

# CENTRAL FLORIDA OFFICE MARKET

## STRONG MARKET FUNDAMENTALS IN SLOWING MARKET

After 16 consecutive quarters of growth, the Central Florida office market experienced a miniscule correction during the third quarter of 2018, as supply barely outpaced demand with 3,839 square feet of negative absorption. This represented a more balanced market, with vacancy remaining level from one quarter ago but still dropping 60 basis points to 7.9% from one year ago. Market growth for high-end space continued in the third quarter, as the Class A sector turned in 92,811 square feet of absorbed space. This was a stronger performance from the 22,000 square feet seen last quarter. Second-tier space saw a correction for the first time in four years, as Class B space experienced negative absorption of 66,124 square feet. The Class C segment continued to struggle with 30,526 square feet of vacancy returned to the market during the third quarter. Despite the slowdown this quarter, tight market conditions and record low vacancies gave landlords the upper hand in negotiations as the overall average asking rent increased \$0.35/6F to \$23.28/SF during the third quarter. This was Central Florida's seventh straight quarter of record-breaking average rates, which increased \$1.46/SF over the \$21.82/SF set in 2008. Orlando held onto the lowest vacancy rate throughout the nation, even after a slight correction in first-quarter 2018. Tampa's office market ranked 15th in vacancy, as its 9.2% rate was well below the national average of 13.3% at the close of the third quarter.

## LEASING AND DEMAND

Leasing activity decreased from previous quarterly performances, as 430 transactions totaling over 1.4 million square feet were recorded, bringing year-to-date activity to 5.6 million square feet. Class A space regained the lead with 448 leases totaling just over 2.7 million square feet, while the Class B segment trailed closely, accounting for 785 deals totaling 2.5 million square feet year-to-date. The Class C segment remained consistent with 229 deals totaling 408,000 square feet at the close of third-quarter 2018. Renewals, relocations and small expansions by tenants already in the market continued to make up the majority of lease deals. Business services companies held on to the lead in midsize to larger lease deals, with more than 340,000 square feet of transaction activity. The financial sector took the number two spot with 171,500 square feet, while real estate rounded out the top three with 95,000 square feet of lease deals. Growth also occurred within the technology, medical and education segments, which leased over 60,000 square feet each.

## INVESTMENT SALES

Investment sales gained momentum, almost doubling from the first half of 2018 and increasing year-to-date from one year ago. Twenty-nine sales totaling 2.0 million square feet sold for \$311.6 million during third-quarter 2018, bringing total sales to 4.9 million square feet for more than \$707.9 million. This was a significant rise from the 3.4 million square feet that had sold for a meager \$485.9 million by this time last year. Owners have begun to unload office investments, as tight market conditions remain while interest rates have increased consistently. Second-tier space led sale activity, as Class B office sales totaled 2.4 million square feet year-to-date. Class A followed closely with 22 sales combining for over 2.0 million square feet of sales so far in 2018. Year-to-date prices grew slightly, as Class B sales hindered price growth, with the average sales price rising slightly to \$146/SF from \$141/SF at this time in 2017.

## CURRENT CONDITIONS

The office market continued to experience a cooling down period after six years of strong growth.

Suburban submarkets stuttered in demand growth as CBD Markets led the market in growth for the third quarter.

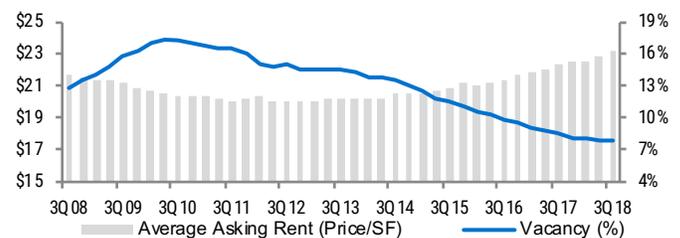
Only two major Class A buildings were under construction with the majority of space already leased in both buildings.

Class A rents continued to rise, as landlords pushed rents for higher-end space over the \$27.00/SF mark, up \$0.82 to \$27.17/SF.

