

ORLANDO

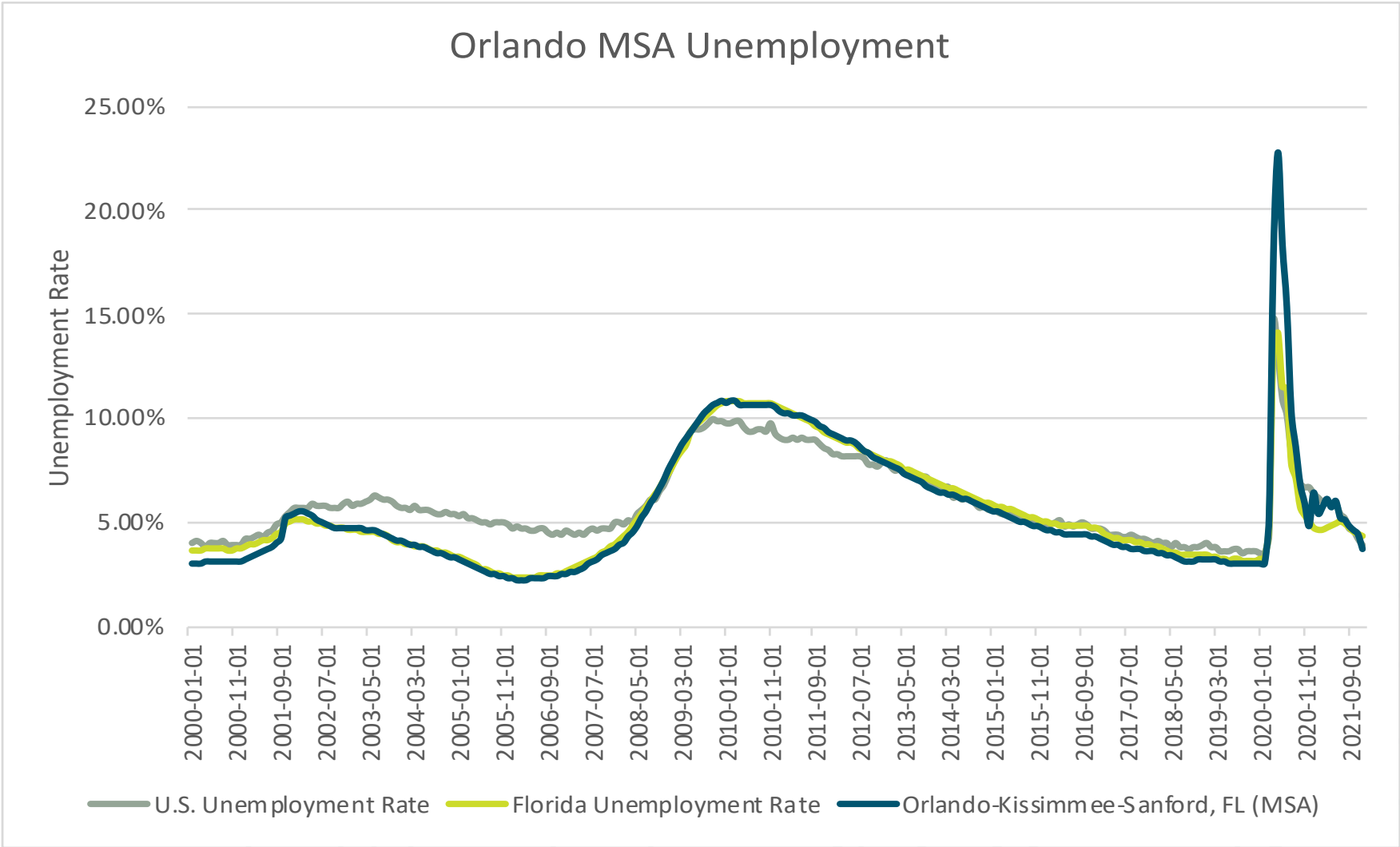
Q4-21 OFFICE REPORT

Market Overview

At the epicenter of Florida's booming I-4 Corridor, the Orlando market is experiencing tremendous population and economic growth. While the office market has been slower to recover than most sectors of commercial real estate—echoing national trends in the sector—leasing activity is steadily increasing.

