

4Q24

Orlando Office Market Overview



Market Observations

Economy

- The market’s unemployment rate rose 21 basis points year over year to 3.4% but remained well below the five-year average of 5.0%.
- Job growth pace was 1.3% year over year, just 10 basis points shy of the national average of 1.4%. The current annual job growth rate is on par with pre-pandemic levels, with November 2019 growth at 1.4%.
- Most sectors reported positive employment growth year over year, while information and manufacturing contracted. Mining and construction led job gains at 5.3% over the past 12 months.
- Office-using jobs increased 0.2% year over year to 402,012 employees but remain 0.6% below the historical high reported in September 2023.

Major Transactions

- Healthfirst signed the quarter’s largest deal, a sublease renewal for 66,330 SF in the BellSouth Building in the Lake Mary submarket.
- AssistRX’s new lease at Maitland Promenade II for 63,099 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.

Leasing Market Fundamentals

- Annual full-service asking rental rates reached a new historical high of \$25.68/SF, reflecting a 1.5% increase year over year. Class A rents increased 0.7% year over year to \$27.26/SF.
- Negative absorption of 10,226 SF in the fourth quarter of 2024 pushed overall vacancy rates to increase by 100 basis points year over year to 13.1%. The year ended with negative absorption of 500,590 square feet.
- The under-construction pipeline remains muted with 328,465 SF in progress, accounting for only 0.5% of the market’s overall inventory.
- Total leasing activity closed the quarter at 905,108 SF, up 7.2% from the previous quarter, with an average lease size of 4,973 SF. Class A leasing accounted for 41.5% of the quarter’s activity by square feet.

Outlook

- The Orlando office market will likely continue to see subdued growth at the start of 2025, as activity generated from recent interest rate reductions begins to trickle into the market.
- 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 constraints of top-tier assets continue.
- The outlook for the Orlando office market remains positive given elevated office-using employment and a diversified labor pool.