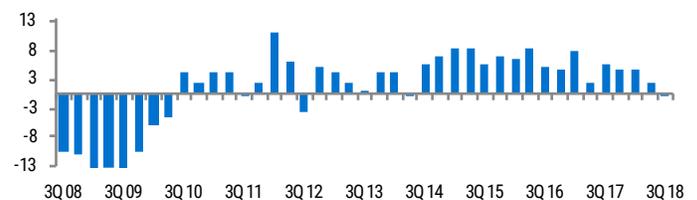
Investment sales dramatically increased from the past couple of years, as lower-tier buildings continued to dominate transaction activity.

## MARKET ANALYSIS

### Asking Rent and Availability



### Net Absorption (SF, 100,000)



## MARKET SUMMARY

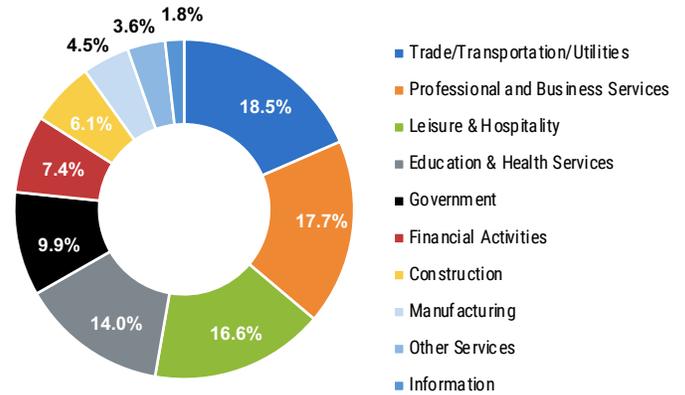
	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	132.9 MSF	132.9 MSF	132.5 MSF	↑
Vacancy Rate	7.9%	7.9%	8.5%	↔
Quarterly Net Absorption	(3,839)	197,803	486,829	↔
Average Asking Rent	\$23.28	\$22.93	\$22.45	↑
Under Construction	732,000	732,000	507,150	↑
Deliveries	0	89,000	0	↑

## ECONOMIC CONDITIONS

Central Florida's unemployment rate ticked downward 40 basis points to 3.7%, with 83,400 additional jobs added from July 2017. Orlando reported the region's lowest unemployment rate, down 40 basis points to 3.6% from one year ago. Tampa/St. Petersburg's rate saw a decrease of 30 basis points to 3.8% from last year during the same period. Looking back from the third quarter-2017, the leisure and hospitality sector held onto the lead in the strongest growth of any industry in central Florida with 25,400 jobs created. Orlando's strong ties to its theme parks saw the leisure and hospitality industry see the largest annual percentage increase in employment with a jump of 30.5% from one year ago. The Health and Education services industry stayed in the second spot with an increase of 15,900 jobs over the past 12 months. Rounding out the top three included the construction segment with the creation of 11,000 new positions. This sector picked regained momentum after dropping out of the top three in mid 2017. Professional and business service jobs experienced strong growth with an increase with 9,900 jobs from one year ago. Most remaining sectors experienced modest improvements with the information sector continuing to struggle with 900 jobs lost since July of 2017, while government employment fell by 1,900 jobs. Central Florida's job growth remained healthy as the regions economy looked to be holding strong.

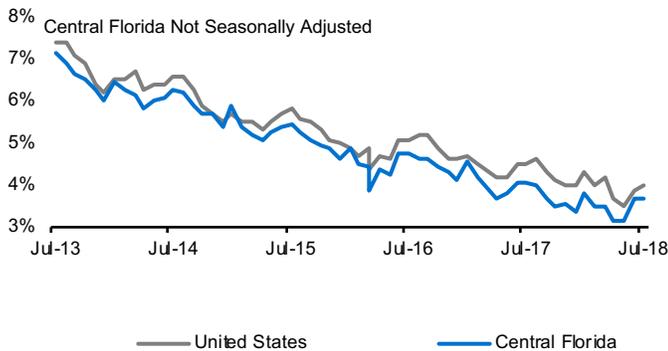
## EMPLOYMENT BY INDUSTRY

Central Florida MSA, Feb 2018 Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