“People are moving to the Orlando area at a higher rate than ever before and it’s not just snowbirds and retirees. A great deal of people coming to Orlando are within the prime working age of 25 and 55, which bodes well for both users and investors of office space.”

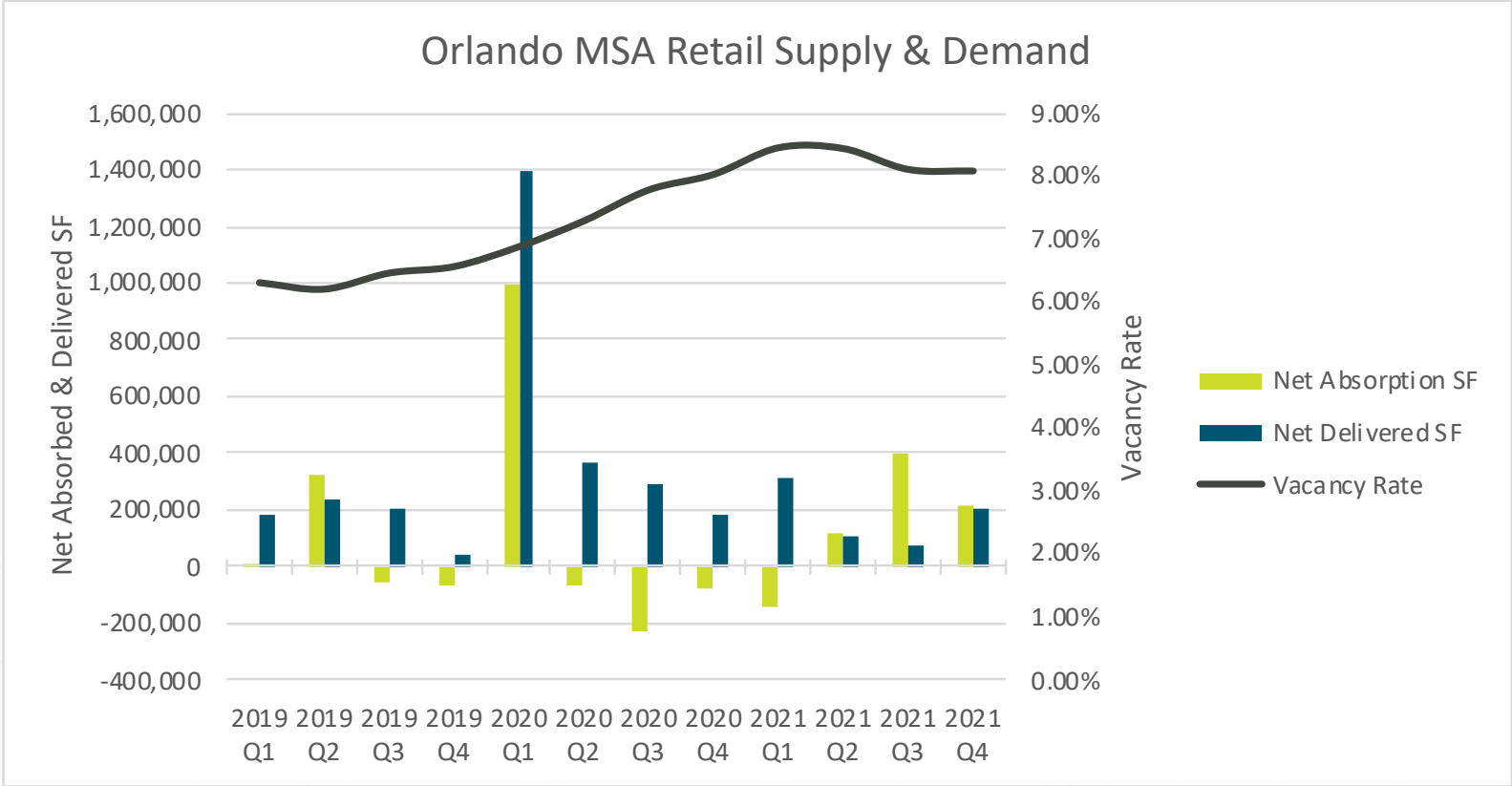
-David Lee, Senior Director



Orlando MSA Unemployment

Given Orlando’s unique labor market, which relies heavily on tourism, unemployment reached a peak of 22.8% at the height of the pandemic. However, employment has been on the rise since Q2-20, and December of 2021 marked the first time the Orlando market had an unemployment rate below both the national and state level. By the end of Q4-21, unemployment dramatically decreased by 41.7% YoY, closing 2021 at a very healthy rate of 3.4%