1. Economy
2. Leasing Market Fundamentals

4Q24

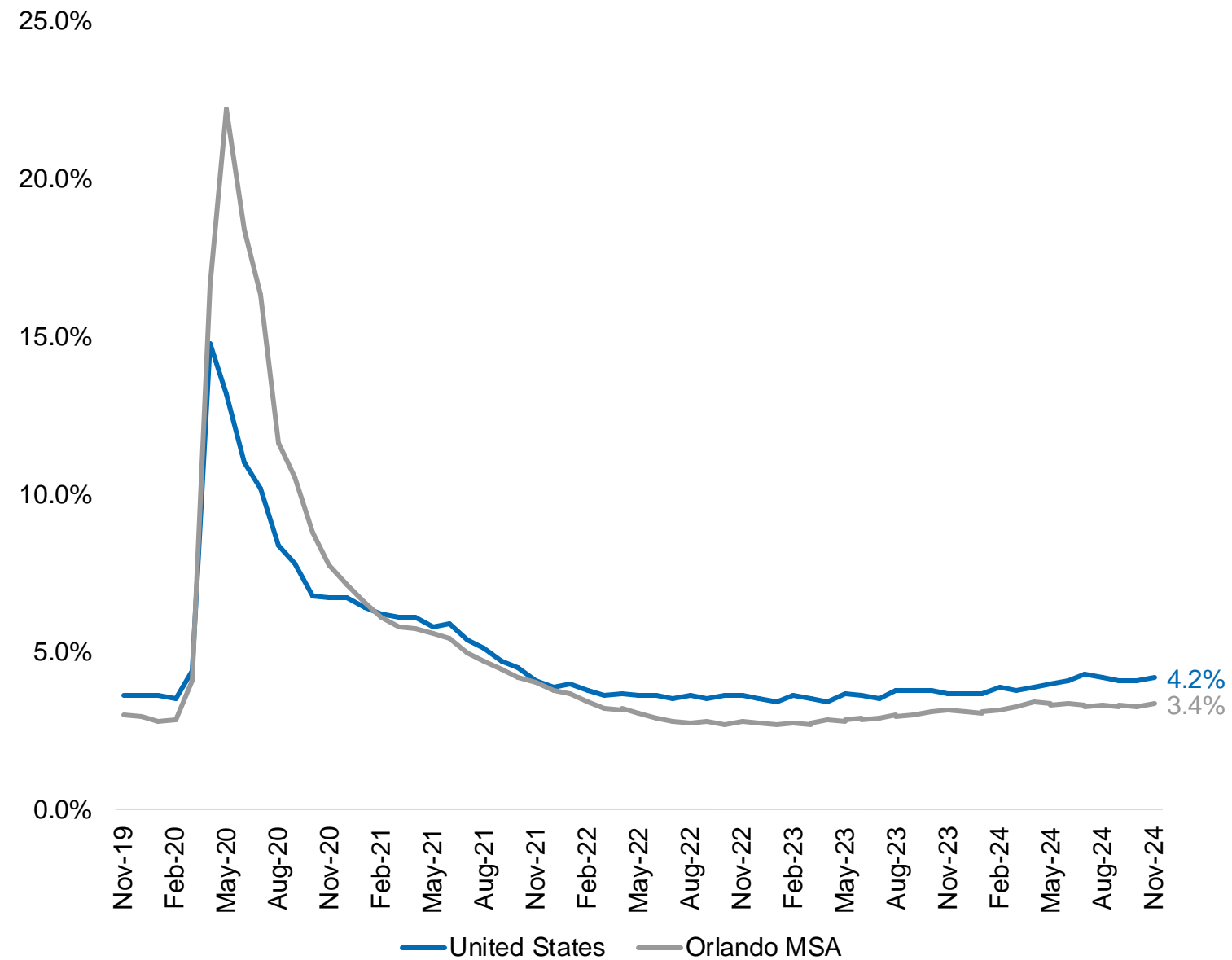
Economy



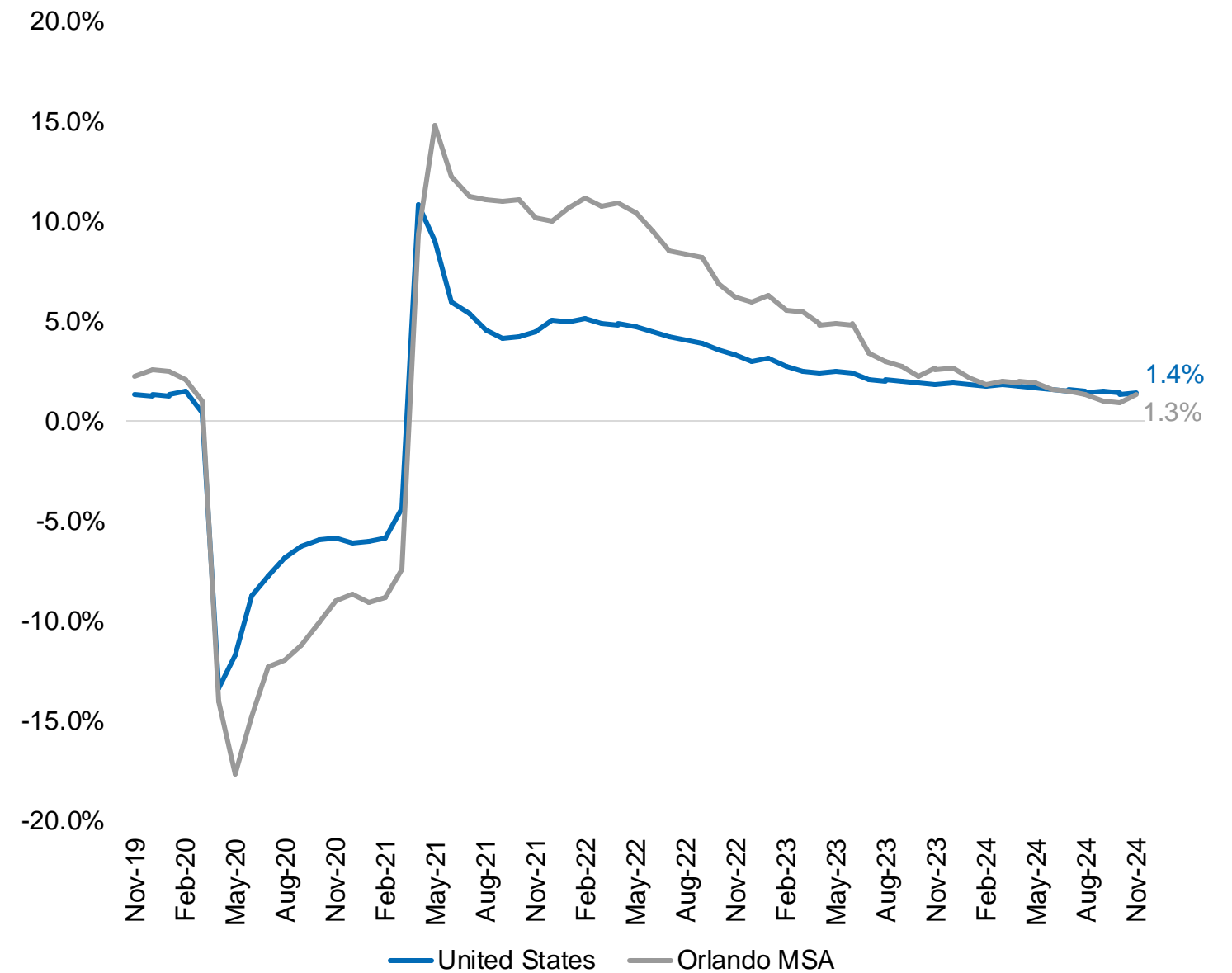
Metro Employment Trends Continue Slow Growth

The Orlando market has generally reported lower unemployment rates compared with the national average, while being an outperformer in employment growth. However, in the fourth quarter of 2024, annual employment growth was 1.3%, falling 133 basis points year over year and converging with the national average at 1.4%. National headwinds have pushed the region's unemployment rate to increase by 21 basis points year over year to 3.4% but remains below the national average of 4.2%.