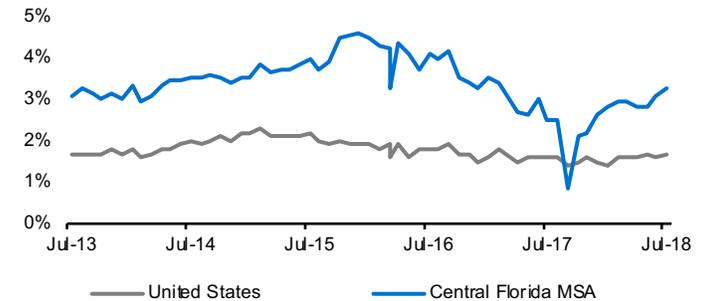
## UNEMPLOYMENT RATE



Source: U.S. Bureau of Labor Statistics

## PAYROLL EMPLOYMENT

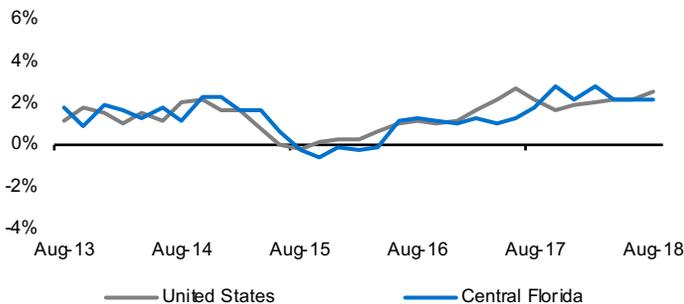
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## CONSUMER PRICE INDEX (CPI)

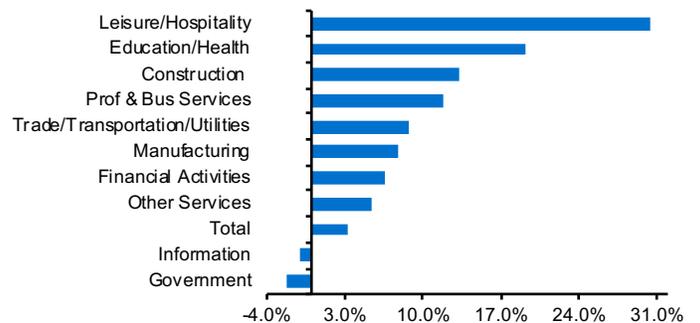
All Items, 12-Month % Change, Not Seasonally Adjusted,



Source: U.S. Bureau of Labor Statistics

## EMPLOYMENT GROWTH BY INDUSTRY

Central Florida, Jul 2018, MSA, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## TAMPA / SAINT PETERSBURG OFFICE MARKET

Tampa Bay's office market saw a slight correction for the first time since second-quarter 2017, as 51,520 square feet of negative absorption pushed vacancy up 10 basis points from the 9.3% rate recorded in the previous quarter. However, previous strong demand growth in recent quarters helped occupancy gains climb 120 basis points to 90.8% from one year ago. Although this was a slight blip, the market remained in a strong position. The Class A segment saw supply outpace demand during the third quarter, recording 48,288 square feet of negative absorption, while Class B space saw the only positive absorption, totaling modest 8,453 square feet. The lower-tier Class C sector also struggled, accounting for the remaining 11,685 square feet of negative absorption. Landlords did not appear to take notice, as asking rents climbed for the quarter, which contributed to the overall average asking rent pushing 12.6% above the previous peak level of \$21.50/SF in 2008 to \$24.21/SF at the close of third-quarter 2017. Although rents have steadily risen, they remain an attractive alternative to higher-tier rents in South Florida. The trend of fleeing to the suburbs shifted for the first time in over a year, as demand in the region's central business districts strengthened while supply outpaced demand in the suburban submarkets combined.

