

FIGURES | ORLANDO OFFICE | Q1 2024

# Sizeable Lake Mary occupancy anchors positive absorption in first quarter

▲ 15.7%

Vacancy Rate

▲ 138,452

SF Net Absorption

▼ 0

SF Under Construction

▼ 0

SF Deliveries

▲ \$27.06

Full-Service / Lease Rate

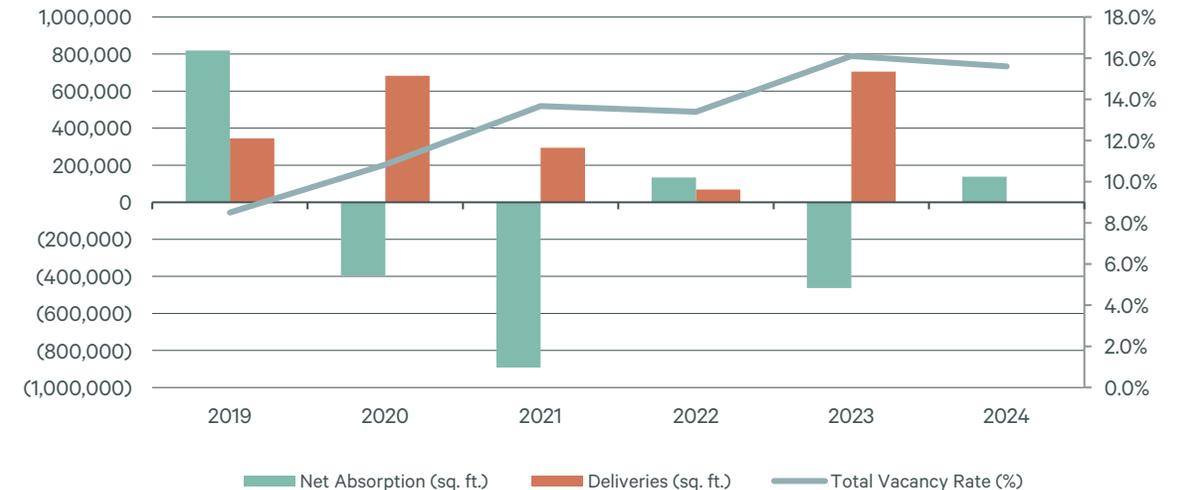
Note: Arrows indicate change from previous year.

## OVERVIEW

- Positive absorption totaling 138,452 sq. ft. in the start of 2024 brought down the vacancy rate 60 bps quarter over quarter.
- The current construction pipeline is empty with only a handful of proposed projects in discussion and no clear timeline as to when they will move forward.
- Average direct asking rents across Orlando sit at \$27.06 per sq. ft., up a modest 0.9% year over year.

The Orlando market began 2024 feeling the impact of several large deals signed in previous quarters. The most significant of which was the Bank of New York move into 203,960 sq. ft. at Colonial Center 600 in Lake Mary. This large block removal dropped vacancy in the submarket 410 bps quarter over quarter to 12.5%. The overall continued to feel the impact of the 1.9 million sq. ft. of available sublease space as local companies persisted in putting their office space up for sublease and vacating it either partially or completely in favor of work from home practices. At the same time, it is becoming commonplace for larger companies to increase their space footprints and call employees back to the office. We can see this with the BNY move in and Burns & McDonnell increasing their Orlando market footprint by nearly 30,000 sq. ft.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

## DEMAND

The leasing velocity in the office market has remained steady with several new leases and renewals being signed in the first quarter. The largest being a 44,752 sq. ft. renewal of Visit Orlando at the Sea Harbor Office Center in South Orlando. South Orlando continues to have the tightest market with a 6.2% total vacancy. The largest new deal was Galen College of Nursing signing the 43,261 sq. ft. availability at 12650 Ingenuity Drive in Research Park. Continuing into 2024, there are expectations for more large leases to be signed with nearly 70 tracked tenant requirements totaling over 2.4 million square feet looking across Orlando.

## VACANCY

Despite starting the year with positive absorption, vacancy was still up annually 150 bps due to corporate consolidation this past year. We witnessed another consolidation this quarter with Staples giving back 32,000 sq. ft. in Maitland at 1901 Summit Tower Blvd. Another cause of the increased vacancy is the completions of speculative office in areas like Lake Nona that have yet to be filled.

However, a lack of new office development due to the current construction costs and elevated interest rates eliminates looming pressure on vacancy through new deliveries. This, coupled with increased tenants in market could create a positive environment for the remainder of the year.

## PRICING

Current economic concerns and work from home policies that are affecting office occupancy have landlords struggling to push rates. The average asking rate in Orlando are up a modest 0.9% year over year, closing the quarter at \$27.06 per sq. ft. Many of these landlords are hoping to see changes in 2024 as the latest occupier survey data shows the push for In-office work may be gaining momentum.

