhile, annual employment growth was 2.2% in February 2025, falling 76 basis points year over year and remaining above the national average of 1.2%.

Unemployment Rate, Seasonally Adjusted



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

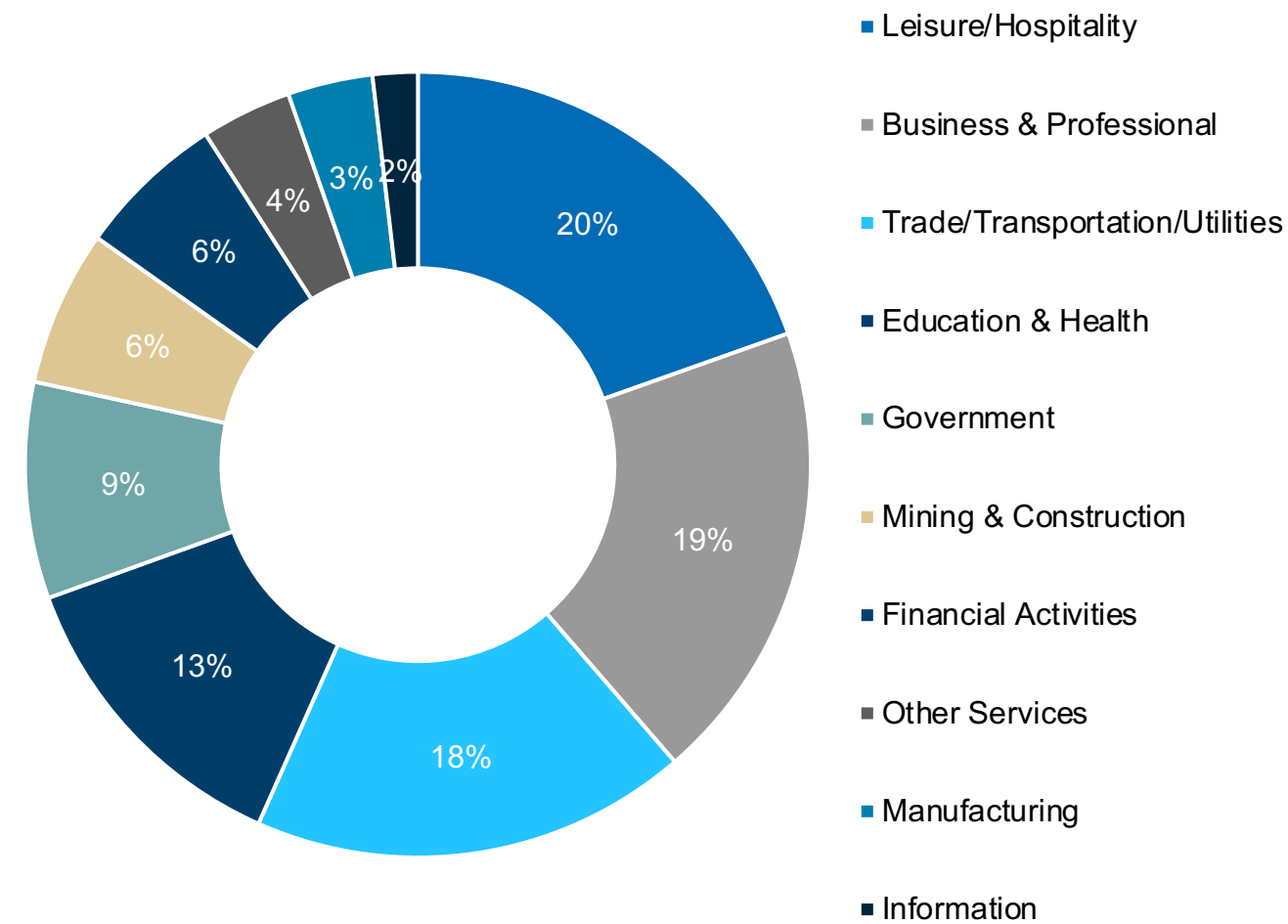


Source: U.S. Bureau of Labor Statistics, Orlando MSA

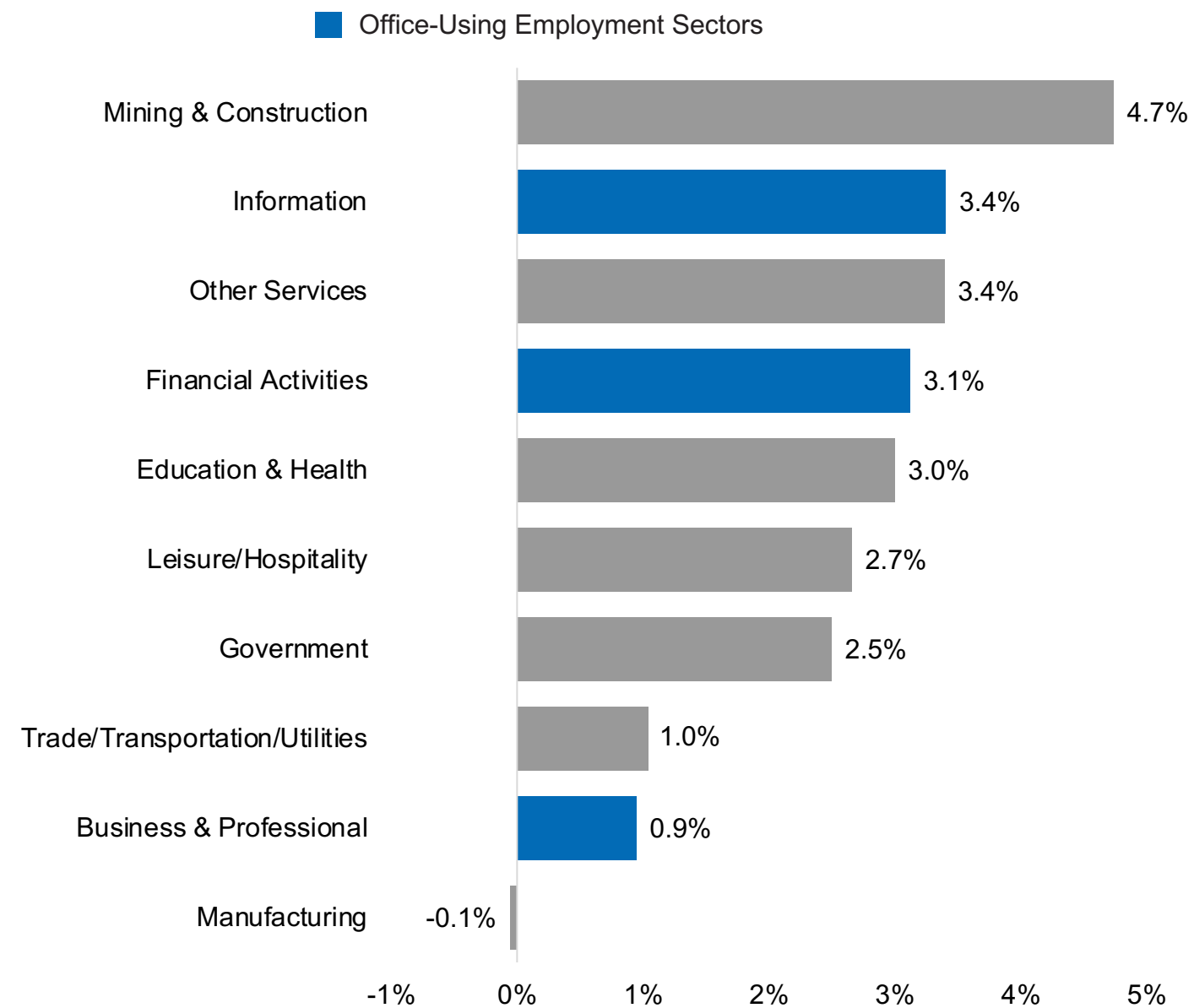
Moderate Employment Growth for All Office Sectors

Known for its tourism sector, the Orlando market’s top two employment industries account for 38.7% of the market share. The office-using employment’s business and professional sector accounts for 19.1% of the metro’s employment industries, behind leisure and hospitality at 19.6%. All office-using industries reported annual growth, ranging from 0.9% for business and professional services to 3.4% for information.