### LEASING AND DEMAND

Leasing activity dipped again for the second consecutive quarter, as 207 transactions totaling over 754,700 million square feet were recorded, bringing year-to-date activity to 3.2 million square feet. Class A space held on to the lead with 267 leases totaling 1.8 million square feet, while Class B fell behind with 356 leasing transactions totaling 1.2 million square feet. The Class C segment lagged behind with 86 deals totaling 196,000 square feet at the close of third-quarter 2018. Renewals and lateral relocations by tenants already in the market continued to comprise the majority of lease deals. The business services industry took over the top spot in midsize-to-larger lease deals, with more than 248,500 square feet of transaction activity. The financial sector dropped to the number two spot with 163,000 square feet, while real estate companies rounded out the top three with 54,000 square feet of lease deals. The worst-performing sectors were insurance and government entities, which struggled to record less than 30,000 square feet between them.

### INVESTMENT SALES

Tampa's office market led sale activity throughout Central Florida with 21 sales totaling 1.3 million square feet occurred during third-quarter 2018, bringing total sales to just under 2.8 million square feet valued at almost \$396.0 million. This was a slight increase from the 2.6 million square feet that sold for almost \$374.5 million at the same time last year. The Class B segment led with 1.4 million square feet sold, while Class A space trailed closely with 1.0 million square feet sold thus far in 2018. This helped push the average cost level upward from \$141/SF from \$153/SF at the close of third-quarter 2018.

### CURRENT CONDITIONS

Slowing market conditions held as demand barely beat out supply as vacancy has hovered around 6.7% over the last year.

CBD growth took the lead in demand from the suburban office market as positive net absorption was recorded for the three downtown areas.

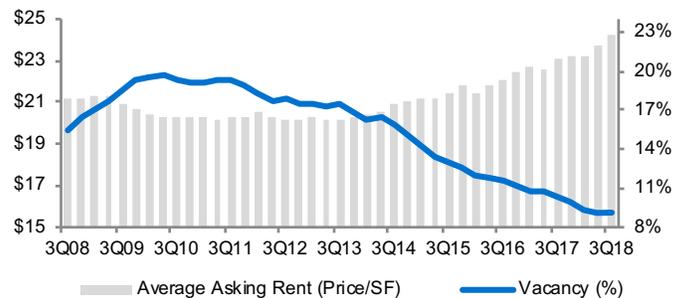
Asking rents pushed upward but landlords have yet to really push the button on rate increases.

Diminished large blocks of space and no speculative office have not changed owners minds on rent increases as of yet.

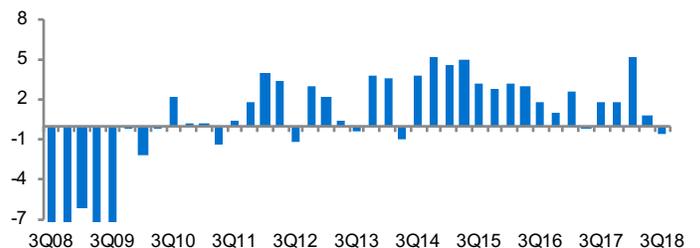
Office investment sales significantly increased in the Tampa office segment as sale transactions were robust in third quarter.

### MARKET ANALYSIS

#### Asking Rent and Availability



#### Net Absorption (SF, 100,000)



### MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	64.2 MSF	64.2 MSF	64.2 MSF	↔
Vacancy Rate	9.2%	9.1%	10.4%	↓
Quarterly Net Absorption	(51,520)	76,914	179,754	↔
Average Asking Rent	\$24.21	\$23.68	\$23.14	↑
Under Construction	250,000	250,000	0	↑
Deliveries	0	0	0	↑

