3Q24

Orlando Office Market Overview

NEWMARK

Market Observations

Economy

- The market's unemployment rate ticked up by 34 basis points year over year to 3.3% but remained well below the five-year average of 5.0%.
- Job growth pace fell in line with the national average of 1.6% year over year while employment growth remains below pre-pandemic levels, with August 2019 growth at 3.0%.
- Most sectors reported positive employment growth year over year, while manufacturing, information and financial activities contracted. Mining and construction led job gains at 6.8% over the past 12 months.
- Office-using jobs increased 0.4% year over year to 401,576 employees but remain below the historical high reported in September 2023.

Leasing Market Fundamentals

- Annual full-service asking rental rates rose slightly to a new historical high of $25.41/SF, reflecting a 0.8% increase year over year. Class A rents increased to an all-time high of $27.51/SF.
- Deliveries narrowly outpaced absorption in the third quarter, helping to push overall vacancy rates to increase by 130 basis points year over year.
- The under-construction pipeline remains muted with 432,465 SF in progress, accounting for only 0.7% of the market's overall inventory. About 47.5% of the current pipeline is slated to deliver by year-end 2024.
- Total leasing activity closed the quarter at 759,303 SF, down 20.9% from the previous quarter, with an average lease size of 3,650 SF. Class A leasing accounted for 50.3% of the quarter's activity by square feet.

Major Transactions

- South College signed the quarter's largest deal, renewing 61,080 SF at 6649 Westwood in the Tourist Corridor
- Ke-Aki Technologies new lease at Discovery Point for 56,116 SF was the second largest deal of the quarter.
- Two of the quarter's five-largest deals occurred in the Dr. Phillips/Tourist Corridor submarket, highlighting tenant interest in southwest Orlando.
- Notable transactions during the quarter come from a mix of tenant industries, indicating there is still appetite for space among occupiers in the market.

Outlook

- The Orlando office market will likely see continued subdued growth for the remainder of 2024. Office investment activity will remain low in the near-term as investors wait out the challenging debt environment and upcoming elections.
- Submarkets with premier office product will continue to see rent and occupancy increases due to a muted construction pipeline, as flight to quality persists and supply of top tier assets becomes more constrained.
- The outlook for the Orlando office market remains positive given elevated office-using employment and diversified labor pool. These factors will help the market surmount any remaining near-term challenges and macroeconomic headwinds.

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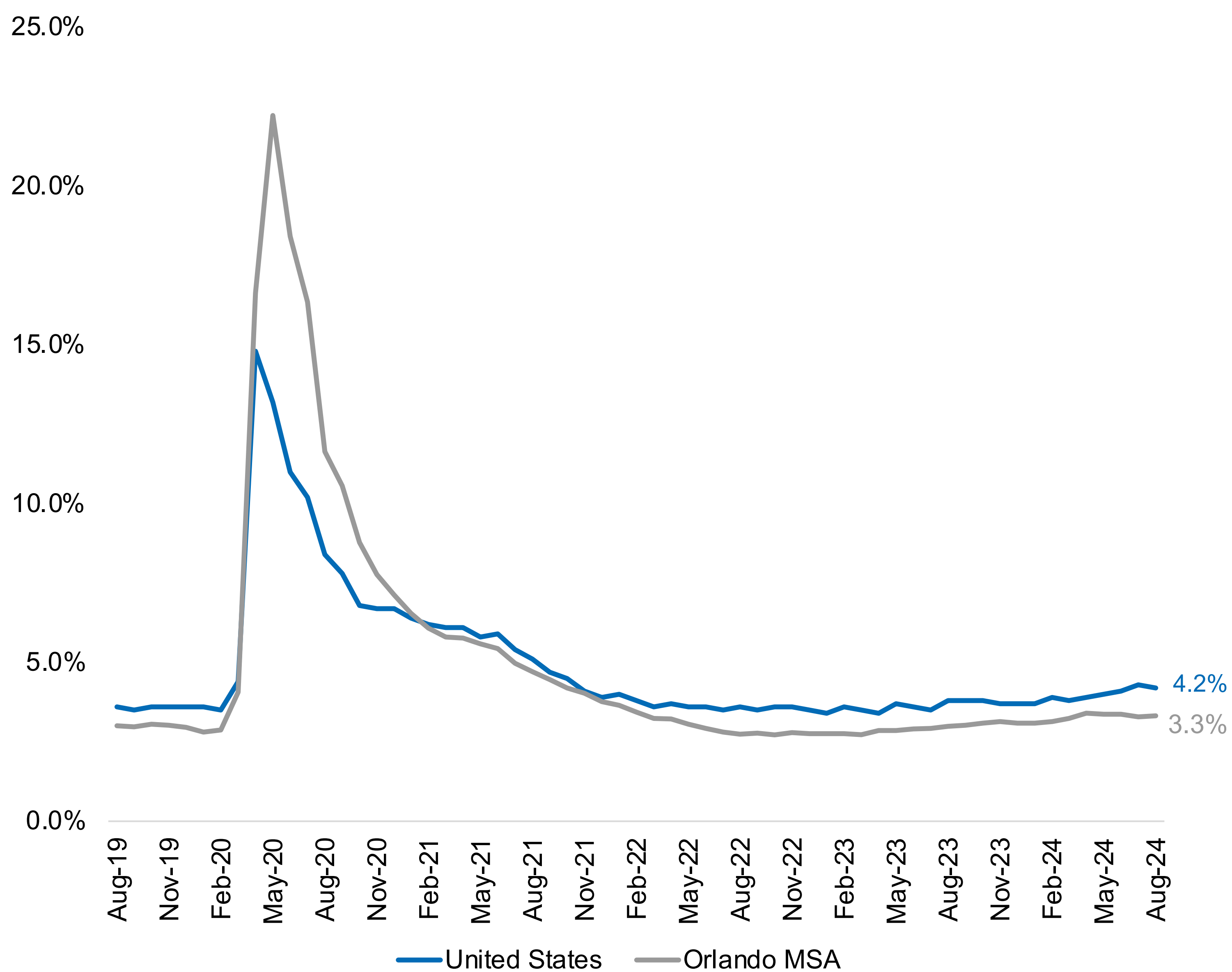
Economy