Orlando MSA Supply & Demand



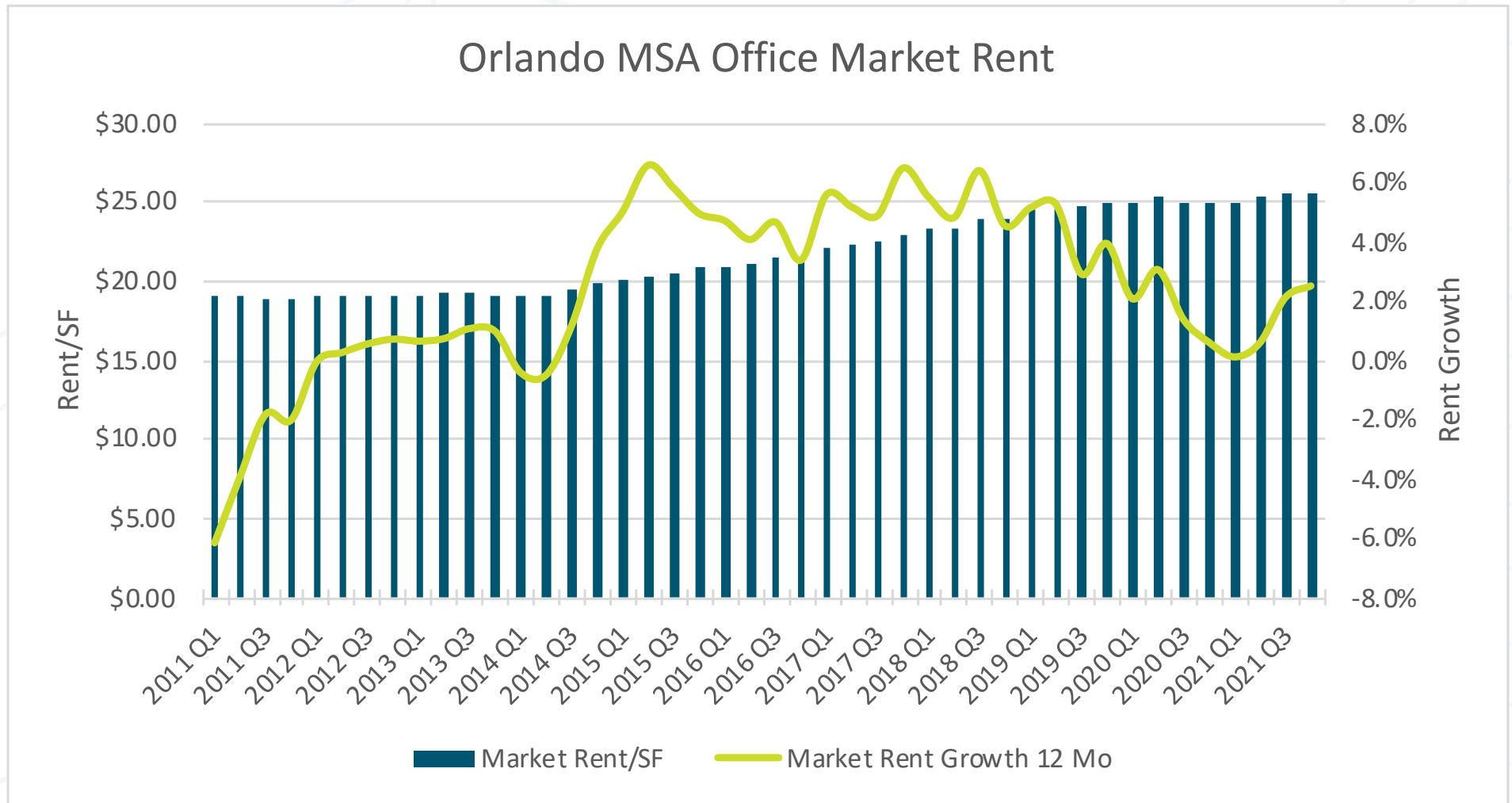
Overall, the Orlando market in 2021 experienced persistent demand when compared to 2020's consecutive quarters of negative net absorption. The Orlando market has also not shown signs of restraining new developments with over 700k net square feet delivered in 2021, 207k square feet of which was delivered in Q4-21. With new deliveries outpacing absorption, vacancy rates remained flat quarter over quarter at around 8%.