## TAMPA / SAINT PETERSBURG SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Clearwater CBD	1,047,799	0	14.1 %	-8,796	-42,514	\$18.36	\$19.27	\$17.22
St. Petersburg CBD	2,973,491	0	13.3 %	11,256	-220	\$29.85	\$23.44	\$26.82
Tampa CBD	7,143,285	0	7.9 %	37,362	131,376	\$30.57	\$22.96	\$28.68
<b>CBD Total</b>	<b>11,164,575</b>	<b>0</b>	<b>9.9 %</b>	<b>39,822</b>	<b>88,642</b>	<b>\$28.77</b>	<b>\$22.75</b>	<b>\$26.42</b>
Bayside	2,143,814	0	14.6 %	12,969	137,018	\$23.97	\$21.15	\$22.22
East Tampa	9,168,932	0	9.8 %	-28,714	-26,910	\$26.47	\$21.15	\$22.50
Gateway	4,241,926	0	10.6 %	-57,350	55,868	\$25.60	\$20.00	\$20.87
Manatee/Bradenton	2,259,605	0	5.9 %	8,952	45,975	N/A	\$22.04	\$21.33
North Pinellas	3,913,467	0	18.1 %	18,205	81,943	\$21.90	\$20.12	\$19.72
NW Hillsborough	5,012,323	0	8.1 %	14,477	244,447	\$23.63	\$21.87	\$21.01
Pasco County	1,063,945	0	15.0 %	3,587	5,057	\$19.00	\$14.38	\$15.48
Polk County	3,788,975	0	4.8 %	11,029	23,106	\$20.75	\$22.05	\$18.48
S Pinellas	822,607	0	8.7 %	-8,980	-16,104	N/A	\$17.09	\$13.24
S Tampa	1,038,410	0	1.8 %	-44	13,352	N/A	\$27.83	\$32.01
Sarasota	5,924,511	0	6.0 %	20,301	8,751	\$32.09	\$26.95	\$29.09
SE Hillsborough	213,904	0	2.6 %	-350	-3,492	N/A	N/A	\$19.75
Westshore	13,489,574	250,000	8.3 %	-85,424	-116,426	\$32.10	\$25.26	\$28.70
<b>Suburban Total</b>	<b>53,081,993</b>	<b>250,000</b>	<b>9.1 %</b>	<b>-91,342</b>	<b>452,585</b>	<b>\$29.03</b>	<b>\$22.07</b>	<b>\$23.81</b>
<b>Totals</b>	<b>64,246,568</b>	<b>250,000</b>	<b>9.2 %</b>	<b>-51,520</b>	<b>541,227</b>	<b>\$28.96</b>	<b>\$22.13</b>	<b>\$24.21</b>

## TAMPA / SAINT PETERSBURG LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
CACI	Kennedy Ctr-5100 W Kennedy Blvd	Westshore	Renewal	23,267
TrueCore	LakePointe I-3109 W Dr. Martin Luther King Blvd	Westshore	Sublease	15,257
DHI Mortgage	Tampa Telcom Pk-13101 Telecom Dr	East Tampa	Direct	14,720

## TAMPA/SAINT PETERSBURG LEASE/USER TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
Frontier Communications-610 N Morgan St	Tampa CBD	\$29,300,000	\$98	298,465
Sabal Pk Portfolio-9720 Princess Palm	East Tampa	\$36,040,217	\$128	281,187
Sabal Bus Ctr-3821 Coconut Palm Dr	East Tampa	\$14,525,954	\$126	115,003

## ORLANDO

The Orlando office market saw a modest quarter of growth with demand outpacing supply, as 47,681 square feet of positive absorption in third-quarter 2018 pushed the vacancy rate down 10 basis points to the record low of 6.7%. Occupancy climbed back to 92.3%, the highest of all of Florida's major markets and the highest ever recorded in the nation. Class A space ruled the market with 292,667 square feet of positive net absorption year-to-date. The Class B segment continued to struggle with 165,657 square feet of vacancy returned to the market since the beginning of the year, while Class C also lagged behind with negative net absorption totaling 54,785 square feet in the first three quarters of 2018. In spite of the tight market conditions and record low vacancies, Orlando's asking rents remained the most affordable throughout Central and South Florida, increasing \$0.61/SF from the \$21.46/SF recorded one quarter ago. The dwindling amount of available high-end space coupled with the small increases in lower-tier asking rents hindered significant impacts to the overall average rate. Class A space inched up from \$24.56/SF to \$24.98/SF, a moderate improvement, while vacancy dropped to its lowest level ever recorded to 6.6% from the previous quarter. The Class B weighted average increased from \$20.62/SF to \$21.03/SF. Four developments totaling 482,000 square feet were under construction, with 80.0% already spoken for when delivered over the next few months. This will only strengthen market position, as no major speculative projects are slated for completion over the next 12 months.