Employment by Industry, February 2025



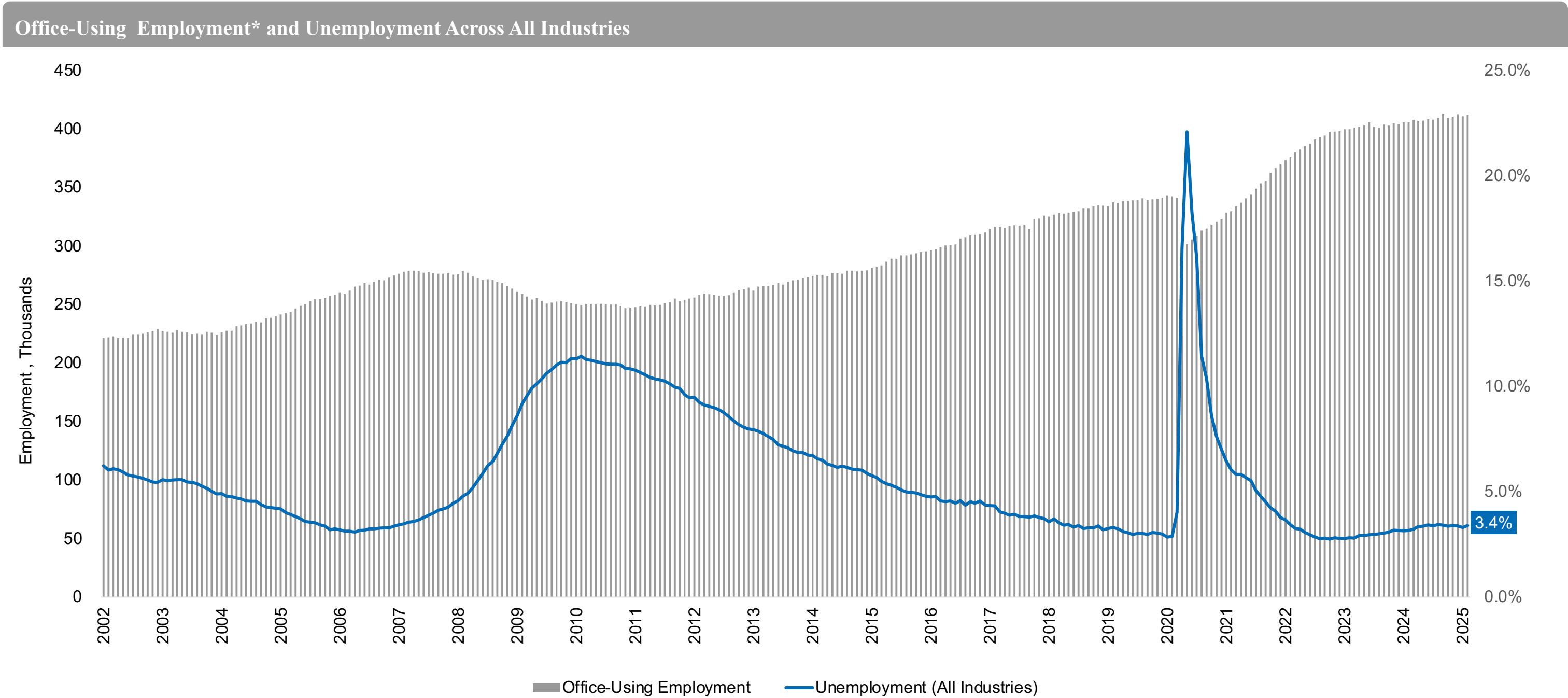
Employment Growth by Industry, 12-Month % Change, February 2025



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

Overall Office-Using Employment Rises Slightly Year Over Year

Office-using employment in the Orlando market continues to remain elevated at 412,240 employees as of the end of February 2025, declining by 0.2% from the historical high reported in September 2024. Currently, the seasonally adjusted unemployment rate is at 3.4%, significantly lower than the 5-year average of 5.0% since 2020. While the unemployment rate rose slightly, office-using employment grew by 1.6% year over year, indicating that office-using industries are less impacted.



