

# CENTRAL FLORIDA OFFICE MARKET

## MARKET FUNDAMENTALS HELD BUT WAITING FOR COVID-19 IMPACTS

Central Florida's office market saw a balance between demand and supply as growth cooled during the second quarter of 2020. There was over 28,000 square feet of net absorption recorded, bringing year-to-date totals for the region to over 262,700 square feet. Significant impacts from the pandemic have yet to be seen, as companies are in a holding pattern. Limited development continued to aid tight market fundamentals with three building completions, totaling 302,000 square feet and adding limited available space due to strong pre-leasing. Higher-tier space commanded growth as Class A properties led the market with 559,000 square feet of positive absorption in the first half of the year. Lower-tier properties struggled as Class B space returned 177,000 square feet and the Class C segment had over 119,000 square feet returned to the market. Despite slowing market conditions and economic uncertainty, landlords have yet to ease on asking rents, as the overall average increased slightly from the previous quarter, to settle at \$24.65/SF. The Class A and Class B sectors each had slight increases in the average rate.

### LEASING AND DEMAND

Leasing fell by almost half from the previous quarter as 894,000 square feet of deals were recorded in second-quarter 2020, bringing year-to-date transactions to more than 2.5 million square feet at the midyear point. This was down by 1.0 million square feet from the 3.5 million square feet leased at this time one year ago. Class A space held on to the lead with over 1.4 million square feet, while Class B trailed closely behind, accounting for 944,700 square feet. Lower-tier Class C space continued to lag, with 156,000 square feet of leasing activity reported during the first half of the year. The hospitality industry held the number-one spot with 225,000 square feet of transaction activity, which can be attributed to one lease deal in the Tampa market. Insurance-related companies moved into the number-two spot, with more than 208,500 square feet, while the retail sector rounded out the top three with 188,000 square feet of deals completed at the midyear point.

### INVESTMENT SALES

Investment sales stalled with only one building, totaling 64,000 square feet, trading hands during second-quarter 2020, bringing year-to-date sales to 19 for 1.3 million square feet, with a value in excess of \$215.5 million. This was a stark contrast to the 2.6 million square feet that sold for \$693.9 million during the same period one year ago. The economic outfall from COVID-19 hindered sale transactions and will likely continue through the remainder of 2020 as investors await to see what transpires as the office market resets from the downturn.

## CURRENT CONDITIONS

Central Florida's office market saw tight market conditions hold through the first half of 2020, as modest quarterly performances helped keep vacancy level.

Average asking rates held level as current economic impacts from Covid-19 deterred landlords from raising rents at previous levels.

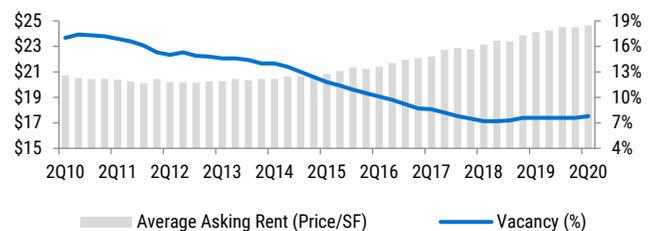
The office sector saw a more balanced approach between supply and demand as modest positive absorption was recorded.

Construction activity remained disciplined with 1.3 million square feet remaining underway.

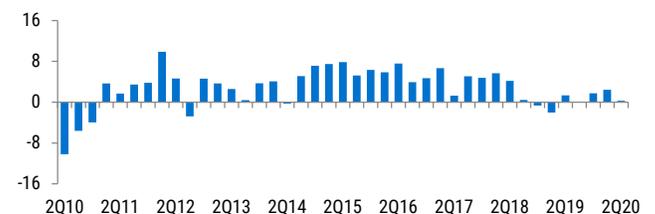
Impacts from the recent economic downturn as a result from the global pandemic should begin to surface in 2021.

