

CENTRAL FLORIDA OFFICE MARKET REPORT

4Q 2017

4Q 2017 OFFICE MARKET

OPTIMISM

As we start 2018 and look to the year and gaging what lies ahead of us, I think that it is important to take a peek back at what was an exciting year in 2017. To try and understand where we're going.... we need to know where we've been (I heard that in a movie somewhere).

The office market within Central Florida experienced some significant growth and is showing some very healthy vital signs. Overall vacancy is roughly 6.9% as of the end of 2017 and the 4th quarter showed positive absorption of over 387,000 square feet. Both of those statistics are very, very strong for Orlando. Consider that at the end of 2015, Orlando's vacancy rate was nearly 13%. We have seen a remarkable march towards the optimism that our sector of the commercial real estate spectrum is showing today.

Virtually all of the major submarkets in Orlando saw positive growth in 2017, and the anticipation is for this to continue through 2018. The first quarter of 2018 certainly has continued to show that we are in a vibrant office market.

Other positive figures for our region....Orlando International Airport had a record-breaking year with 44.6 million visitors passing through our airport. We now can boast the busiest airport in the state of Florida, and we are now in the top 15 nationwide. OIA is in the beginning stages of a \$3.5 billion expansion, as we don't anticipate a slowdown in people wanting to come to Orlando. One surprising fact, though, is that the domestic traveler to Orlando was up 6.52%. Experts are touting that this is a bonus to Orlando and shows the healthy business climate that we're seeing here in Orlando as a major contributing factor to this increase in domestic folks visiting us here in Orlando (that and the fact that we were in the 70's during our holiday season!).

Will the office market continue to feel optimistic throughout 2018? Will Landlords continue to feel confident in their product? Will tenants feel the optimism and continue to grow? Will the different types of office users, and those users adjusting to the trends that have worked their way to Orlando, be a strain on landlords and their tenant improvement budgets? Will the busy construction industry, and subsequent rising costs of the construction budgets for office owners and tenants create a strangle-hold on growth? Time will tell!!

4Q 2017 Office Market Statistics

58,913,967

TOTAL SF

7.6%

VACANCY

318,555

SF ABSORPTION

1,083,000

SF UNDER
CONSTRUCTION

\$21.53

AVG. ASKING
BASE RENT/SF

0

SF DELIVERED

\$877,103,487

BUILDING SALES
VOLUME

\$147.52

AVG. SALE PRICE/SF

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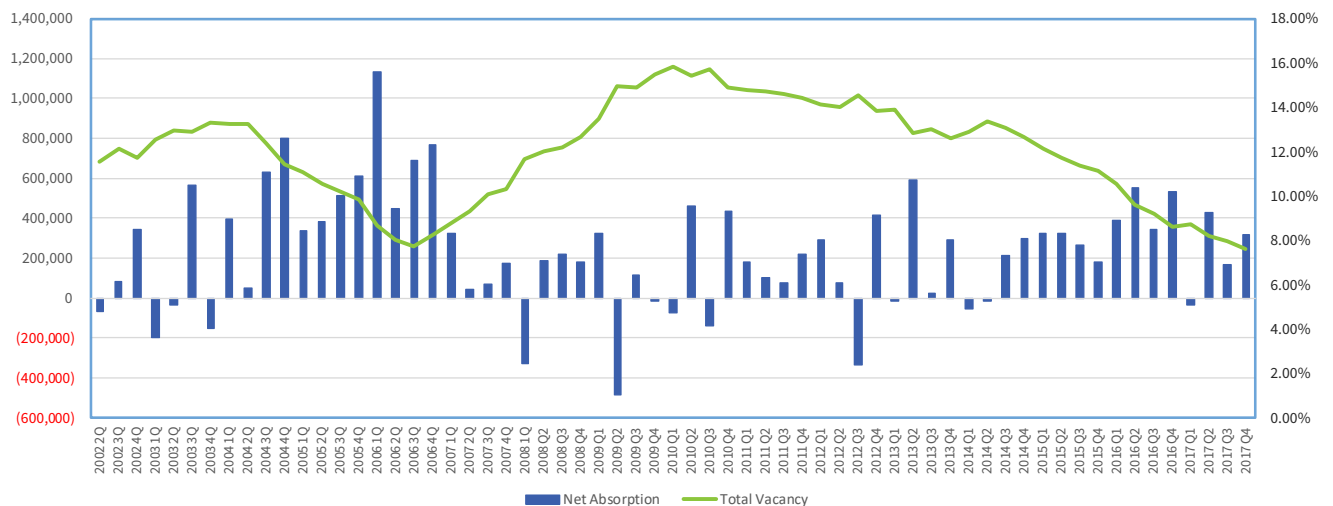
4Q 2017 Central Florida Office Market Stats