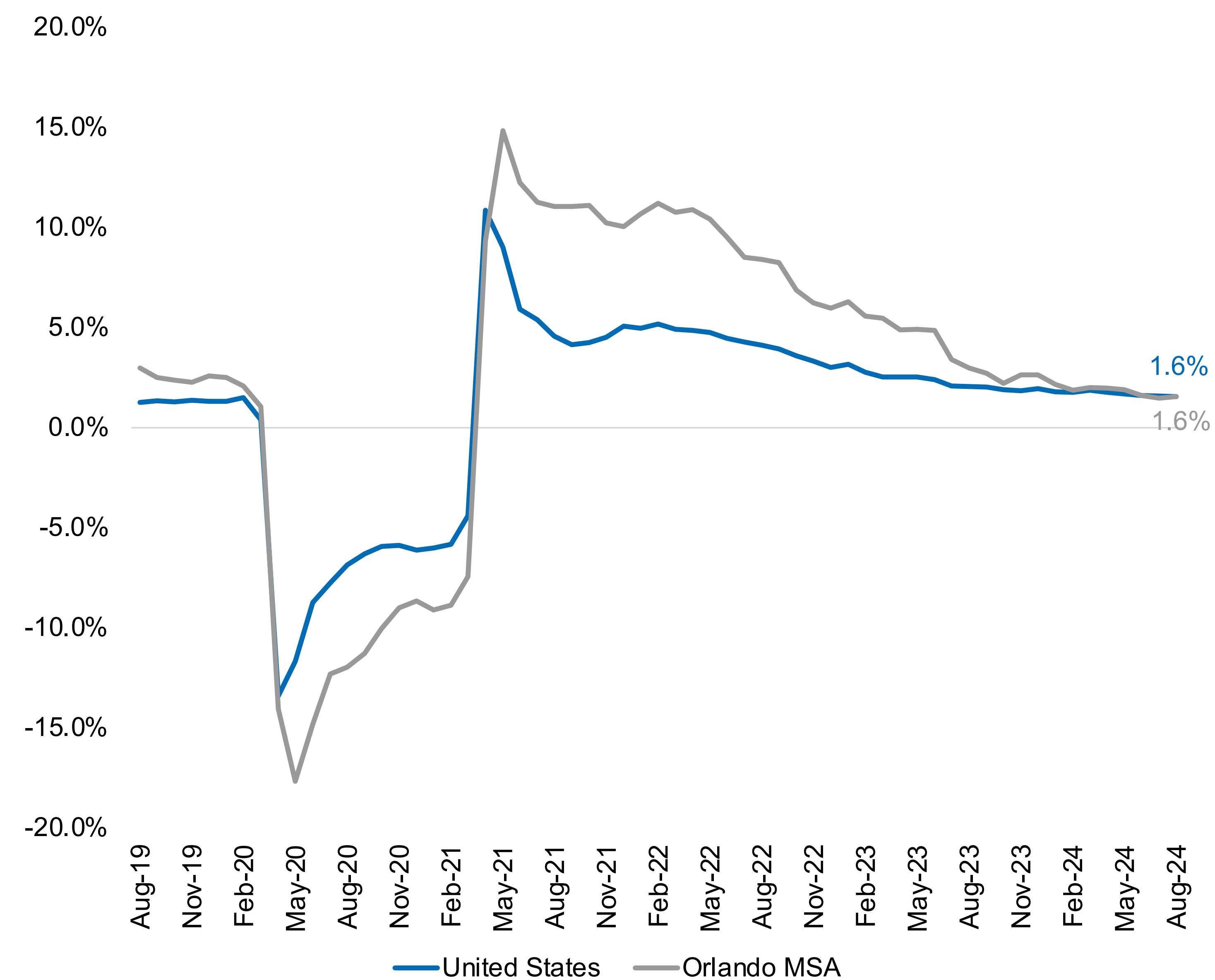
Metro Employment Trends Continue to Reflect Slowing Economy

The Orlando market has generally reported lower unemployment rates compared with the national average, while being an outperformer in employment growth. However, in the third quarter of 2024, annual employment growth slowed by 142 basis points, falling in line with the national average at 1.6%. National headwinds have pushed the region's unemployment rate to increase by 34 basis points year over year to 3.3% but remains below the national average of 4.2%.

