

FIGURES | ORLANDO OFFICE | Q3 2023

# Lingering corporate consolidation and right sizing is still having an effect

▲ 15.4%  
Vacancy Rate

▲ (165,942)  
SF Net Absorption

▼ 357,255  
SF Under Construction

▼ 0  
SF Deliveries

▲ \$26.24  
Full-Service / Lease Rate

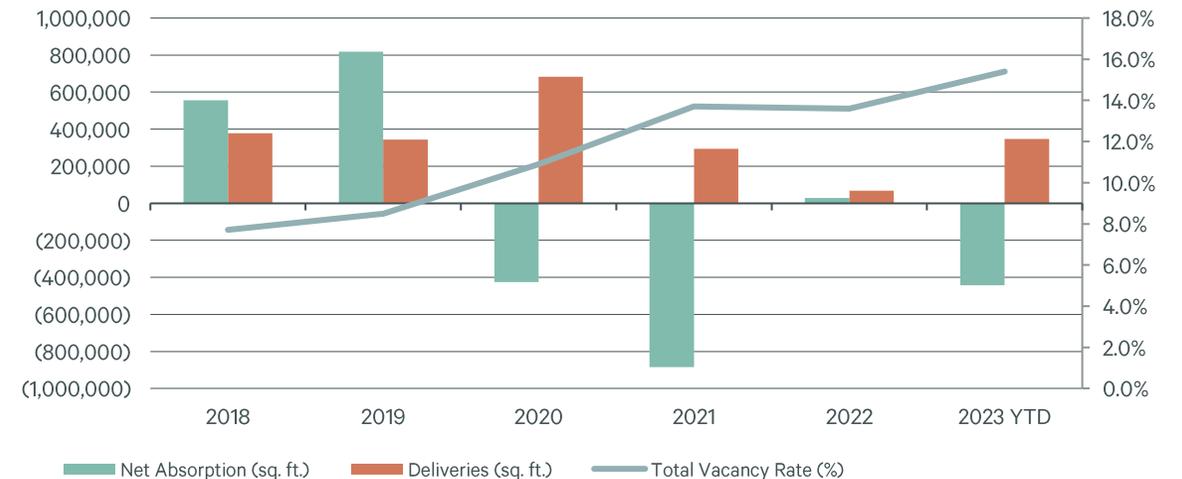
Note: Arrows indicate change from previous year.

## OVERVIEW

- Negative absorption of -165,942 sq. ft. during the third quarter pushed market-wide vacancy up 40 basis points to 15.4%.
- Two fully leased office projects totaling 357,255 sq. ft. will deliver early in the 4<sup>th</sup> quarter, emptying the construction pipeline by years end.
- Average direct asking rents across Orlando sit at \$26.24 per sq. ft., up just 1% year-over-year.

Three years out from the initial impact of the 2020 pandemic, companies are still making occupancy decisions that include office closure or consolidation to accommodate new work modes. This has resulted in the third straight quarter of negative absorption, bringing the annual total to -442,815 sq. ft. There are still bright spots, as a handful of firms took occupancy of spaces 10,000 sq. ft. or greater, including over 100,000 sq. ft. worth of move-ins at SouthPark Center. The sublease market also continues to moderate, with total availability of 2 million sq. ft. down 10% from the 2022 Q4 peak. Now, sublease space makes up just 1.9% of the 15.4% total market vacancy figure. With future office occupancy plans seemingly unique to each individual organization, irrespective of industry, there is opportunity to see additional growth from firms with active requirements in Orlando.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

## DEMAND

A handful of moderately sized office leases signed in the third quarter is indicative of continued office demand, with a mix of new transactions and renewals across the market. Looking forward, there are over 400,000 sq. ft. of pending tenant move-ins that will aim to take occupancy over the next 6 months with active tenant requirements also remaining healthy. 62 firms with a combined 1.6 million sq. ft. of office need are actively looking at opportunities across a diverse set of submarkets.

## VACANCY

Roughly half a dozen firms who vacated 20,000 sq. ft. or more this quarter as they closed or consolidated offices were the main culprits of negative absorption. These include Booking.com, Valencia College, Pearson and Avant Healthcare. These move-outs contributed to a 40 basis point increase in vacancy this quarter, but the 15.4% figure is just 1.4 percentage points above the markets three-year average.

The 357,255 sq. ft. currently under construction set to be completed next quarter won't further increase vacancy rates, as these projects are fully leased to Marriott Vacations Worldwide in South Orlando and Cole Engineering in the Research Park.