| | # of Bldgs | Total SF | Total Vacancy | Avg Asking Base Rent | Net Absorption | YTD Absorption | # U/C | Under Construction | # Delivered | Delivered |
|---------|------------|------------|---------------|----------------------|----------------|----------------|-------|--------------------|-------------|-----------|
| 2017 Q4 | 1,154 | 58,913,967 | 7.6% | \$19.22 | 318,555 | 881,556 | 11 | 1,083,000 | 0 | 0 |
| 2017 Q3 | 1,153 | 58,779,967 | 8.0% | \$18.73 | 167,159 | 1,095,277 | 7 | 520,500 | 0 | 0 |
| 2017 Q2 | 1,151 | 58,734,967 | 8.2% | \$19.02 | 430,004 | 1,275,579 | 6 | 357,500 | 0 | 0 |
| 2017 Q1 | 1,147 | 58,615,747 | 8.7% | \$18.49 | (34,162) | 1,397,606 | 9 | 386,720 | 0 | 0 |
| 2016 Q4 | 1,146 | 58,570,947 | 8.6% | \$18.40 | 532,276 | 1,820,285 | 7 | 313,020 | 0 | 0 |
| 2016 Q3 | 1,144 | 58,373,947 | 9.2% | \$18.50 | 347,461 | 1,468,007 | 8 | 495,020 | 0 | 0 |
| 2016 Q2 | 1,141 | 58,252,947 | 9.6% | \$18.10 | 552,031 | 1,389,401 | 10 | 582,020 | 0 | 0 |
| 2016 Q1 | 1,141 | 58,252,947 | 10.6% | \$18.18 | 388,517 | 1,162,364 | 7 | 512,000 | 0 | 0 |
| 2015 Q4 | 1,138 | 58,182,947 | 11.1% | \$17.86 | 179,998 | 1,099,906 | 6 | 399,000 | 0 | 0 |
| 2015 Q3 | 1,137 | 58,161,525 | 11.4% | \$17.61 | 268,855 | 1,221,126 | 5 | 255,422 | 0 | 0 |
| 2015 Q2 | 1,136 | 58,076,525 | 11.7% | \$17.56 | 324,994 | 1,163,022 | 5 | 206,422 | 0 | 0 |
| 2015 Q1 | 1,134 | 57,967,281 | 12.1% | \$17.56 | 326,059 | 823,276 | 3 | 194,244 | 0 | 0 |
| 2014 Q4 | 1,132 | 57,941,881 | 12.6% | \$17.56 | 301,218 | 445,311 | 5 | 219,644 | 0 | 0 |
| 2014 Q3 | 1,131 | 57,866,368 | 13.0% | \$17.50 | 210,751 | 436,250 | 5 | 282,557 | 0 | 0 |

