

Office demand has increasingly weakened since the pandemic began with each of the past three quarters posting negative net absorption. This is the first time Orlando has seen three consecutive quarters of negative office absorption in more than 20 years. Supply has compounded the issue as Orlando has seen roughly 1.7 million SF delivered over the past twelve months and 2020 as a whole added the most annual square feet to its office inventory in more than a decade.

With these two trends occurring simultaneously, the market's average vacancy rate has surged to a five-year high. However, the market is still tight by Orlando's historical standards and is well below the national average vacancy rate of 11.5%. While supply remains heightened with roughly 780,000 SF underway, the pipeline is manageable compared to office demand levels over the past five years and starts have declined since Q120.

Of course, the pandemic has cast doubt on whether pre-March 2020 leasing trends will persist or hold relevance in a post-pandemic office environment where there will likely be some shift towards a larger WFH component of office-using employment. The results are still inconclusive in Orlando with many office occupiers and firms postponing long-term commitments until some form of virus containment is achieved.

While office absorption has turned negative over the past three quarters, office leasing activity did gain some momentum since the summer. Each month during the third quarter saw leased square footage increasing with September posting the largest monthly total since the pandemic began and second highest in the past four years. Thanks to numerous leases such as Arizona College's lease of 23,000 SF in the Lee Road submarket, that pace was largely sustained in the fourth quarter. Despite the improving outlook, leasing activity has still not fully recovered to pre-pandemic levels and there are additional warning signs including a record high level of sublet space on the market.

Asking office rents have certainly felt the pandemic impact, falling nearly 200 basis points since the start of 2020. While this correlates with the faltering office demand, annual rent growth in the office sector has been steadily slowing since mid-2018. The pandemic appears to have exacerbated the prior trend.

The area that has been the most affected is the investment market. After the lowest sales volume in over a decade in the second quarter, the third quarter saw little improvement with less than \$100 million changing hands. Office investors somewhat returned in the fourth quarter with sales volume already exceeding the prior quarter by mid-November. There have been no trades over \$20 million since March 2020 and even the improved activity remains well below pre-pandemic levels.

Source: CoStar Property

ORLANDO MSA Office Market



Total Office Space
98,471,769 SF



Under Construction
798,300 SF



International Companies
150+

Orlando MSA (Orange, Seminole, Lake & Polk Counties) | Source: CoStar Property

Quarterly Trends



NET ABSORPTION



VACANCY RATE

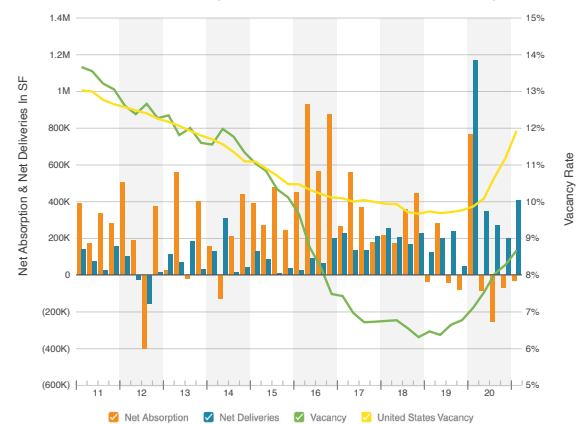


CONSTRUCTION

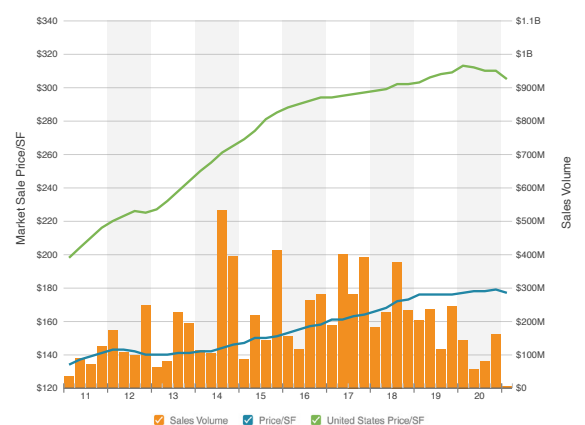


ASKING RATES

Net Absorption, Net Deliveries & Vacancy



Sales Volume & Market Sale Price Per SF



Total Office Market Statistics

Fourth Quarter 2020

Orlando MSA (Lake, Orange, Osceola & Seminole Counties)