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.

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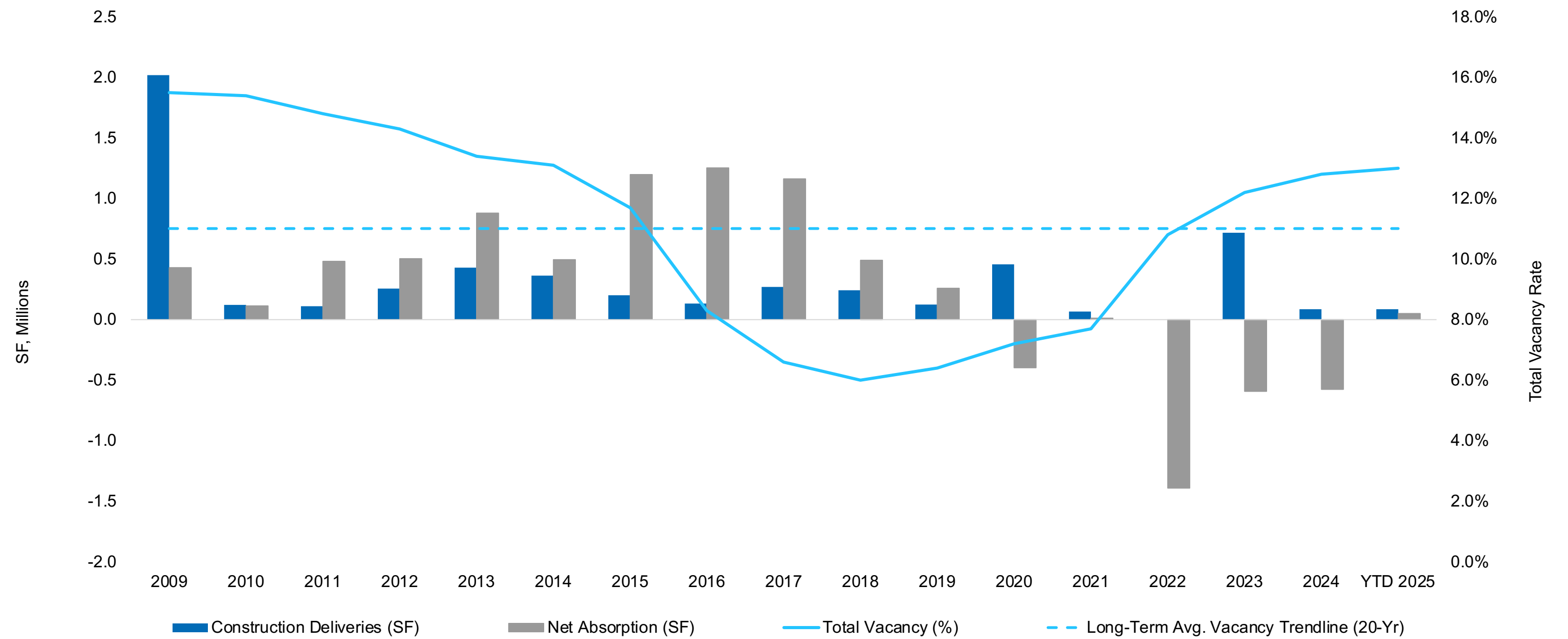
Leasing Market Fundamentals



Supply Outpaces Demand, Leading to Rise in Vacancy

In the first quarter of 2025, Orlando's office vacancy rate increased by 60 basis points year over year, to close at 13.0%. The first quarter's vacancy is moderately above the historical average of 11.0%, highlighting a persistent upward trend in vacancies over the long term. However, the quarter over quarter increase in vacancy was just 20 basis points, suggesting that office occupancies might be starting to stabilize. The market realized 51,721 SF of positive absorption in the first quarter of 2025. Despite absorption being positive, supply in the first quarter outpaced demand by 34,064 SF, resulting in increased vacancy.

