Multiple big box deliveries causes slight uptick in Orlando vacancy rate

▲ 4.3%	▲ 991,015	▲ 7,485,188	▲ 2,246,319	▲ $10.73
Vacancy Rate	SF Net Absorption	SF Under Construction	SF Deliveries	Triple Net / Lease Rate

Note: Arrows indicate change from previous year.

OVERVIEW

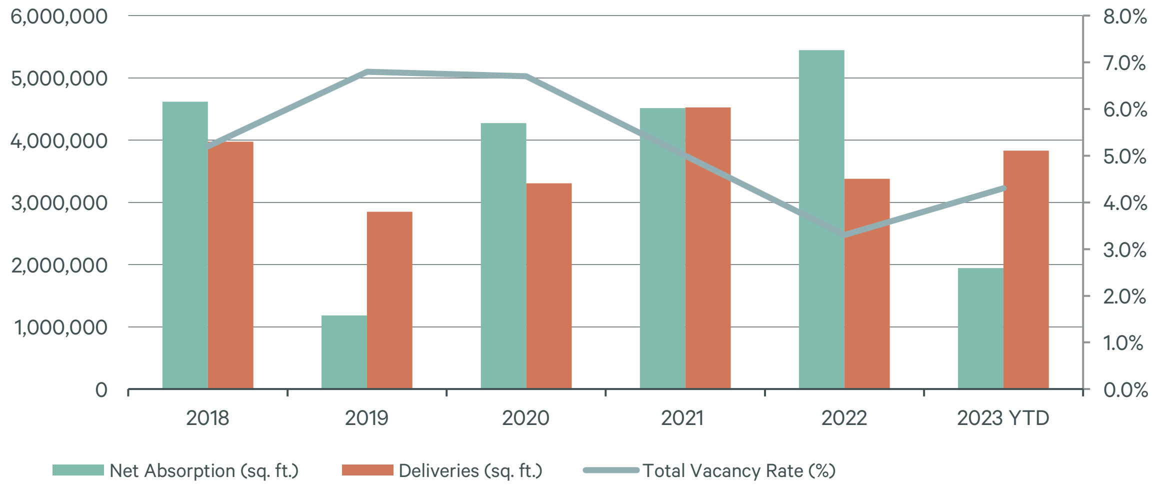
– Total industrial vacancy rose to 4.3%, a year over year increase of 110 basis points.

– Over 7.4 million sq. ft. between 38 industrial projects are under construction with over half of that square footage being built in Northwest Orange County.

– Average asking rates are seeing large annual jumps, up an aggressive 15.4% year over year to $10.73 per square foot.

After initial hesitation in first quarter of the year, the second quarter of 2023 has been booming. The average square footage of leases signed has increased by 10% quarter over quarter. This has given developers some positive news and encouraged an additional 2.2 million sq. ft. of groundbreakings over the past 90 days. The largest project starting construction is Groveland Central Logistics that will bring 878,000 sq. ft. to the Lake County submarket. These new projects bring the under construction total to over 7.4 million sq. ft., all of which is anticipated to be completed in the next 18 months. Persistent positive absorption and recent increase in the average size of leases leaves little doubt that these spaces will be filled.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

Northwest Orange County was the major driver of the positive absorption seen in the second quarter. This submarket had multiple large building completions with tenants moving in. The largest move in was Medline at Orlando-Apopka Commerce Center introducing over 333,000 sq. ft. of positive absorption. The market saw multiple notable leases over 100,000 sq. ft., with the largest being in Southwest Orange County at 2675 Directors Row for 150,150 sq. ft. - backfilling the Dade Paper sublease.

Capital markets also had some motion this quarter with multiple large investment sales. The largest being the trade of the newly built Crossroads 429 Industrial Park that was vacant at the time of the sale. Cabot properties bought the two-building portfolio for $40.3 million from the developer, Summit Real Estate Group, in April.

VACANCY

Orlando is seeing a multiple quarter trend of increasing vacancy. Quarter over quarter the total vacancy rate rose 1.1 percentage points to now rest at 4.3%. This is a result of large projects, like the 977,441 sq. ft. Turnpike Logistics Center in Lake County, delivering vacant. Both Lake County and Seminole County are the areas in Orlando with the most vacancy, holding at 12.2% and 7.7% respectively. Orange and Osceola County submarkets all remain extremely tight.

PRICING

Rates in Orlando continue to grow at an aggressive rate with a year over year jump of 15.4%. The major driver of this increase is that much of space on the market is newer, higher-class product. Half of the currently available space on the market was built in the past five years. The current average rate of $10.73/sq. ft. NNN will continue to climb as product in the pipeline continues to quote rates in the low to mid-teens.