## MARKET ANALYSIS

### Asking Rent and Availability



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



## MARKET SUMMARY

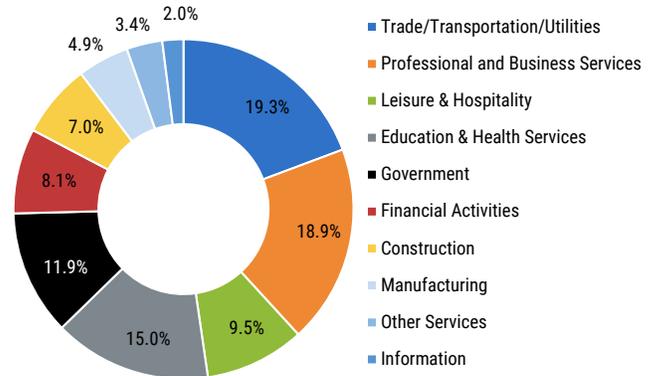
	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	126.1 MSF	125.6 MSF	125.1 MSF	↑
Vacancy Rate	7.8%	7.6%	7.6%	↑
Quarterly Net Absorption	28,203	242,079	135,384	↔
Average Asking Rent	\$24.65	\$24.51	\$24.11	↔
Under Construction	1.3 MSF	1.6 MSF	1.2 MSF	↔
Deliveries	192,536	248,000	125,000	↔

## ECONOMIC CONDITIONS

Central Florida's unemployment climbed to 14.7%, with 314,800 jobs lost as a result from the Covid-19 pandemic outbreak shutting down operations throughout the region in late March through then end of May. This is the highest recorded unemployment rate the region has posted dating back to 1990 and 300 basis points above the 11.7% peak rate recorded from the financial crisis in 2010. The Orlando area reported the largest spike in unemployment, climbing to 16.2% from 2.8% from one year ago. Tampa's rate followed suit, increasing to 13.1% from 4.3% recorded at the close of second-quarter 2019. Central Florida's strong ties to tourism and theme park visits during the spring devastated the leisure and hospitality industry with over 215,000 jobs lost from one year ago. Orlando's tourism industry made up the majority with over 163,000 of these job losses. The professional and business services segment trailed with the second highest number, totaling over 33,000 losses from one year ago. Since May numbers for the region hadn't been posted yet, it is likely that come third-quarter, these numbers should begin to improve as the region slowly opens back up.

## EMPLOYMENT BY INDUSTRY

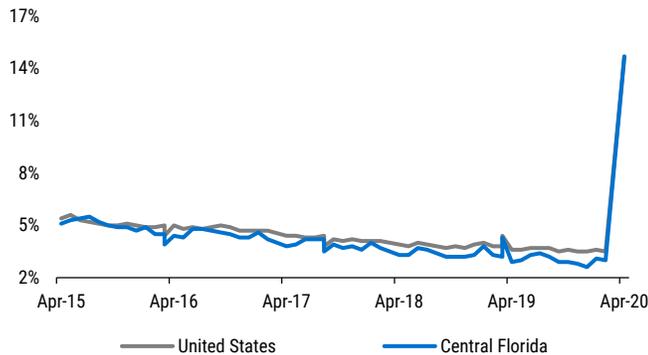
Central Florida MSA, May 2020 Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## UNEMPLOYMENT RATE

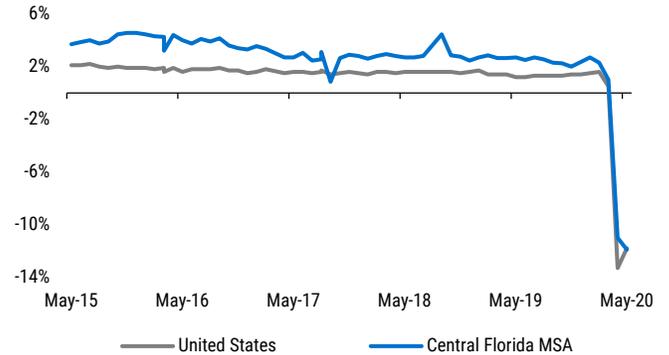
Central Florida Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## PAYROLL EMPLOYMENT