Unemployment Rate, Seasonally Adjusted



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

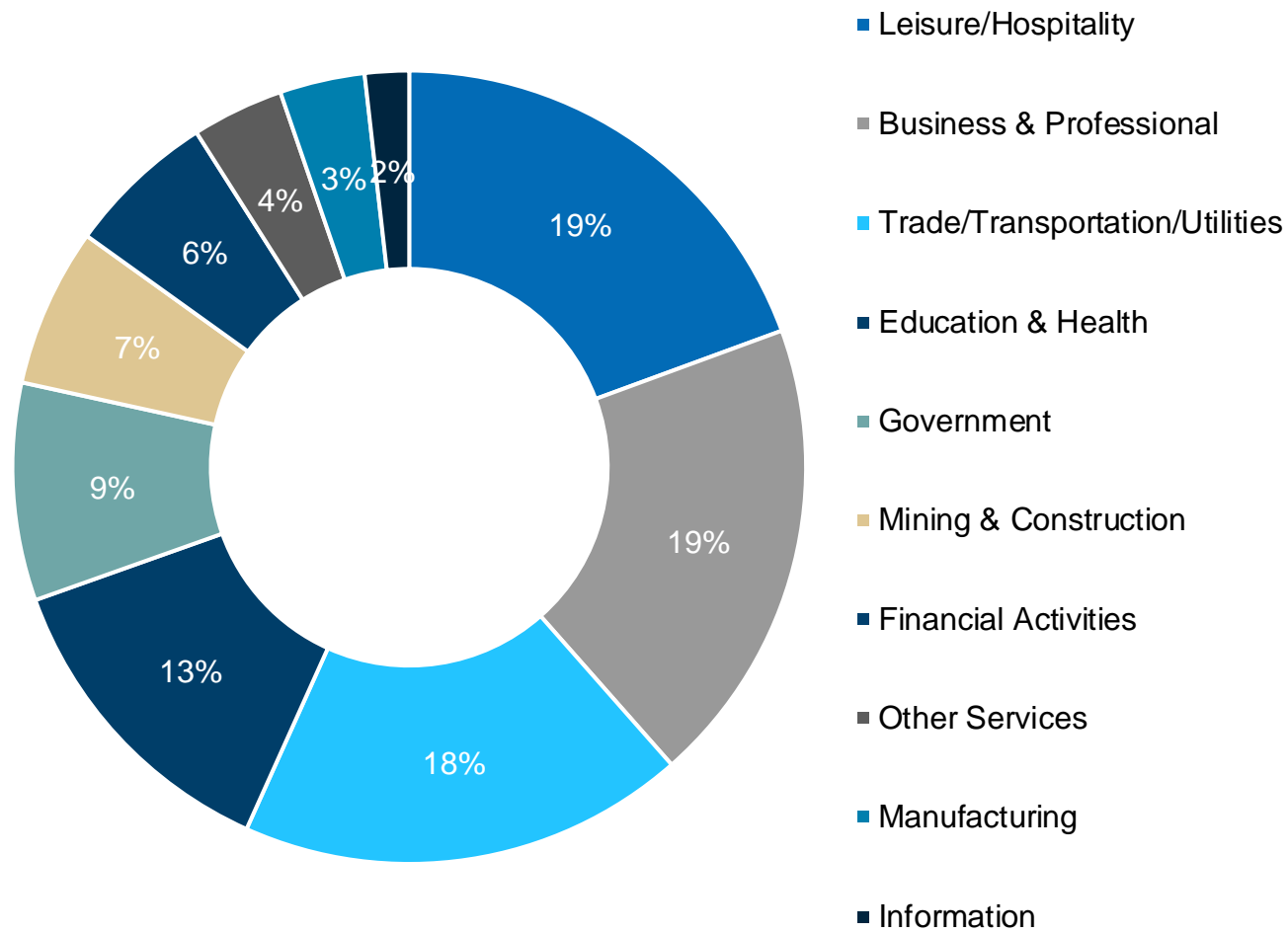


Source: U.S. Bureau of Labor Statistics, Orlando MSA

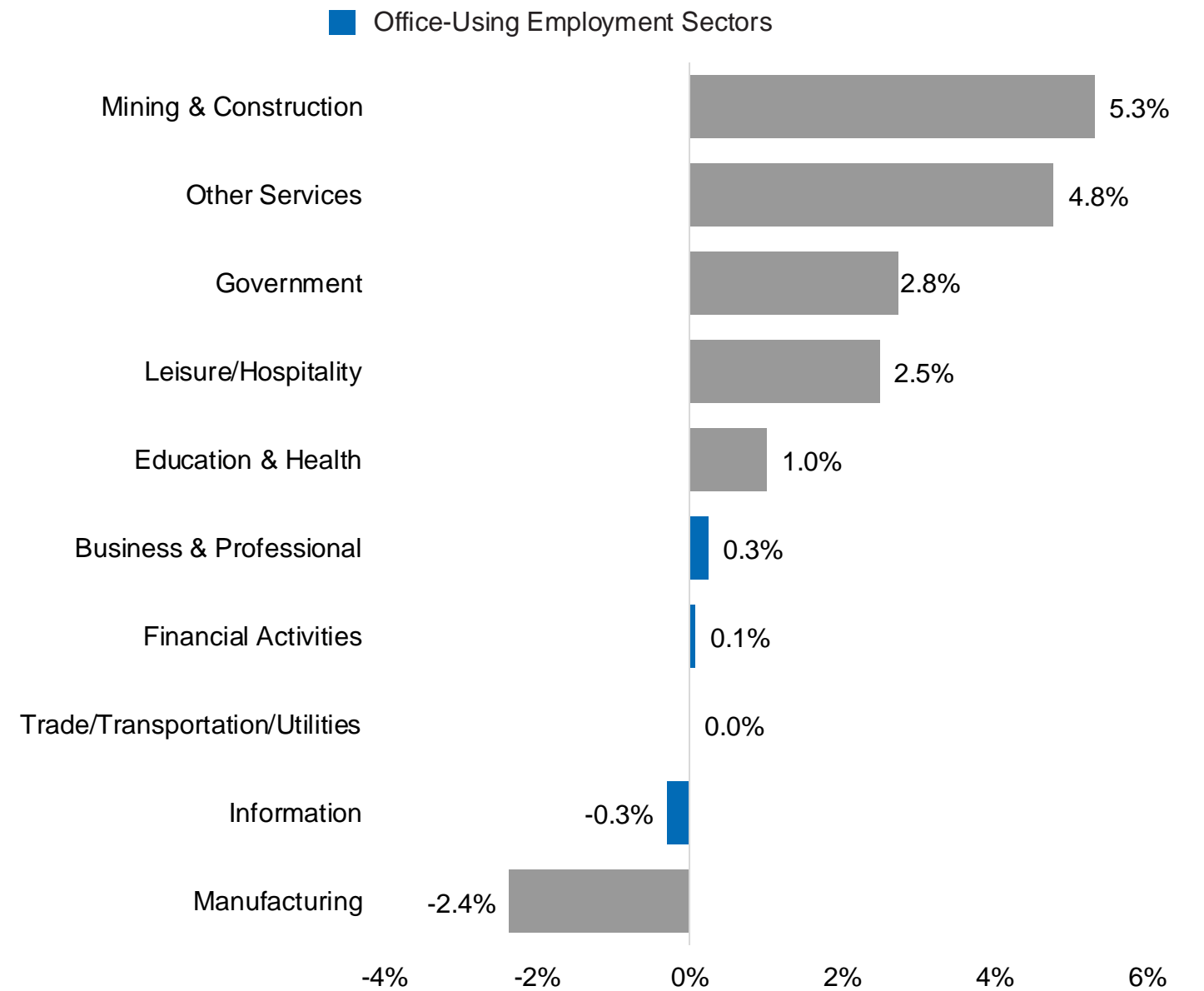
Subtle Employment Growth for Two Office Sectors

Known for its tourism sector, the Orlando market's top two employment industries account for 38.5% 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 19.4%. Office-using industries had marginal annual growth, with financial activities and business and professional services reporting 0.1% and 0.3% growth respectively, while the information sector contracted by 0.3%.