Unemployment Rate, Seasonally Adjusted



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

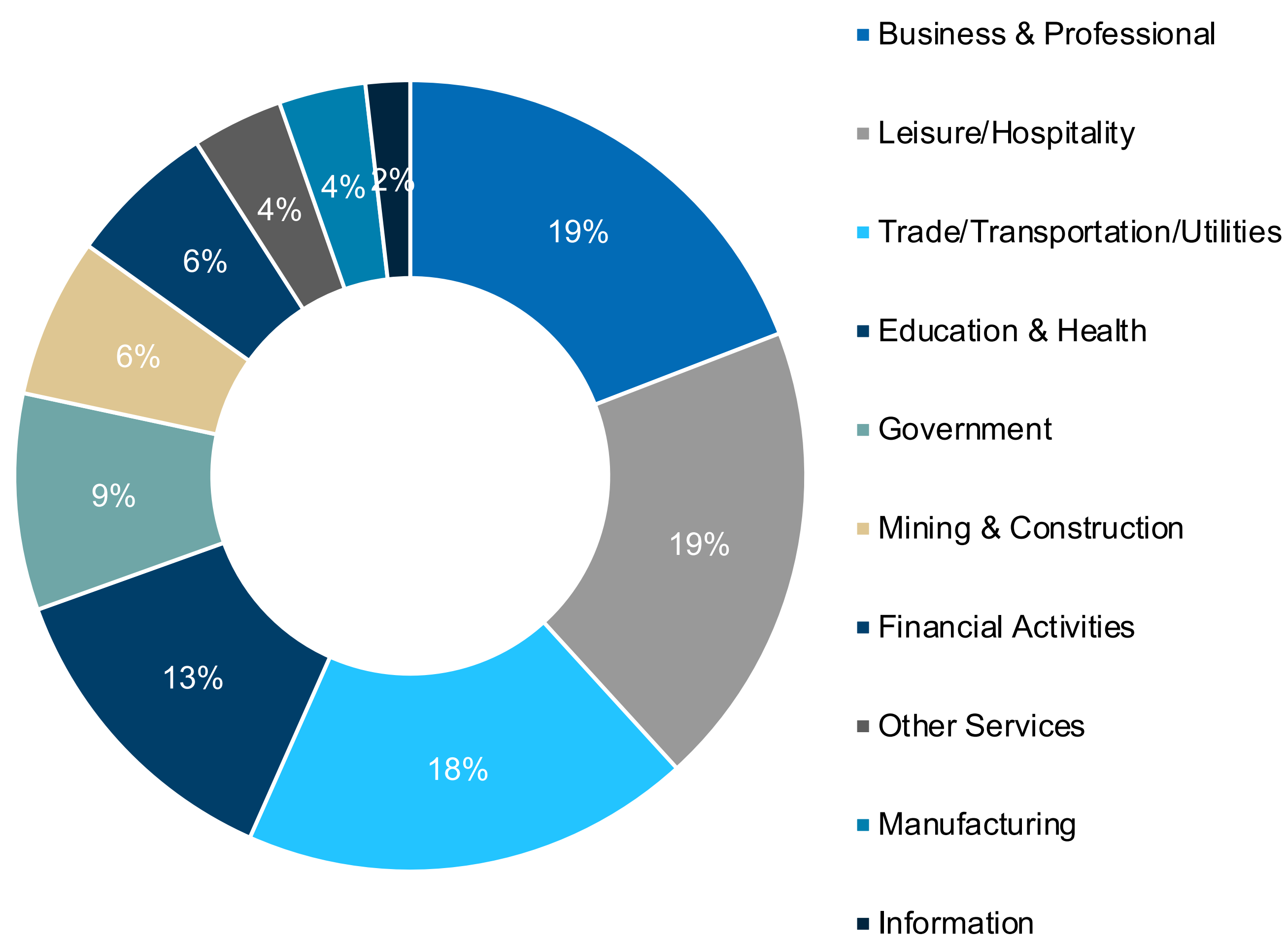


Source: U.S. Bureau of Labor Statistics, Orlando MSA

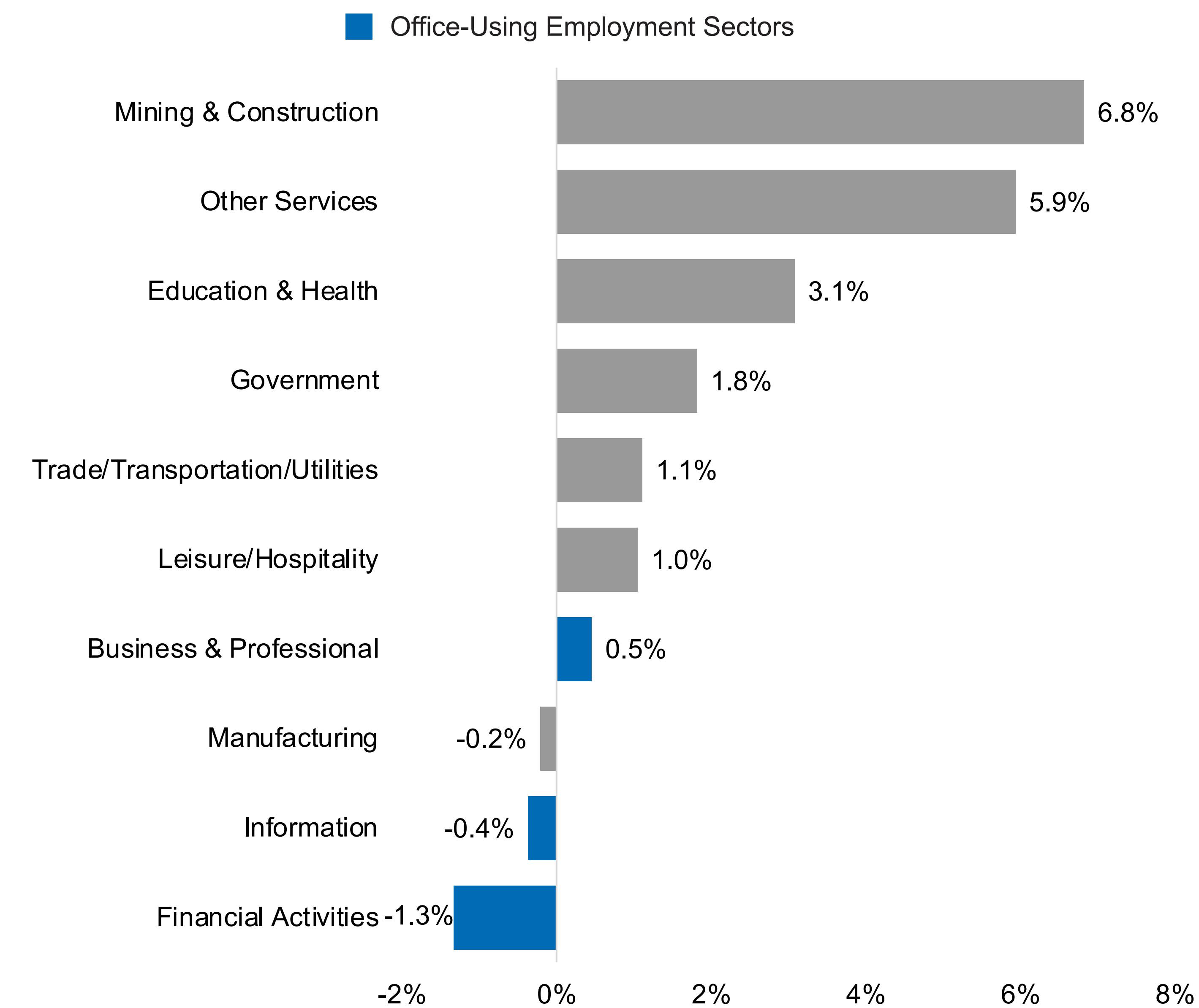
Slow Employment Growth Continues for Two Office Sectors

Known for its tourism sector, the Orlando market's top two employment industries account for 38.2% of the market share. The office-using employment's business and professional sector and leisure/hospitality each account for 19.1% of the metro's employment industries, tying for largest industry. Most industries in the metroplex reported growth, while two office-using industries, information and financial activities, reported contraction by 0.4% and 1.3%, respectively. Comparatively, business and professional services reported growth at 0.5%.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