"As most companies have now returned to the office full-time, albeit sometimes with more flexible schedules than before, we can expect occupancies and leasing activity to rise at faster rates in 2022 than in 2021."

-Katherine Scatuorchio, Director

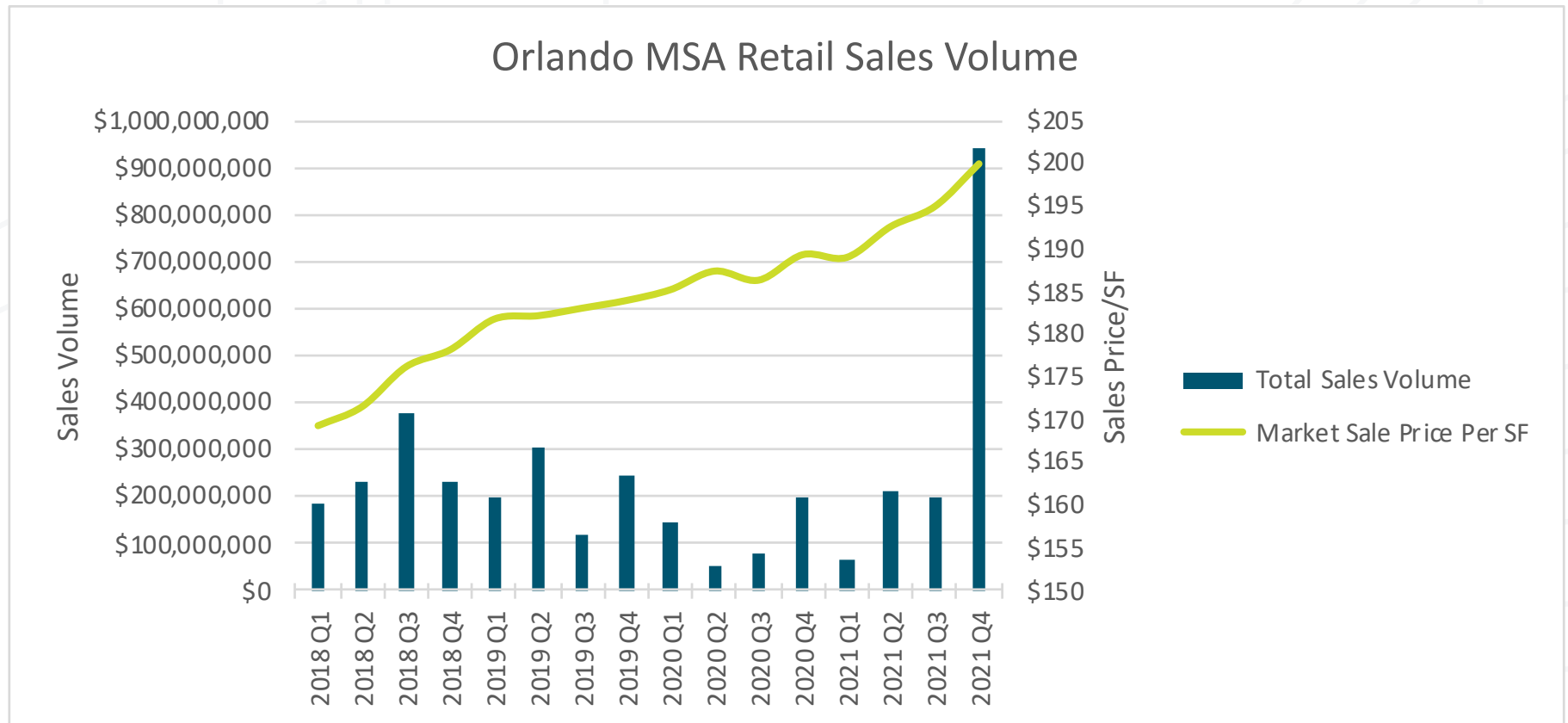
Orlando MSA Office Market Rent

With the postponement of in-office returns, the Orlando market has not been able to garner the YoY rent growth typically experienced pre-pandemic, when it averaged 5% between 2015 and 2019. Although rent growth has not been very strong, Q4-21 saw the highest rent growth of the year at 2.5% with market rent averaging \$25.64 per square foot.