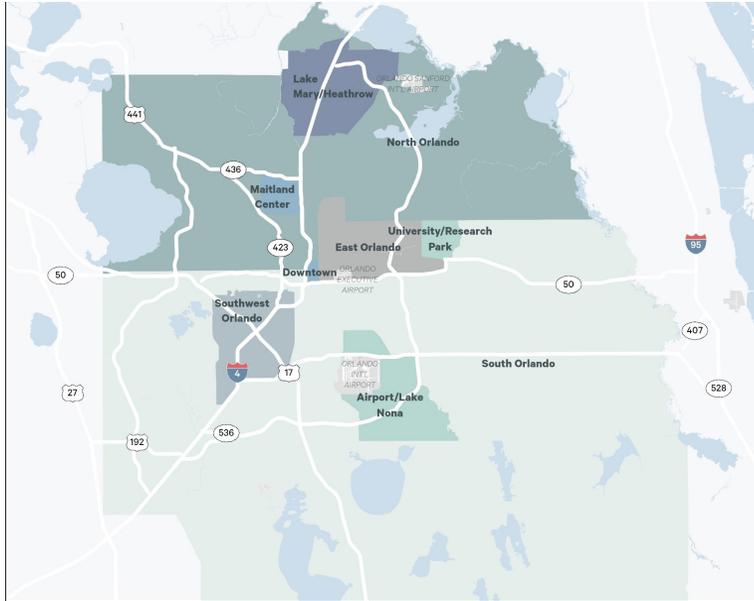
FIGURE 2: Statistical Snapshot Q1 2024

| Submarket                | Total Inventory (Sq. Ft.) | Direct Vacancy (%) | Total Vacancy (%) | Q1 2024 Net Absorption (Sq. Ft.) | 2024 Net Absorption (Sq. Ft.) | Under Construction (Sq. Ft.) | Avg. Asking Lease Rate (\$/SF/FSG/G/MG) |
|--------------------------|---------------------------|--------------------|-------------------|----------------------------------|-------------------------------|------------------------------|---|
| Airport/Lake Nona        | 1,454,974                 | 30.1               | 30.7              | (6,063)                          | (6,063)                       | 0                            | 29.50                                   |
| Downtown/CBD             | 8,308,453                 | 11.5               | 12.9              | (76,224)                         | (76,224)                      | 0                            | 31.94                                   |
| East Orlando             | 2,088,921                 | 10.2               | 10.2              | 2,381                            | 2,381                         | 0                            | 24.31                                   |
| Lake Mary/Heathrow       | 5,940,007                 | 12.5               | 15.4              | 231,397                          | 231,397                       | 0                            | 27.12                                   |
| Maitland Center          | 5,523,610                 | 16.9               | 18.0              | 56,404                           | 56,404                        | 0                            | 22.46                                   |
| North Orlando            | 3,114,878                 | 18.7               | 20.2              | (55,272)                         | (55,272)                      | 0                            | 21.26                                   |
| South Orlando            | 3,379,506                 | 6.2                | 6.5               | (2,907)                          | (2,907)                       | 0                            | 30.22                                   |
| Southwest Orlando        | 6,203,792                 | 13.8               | 17.7              | 32,591                           | 32,591                        | 0                            | 27.84                                   |
| University/Research Park | 4,324,358                 | 10.0               | 16.6              | (43,855)                         | (43,855)                      | 0                            | 29.01                                   |
| Suburban Total           | 32,030,046                | 13.7               | 16.3              | 214,676                          | 214,676                       | 0                            | 25.44                                   |
| Orlando Total            | 40,338,499                | 13.3               | 15.6              | 138,452                          | 138,452                       | 0                            | 27.06                                   |

FIGURE 3: Notable Leases Q1 2024

| Submarket                | Property                 | Tenant                   | Transaction (SF) |
|--------------------------|--------------------------|--------------------------|------------------|
| South Orlando            | Sea Harbor Office Center | Visit Orlando            | 44,752           |
| University/Research Park | 12650 Ingenuity Dr       | Galen College of Nursing | 43,261           |
| Maitland Center          | 1901 Summit Tower Blvd   | Staples                  | 26,271           |
| Maitland Center          | Maitland Colonnades      | Avant Healthcare         | 24,779           |

## Market Area Overview



## ECONOMIC OUTLOOK

Continued economic growth paired with the Fed signaling more accommodative policy all suggests the U.S. economy is heading toward a ‘soft landing’. GDP growth should be less than half 2023’s pace when growth topped 3%. Reasons for the slowdown include a more prudent consumer and much weaker hiring. This latter issue is most acute within interest rate sensitive sectors, such as tech start-ups and goods manufacturing. Notable exceptions include investment in EV and microchip production capacity.

More caution from businesses means a good chunk of recent hiring came from publicly funded sectors (e.g., education, healthcare, state & local governments). A key exception is leisure & hospitality, driven by continued demand for discretionary services. With many private firms on the sidelines the job openings rate declining to 5.5% from its peak of 7.8% in 2022. This has also meant the pace of wage growth has cooled, but not enough to see inflation fall quickly to 2%. With unemployment remaining below 4% and high-capacity utilization, CPI is unlikely to return to target until 2025.

The Fed will likely make three, 25 basis point cuts this year. This outlook is putting downward pressure on longer-term rate expectations, providing some optimism for real estate capital markets, but the recovery will only begin after the first cut is delivered. Better than expected growth over the last 18 months has been helpful in holding real estate vacancy down, notably in the industrial, retail and multifamily sectors.

**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..

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