Closing quarter office deliveries help counteract recent tenant contraction

▲ 15.7%	▲ 164,217	▼ 0	▲ 357,255	▲ $26.95
Vacancy Rate	SF Net Absorption	SF Under Construction	SF Deliveries	Full-Service / Lease Rate

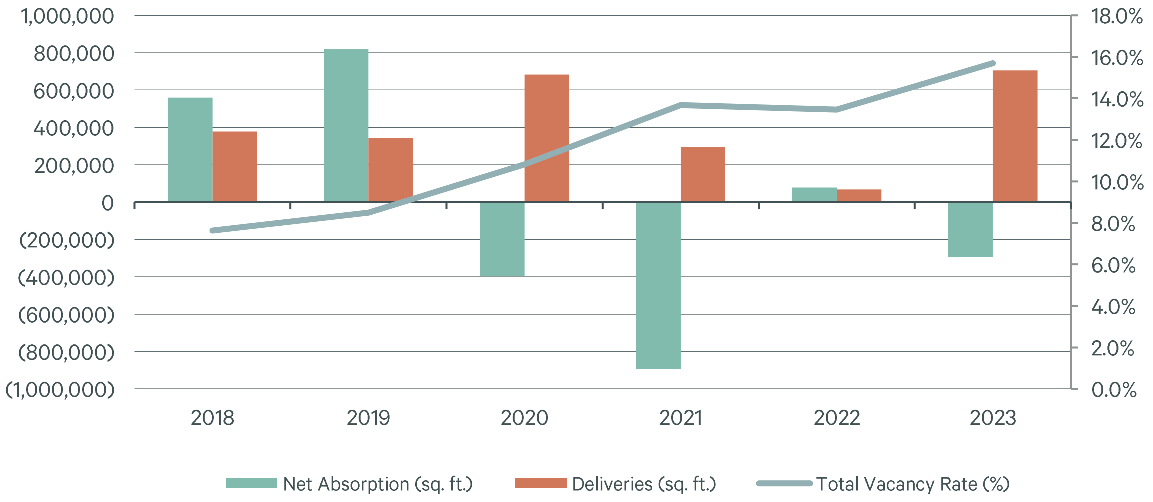
Note: Arrows indicate change from previous year.

OVERVIEW

- Despite positive absorption totaling 164,217 sq. ft. over the fourth quarter, market wide vacancy remains elevated, up 220 bps year-over year.
- The construction pipeline emptied with the delivery of Marriott's new 300,000 sq. ft. HQ at O-Town, with broader economic forces making speculative office development challenging.
- Average direct asking rents across Orlando sit at $26.95 per sq. ft., up a modest 3.1% on the year.

A year marked by corporate consolidation and contraction as firms evaluate their need for in-office work saw closing quarter activity that helped counteract the trend. Namely, Marriott Vacations Worldwide's move to their new HQ from SouthPark Center. This did leave 136,000 sq. ft. listed for sublease at their former offices there, pushing total vacancy in Southwest Orlando from 16% to 17.8% this quarter. Overall, however, total sublet availability has decreased across the market in the last 90 days, from just over 2 million sq. ft. to start the quarter to roughly 1.8 million by the end of the year. Positive momentum on this front, in addition to active tenant in market requirements and a bare construction pipeline all provide support for improvement in vacancy and absorption going forward.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

Most of the positive absorption during the fourth quarter was driven by Marriott Vacations Worldwide occupying their new corporate HQ within the South Orlando submarket. This area continues to post the lowest vacancy rate of all Orlando submarkets and is the only one with total vacancy in the single digits. Only three submarkets posted negative absorption over the last 90 days, yet all but Downtown, South Orlando and University/Research park saw negative totals for the year. There is certainly opportunity for large leasing heading into 2024, with more than 75 tracked tenant requirements totaling over 2.4 million square feet looking across Orlando.

VACANCY

Even though the market recorded positive quarterly net absorption for the first time this year, vacancy is still up 220 bps due to corporate consolidation throughout 2023. Some additional contraction/consolidation activity in the fourth quarter included Sunshine Health vacating 85,000 sq. ft. in Maitland and Siemens giving back 38,000 sq. ft. in University/Research Park.