Orlando MSA Office Investment

While leasing activity is still catching up, investment activity in the Orlando office market saw record volume in 2021. Investment sales volume in 2021 surpassed \$1.4 billion, nearly \$950 million of which was transacted in Q4-21 alone. This historical volume outpaces the total sales volume of the last six consecutive quarters combined and outperforms the nearest comparable quarter, Q3-14, by over \$400 million. Additionally, there was a 5.7% YoY increase in the market sales price per square foot, which marks a record high for any fiscal quarter in a trailing 12-month comparison during the pandemic era.



Orlando MSA 2021 Annual Office Statistics								
Year	Vacancy Rate	Mkt Rent/Sf.	MKT Rent Growth 12 Mo	Inventory Sf.	Net Delivered SF 12 Mo	Net Absorp SF 12 Mo	Mkt Sale Price/Sf.	Mkt Cap Rate
2011	7.2%	\$17.55	-2.2%	137,549,052	669,890	953,902	\$127.21	8.4%
2012	7.1%	\$17.35	-1.1%	138,677,187	1,128,135	1,209,793	\$135.42	8.1%
2013	6.7%	\$17.70	2.0%	139,985,394	1,308,207	1,722,156	\$138.12	8.1%
2014	6.4%	\$18.36	3.7%	140,928,672	943,278	1,379,437	\$155.79	7.7%
2015	5.5%	\$18.87	2.8%	142,909,203	1,980,531	3,112,734	\$167.78	7.4%
2016	4.9%	\$19.52	3.4%	144,129,402	1,220,199	2,065,187	\$173.27	7.3%
2017	4.3%	\$20.56	5.3%	145,891,916	1,762,514	2,534,909	\$181.67	7.2%
2018	4.2%	\$21.63	5.2%	147,063,372	1,107,400	1,267,452	\$189.01	7.2%
2019	4.3%	\$22.71	5.0%	148,413,474	1,286,143	1,047,961	\$197.02	7.1%
2020	4.6%	\$23.41	3.1%	149,557,380	962,074	405,671	\$206.48	7.0%
2021	3.9%	\$24.71	5.6%	150,353,332	795,952	1,832,940	\$219.40	6.8%

Orlando MSA Office Statistics Q4-21								
Retail Product Type	Vacancy Rate	Mkt Rent/Sf.	MKT Rent Growth 12 Mo	Inventory Sf.	Net Delivered SF 12 Mo	Net Absorp SF 12 Mo	Mkt Sale Price/Sf.	Mkt Cap Rate
Class A	12.6%	\$29.11	1.8%	30,108,069	175,000	-319,090	\$213.32	7.3%
Class B	7.6%	\$24.87	2.4%	48,730,705	32,865	502,412	\$196.33	7.6%
Class C	3.1%	\$22.73	3.9%	23,287,066		436,851	\$190.60	7.8%

Conclusion

While the Orlando office still has some hurdles to overcome before reaching pre-pandemic leasing activity, the record investment sales volume seen in 2021 is a strong sign of investor confidence in the market. Over the course of 2022, our experts will be watching the following trends.

Strong acquisition opportunities:

With office REIT activity down 14%, there will be greater opportunity for private investors and owner-users to acquire quality office properties. There should also be abundant opportunity to acquire Class B and C properties, as long as financing can be obtained.

Refinancing:

To combat loss from current high vacancies, we expect to see increased interest from owners in refinancing their properties, especially for older, suburban buildings where tenants are less likely to renew leases.

Increased demand in the CBD:

In effort to recruit and retain top talent, companies are keenly focused on the quality of space they are providing for their employees. We expect an influx of companies seeking to relocate from suburban properties to the urban core. Historic buildings that offer all the amenities of being downtown, at lower rents than the market's Class A office towers, will be in high demand.

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