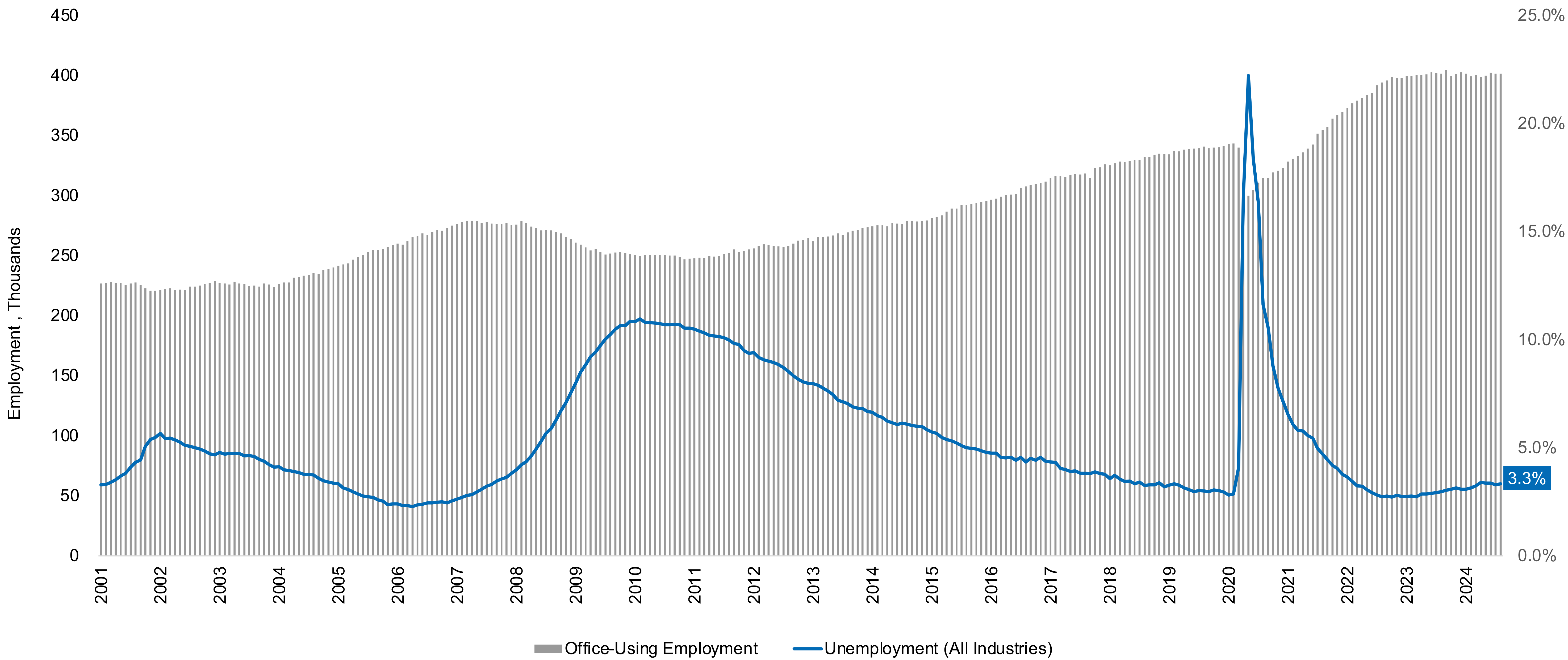


Source: U.S. Bureau of Labor Statistics, Tampa MSA

Overall Office-Using Employment Softens But Remains Elevated

Office-using employment in the Orlando market continues to remain elevated at 401,576 employees as of the end of August 2024, declining by 0.7% from the historical high reported in September 2023. Currently, the seasonally adjusted unemployment rate is at 3.3%, slightly higher than the 3.1% average levels reported in 2019. Office-using jobs are the main contributing factor in rising unemployment rate in the market over the past year.

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.

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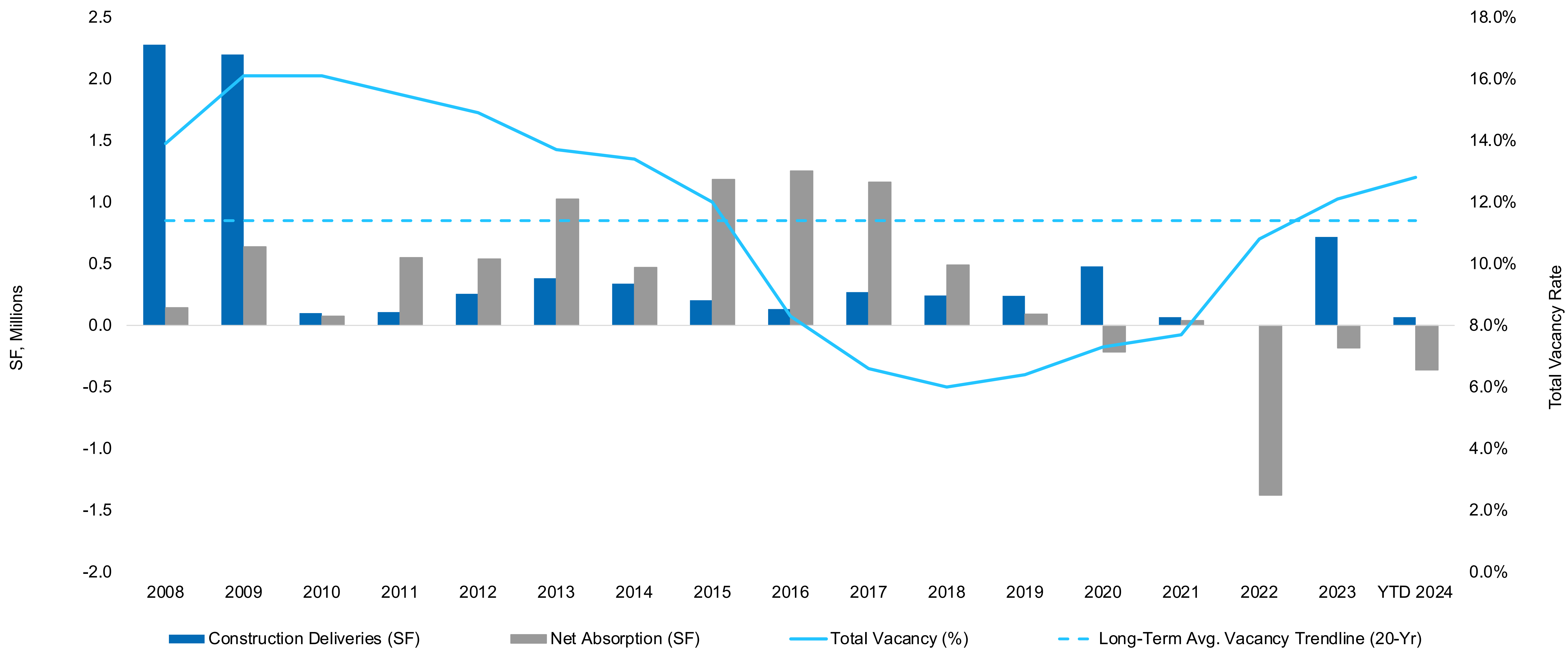
Leasing Market Fundamentals

Vacancy Remains Elevated but Eases from Recent High

The Orlando office vacancy rate increased by 130 basis points year over year, to 12.8% in the third quarter of 2024, easing from the recent high of 12.9% in the second quarter. Absorption was positive in the third quarter at 52,790 SF but was narrowly outpaced by deliveries, which continue to slow as the pipeline empties. Since 2019, occupancies have slowed in the market, with minimal deliveries occurring. As a result, vacancy rates have steadily increased since the pandemic but remain below peaks levels witnessed following the Global Financial Crisis.