Employment by Industry, November 2024



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

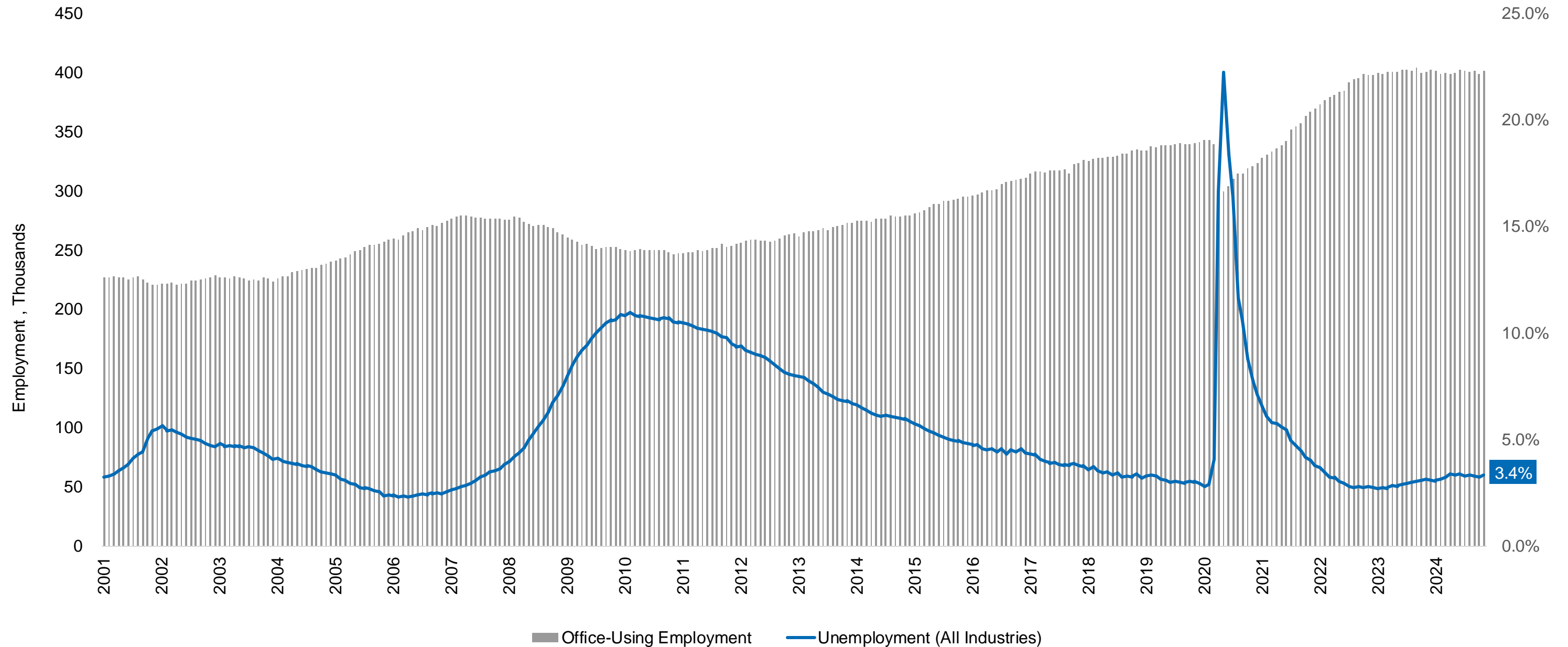


Source: U.S. Bureau of Labor Statistics, Tampa MSA

Overall Office-Using Employment Rises Slightly Year Over Year

Office-using employment in the Orlando market continues to remain elevated at 402,012 employees as of the end of November 2024, declining by 0.6% from the historical high reported in September 2023. Currently, the seasonally adjusted unemployment rate is at 3.4%, slightly higher than the 3.1% average levels reported in 2019. Office-using jobs are a contributing factor to the 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.

4Q24

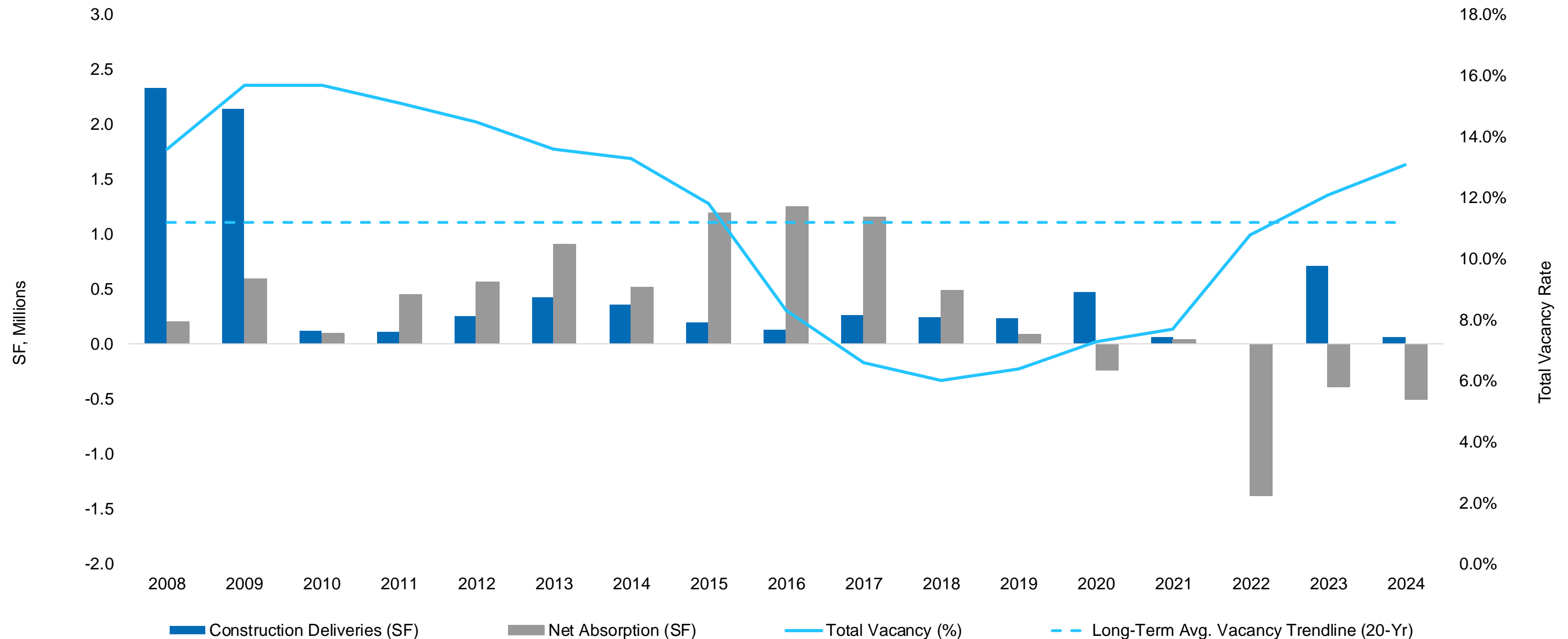
Leasing Market Fundamentals



Vacancy Reaches New Recent High as Demand Remains Muted

The Orlando office vacancy rate increased by 100 basis points year over year, reaching a new recent high of 13.1% in the fourth quarter of 2024. Absorption was negative in the fourth quarter at 10,226 SF, with annual demand totaling -500,590 SF. Since 2019, occupancies have slowed in the market, coupled with an influx of deliveries in 2023. 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