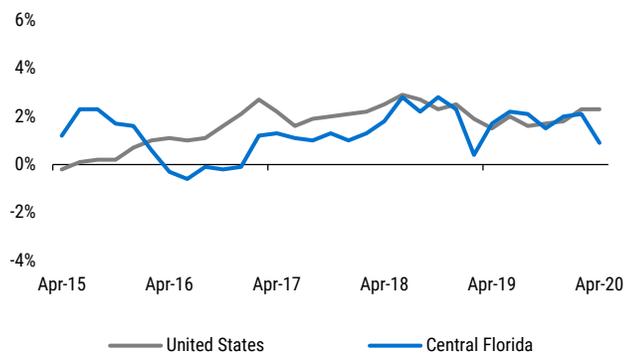
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## CONSUMER PRICE INDEX (CPI)

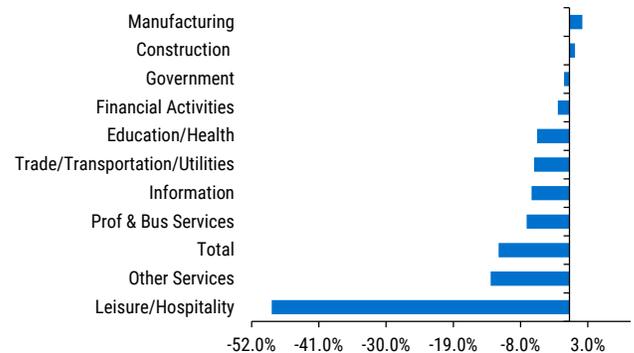
All Items, 12-Month % Change, Not Seasonally Adjusted,



Source: U.S. Bureau of Labor Statistics

## EMPLOYMENT GROWTH BY INDUSTRY

Central Florida, May 2020, MSA, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## TAMPA / SAINT PETERSBURG OFFICE MARKET

Tampa Bay's market saw improvement from the previous quarter, at 116,686 square feet of positive absorption, bringing the year-to-date total to over 129,400 square feet of absorbed space. The completion of Wellcare's 115,000-square-foot pre-leased office building was the dominating factor for growth. The completion of The Edison Suncoast I, a 77,536-square-foot fully-available office building in the Pasco County submarket, contributed to the market's 10-basis-point increase to 9.1% in overall vacancy. The Class A segment lead the market in demand during the first half of 2020, recording over 283,700 square feet of positive absorption. The Class B sector saw a correction with 97,555 square feet of negative net absorption, and lower-tier Class C sector saw 56,700 square feet of supply returned to the market. The average asking rate ticked upward from the previous quarter as landlords kept asking rents level, despite the sudden economic slowdown from COVID-19. Seven buildings, totaling over 1.2 million square feet, remained under construction with over 29.0% of this space already leased, which should limit significant impacts to the market. The Westshore submarket accounts for more than 66.0% of all construction activity in the market.

### LEASING AND DEMAND

Leasing activity fell sharply from 1.2 million square feet of deals signed first-quarter 2019, as 100 transactions, totaling more than over 400,000 square feet, were reported during second-quarter 2020, producing just under 1.4 million square feet leased in the first half of 2020. This was down from the 1.8 million square feet leased at this time one year ago. Class A space led the pack for the second quarter in a row, with 132 deals totaling more than 862,000 square feet, while Class B trailed with over 494,000 square feet so far this year. By contrast, Class C lagged, combining with 75,100 square feet of activity at the midyear point. Tampa's Gateway submarket led throughout Central Florida, accounting for 161,000 square feet of midsize to large lease deals seen in the market. Westshore followed closely, with over 143,000 square feet of signed leases. The retail sector moved into the top spot, with 168,400 square feet of midsize to large lease deals, while real estate companies held at number two with 138,000 square feet at the midyear point. The medical industry took third place, with 105,100 square feet of leasing.