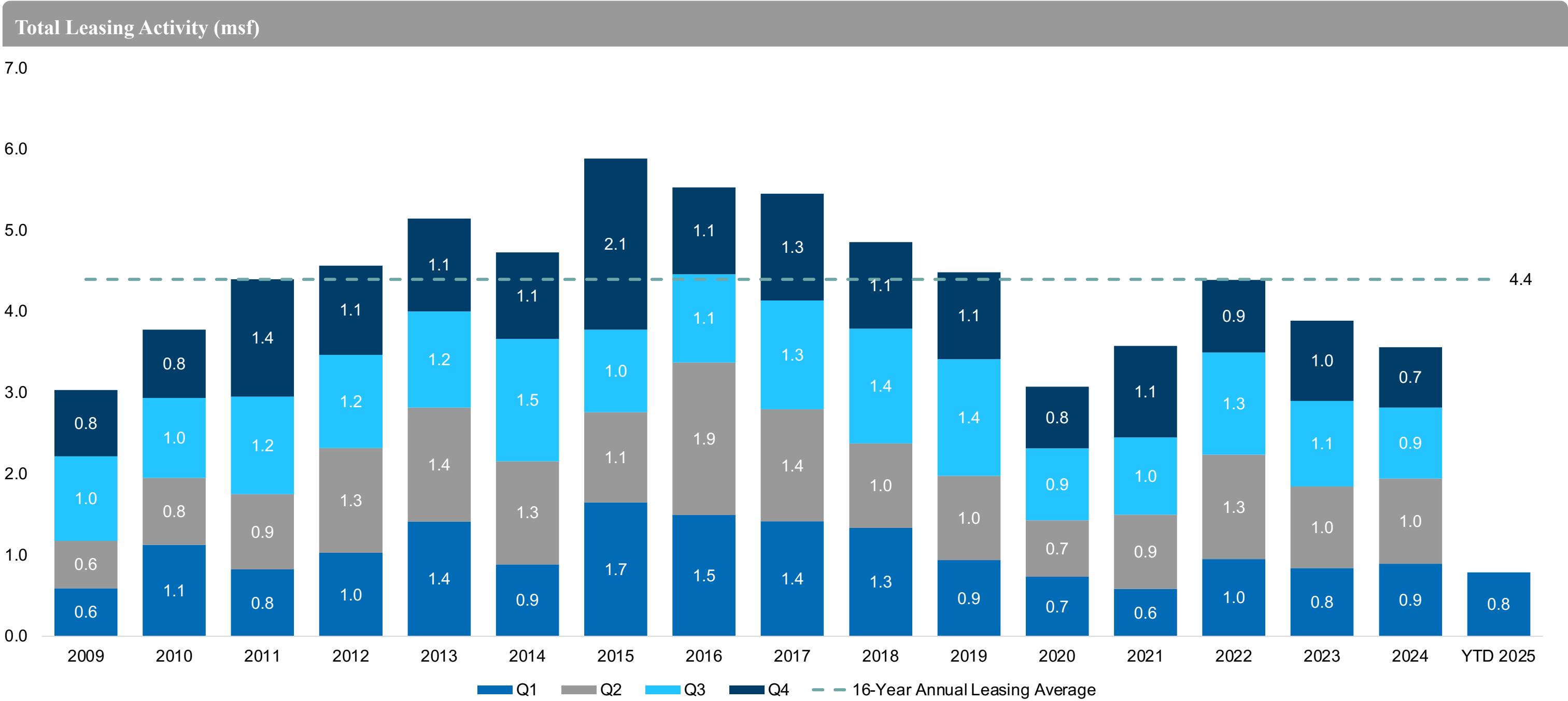
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Quarterly Leasing Activity Mimics Previous Year Levels, Remains Below Long-Term Average

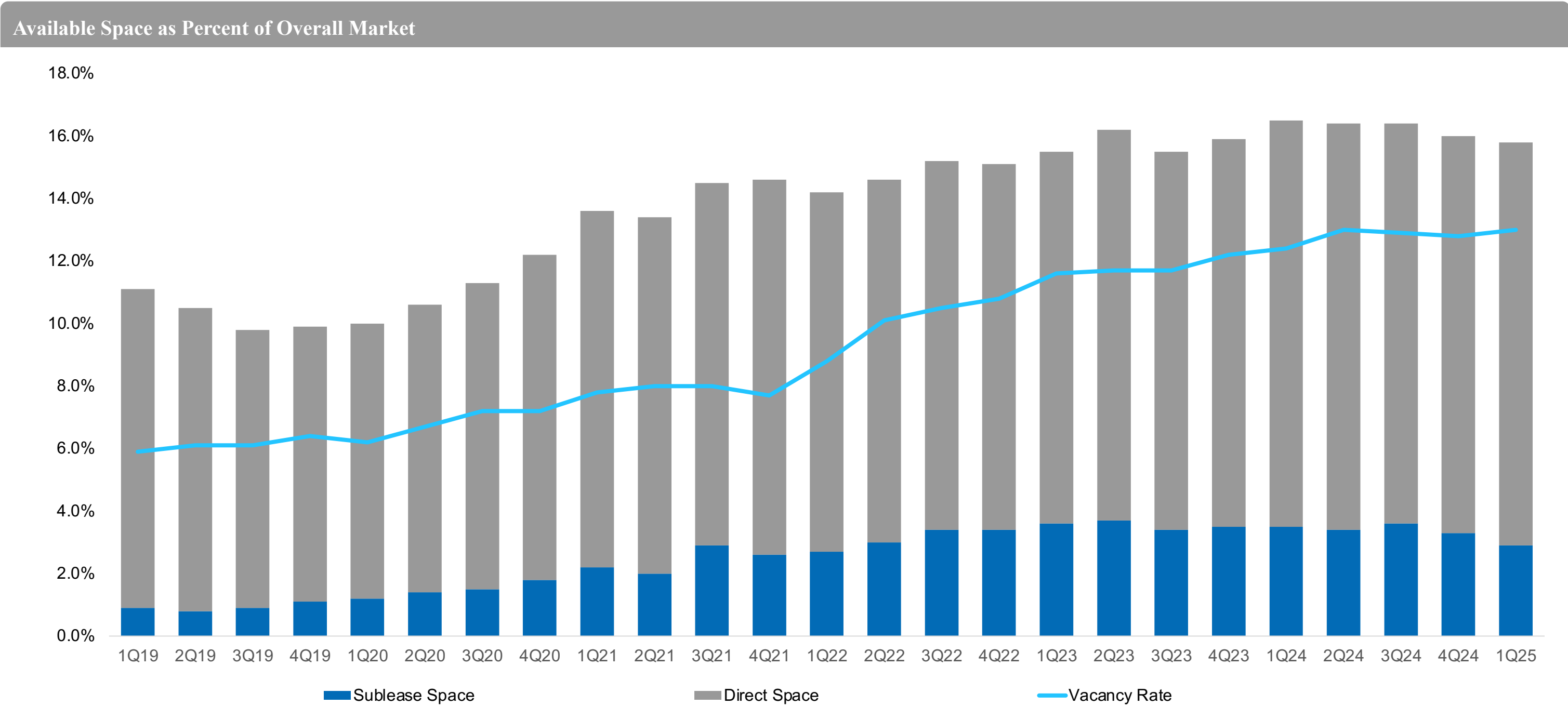
Leasing activity in the first quarter of 2025 totaled 789,253 SF, reflecting an increase of 6.0% from the previous quarter. Since 2009, first-quarter leasing activity averaged 1.0 MSF, with activity in the first quarter of 2025 falling below that long-term average. However, first quarter activity was on par with levels seen in both 2023 and 2024. Deal size averaged 3,195 SF in the first quarter of 2025, an average of 831 SF and 353 SF lower than the previous quarter and year, respectively.