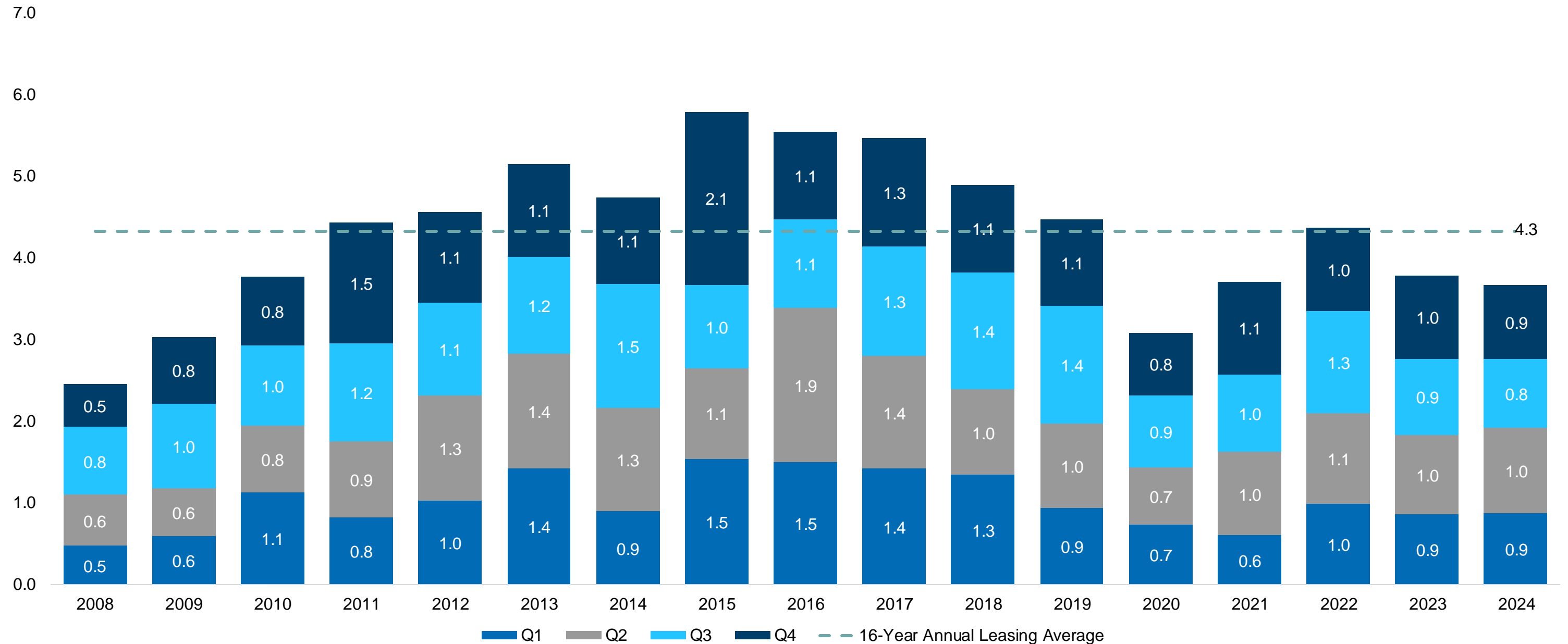


Source: Newmark Research, CoStar

Annual Leasing Activity Mimics Previous Year Totals

Leasing activity picked up in the fourth quarter of 2024 to 905,108 SF, reflecting an increase of 7.2% from the previous quarter. Since 2008, fourth-quarter leasing activity averaged 1.1 MSF, with activity in the fourth quarter of 2024 falling below the long-term average. Deal size averaged 4,973 SF in the fourth quarter of 2024, an average of 1,270 SF and 603 SF more than the previous quarter and year, respectively. Quarterly leasing activity throughout 2024 closely mirrored that of 2023, with 2024 annual leasing activity 120,897 SF below 2023 totals. Interest rate reductions in the second half of 2024 will likely have a positive impact on the market's transaction volume in the early part of 2025.

Total Leasing Activity (msf)

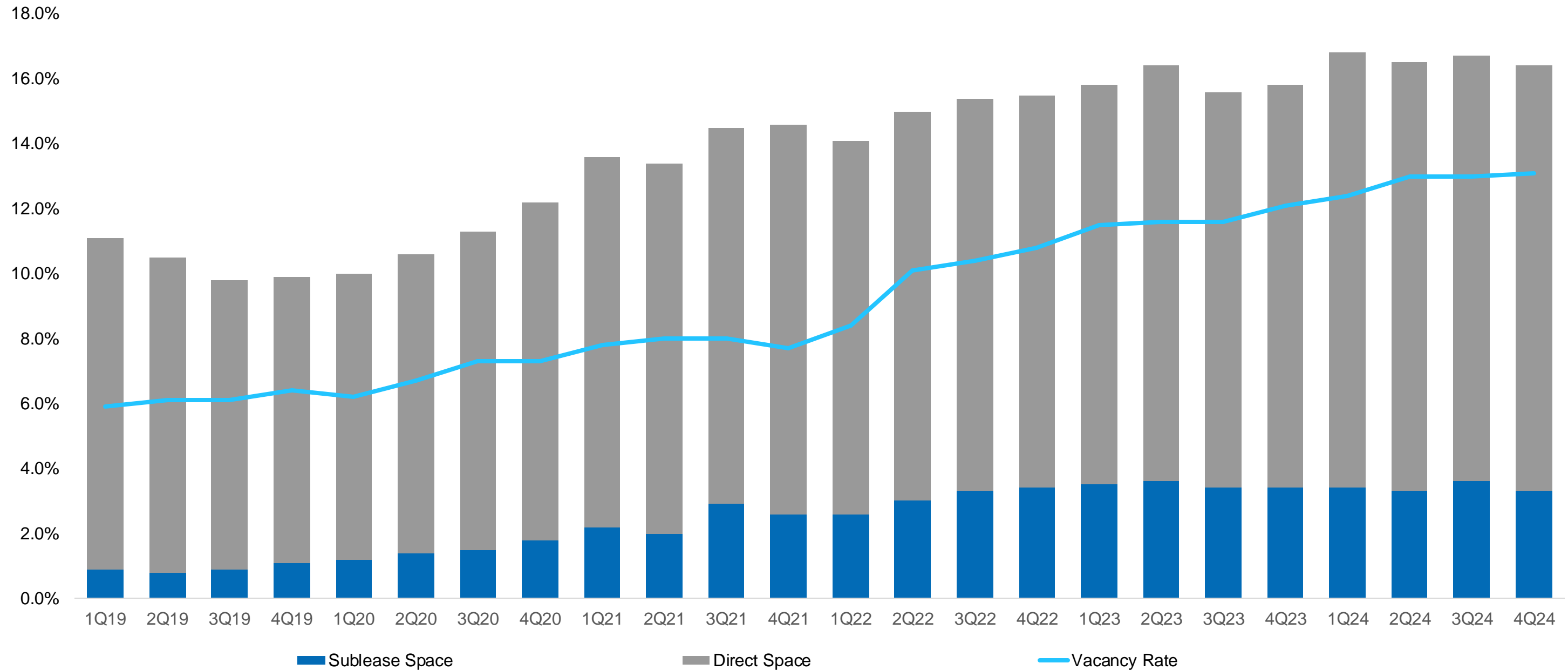


Source: Newmark Research, CoStar

Sublease Availability Eases Slightly 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 fourth quarter of 2024, sublease availability in the market fell slightly to 3.3%, down 30 basis points from the previous quarter. Following a similar trajectory, direct availability has also started to taper after rising 430 basis points since 2019 to 13.1% in the fourth quarter of 2024. As a result, vacancies have had minimal increases, rising 10 basis points to 13.1% as of quarter-end.