### INVESTMENT SALES

Tampa's office market accounted for the only sale transaction that occurred in Central Florida during second-quarter 2020, bringing midyear sales to 780,581 square feet valued at \$126.2 million. A strong first quarter in sales allowed this to be slightly less than the 894,000 square feet that sold one year ago and just less than the \$146.8 million total at midyear 2019. The average price per square foot dipped to \$162/SF from the \$164/SF one year ago. Sale activity will likely remain limited through the second half as investors take a wait-and-see approach.

### CURRENT CONDITIONS

Market fundamentals held steady with a single-tenant occupation of a new office building helping demand outpace growth during the second quarter.

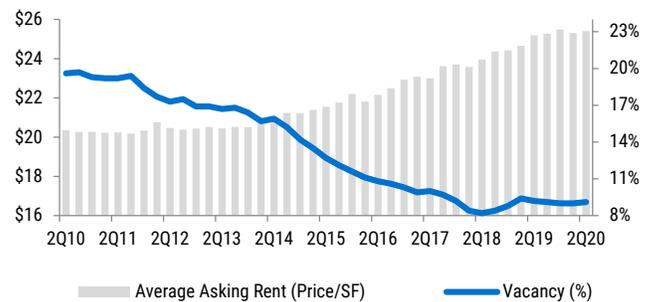
One speculative construction completion contributed to the uptick in overall vacancy for Tampa's office market.

The overall average asking rate held level as owners have yet to reduce quoted rents despite the affects from the economic slowdown due to the Covid-19 pandemic.

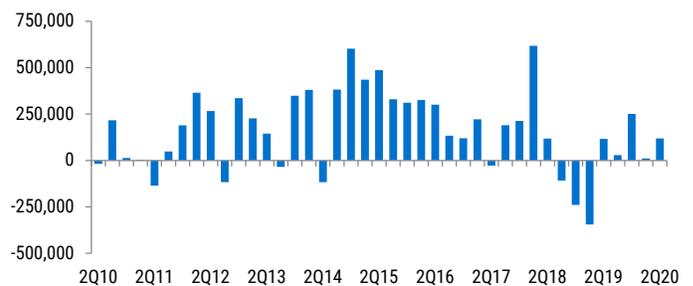
The economic slowdown has already begun to impact leasing and sale activity as the market saw a significant drop in deals being signed during the second-quarter of 2020.

### 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	61.1 MSF	60.9 MSF	60.7 MSF	↑
Vacancy Rate	9.1%	9.0%	9.2%	↑
Quarterly Net Absorption	118,686	10,781	115,995	↓
Average Asking Rent	\$25.41	\$25.31	\$25.19	↔
Under Construction	1,199,993	1,392,529	825,529	↔
Deliveries	192,536	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	1,048,562	0	3.9 %	-2,653	697	\$18.74	\$20.97	\$19.93
St. Petersburg CBD	2,499,492	0	5.4 %	-11,090	-15,837	\$31.17	\$23.77	\$28.69
Tampa CBD	6,882,419	405,000	6.8 %	-42,939	-44,671	\$33.38	\$28.07	\$31.37
<b>CBD Total</b>	<b>10,430,473</b>	<b>405,000</b>	<b>6.2 %</b>	<b>-56,682</b>	<b>-59,811</b>	<b>\$32.25</b>	<b>\$26.05</b>	<b>\$30.02</b>
Bayside	2,027,544	0	15.0 %	-27,448	-23,453	\$24.24	\$21.47	\$22.70
East Tampa	8,628,187	0	14.8 %	6,913	505	\$28.63	\$22.39	\$24.61
Gateway	4,180,743	0	9.8 %	11,305	-14,938	\$26.57	\$21.21	\$23.34
Manatee/Bradenton	2,182,325	0	4.0 %	-2,958	-7,856	N / A	\$20.77	\$18.74
North Pinellas	3,586,811	0	12.0 %	7,609	4,583	\$21.72	\$18.54	\$18.44
NW Hillsborough	4,507,171	0	9.2 %	113,760	81,517	\$26.30	\$23.22	\$23.05
Pasco County	1,100,939	0	20.2 %	0	-3,696	\$28.66	\$14.26	\$19.40
Polk County	3,395,797	0	2.4 %	-202	39,220	\$17.75	\$20.95	\$18.78
S Pinellas	708,016	0	9.7 %	-18,666	-17,706	N / A	\$18.03	\$13.21
S Tampa	1,018,035	0	2.3 %	6,898	-11,737	N / A	\$30.09	\$29.85
Sarasota	5,592,480	27,000	5.3 %	7,102	4,939	\$31.45	\$26.95	\$25.64
SE Hillsborough	193,462	0	18.1 %	-31,558	-31,558	N / A	N / A	\$26.00
Westshore	13,558,350	767,993	9.4 %	102,613	169,458	\$35.04	\$27.02	\$30.22
<b>Suburban Total</b>	<b>50,679,860</b>	<b>794,993</b>	<b>9.7 %</b>	<b>175,368</b>	<b>189,278</b>	<b>\$29.98</b>	<b>\$23.01</b>	<b>\$24.72</b>
<b>Totals</b>	<b>61,110,333</b>	<b>1,199,993</b>	<b>9.1 %</b>	<b>118,686</b>	<b>129,467</b>	<b>\$30.53</b>	<b>\$23.17</b>	<b>\$25.41</b>

