Office market sees first construction deliveries of 2023

▲ 15.0%	▼ (41,646)	▼ 357,255	▲ 347,620	▲ $26.75
Vacancy Rate	SF Net Absorption	SF Under Construction	SF Deliveries	Full-Service / Lease Rate

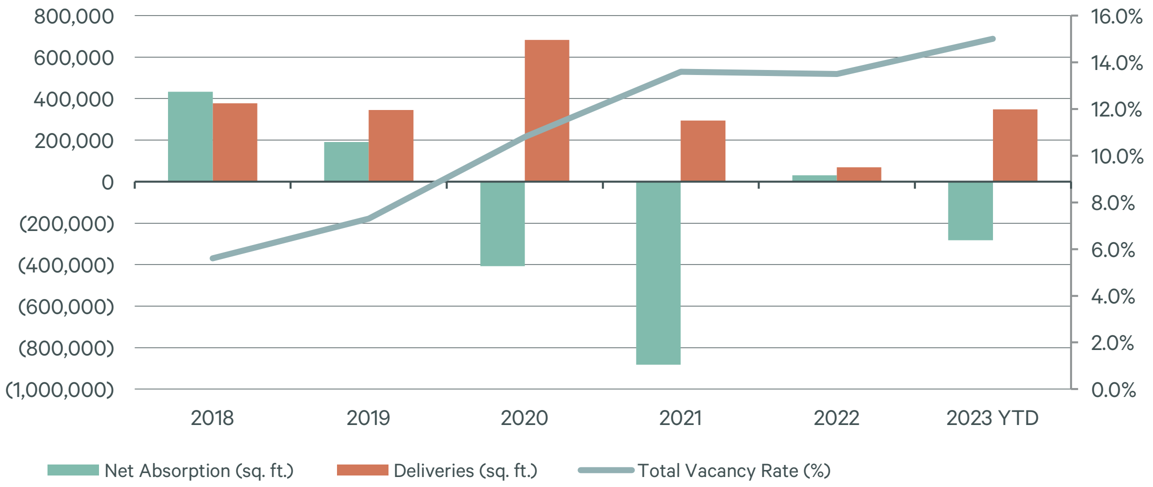
Note: Arrows indicate change from previous year.

OVERVIEW

- The second quarter of 2023 saw 41,646 sq. ft. of negative absorption, increasing the total vacancy rate to 15.0%.
- Two current office projects completed construction and added 347,620 sq. ft. to the Orlando office inventory.
- Average direct asking rents across Orlando rose to $26.75, while peak asking rents are seen Downtown at an average of $32.07 across the submarket.

The second quarter of 2023 finished off with the completion of two new office buildings. The first project to complete was the 68,700 sq. ft., Ingenuity One in the University/Research Park submarket that is fully leased by Astronics Test Systems. The other project that finished construction is the Lake Nona Headquarters Office Building B. This building added 278,900 sq. ft. to the Airport/Lake Nona submarket and has no current leases signed. This caused the small suburban submarket to jump to a 31.0% vacancy rate and played a part in the overall market vacancy rate increasing to 15.0%. Both office buildings currently under construction are build to suits for Marriott Vacations Worldwide in South Orlando and Cole Engineering in Research Park.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

After a somewhat slow start to 2023 the Orlando office market started seeing better activity in second quarter. Quarter over quarter the average deal size has risen 11.2%. The largest lease signed since 2020 took place when The Bank of New York took 203,960 sq. ft. in Lake Mary at Colonial Center 600. The next largest new deal was in Southwest Orlando where QuinStreet took the Houghton Mifflin Harcourt sublease totaling 37,918 sq. ft. at SouthPark Center. The submarket that was the most positively impacted by activity this quarter was Maitland Center. The expansion of Charter Communications at Maitland Promenade is responsible for most of the 64,400 sq. ft. of positive absorption in the submarket.

VACANCY

Total vacancy increased 60 basis points year over year to 15.0% while direct vacancy rose to 12.7%. We will see these rates drop as many large tenants take occupancy of space over the next 12 months. Vacant sublease space on the market is at 929,300 sq. ft., a 12.2% decrease from the first quarter of 2023. The submarket with the least amount of vacant space is South Orlando with a direct vacancy rate of just 6.0%.