## LEASING AND DEMAND

Leasing activity dipped again during the third-quarter 2018, with 223 transactions totaling 691,000 square feet. Almost 2.4 million square feet of deals have been transacted so far in 2018, remaining level from one year ago. Class B space held the lead with 430 leases totaling over 1.2 million square feet, gaining momentum in the gap between Class A with 181 deals totaling 959,000 square feet of leasing activity so far in 2018. This is in stark contrast to the 142 deals and 212,500 square feet of Class C transactions for the year but almost level to the activity in lower-tier space seen at the same time one year ago. The business services sector held the lead in midsize-to-large lease deals with 91,000 square feet of transaction activity in 2018, a small increase from the 80,000 square feet seen at the close of second quarter. Technology companies followed with 59,000 square feet, while the real estate sector rounded out the top three with a modest 40,000 square feet of leasing activity.

## INVESTMENT SALES

Eight investment sales totaling a meager 686,000 square feet for \$125.2 million during third-quarter 2018, bringing total sales to more than 2.1 million square feet valued at \$311.9 million. This was a jump from the 840,000 square feet that had sold by this time last year. Class B office buildings also led in Orlando with 14 sales totaling just under 1.0 million square feet, while Class A trailed close behind with eight sales combining for 841,500 square feet sold so far this year. The lack of trophy properties in the Class A sector hindered price growth, with the average sales price slightly dipping to \$135/SF from \$138/SF at this time in 2017.

## CURRENT CONDITIONS

Orlando continued to boast the lowest vacancy rates for office space throughout the nation.

None of the office buildings under construction have significant amounts of space available for lease.

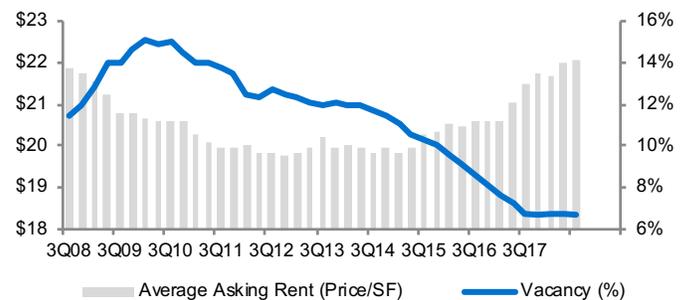
Landlord's have yet to significantly increase asking rents allowing the market to have the lowest rates in Florida's major markets.

CBD surpassed the suburban office segment as demand in Orlando's downtown corridor was stronger than the outlying submarkets.

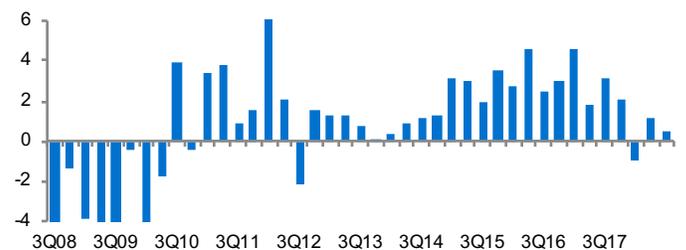
Owners have begun to unload investment properties as sales ticked upward from one year ago, but limited to mostly lower-tier buildings.

## MARKET ANALYSIS

### Asking Rent and Availability



### Net Absorption (SF, 100,000)



## MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	68.6 MSF	68.6 MSF	68.4 MSF	↑
Vacancy Rate	6.7%	6.8%	6.8%	↔
Quarterly Net Absorption	47,681	120,889	307,075	↔
Average Asking Rent	\$22.07	\$22.00	\$21.46	↑
Under Construction	482,000	482,000	338,000	↑
Deliveries	0	89,000	0	↑