Historical Construction Deliveries, Net Absorption, and Vacancy

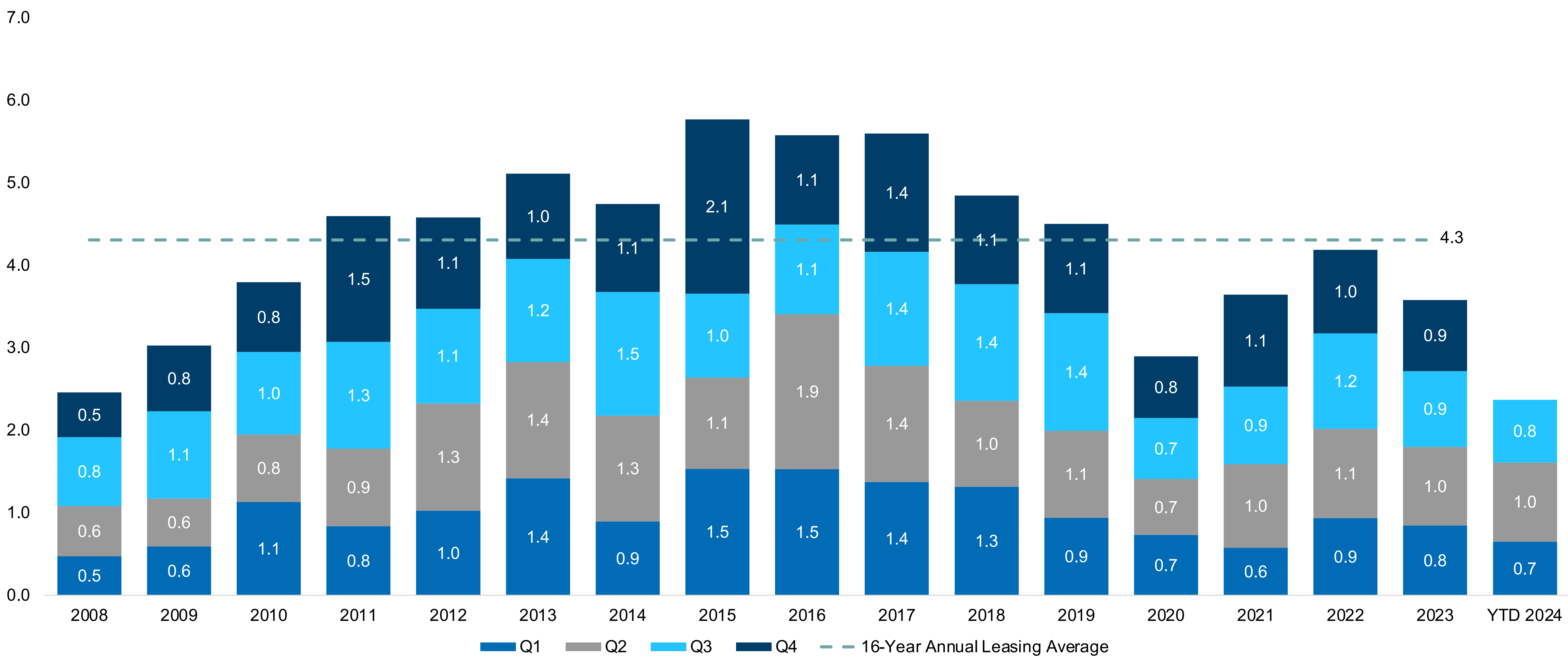


Source: Newmark Research, CoStar

Leasing Activity Lags As Fewer and Smaller Deals Done

Leasing activity declined in the third quarter of 2024 to 759,303 SF, reflecting a decrease of 20.9% from the previous quarter. Since 2008, third-quarter leasing activity averaged 1.1 MSF. Deal size averaged 3,650 SF in the third quarter of 2024, an average of 299 SF and 623 SF less than the previous quarter and year, respectively. While deal size has fallen moderately, the decline in deal volume was more subdued, decreasing by only 3.3% year over year. The slowing leasing activity pace is largely attributed to occupiers waiting out the challenging debt environment and upcoming elections.

Total Leasing Activity (msf)

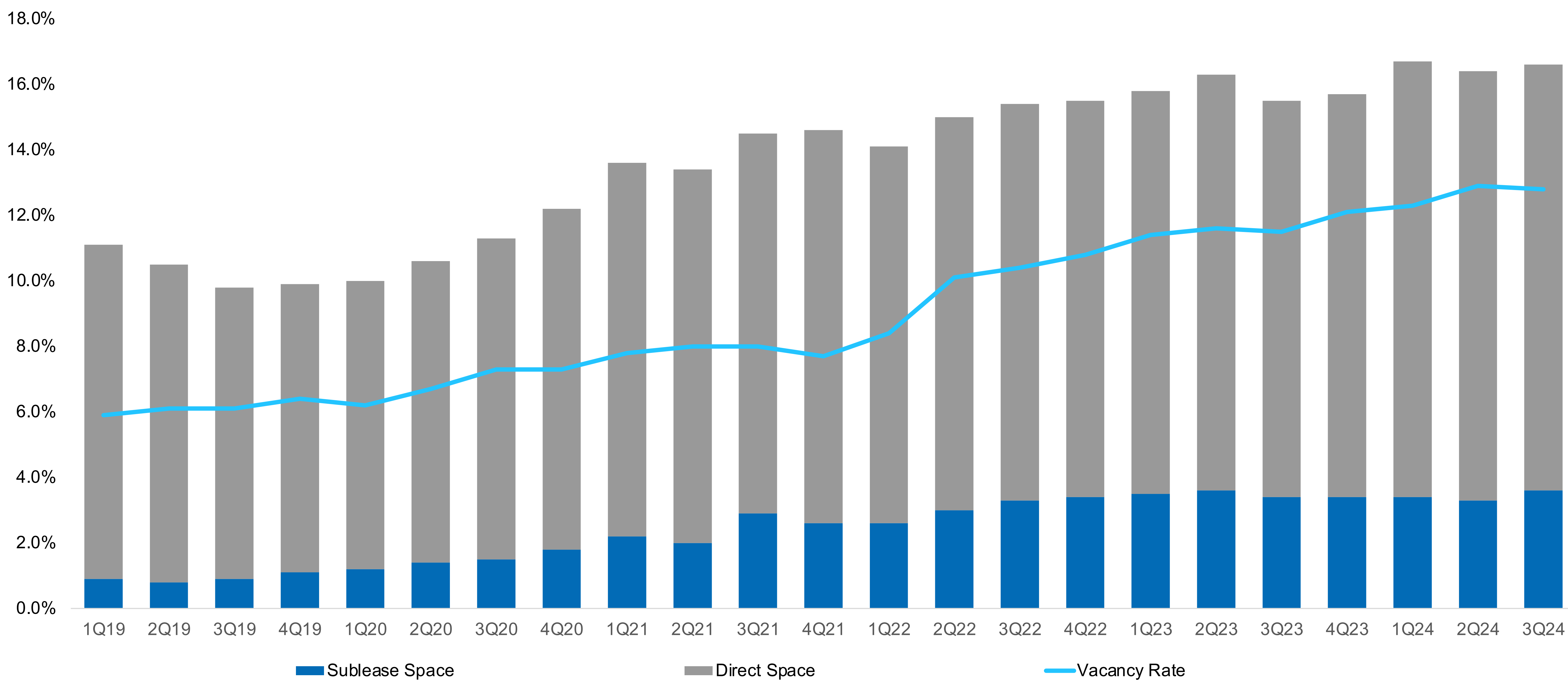


Source: Newmark Research, CoStar

Sublease Availability Sees Subtle Growth Amidst Flattened Trend

Sublease availability in the Orlando market has continued to slowly inch upward since the pandemic, hovering around the mid-three-percent range since the end of 2022. As of the end of the third quarter of 2024, sublease availability in the market rose to 3.6%, up 30 basis points from the previous quarter. Following a similar trajectory, direct availability has also started to taper after rising 420 basis points since 2019 to 13.0% in the third quarter of 2024. As a result, vacancies have continued to increase, with an overall rate of 12.8% as of quarter-end.