Available Space as Percent of Overall Market

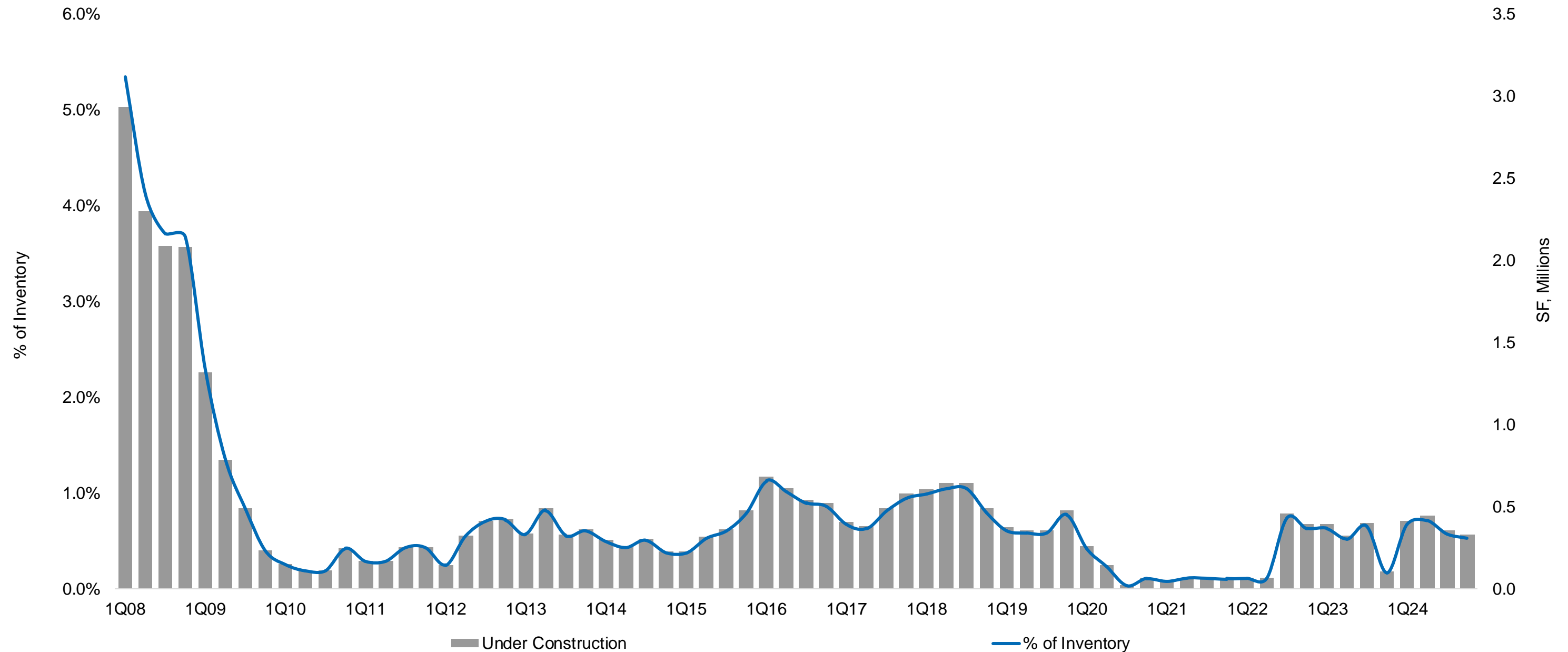


Source: Newmark Research, CoStar

Construction Activity Remains Steady

After relatively flat construction levels since the third quarter of 2022, the construction pipeline reached a recent high with 444,559 SF of projects underway in the second quarter of 2024. As of the fourth quarter of 2024, the market had 328,465 SF under construction, accounting for 0.5% of the market's inventory, indicating there is less risk of overbuilding.