## PRICING

Broader economic concerns impacting office valuations combined with work from home policies that are affecting office occupancy has resulted in relatively muted rent growth. Average rents of \$26.24 per sq. ft. are up just 1% year over year. There is still a big disparity between urban and suburban rent growth, with downtown rents up 8.2% year over year compared to just 0.4% in the suburbs.

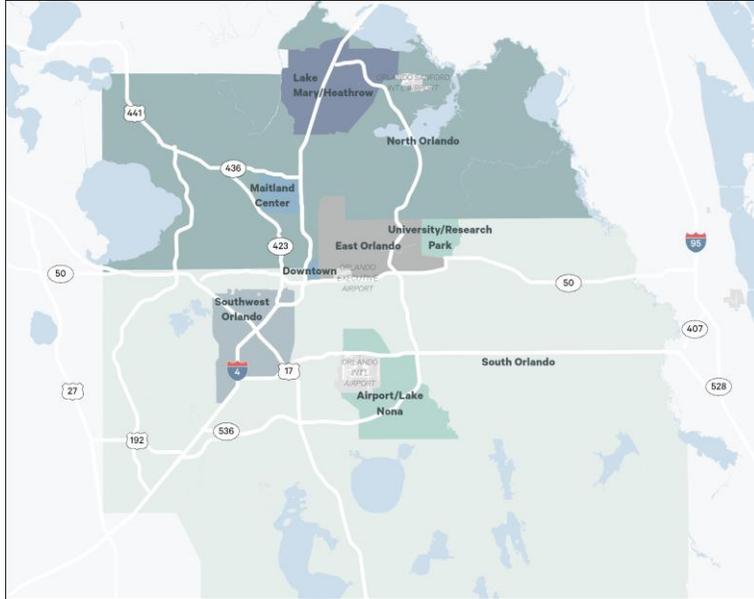
FIGURE 2: Statistical Snapshot Q3 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q3 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	29.7	29.9	5,843	(16,614)	0	29.08
Downtown/CBD	8,308,453	11.7	13.0	(44,288)	(61,179)	0	32.24
East Orlando	2,088,921	11.3	11.3	(29,703)	(32,779)	0	23.90
Lake Mary/Heathrow	5,940,007	15.5	18.6	24,568	(255,373)	0	26.17
Maitland Center	5,523,610	13.4	14.4	16,234	86,748	0	22.30
North Orlando	3,114,878	21.1	21.3	(70,819)	(86,361)	0	21.83
South Orlando	3,079,986	6.2	8.2	(5,047)	25,514	299,520	26.29
Southwest Orlando	6,203,792	14.2	15.8	(68,994)	(152,122)	0	28.06
University/Research Park	4,266,623	8.8	14.6	6,264	49,351	57,735	27.32
<b>Suburban Total</b>	<b>31,672,791</b>	<b>14.0</b>	<b>16.1</b>	<b>(121,654)</b>	<b>(381,636)</b>	<b>357,255</b>	<b>24.85</b>
<b>Orlando Total</b>	<b>39,981,244</b>	<b>13.5</b>	<b>15.4</b>	<b>(165,942)</b>	<b>(442,815)</b>	<b>357,255</b>	<b>26.24</b>

FIGURE 3: Notable Leases Q3 2023

Submarket	Property	Tenant	Transaction (SF)
Airport/Lake Nona	Lee Vista Center	CAE	68,132
Maitland Center	Maitland Promenade Two	Burns & McDonnell	48,685
Downtown Orlando	200 S Orange Ave	Holland & Knight	36,768
Maitland Center	901 Maitland Center	Progressive Insurance	33,552

## Market Area Overview



## ECONOMIC OUTLOOK

The U.S. economy has defied expectations for a slowdown and has even exhibited some signs of acceleration despite sharp tightening of credit conditions and ongoing write-downs in the banking sector. This resilience is due to a number of factors: 1) the Chips and IRA Acts have stimulated the construction sector; 2) the Fed. and the FDIC have provided prompt and effective support for the banks, and: 3) consumers are in good shape from a balance sheet and income perspective.

Nevertheless, headwinds are intensifying: such as higher oil prices, resumption of student loan payments, and a weakening global economy. These headwinds, not serious in themselves, will hit home at a time when the squeeze from elevated interest rates is at its maximum. The upshot for real estate is that the Fed is likely finished with its tightening cycle, allowing a clearer path for real estate capital markets to unfold. Although we expect economic growth to deteriorate it is likely that valuations will stabilize during 1H 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.

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