Source: Newmark Research, CoStar

Sublease Availability Continues to Ease, Gradually

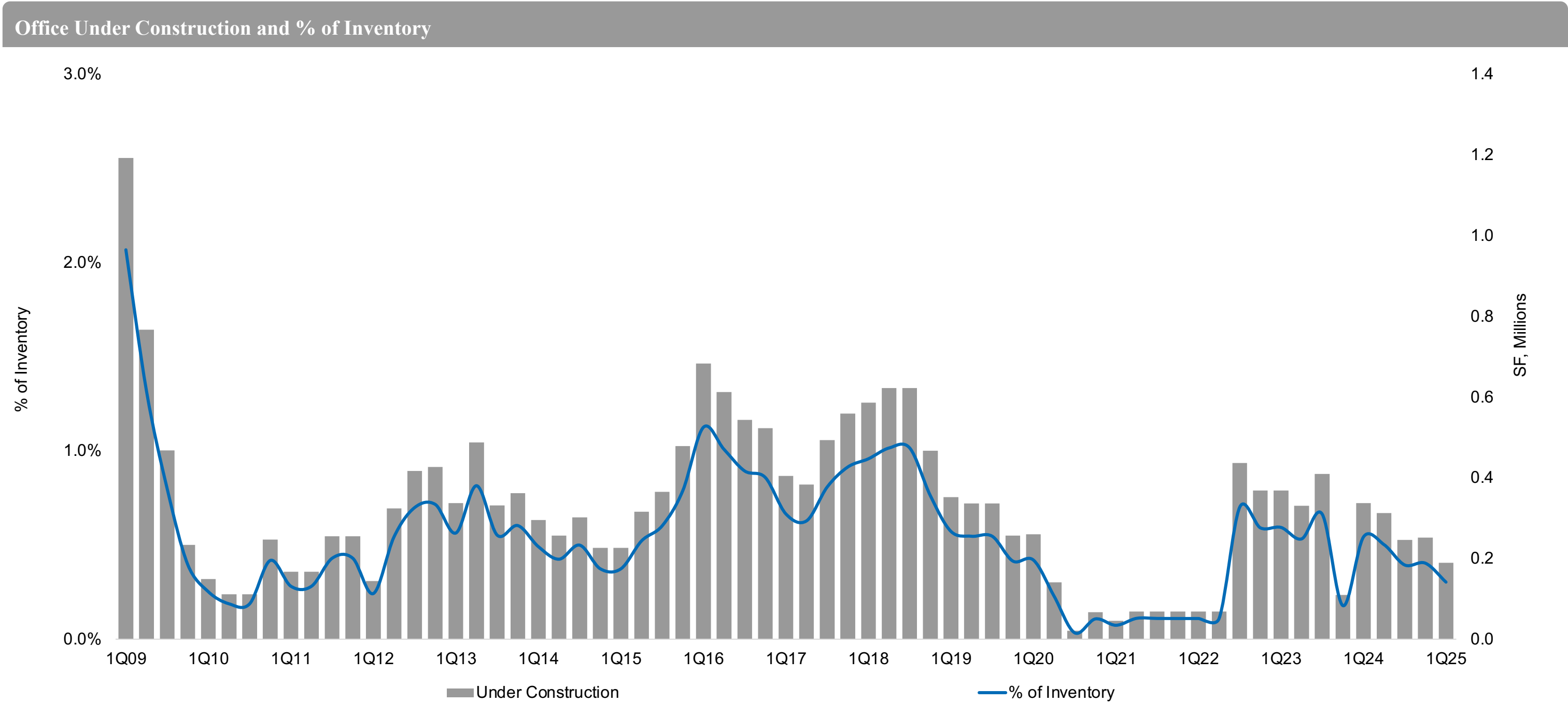
As of the end of the first quarter of 2025, sublease availability in the market fell to 2.9%, down 40 basis points from the previous quarter, reversing a general trend of increasing sublease availability since the pandemic. Meanwhile, direct availability ticked up by 20 basis points quarter over quarter to 12.9%. However, total availability declined for the second consecutive quarter. The vacancy rate rose by 20 basis points quarter over quarter, as supply outpaced demand.



Source: Newmark Research, CoStar

Construction Activity Remains Muted

After relatively flat construction levels since the third quarter of 2020, the construction pipeline rebounded in late 2022 with 436,621 SF of projects. Construction starts have recently started to taper again, with 189,168 SF in the pipeline at the end of the first quarter of 2025. The current pipeline accounts for 0.3% of the market's inventory, indicating there is less risk of overbuilding.