## TAMPA / SAINT PETERSBURG LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Industrious	One Progress Plz-200 Central Ave	St. Petersburg CBD	Direct	36,820
Ensurum	Spectrum Tech Ctr-8560 Ulmerton Rd	North Pinellas	Sublet	28,151
PureAir Control Services	Turtle Creek-4911 Creekside Dr	Bayside	Direct	19,507

## TAMPA/SAINT PETERSBURG LEASE/USER TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
Hidden River Corp Pk-14014 E Fieldside Pl	East Tampa	\$16,000,000	\$250	64,000

\* No other investment sales took place of office buildings over 20,000 square feet.

## ORLANDO

The Orlando market saw its third quarter of correction over the past year as supply outpaced demand, with 90,400 square feet of negative net absorption recorded during second-quarter 2020. The improved first-quarter 2020 performance helped keep absorption positive, with over 133,300 square feet of absorbed space through the first half of the year. The vacancy rate ticked down 30 basis points to 6.5% from the previous quarter, as Orlando continued to boast the lowest office vacancy of all major markets in the nation. The completion of The Edison At Primera 2, a 109,600-square-foot Class A building in the Lake Mary submarket, was fully available at the time of completion and contributed to the rise in vacancy. Class A space dominated the market, with 275,400 square feet of absorbed space so far in 2020. Lower-tier office segments saw modest corrections, with the Class B sector recording over 79,600 square feet of negative absorption and Class C inventory saw 62,500 square feet of supply returned to the market. Orlando's average asking rate ticked upward to \$23.73/SF but remained the most affordable throughout Central and South Florida. Year-over-year, Class A space saw the most significant gain from \$25.69/SF to \$27.13/SF. The Class B weighted average followed suit, increasing from \$21.26/SF to \$21.73/SF. Construction activity remained disciplined, with only two buildings under construction totaling over 141,000 square feet.

### LEASING AND DEMAND

Leasing activity ticked downward from recent quarterly performances, with 134 lease deals, totaling 493,846 square feet during second-quarter 2019. This was slightly down from the previous quarter but was a sharp drop from the 927,000 square feet leased during first-quarter 2019. Overall activity totaled over 1.1 million square feet at the midyear point, down by 400,000 square feet from the 1.5 million square feet leased one year ago. Class A led the market with 586,100 square feet, while Class B inventory recorded 450,600 square feet. The Class C office segment accounted for the fewest lease deals with over 80,600 square feet leased. The tourist submarket led Orlando's office market in leasing with Marriott Vacations Worldwide's 225,00-square-foot lease deal. This was also the sole reason the hospitality industry led for midsize to large lease deals. Insurance companies jumped into the second with 124,000 square feet, while the medical sector took third place with 29,400 square feet of leasing activity. Orlando continued to struggle with midsize to larger lease deals in the first half of 2020.