Market	Existing Inventory		Vacancy		YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Total Available SF	Vac %				
436 Corridor	621	5,045,910	348,809	6.9%	(52,103)	12,000	25,000	\$22.67
Altamonte/Douglas	468	4,796,939	682,352	14.2%	(65,421)	25,244	0	\$20.15
Apopka	118	781,771	96,879	12.4%	(16,569)	0	0	\$24.36
Casselberry	263	2,018,004	154,072	7.6%	34,081	10,800	0	\$21.18
Downtown Orlando	494	11,469,045	1,773,683	15.2%	(149,872)	214,046	175,000	\$27.39
East Seminole Outlying	89	546,068	60,055	10.8%	(18,100)	0	10,462	\$22.73
Kissimmee	338	2,666,540	273,877	10.3%	9,799	14,500	0	\$22.70
Lake County	1,039	5,633,391	440,930	7.8%	85,241	48,926	0	\$20.79
Lake Mary	291	7,867,419	1,084,773	13.6%	(20,386)	151,518	110,098	\$24.80
Lee Road	136	1,279,873	185,088	14.5%	(2,877)	0	0	\$20.24
Longwood	196	1,455,505	234,468	16.1%	(27,472)	0	0	\$19.81
Maitland	98	1,006,845	46,070	4.6%	12,165	0	0	\$20.50
Maitland Center	175	7,676,364	1,355,763	17.7%	(48,379)	0	0	\$23.62
Metro West	158	2,137,877	136,384	6.4%	(17,478)	40,732	0	\$24.30
NW Orange Outlying	47	541,533	52,516	9.7%	5,761	4,960	0	\$23.28
Orlando Airport	44	1,245,665	151,496	12.2%	(19,863)	0	0	\$25.50
Orlando Central Park	193	4,141,324	559,050	13.5%	(67,374)	0	0	\$21.76
Osceola Outlying	136	2,635,370	373,313	13.9%	(33,972)	41,400	42,757	\$29.53
Sanford	258	1,484,529	97,399	6.6%	(2,717)	0	0	\$17.24
SE Orange Outlying	169	4,035,057	267,077	6.4%	1,005,809	1,064,643	154,000	\$32.92
South Orange	395	2,604,449	87,989	3.3%	(27,900)	0	64,501	\$26.75
St. Cloud	113	525,898	12,215	2.2%	(1,778)	7,000	35,000	\$23.16
SW Orange Outlying	79	1,348,856	53,214	3.8%	94,554	56,300	68,300	\$32.10
Tourist Corridor	234	9,501,282	1,002,405	10.6%	(278,423)	42,900	0	\$27.09
University	48	2,089,899	332,626	15.6%	(31,774)	0	42,286	\$26.57
University Research	48	3,060,683	299,245	9.7%	(112,758)	0	25,209	\$25.76
W Seminole Outlying	55	370,644	29,485	8.0%	2,232	0	0	\$18.21
West Colonial	590	3,767,867	430,960	11.3%	151,930	176,419	45,687	\$23.51
West University	63	1,042,093	123,098	11.8%	10,886	20,640	0	\$26.21
Winter Park	584	5,695,069	315,493	5.5%	(71,734)	36,120	0	\$28.91
Totals	7,540	98,471,769	11,060,784	11.1%	345,508	1,968,148	798,300	\$24.96
CBD	494	11,469,045	1,773,683	15.2%	(149,872)	214,046	175,000	\$27.39
Suburban	5,516	64,437,933	6,556,794	10.1%	710,745	1,742,102	491,513	\$25.01
Urban	1,530	22,564,791	2,730,307	12.0%	(215,365)	12,000	131,787	\$23.58
Totals	7,540	98,471,769	11,060,784	11.1%	345,508	1,968,148	798,300	\$24.96

Brevard, Polk & Volusia Counties (Adjacent)

Market	Existing Inventory		Vacancy		YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total GLA	Total Available SF	Vac %				
Brevard County	1,775	16,166,057	1,409,353	8.7%	155,816	25,300	87,898	\$19.11
Polk County	1,651	14,015,626	845,805	6.0%	(13,131)	34,052	163,540	\$18.40
Volusia County	1,973	13,815,399	821,500	5.9%	(100,872)	13,264	225,000	\$19.70

Period	Asset Value	Vacancy Rate	Availability Rate	Market Rent/SF	Annual Rent Growth	Inventory SF	Under Constr SF	Under Constr %	12 Month Net Absorption SF	Market Price/SF	Sales Volume
2020 4q	\$18.0 B	8.2%	11.2%	\$24.96	1.4%	98.4 M	0.9 M	0.9%	432,403	\$80	\$135.8 M
2020 3q	\$17.8 B	7.9%	10.8%	\$24.89	2.0%	98.2 M	0.8 M	0.8%	436,166	\$151	\$80.5 M
2020 2q	\$17.8 B	7.5%	10.3%	\$24.94	2.4%	98.0 M	1.0 M	1.1%	556,699	\$197	\$55.1 M
2020 1q	\$17.6 B	7.1%	10.0%	\$24.79	1.9%	97.6 M	1.3 M	1.4%	919,066	\$170	\$143.8 M