FIGURE 2: Statistical Snapshot Q2 2023

Submarket	Total Inventory (Sq. Ft.)	Total Vacancy (%)	Q2 2023 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/SF/NNN)
Lake	11,123,308	12.2	74,549	218,572	1,018,974	12.01
NE Orange	5,522,564	0.5	30,982	116,139	260,254	16.64
NW Orange	27,136,813	4.1	599,447	560,547	3,769,964	10.04
Osceola	6,877,561	3.4	161,354	500,786	454,256	9.84
Seminole	18,367,111	7.7	(52,302)	(133,896)	87,080	9.94
SE Orange	44,486,022	2.2	168,335	324,149	1,894,660	10.81
SW Orange	28,844,409	3.6	8,650	357,547	0	11.99
Orlando Total	142,357,788	4.3	991,015	1,943,844	7,485,188	10.73

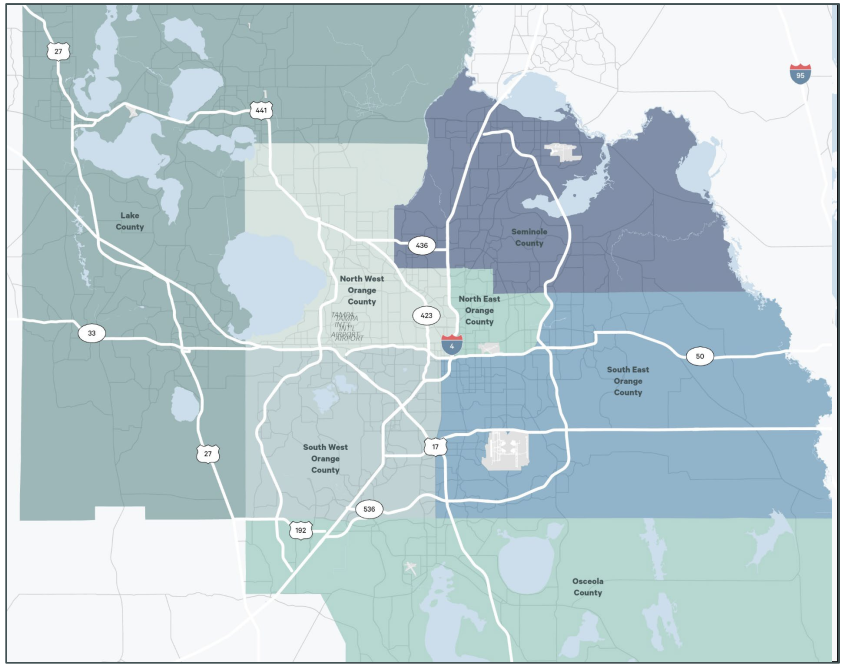
FIGURE 3: Notable Leases Q2 2023

Submarket	Property	Transaction (SF)
SW Orange County	2675 Directors Row	150,150
SW Orange County	2292 Sand Lake Road	149,570
SE Orange County	Prologis Park at AIPO – T-45	118,491

FIGURE 4: Notable Sales Q2 2023

Submarket	Property	Sale Price ($)	Transaction (SF)
NW Orange County	Crossroads 429 (2 Buildings)	40,250,000	280,437
SE Orange County	Orlando Last Mile Portfolio (3 Buildings)	36,500,000	237,000
Lake County	Perimeter Park West (3 Buildings)	29,750,000	172,047

Market Area Overview



ECONOMIC OUTLOOK

For the last six months the consensus amongst economists has been that H2 would bring the United States to the brink of recession and possibly push it over the edge. Recently, this narrative has been challenged by a surprisingly resilient consumer and labor market. Indeed, GDP growth in Q2 2023 is poised to hit the mid-2% range (p.a.). Beneath this veneer of health lies a fragile economy, which will probably lapse into recession, albeit a little later than previously expected.

The chief concern is credit conditions tightening at a magnitude that typically precedes a recession. The consequences are already manifest in the housing market, and particularly across the Western U.S. where valuations are most disconnected from local incomes. Other rate sensitive sectors, such as manufacturing, are also under pressure—both domestic and abroad—exemplified by cooling capital goods orders and PMI data. And while the labor market is objectively tight, it is softer than one year ago when we saw higher quit rates and stronger wage growth. Tighter credit conditions are also likely to catch up with Americas small and medium sized industries (restaurants, cafes) in the service sector in the next two quarters.

Perhaps the key question is: Will the inflation slow fast enough to avert further rate hikes? CBRE's baseline view is that there is no need for further rate hikes because inflation is coming under control, but because of strong recent data the Fed will make one more rate hike, just to make sure the job is done. This will slightly exacerbate the coming slowdown and lead the Fed to begin cutting rates at the end of the year. The long expected slowdown in the U.S. economy is still on track, but will start in earnest at the end of Q3 a last through to the end of Q1 2024 by which time, inflation will have slowed up, and rates will be falling.

Survey Criteria: Includes all competitive industrial buildings 10,000 sq. ft. and greater in size in Orange, Osceola and Seminole counties (excluding self-storage and industrial-condos).

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