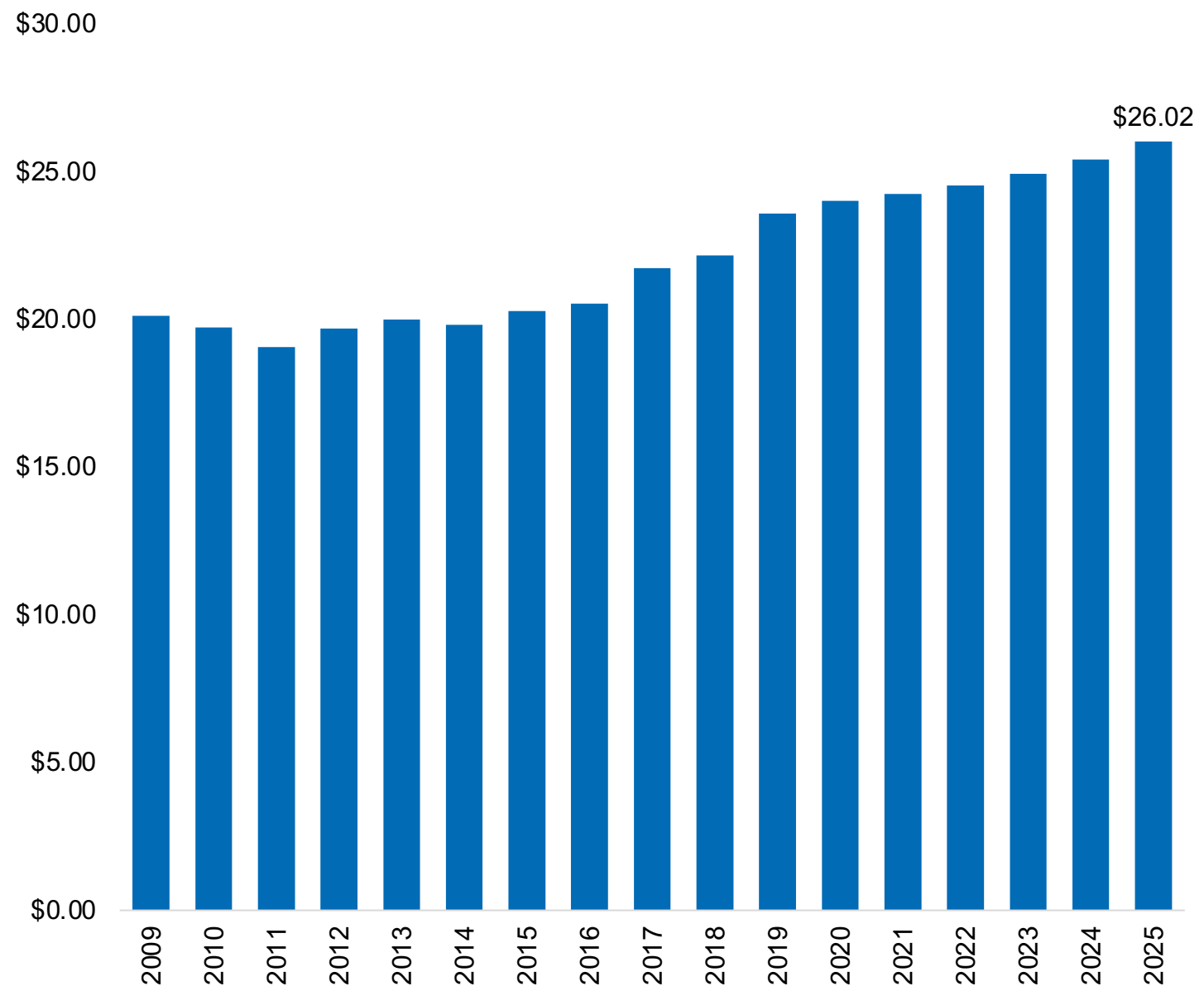


Source: Newmark Research, CoStar

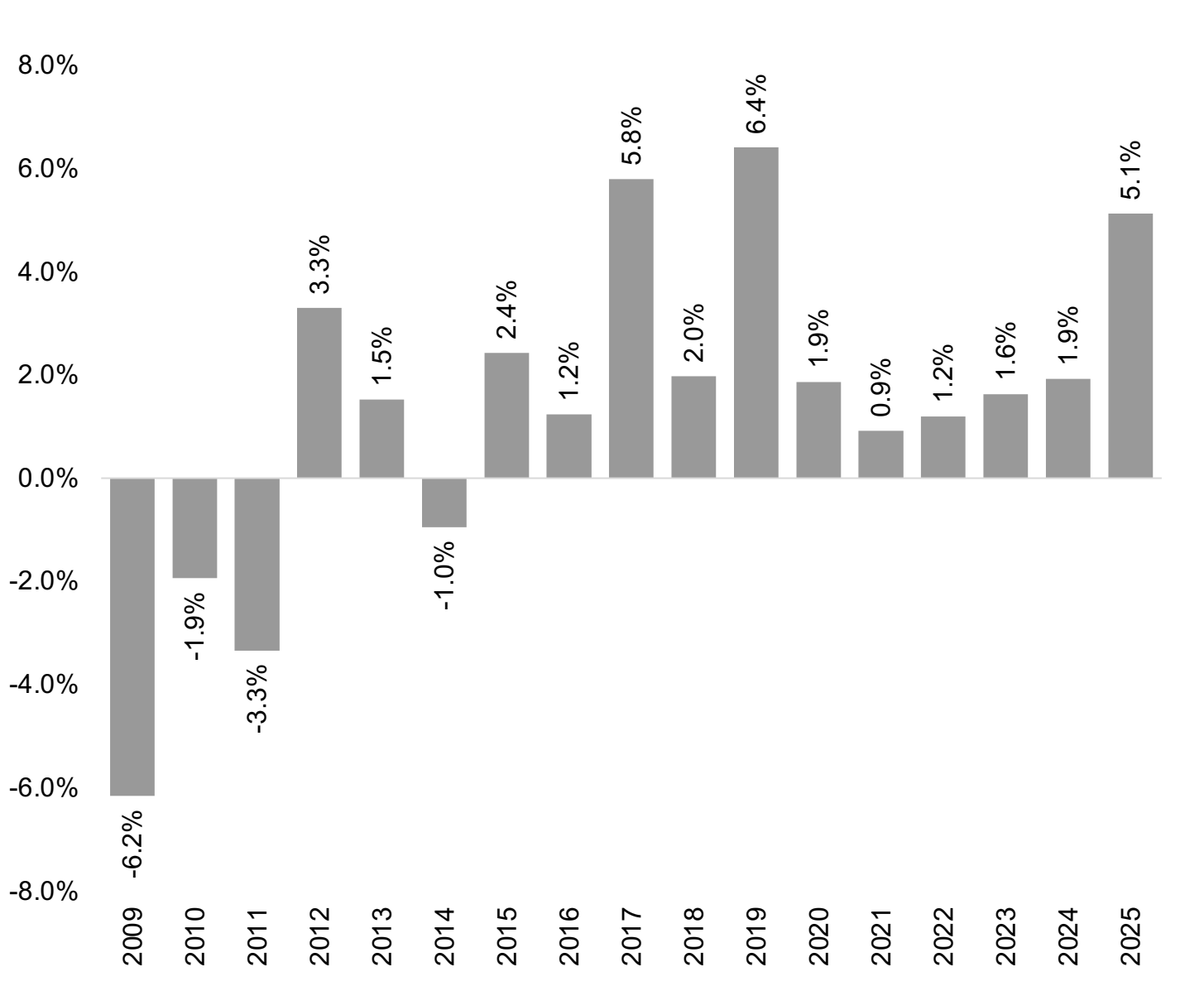
Rental Rates See Strong Annual Growth

Rents rose significantly in the first quarter of 2025 to \$26.02/SF, reaching a new historical high. Year over year, rental rate growth in the market increased by 5.1%. Rent growth in the market has been driven by the increased availability of premium spaces, bolstered by a surge of new, high-quality deliveries in 2023. Consequently, the Orlando market is expected to maintain elevated asking rents in the near-term.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

