2.8 million sq. ft. of new construction breaks ground in second quarter

▲ 8.2%
Vacancy Rate

▲ 1,093,199
SF Net Absorption

▼ 4,252,868
SF Under Construction

▲ 1,029,040
SF Deliveries

▼ $8.87
Triple Net / Lease Rate

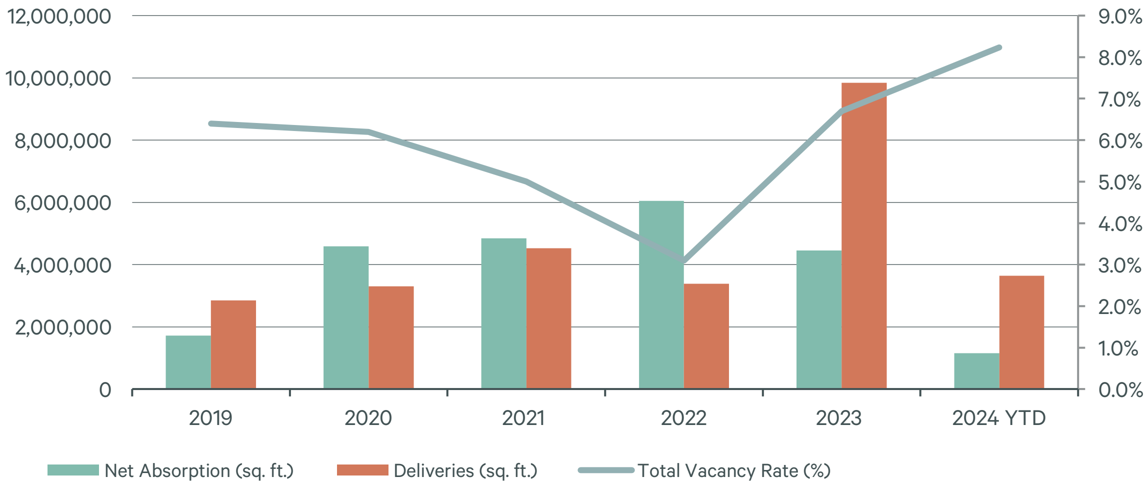
Note: Arrows indicate change from previous year.

OVERVIEW

- Total industrial vacancy rose to 8.2%, a year over year increase of 360 basis points.
- Approximately 4.3 million sq. ft. between 30 industrial projects are under construction with 30% of that square footage pre-leased.
- Average asking rates are seeing gradual increases; up a modest 1.4% quarter over quarter to $8.87 per sq, ft.

Industrial developers continue to believe in Orlando, with over 2.8 million sq. ft. breaking ground in second quarter. Total product under construction has risen to 4.3 million sq. ft., even after over one million delivered this quarter. Despite this new product coming online, vacancy saw a 10 bps drop quarter over quarter to 8.2%. A major contributing factor to this drop was Duke Energy moving into their 977,441 sq. ft. space at Turnpike Logistics Center. Owners are hopeful for continued decreases in vacancy as the market is seeing a rise in large tenants looking to increase their footprint in Central Florida. These factors will continue to push the positive 1.2 million sq. ft. of net absorption Orlando has already seen so far this year.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

The market saw 1,093,199 sq. ft. of positive absorption in the second quarter in large part due to the large Duke Energy occupancy in Lake County and a number of other mid-sized move ins. So far in 2024 the average industrial deal signed in Orlando has been around 50,000 sq. ft. The largest deal signed this quarter was at Crossroads Business Park VII in Southeast Orange county when ATR Commercial Flooring signed for 150,600 sq. ft.

The largest sale of the quarter was Investcorp International Realty's sale of the 258,416 sq. ft. Cypress Park to Harbert Management Corporation. The five building, flex portfolio sold for $40.5 million in April.

VACANCY

Due to nearly 13.5 million sq. ft. of construction completions since the beginning of 2023, including one million sq. ft. that came online this quarter, the vacancy rate rose 360 basis points year over year to 8.2%. Lake and Northwest Orange County have the highest vacancy rates due to the large amount of empty bulk buildings in the Northwest part of the market. Those submarkets hold almost all of Orlando's available and existing spaces over 250,000 sq. ft. The tightest parts of the market are the two South Orange County submarkets which are just 4.5% vacant, combined.

PRICING

Rates across Orlando have fluctuated over the past year as high quality, new space is delivered and is quickly leased up. The second quarter of 2024 showed average NNN rates at 8.87 per sq. ft., showing a year over year decrease of 16.6%. This decrease is also due to an increase in bulk space delivered which traditionally has lower asking rates.