However, a lack of speculative office development due to an unfriendly interest rate and construction cost environment eliminates looming upward pressure on vacancy via new deliveries. This, paired with solid tenant in market activity could have positive outcomes for the market next year.

PRICING

Rent growth remains moderate, up 3.1% year over year as most markets have enough availability to foster competition between landlords. This has been the result of broader economic concerns and work from home policies that are affecting office occupancy, although the latest occupier survey data shows the push for in-office work may be gaining momentum.

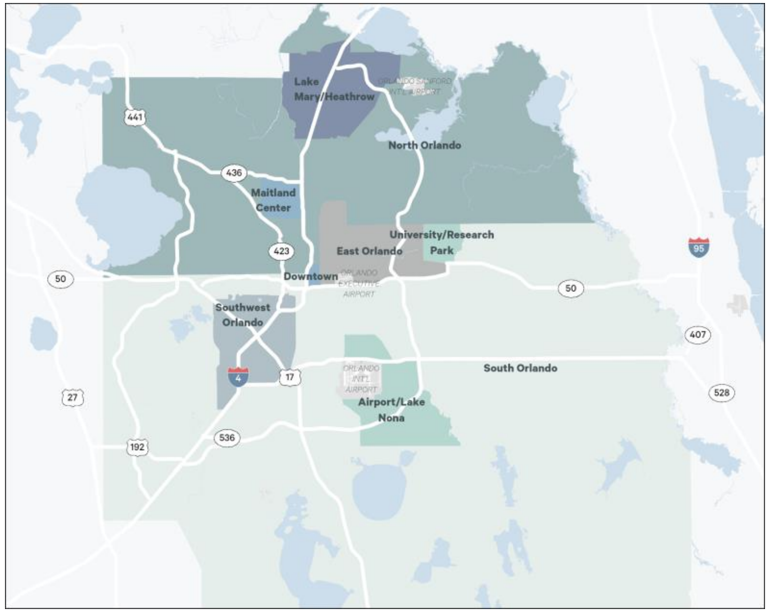
FIGURE 2: Statistical Snapshot Q4 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q4 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	30.3	(5,795)	(22,409)	0	29.50
Downtown/CBD	8,308,453	10.8	11.8	95,222	34,043	0	32.10
East Orlando	2,088,921	10.3	10.3	18,451	(11,409)	0	24.47
Lake Mary/Heathrow	5,940,007	14.9	17.6	30,407	(225,016)	0	26.16
Maitland Center	5,523,610	16.6	17.7	(178,636)	(91,888)	0	22.17
North Orlando	3,114,878	20.8	21.0	6,794	(76,978)	0	21.56
South Orlando	3,379,506	6.3	7.8	287,571	313,945	0	26.67
Southwest Orlando	6,203,792	13.9	17.8	(109,408)	(277,790)	0	28.21
University/Research Park	4,234,576	9.1	15.0	19,611	64,692	0	29.03
Suburban Total	31,940,264	14.3	16.7	68,995	(326,853)	0	25.00
Orlando Total	40,248,717	13.6	15.7	164,217	(292,810)	0	26.95

FIGURE 3: Notable Leases Q4 2023

Submarket	Property	Tenant	Transaction (SF)
Southwest Orlando	Millenia Park I	Pulte Homes	39,822
Lake Mary/Heathrow	Colonial Center 100	CardWorks	31,678
Maitland Center	Maitland Promenade Two	Taylor Morrison	27,108

Market Area Overview



ECONOMIC OUTLOOK

The combination of continued economic momentum with a likelihood that the Fed's dramatic tightening cycle is now complete makes a 'soft landing' appear more likely for early 2024 but the pace of growth will be more modest than in recent quarters. Foremost, lower and middle-income households no longer have the luxury of excess savings and the pace of wage growth, whilst remaining elevated, is slowing. This nuance with wage growth is important. Higher wages are helping to maintain higher, albeit decelerating, core inflation.

This backdrop will likely translate into the Fed only slowly lower its target rate in 2024. (CBRE expects 75 – 100 basis points worth of rate cuts in 2024.) This outlook may deter some spending, but it does help illuminate a pathway forward for real estate capital markets. Indeed, the combination of healthy fundamentals for many sectors and thawing credit markets could provide some welcome upside surprises for real estate performance in 2024.

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