Available Space as Percent of Overall Market

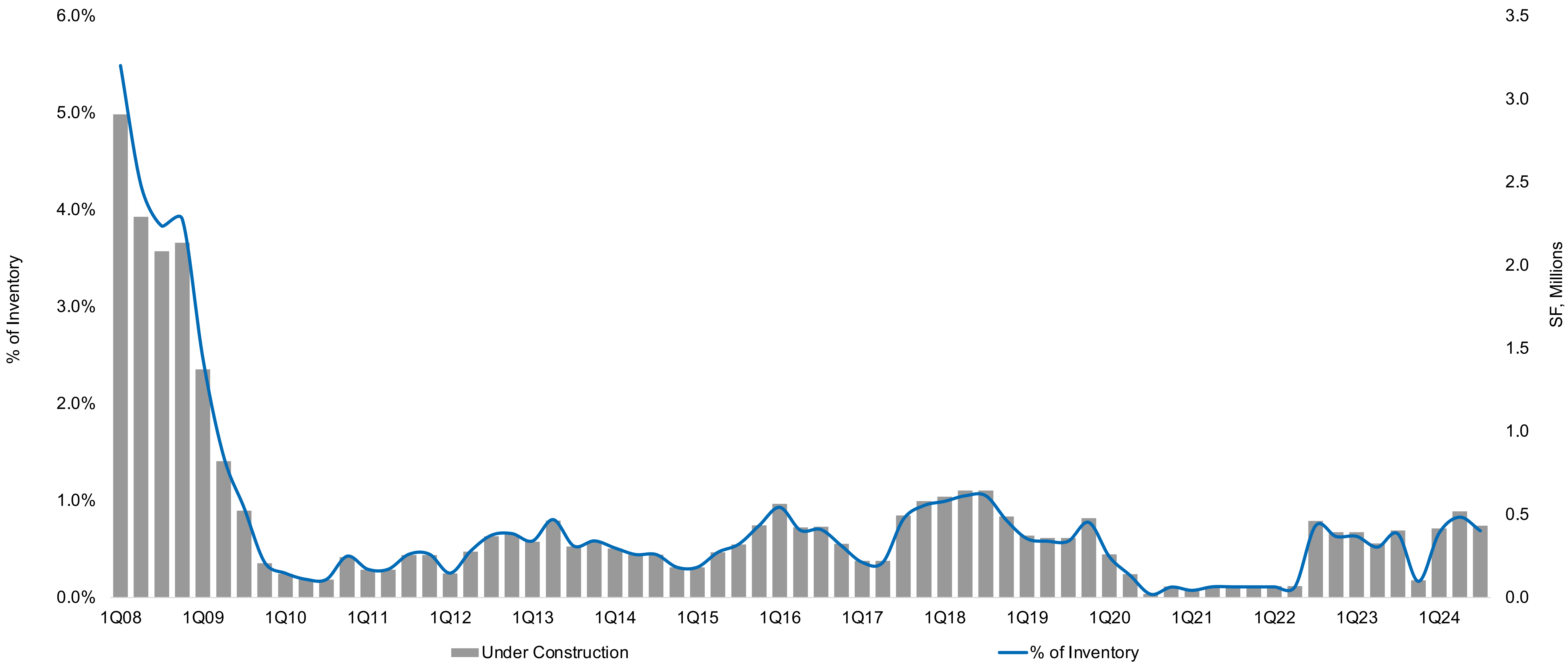


Source: Newmark Research, CoStar

Construction Activity Remains Alive But Muted

After relatively flat construction levels since the third quarter of 2022, the construction pipeline reached a recent high with 519,559 SF of projects underway in the second quarter of 2024. As of the third quarter of 2024, the market had 432,465 SF under construction, accounting for 0.7% of the market's inventory, indicating there is less risk of overbuilding. Of the space currently in the pipeline at the end of the third quarter, roughly 47.5% is slated to deliver before year-end 2024.

Office Under Construction and % of Inventory

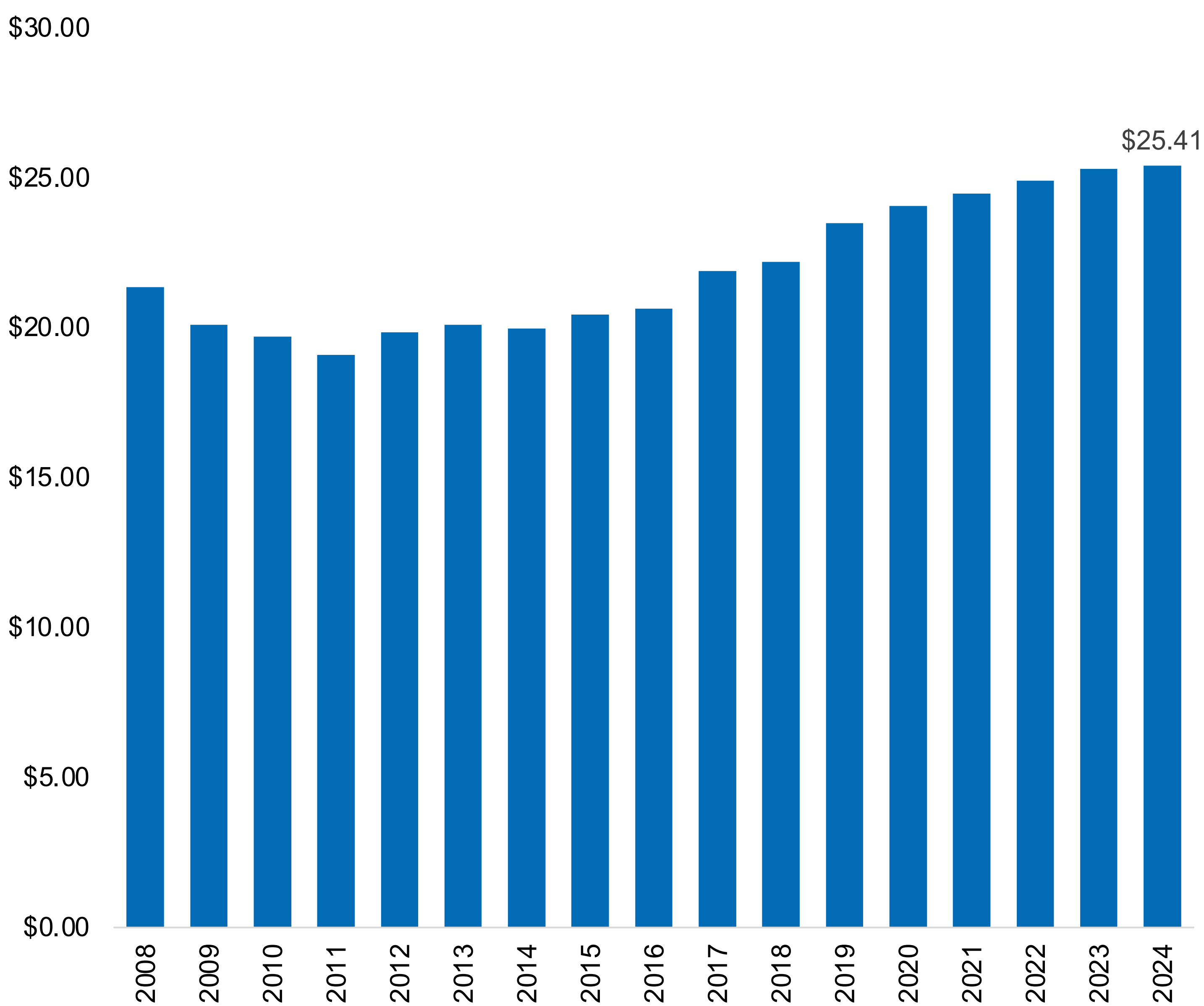


Source: Newmark Research, CoStar

Rents Climb to New Historical High

Rents increased in the third quarter of 2024 to $25.41/SF, reaching a new historical high. Year over year, rental rate growth in the market increased by 0.8%. Rent growth in the market is generally attributed to higher-quality space availability as bolstered by new quality delivery in 2023. Asking rents are likely to remain elevated in a market impacted by economic headwinds resulting in softer market conditions.