PRICING

Average Orlando asking rates have seen a year over year increase of 1.9%, closing the quarter at $26.75 per sq. ft. Downtown rates saw the strongest growth with an 8.2% annual increase, while suburban rents grew 1.3% over the same period. The suburban market with the strongest growth is the Airport/Lake Nona area with an 11.9% annual jump in rent. This jump can be attributed to the new, higher-class product coming online.

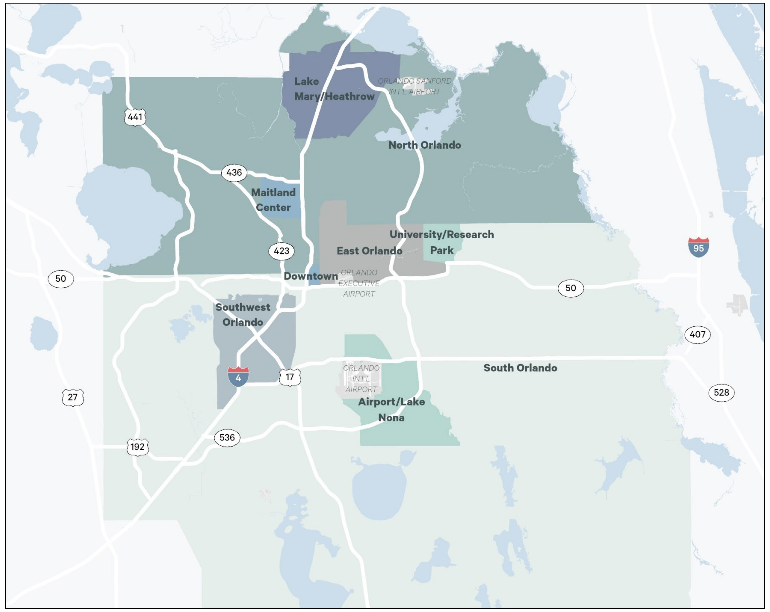
FIGURE 2: Statistical Snapshot Q2 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q2 2023 Net Absorption (Sq. Ft.)	2023 Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/SF/FSG/G/MG)
Airport/Lake Nona	1,454,974	30.3	31.0	(20,875)	(21,712)	0	28.74
Downtown/CBD	8,308,453	10.9	12.3	30,267	(8,937)	0	32.07
East Orlando	2,088,921	9.0	9.2	(47)	(8,151)	0	24.44
Lake Mary/Heathrow	5,943,039	15.7	19.1	(90,554)	(285,845)	0	25.94
Maitland Center	5,523,610	14.3	15.0	64,352	63,685	0	23.12
North Orlando	3,114,878	17.6	19.2	2,768	(20,892)	0	22.05
South Orlando	3,079,986	6.0	7.8	7,508	36,705	299,520	26.35
Southwest Orlando	6,203,792	11.3	14.5	(67,645)	(70,780)	0	28.30
University/Research Park	4,266,623	9.1	15.0	32,580	33,198	57,735	27.28
Suburban Total	31,675,823	13.2	15.7	(71,913)	(273,792)	357,255	25.08
Orlando Total	39,984,276	12.7	15.0	(41,646)	(282,729)	357,255	26.75

FIGURE 3: Notable Leases Q2 2023

Submarket	Property	Tenant	Transaction (SF)
Lake Mary/Heathrow	Colonial Center 600	The Bank of New York	203,960
South Orlando	Celebration Office Center I	Hospitality Tenant	41,083
Southwest Orlando	SouthPark Center – Building T	QuinStreet	37,918
University/Research	Research Pointe II	Vertex Aerospace	16,654

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 Class A and Class B office buildings 10,000 sq. ft. and greater in size in Orlando. Excludes: government and medical buildings..

Contact

Jim Gray
Managing Director
+1 407 404 5050
jim.gray@cbre.com

Marc L. Miller
Associate Field Research Director
+1 305 381 6428
marc.miller1@cbre.com

Kyle Koller
Field Research Manager
+1 813 273 8422
kyle.koller@cbre.com

Kennedy Parrish
Field Research Analyst
+1 407 404 5074
kennedy.parrish@cbre.com