## ORLANDO SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
<b>Downtown Orlando</b>	8,920,229	215,000	9.8 %	21,179	85,570	\$26.87	\$25.08	\$25.79
436 Corridor/Casselberry	2,011,964	0	11.1 %	15,974	-21,395	N/A	\$23.14	\$21.61
Altamonte Springs/Longwood	3,452,657	0	11.6 %	13,178	32,466	N/A	\$17.15	\$17.00
Brevard County	7,367,058	0	5.0 %	-38,100	612	\$25.00	\$19.63	\$19.30
Celebration/Kissimmee	2,799,777	0	2.2 %	-6,580	20,292	\$25.29	\$21.27	\$22.82
Dr. Phillips/Tourist Corridor	7,461,422	125,000	4.4 %	69,698	-238	\$27.36	\$25.50	\$26.52
Lake County/Clermont	951,823	0	4.9 %	2,455	-2,524	N/A	\$17.59	\$17.12
Lake Mary	6,906,890	115,000	6.0 %	14,434	-5,040	\$23.84	\$21.10	\$22.56
Maitland/Maitland Center	6,602,918	0	7.9 %	-20,516	33,092	\$20.06	\$19.15	\$19.53
MetroWest/Millennia	2,266,881	0	2.9 %	26,728	32,260	\$28.43	\$26.78	\$27.59
NW Orlando	448,082	0	1.4 %	0	673	\$18.25	\$25.03	\$23.50
Orlando Airport/Lake Nona	1,734,971	0	7.8 %	-4,274	-41,454	\$30.81	N/A	\$28.35
South Orlando/Central Park	3,511,257	0	11.0 %	-44,464	-17,189	\$20.40	\$17.67	\$16.86
University/University Research	6,986,048	0	5.8 %	7,101	31,821	\$25.37	\$24.89	\$25.10
West Colonial	1,910,543	0	2.2 %	-8,858	-13,680	N/A	\$26.91	\$20.00
Winter Pk/Baldwin Pk/Lee Rd	4,658,675	27,000	6.3 %	-2,356	-65,123	\$25.31	\$21.29	\$21.81
Winter Springs/Oviedo	635,484	0	2.4 %	2,082	2,082	\$33.50	\$20.48	\$29.95
<b>Suburban Total</b>	<b>59,706,450</b>	<b>267,000</b>	<b>6.2 %</b>	<b>26,502</b>	<b>-13,345</b>	<b>\$24.37</b>	<b>\$20.54</b>	<b>\$21.34</b>
<b>Totals</b>	<b>68,626,679</b>	<b>482,000</b>	<b>6.7 %</b>	<b>47,681</b>	<b>72,225</b>	<b>\$24.98</b>	<b>\$21.03</b>	<b>\$22.07</b>

## ORLANDO LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Morgan & Morgan	20 N Orange-20 N Orange Ave	Downtown Orlando	Renewal	80,000
Plansource	101 S Garland Ave	Downtown Orlando	Renewal / Expansion	40,000
Steelbridge Capital LLC	20 North Orange-20 N Orange Ave	Downtown Orlando	Direct	15,195

## ORLANDO SELECT SALE TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
Westwood Corp Ctr Portfolio	Dr. Phillips/Tourist Corridor	\$57,900,000	\$169	343,331
Siemens Westinghouse-4400 Alafaya Trl	University/University Research	\$61,500,000	\$239	257,000
Rialto Place Office Tower-100 Rialto Pl	Brevard County	\$13,100,000	\$87	150,962