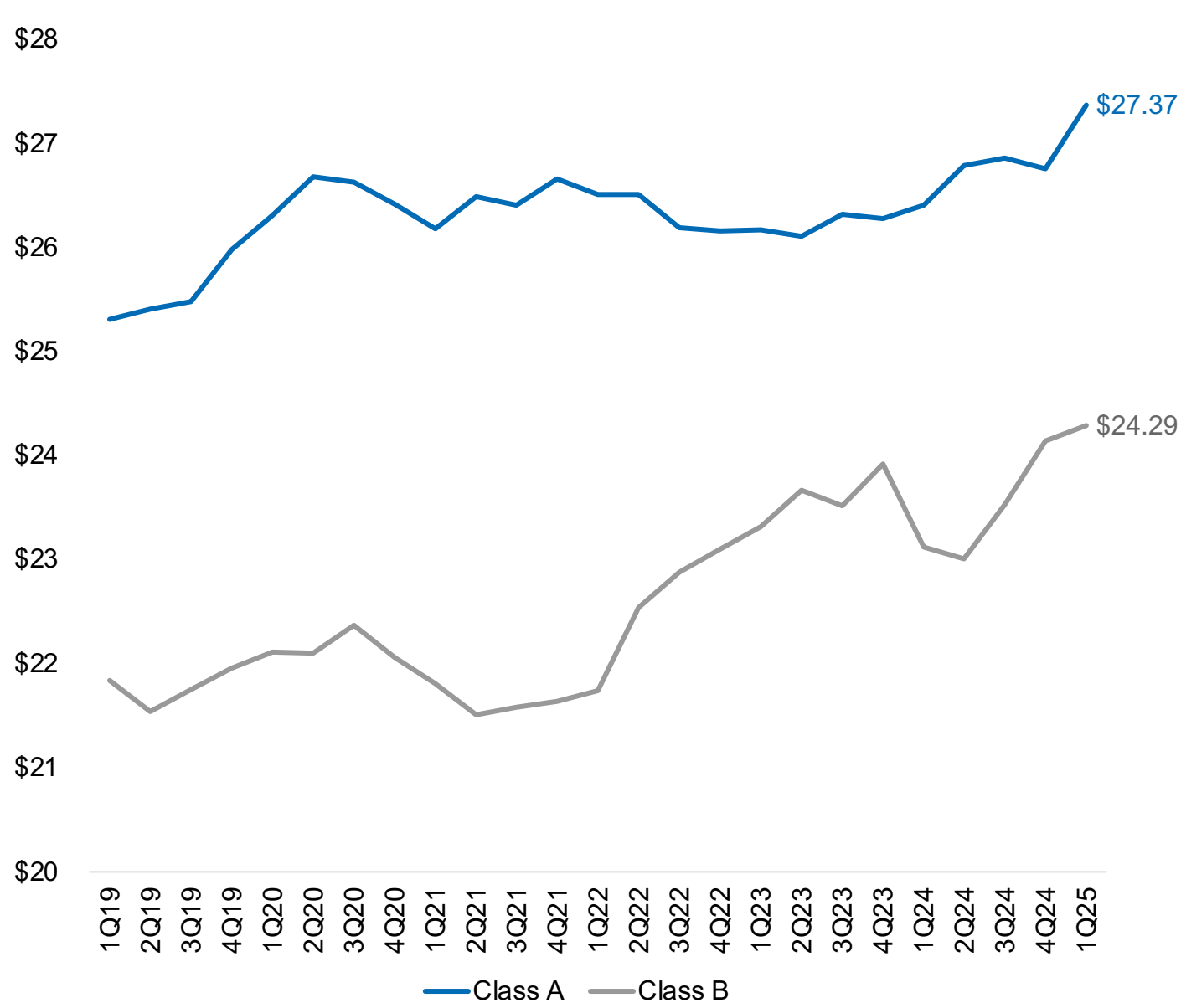


Source: Newmark Research, CoStar

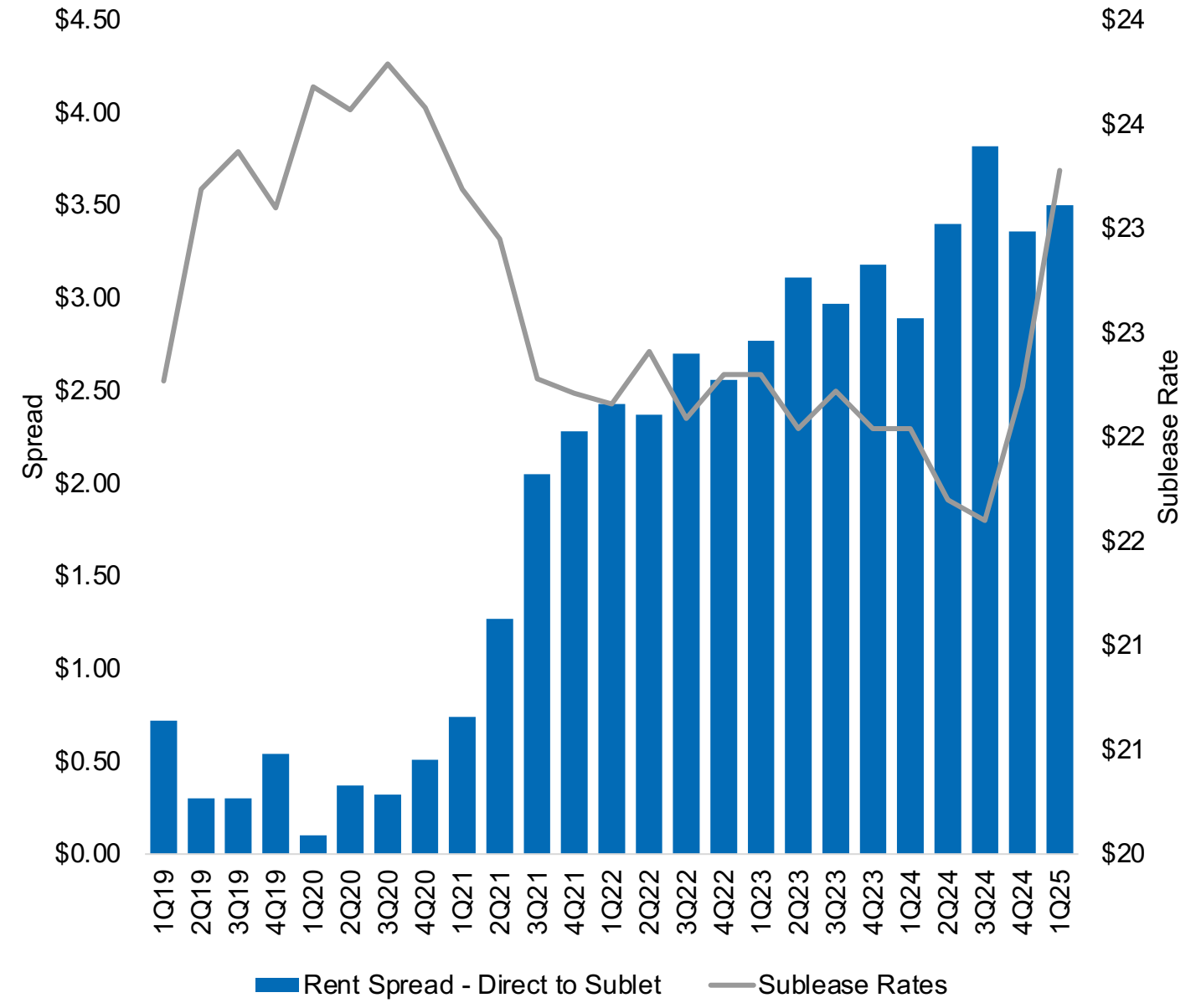
Rent Growth Continues Across Class A and Class B Assets

As of the end of first quarter of 2025, Class A rents rose by 3.6% year over year to a new peak of \$27.37/SF. Meanwhile, Class B rents rose by 5.1% to \$24.29/SF over that same period, also reaching a new high. Rent difference between the two assets is at \$3.08/SF, a spread decrease of 23.4% since 2019. The narrowing rent spread between Class A and Class B assets will likely continue to push tenants to shed unused space and lease smaller footprints in higher-quality buildings. Sublease rates averaged \$23.28/SF in the first quarter, an increase of 5.6% year over year. Currently, sublease rates are averaging about \$3.50/SF lower than direct rates.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Class A Deal Size Twice the Market Average as Flight-to-Quality Leasing Activity Persists

Flight to quality continues to be a trend in the market due to the increasing spread in Class A rental rates as deliveries remain muted and availability of quality assets dwindle. As of the end of the first quarter of 2025, Class A space accounted for 48.8% of the market’s leasing activity by SF, but only 25.1% of the market’s deal volume. Average leases signed in Class A space were 6,214 SF, roughly double the average market deal size of 3,195 SF.

Notable 1Q25 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Mitsubishi Power Americas	The Edison at Primera	Lake Mary	Direct New	109,600
Renewable energy solutions company, Mitsubishi Power Americas, signed the quarter’s largest lease for 109,600 SF at The Edison at Primera in the Lake Mary submarket.				
Orange County	200 S Orange Ave	Downtown Orlando	Renewal	49,307
Orange County renewed its lease for 49,307 SF in Downtown Orlando at 200 S Orange Ave for its property appraisal division.				
General Dynamics Mission Systems	12001 Research Pkwy	University/University Research	Direct New	30,576
Defense contractor, General Dynamics Mission Systems, signed a new lease for 30,576 SF at 12001 Research Pkwy in the University Research submarket.				
Visit Orlando	Westwood Center II	Tourist Corridor	Direct New	26,918
Local trade association, Visit Orlando, signed for 26,918 SF in a new lease at Westwood Center II in the Tourist Corridor.				
Undisclosed Tenant	744 Primera Blvd	Lake Mary	Direct New	26,371
An undisclosed tenant signed a new lease for 26,371 SF at 744 Primera Blvd. in the Lake Mary submarket.				

Source: Newmark Research, CoStar



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