FIGURE 2: Statistical Snapshot Q2 2024

Submarket	Total Inventory (Sq. Ft.)	Total Vacancy (%)	Q2 2024 Net Absorption (Sq. Ft.)	2024 Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/SF/NNN)
Lake	12,836,802	15.9	979,561	994,721	0	7.23
NE Orange	5,445,811	7.4	0	(5,200)	0	13.04
NW Orange	30,667,114	15.6	238,382	224,215	1,407,507	7.66
Osceola	8,034,242	6.7	(67,231)	178,958	0	10.98
Seminole	17,605,111	6.1	64,891	136,874	0	11.31
SE Orange	46,259,523	4.8	(28,310)	(14,003)	2,845,361	10.26
SW Orange	28,437,523	3.8	(94,094)	(356,679)	0	12.80
Orlando Total	149,286,126	8.2	1,093,199	1,158,886	4,252,868	8.87

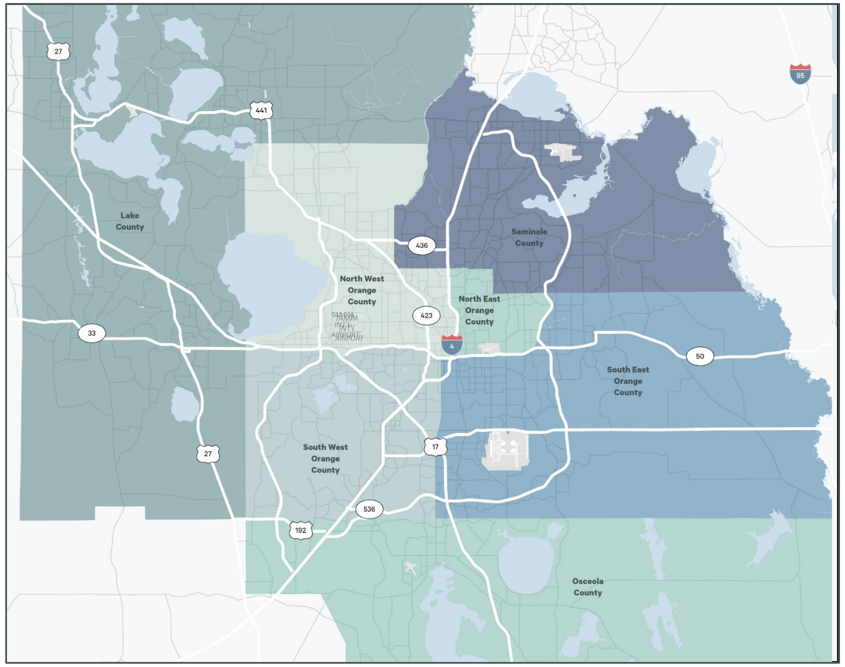
FIGURE 3: Notable Leases Q2 2024

Submarket	Property	Transaction (SF)
SE Orange	Crossroads Business Park VII	150,600
Seminole	Innovation Center	149,106
SW Orange	2416 Sand Lake Road	78,368

FIGURE 4: Notable Sales Q2 2024

Submarket	Property	Sale Price ($)	Transaction (SF)
SE Orange	Cypress Park (5 Bldgs.)	40,500,000	258,416
NW Orange	Silver Star Commerce Center (2 Bldgs.)	36,500,000	254,915
SW Orange	Horizon Commerce Center	8,300,000	84,562

Market Area Overview



ECONOMIC OUTLOOK

Following a year of expectation-busting growth, which has given us interest rates higher for much longer, it seems we will get a "soft landing" in 2024. Last year's expansion was almost certainly driven by fiscal stimulus that far exceeded other western countries. Today, stimulus effects are fading, and higher interest rates continue to bite. There is evidence of this on the consumer front, wherein delinquency rates are trending upward, and credit growth is quickly slowing. The latter signals that consumption—a key driver of GDP growth in recent quarters—is poised to slow further. This partly explains why we believe growth will settle at the mid-1% range this year.

A more severe contraction in consumption would require the labor market to contract. Presently, conditions are merely softening. Both job openings and hours worked are falling. Also, most of the job growth is clustered in sectors that are immune to higher interest rates and receive at least some public funding, such as education, healthcare and government jobs. Leisure & hospitality has been a growth sector, but these cooling trends are evident here too.

A soft landing in consumption and hiring point to further disinflation. Labor-intensive service costs are poised to soften and falling rents across the Sun Belt suggest weaker housing inflation is on the horizon. Fed rate cuts are downstream of disinflation, and a most welcome outcome within the commercial real estate space where higher financing costs and devaluations are triggering distress. The prospect of a rate cut this fall will at least help ease rate volatility, put cap rates on a slight downward trajectory, and generate more common ground between buyers and sellers in coming quarters.

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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