### INVESTMENT SALES

Orlando's investment market came to a complete standstill during second-quarter 2020, with no investment sales recorded over 20,000 square feet—the only major market in Florida for this to occur. The five sales that took place during first-quarter 2020 brought investment activity at the midyear point to 522,000 square feet, with a value of \$89.3 million. This was down significantly from the 1.6 million square feet sold this time last year. Sales activity should remain scarce for the remainder of 2020.

### CURRENT CONDITIONS

Orlando's office sector saw overall vacancy increase slightly as the market saw supply outpace demand during second-quarter.

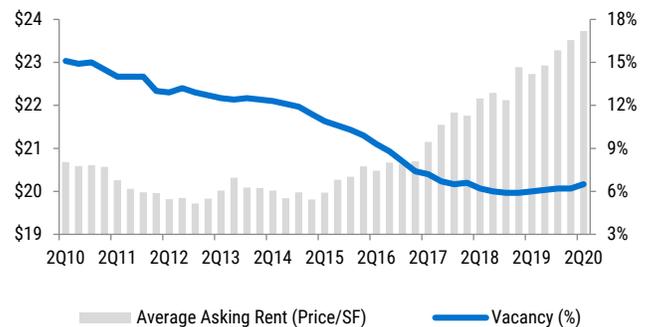
Despite signals of a looming economic slowdown from the Covid-19 pandemic, the market saw fundamentals hold with continued tight market conditions.

Orlando's average asking rate continued to tick upward as more Class A available space impacts the overall average.

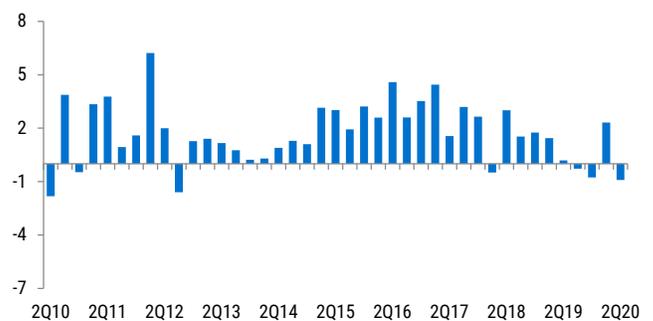
Orlando's Central Business District continued to outperform all other submarkets.

### 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	64.9 MSF	64.8 MSF	64.5 MSF	↑
Vacancy Rate	6.5%	6.2%	6.0%	↑
Quarterly Net Absorption	(90,483)	231,298	19,389	↔
Average Asking Rent	\$23.73	\$23.53	\$22.73	↔
Under Construction	141,267	229,867	357,600	↓
Deliveries	109,600	248,000	125,000	↓