Office Average Asking Rent, $/SF, FS



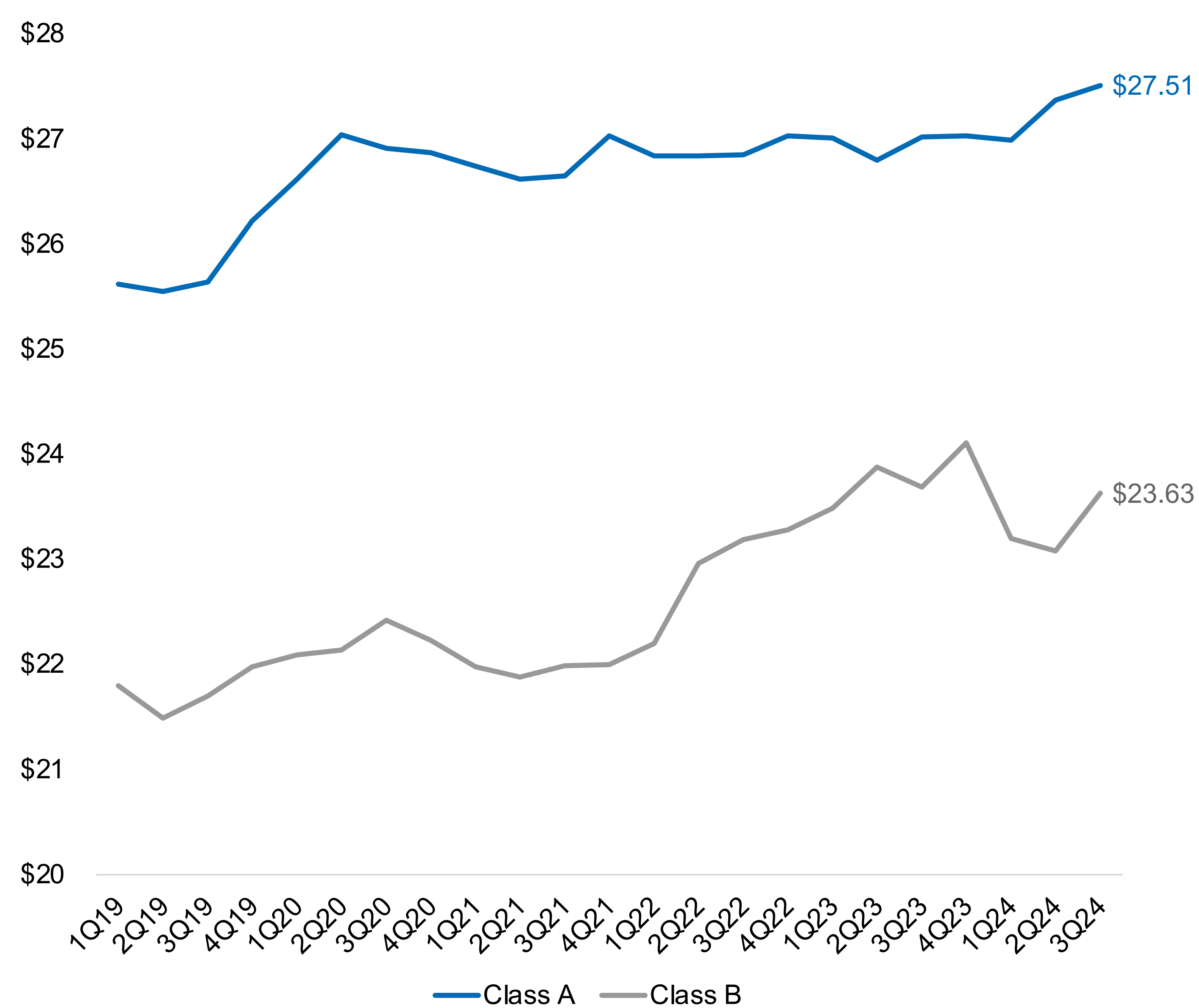
Year-over-Year Asking Rent Growth Rate

Source: Newmark Research, CoStar

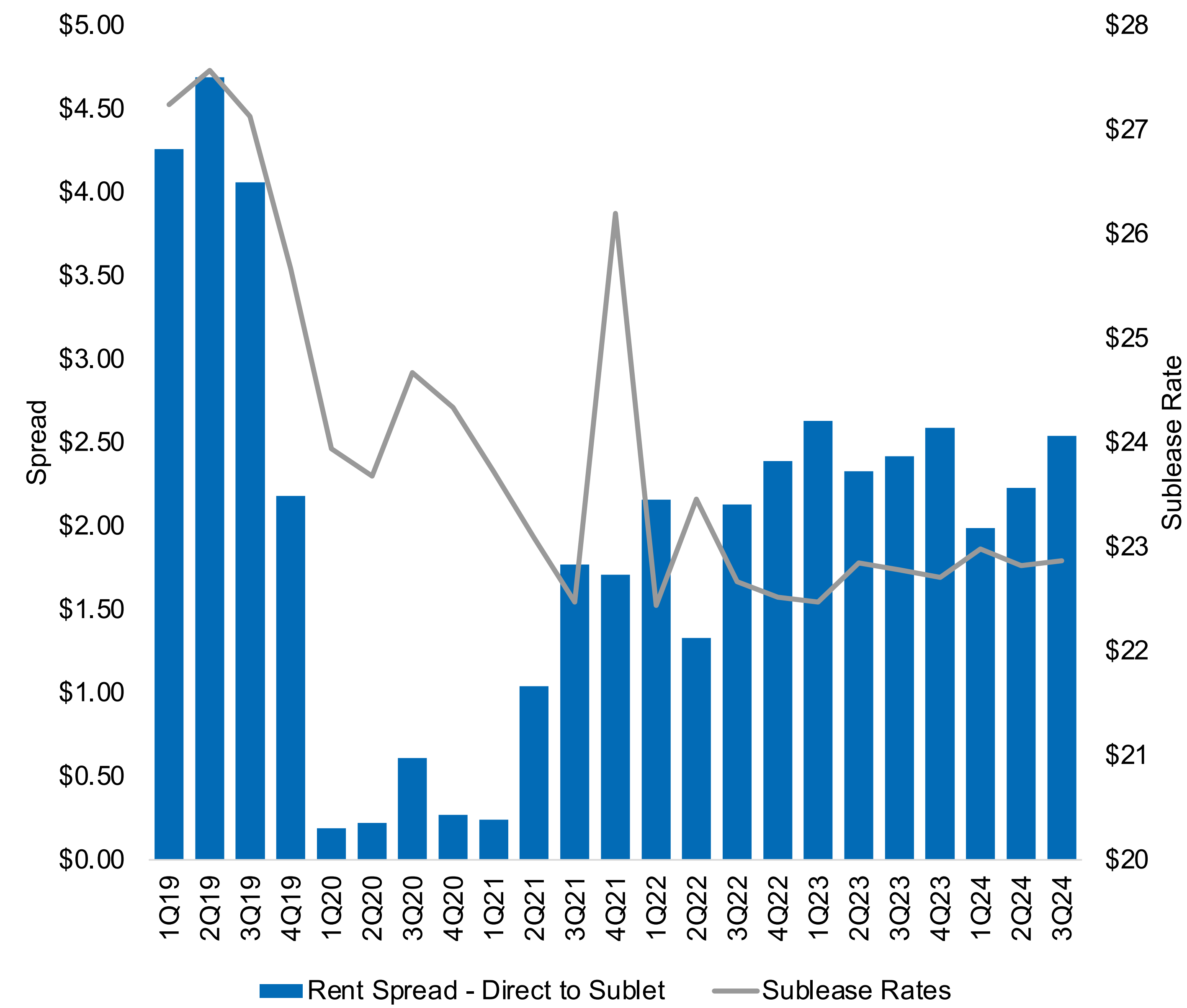
Rent Spread Narrows Between Class A and Class B Assets