Office Under Construction and % of Inventory

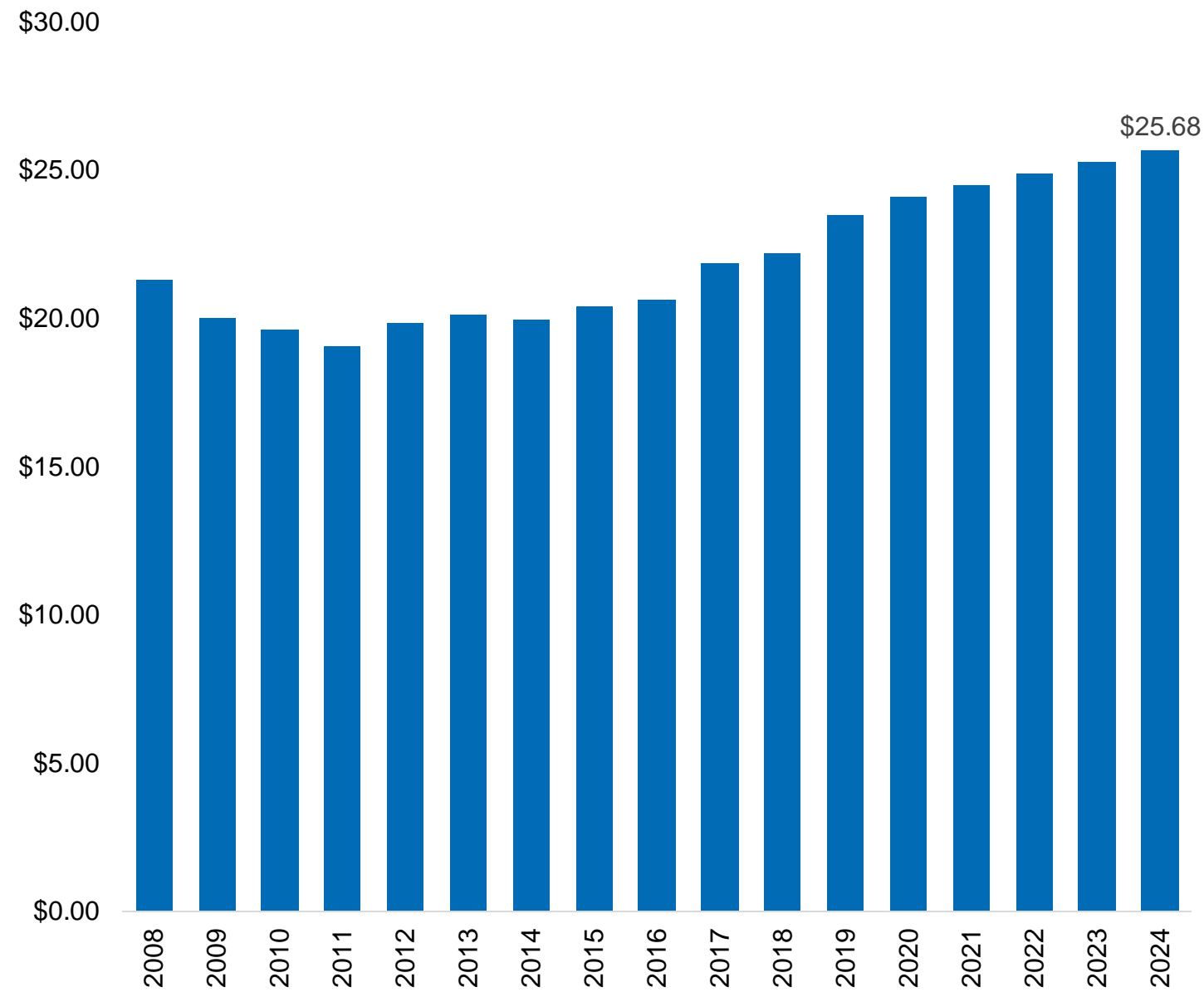


Source: Newmark Research, CoStar

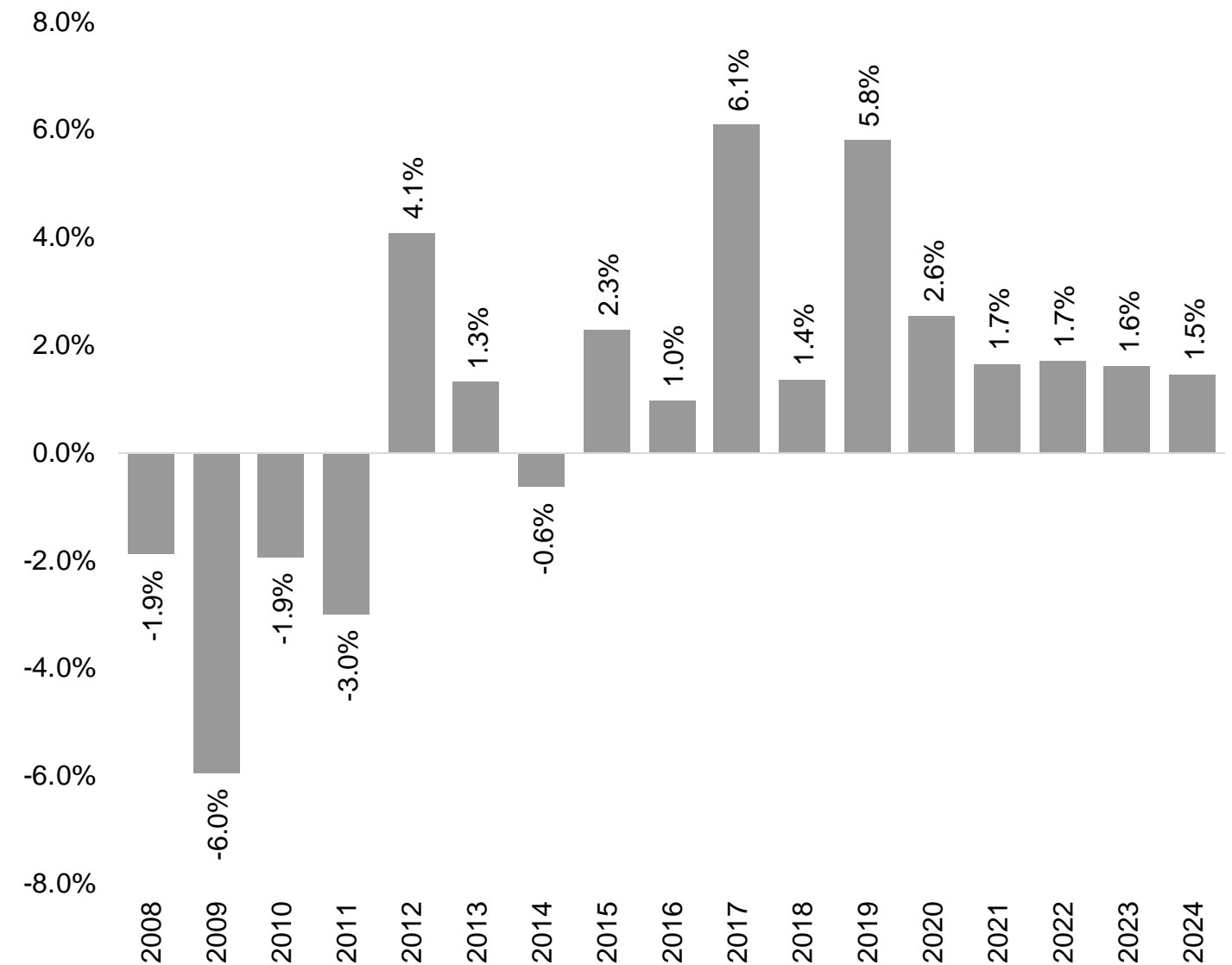
Rents Climb Again to New Historical High

Rents increased in the fourth quarter of 2024 to \$25.68/SF, reaching a new historical high. Year over year, rental rate growth in the market increased by 1.5%. Rent growth in the market is generally attributed to higher-quality space availability, as bolstered by an influx of new, high-quality deliveries 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