## 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>	<b>8,357,636</b>	<b>0</b>	<b>11.5 %</b>	<b>27,667</b>	<b>158,498</b>	<b>\$29.16</b>	<b>\$26.68</b>	<b>\$28.06</b>
436 Corridor/Casselberry	1,895,830	0	10.2 %	3,359	-7,898	N / A	\$22.39	\$21.38
Altamonte Springs/Longwood	3,319,355	0	11.9 %	-6,028	-38,692	\$22.00	\$18.48	\$19.15
Brevard County	6,447,667	0	4.2 %	-23,997	-12,306	\$23.57	\$20.23	\$19.16
Celebration/Kissimmee	2,636,198	0	2.1 %	8,557	1,106	\$27.50	\$23.98	\$24.26
Dr. Phillips/Tourist Corridor	7,247,378	0	2.9 %	-54,574	-34,998	\$29.13	\$25.96	\$26.83
Lake County/Clermont	788,272	0	6.5 %	-9,900	-14,190	\$31.00	\$21.72	\$21.71
Lake Mary	6,999,577	0	7.5 %	-31,338	68,064	\$26.49	\$18.78	\$23.82
Maitland/Maitland Center	6,450,540	0	8.7 %	21,276	3,918	\$23.73	\$22.09	\$22.72
MetroWest/Millennia	2,242,831	0	3.0 %	2,345	2,030	\$27.53	\$26.43	\$27.34
NW Orlando	382,544	0	5.6 %	2,435	-15,000	\$18.25	\$24.00	\$22.43
Orlando Airport/Lake Nona	1,729,911	120,267	6.9 %	5,619	37,448	\$33.08	N / A	\$30.69
South Orlando/Central Park	3,306,424	0	7.4 %	23,677	26,326	\$22.16	\$18.73	\$17.99
University/ University Research	6,532,365	21,000	5.1 %	-62,197	-52,647	\$26.34	\$22.92	\$25.30
West Colonial	1,539,012	0	1.5 %	-66	-2,597	N / A	\$24.69	\$21.56
Winter Pk/Baldwin Pk/Lee Rd	4,456,471	0	4.0 %	7,510	19,230	\$29.00	\$22.08	\$22.78
Winter Springs/Oviedo	568,192	0	5.0 %	-4,828	-4,983	\$33.50	\$22.38	\$26.17
<b>Suburban Total</b>	<b>56,542,567</b>	<b>141,267</b>	<b>5.8 %</b>	<b>-118,150</b>	<b>-25,189</b>	<b>\$26.29</b>	<b>\$21.00</b>	<b>\$22.64</b>
<b>Totals</b>	<b>64,900,203</b>	<b>141,267</b>	<b>6.5 %</b>	<b>-90,483</b>	<b>133,309</b>	<b>\$27.13</b>	<b>\$21.73</b>	<b>\$23.73</b>

## ORLANDO LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Halcyon Underwriters	555 Winderley-555 Winderley Pl	Maitland/Maitland Center	Direct	11,388
Sunshine State Law Firm	Winter Park Bus Ctr-601 S Orlando Ave	Winter Pk/Baldwin Pk/Lee Rd	Direct	7,500
401K Generation	Premier Point S-237 S Westmonte Dr	Altamonte Springs/Longwood	Direct	5,117

## ORLANDO SELECT SALE TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
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\* No investment sales took place of office buildings over 20,000 square feet.