## CENTRAL FLORIDA OFFICE SUBMARKETS

### TAMPA

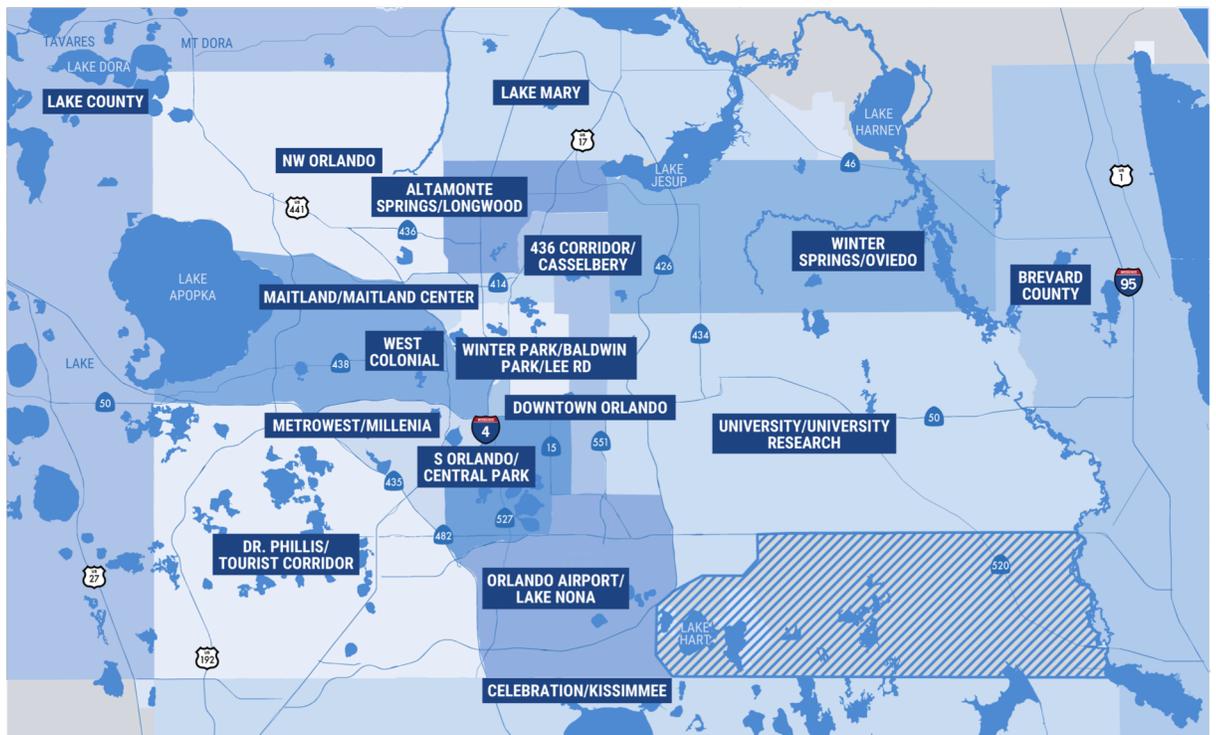
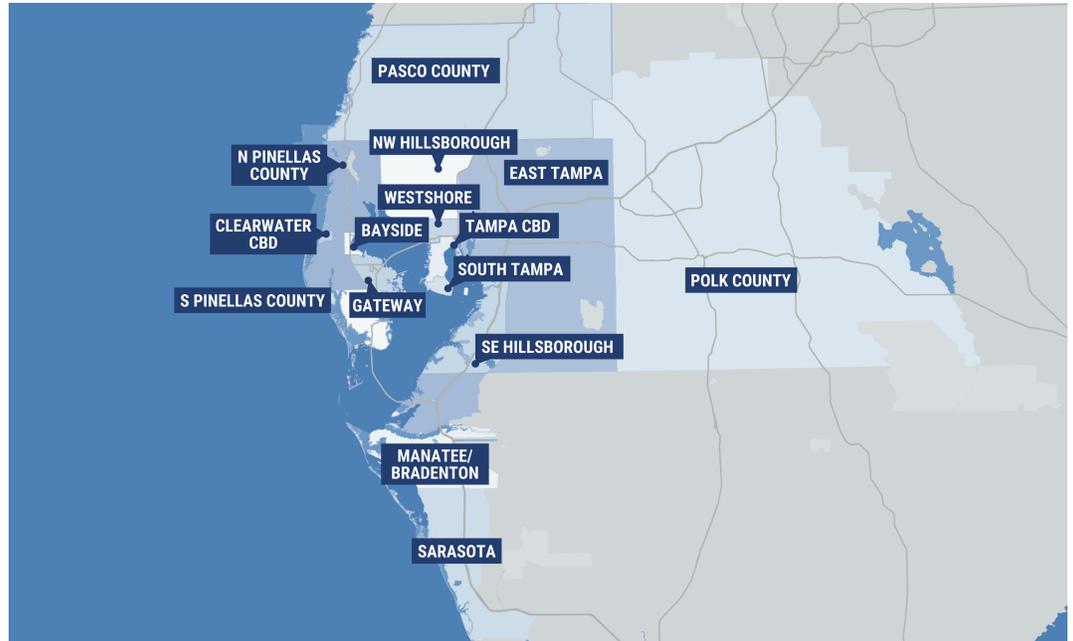
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