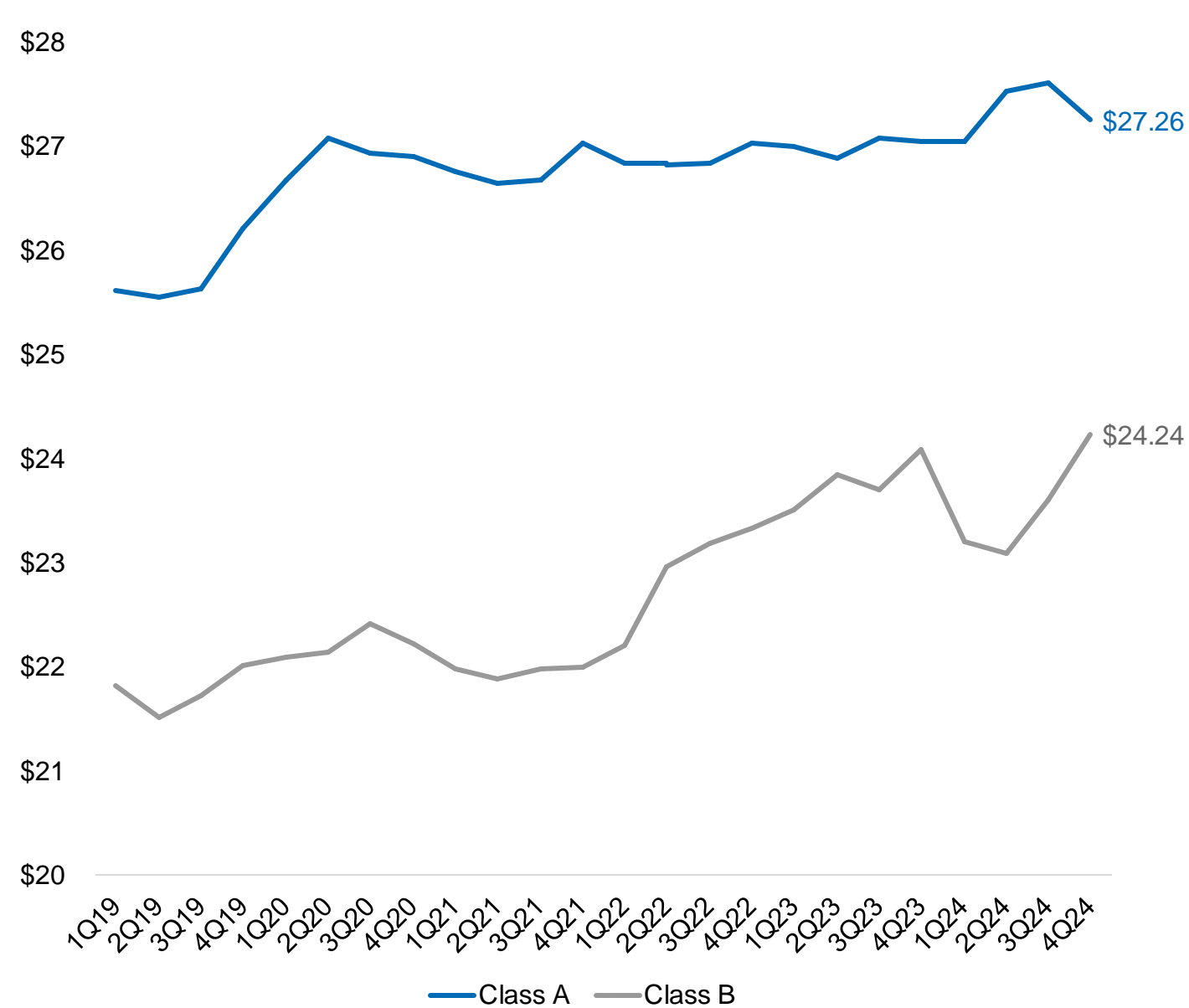


Source: Newmark Research, CoStar

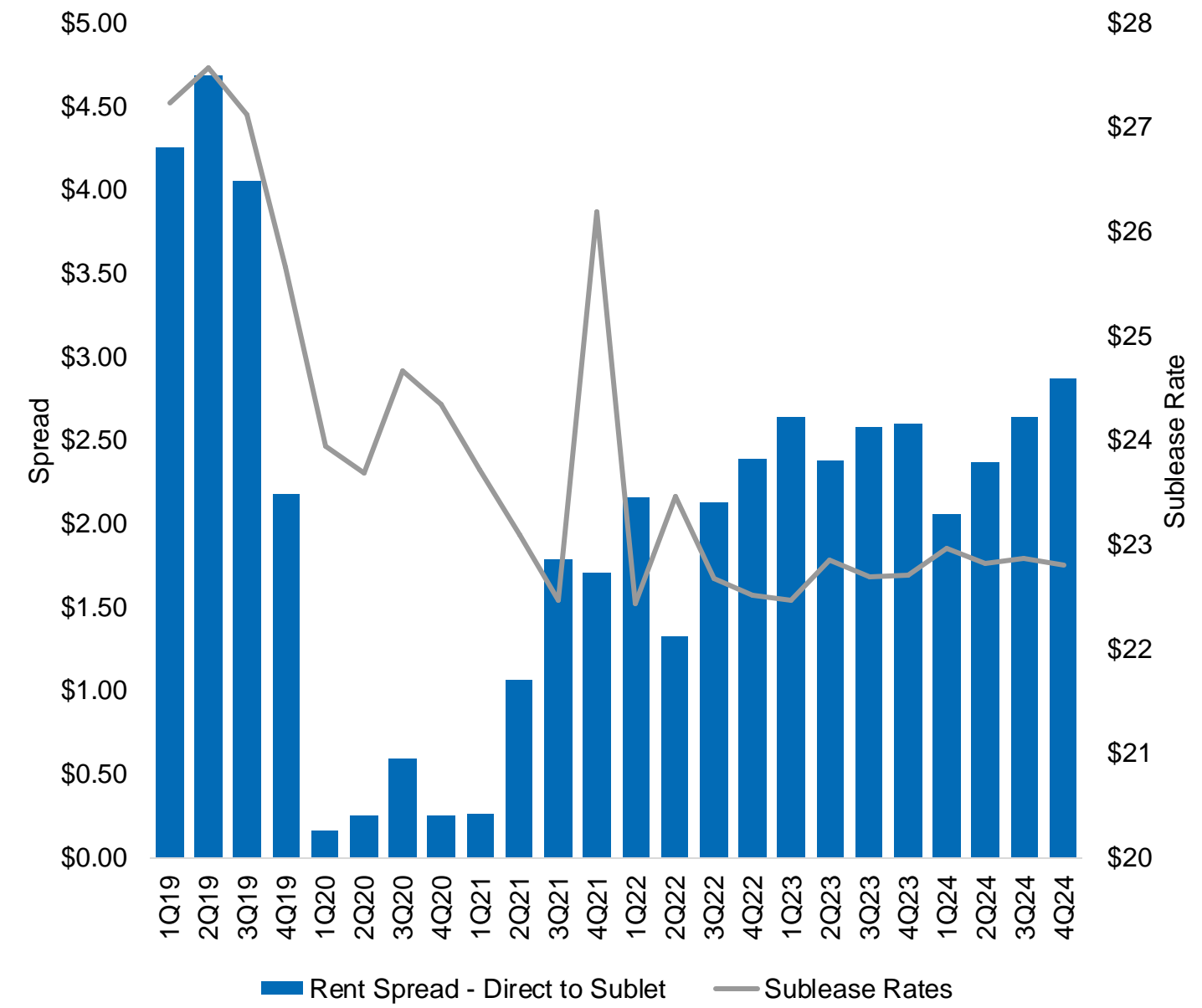
Rent Spread Between Class A and Class B Assets Continues to Narrow

As of the end of fourth quarter of 2024, Class A rents ended at \$27.26/SF, while Class B reported \$24.24/SF. Rent difference between the two assets is at \$3.02/SF, an 28.3% 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 \$22.81/SF in the fourth quarter, an increase of 0.4% year over year. Currently, sublease rates are averaging about \$2.87/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 fourth quarter of 2024, Class A space accounted for 41.5% 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 7,229 SF and continue to remain larger than the average market deal size of 4.973 SF.

Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Healthfirst	BellSouth Building	Lake Mary	Sublease Renewal	66,330
<i>Healthfirst, a not-for-profit health insurance company, renewed its sublease for 66,330 SF on the 3rd and 4th floors of the BellSouth Building in the Lake Mary submarket.</i>				
AssistRX, Inc.	Maitland Promenade II	Maitland/Maitland Center	Direct New	63,099
<i>Pharmaceutical technology company AssistRX, Inc. leased 63,099 SF at Maitland Promenade II in the Maitland Center submarket.</i>				
State of Florida	1010 Executive Center Dr.	436 Corridor/Casselberry	Direct New	49,100
<i>The State of Florida signed a new lease for 49,100 SF at 1010 Executive Center Dr. in the 436 Corridor submarket.</i>				
AMD	2300 Discovery Dr.	University/University Research	Direct New	32,881
<i>Multinational technology company AMD signed a 10-year lease for 32,881 SF at 2300 Discovery Dr. in the University Research submarket.</i>				
Emovis	2145 Metrocenter Blvd	MetroWest/Millennia	Direct New	30,968
<i>Emovis, which specializes in toll-based mobility solutions, leased 30,968 SF at 2145 Metrocenter Blvd in the Metro West/ Millennia submarket.</i>				

Source: Newmark Research, CoStar



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