## CENTRAL FLORIDA OFFICE SUBMARKETS

### TAMPA

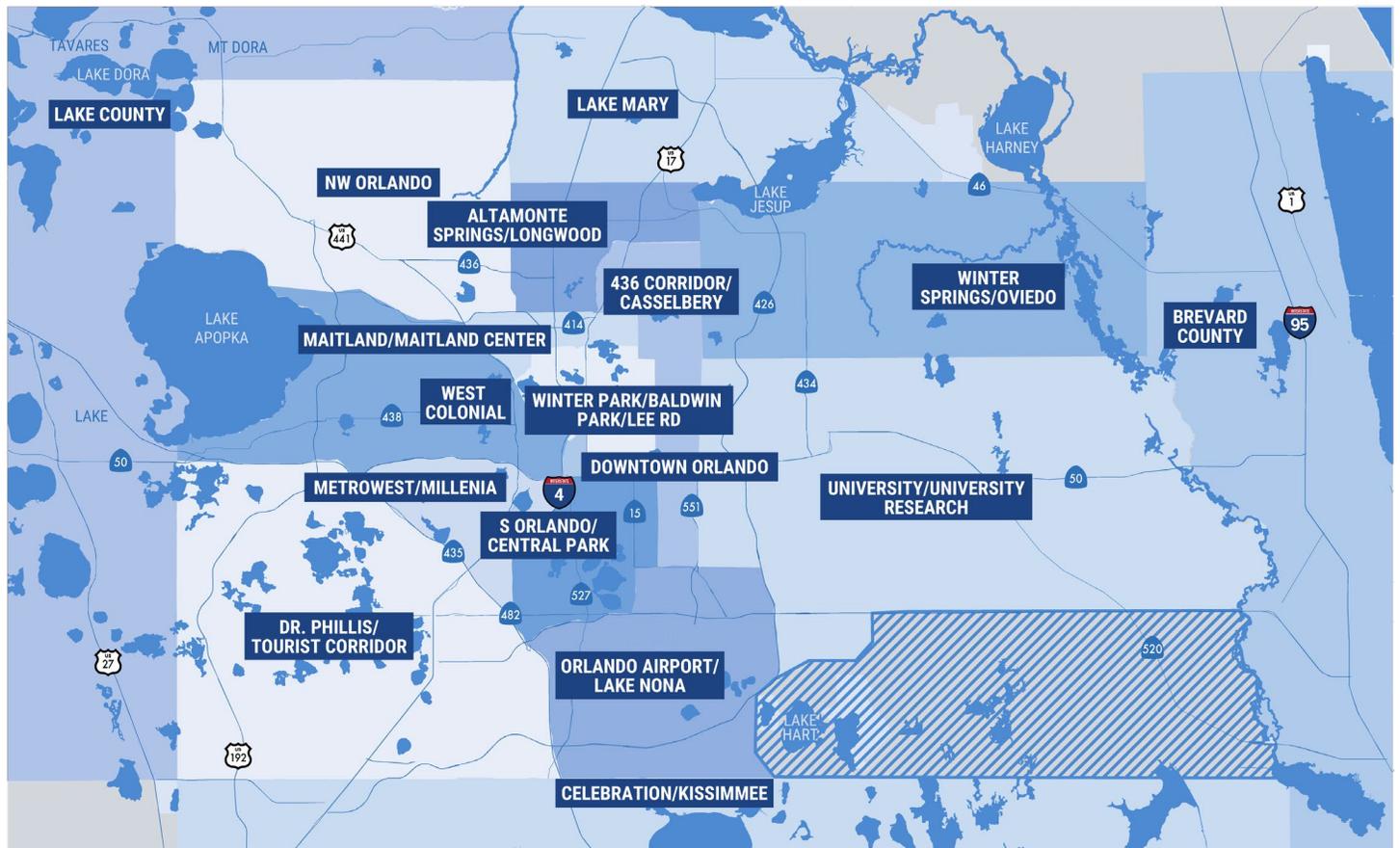
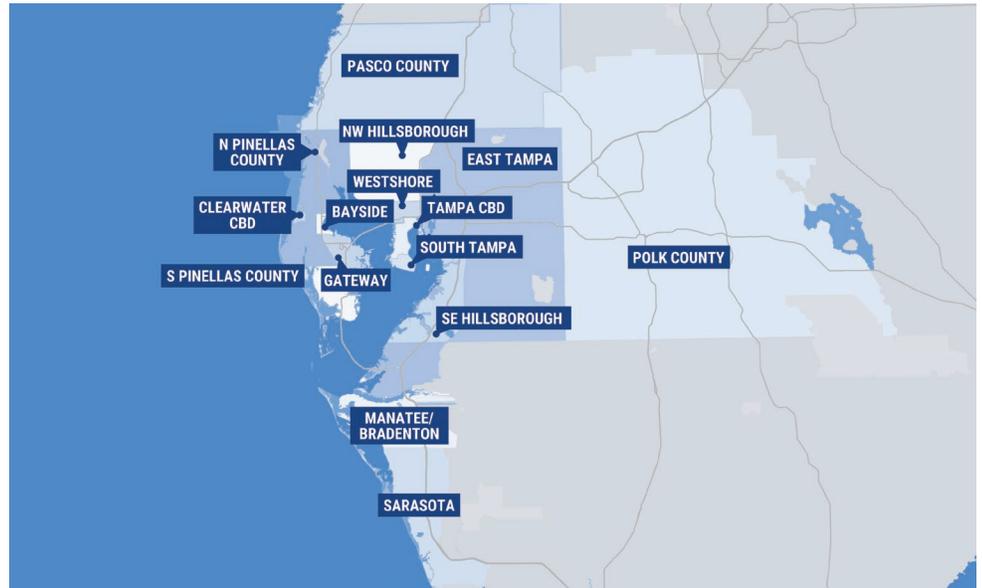
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