As of the end of third quarter of 2024, Class A rents ended at $27.51/SF, while Class B reported $23.63/SF. Rent difference between the two assets is at $3.88/SF, an 8.5% spread decrease since 2019. The narrowing 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 buildings. Sublease rates averaged $22.87/SF in the third quarter, an increase of 0.4% year over year. Currently, sublease rates are averaging about $2.54/SF lower than direct rates.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

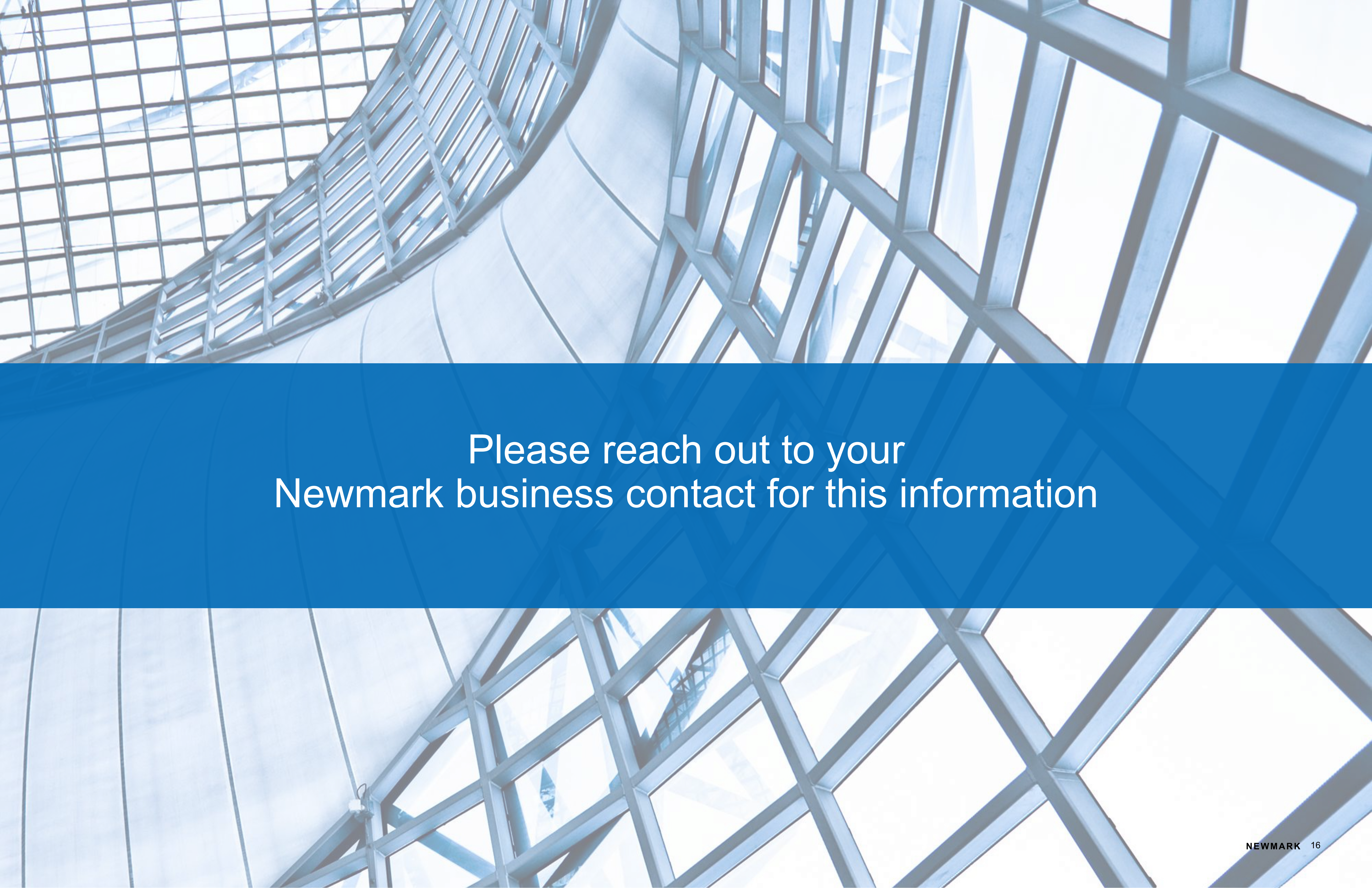
Flight-to-Quality Leasing Activity Persists

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 in quality assets dwindle. As of the end of the third quarter of 2024, Class A space accounted for 50.3% of the market's leasing activity by SF, but only 33.2% of the market's deal volume. Average leases signed in Class A space were 5,540 SF and continue to remain larger than the average market deal size of 3,650 SF.

Notable 3Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
South College	Westwood Center II	Dr. Phillips/Tourist Corridor	Renewal	61,080
South College renewed its lease at Westwood Center II for 61,080 SF.				
Ke-Aki Technologies	Discovery Point	University/University Research	Direct New	59,116
Consulting services company, Ke-Aki Technologies signed a new lease at Discovery Point for 59,116 SF.				
Rogers, Lovelock & Fritz	Baldwin Park I	Winter Park/Baldwin Park/Lee Road	Renewal	30,606
Rogers, Lovelock & Fritz, an architectural and engineering firm, expanded its space at Baldwin Park I, signing for 30,606 SF in 3Q24.				
KB Homes	Southpark Center- Building K	Dr. Phillips/Tourist Corridor	Direct New	23,622
Residential home builder KB Homes leased 23,622 SF in Building K at Southpark Center in the Tourist Corridor submarket.				
Easy Work Space	2121 S Hiawassee Rd	Metro West/Millenia	Direct New	22,208
Coworking company, Easy Work Space, leased 22,208 SF at 2121 S Hiawassee Rd in the Metro West/Millenia submarket.				

Source: Newmark Research, CoStar



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