4Q 2017 Central Florida Office Submarket Breakdown

| | # of Bldgs | Total SF | Total Vacancy | Rental Rate | Net Absorption | YTD Absorption | # U/C | Under Construction | # Delivered | Delivered |
|-----------------------|------------|------------|---------------|-------------|----------------|----------------|-------|--------------------|-------------|-----------|
| Downtown | 121 | 9,353,653 | 10.6% | \$25.53 | 24,844 | 49,234 | 1 | 484,500 | 0 | 0 |
| Maitland Ctr | 107 | 7,229,025 | 9.6% | \$19.26 | 86,925 | (13,672) | 1 | 16,500 | 0 | 0 |
| SE Orlando | 196 | 8,762,416 | 6.6% | \$19.14 | 63,107 | 161,710 | 1 | 38,000 | 0 | 0 |
| SW Orlando | 180 | 10,249,703 | 6.1% | \$23.48 | 62,518 | 66,948 | 4 | 270,000 | 1 | 134,000 |
| University / East | 84 | 5,667,547 | 6.5% | \$22.33 | 43,979 | 39,836 | 2 | 69,000 | 0 | 0 |
| NW Orlando | 94 | 3,597,676 | 8.5% | \$19.01 | (32,202) | (44,364) | 0 | 0 | 0 | 0 |
| Winter Park | 140 | 4,027,985 | 2.5% | \$23.75 | (10,453) | 16,969 | 0 | 0 | 0 | 0 |
| Lake Mary / Heathrow | 124 | 7,608,853 | 8.0% | \$20.64 | 87,579 | 194,423 | 1 | 115,000 | 0 | 0 |
| Lee Road | 30 | 903,515 | 10.7% | \$17.36 | (9,003) | (9,003) | 1 | 90,000 | 0 | 0 |
| Kissimmee / St. Cloud | 78 | 1,513,594 | 7.3% | \$22.64 | 10,737 | 18,762 | 0 | 0 | 0 | 0 |

Absorption vs. Vacancy
Previous 15 Years



4Q 2017 Office Notable Lease Transactions

| Property Address | City | Submarket | Tenant | Landlord | Lease Size |
|-------------------------|-----------|----------------------|----------------------------|------------------------------------|------------|
| 2290 Premier Row | Orlando | Orlando Central Park | Xerox | DXRX Orlando, LLC | 106,440 |
| 1001 Heathrow Park Lane | Lake Mary | Lake Mary | N/A | Shartwood Capital Group | 49,426 |
| 207 W Gore Street* | Orlando | Downtown | Orlando Health | Clarington Commons, LLC | 14,572 |
| 200 E Robinson St | Orlando | Downtown | N/A | Highwoods Properties | 12,920 |
| 450 S Orange Ave | Orlando | Downtown | Carlton Fields Jordan Burt | Piedmont Office Realty Trust, Inc. | 12,551 |

4Q 2017 Office Notable Sale Transactions

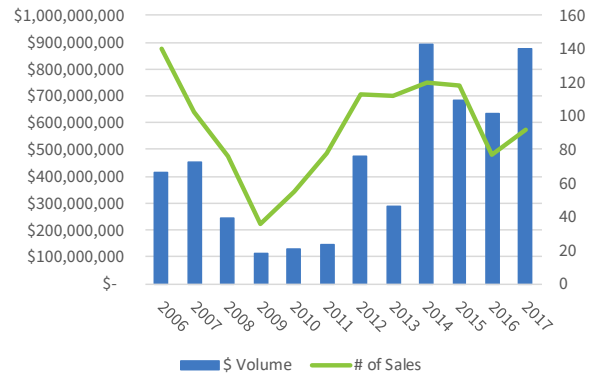
| Property Address | City | Submarket | Buyer | Seller | Sale Price | Sale Date | Bldg Size | Price Per SF |
|--|----------|----------------------|---------------------------------|--------------------------------------|---------------|------------|-----------|--------------|
| Southwest Value Partners Portfolio (3 bldgs) | Orlando | Downtown | Southwest Value Partners | Cousins Properties | \$208,100,000 | 12/21/2017 | 1,037,603 | \$200.56 |
| Brookwood Financial Partners Portfolio | Orlando | Orlando Central Park | N/A | Brookwood Financial Partners LLC | \$16,700,000 | 10/2/2017 | 192,767 | \$86.63 |
| 495 N Keller Rd | Maitland | Maitland Center | Keppel-KBS US REIT | KBS Strategic Opportunity REIT, Inc. | \$40,225,000 | 11/8/2017 | 230,366 | \$174.61 |
| 12000 Research Pkwy | Orlando | University Research | Internal Improvement Trust Fund | Banyan Street Capital | \$19,100,000 | 10/31/2017 | 123,658 | \$154.46 |
| 1417 E Concord St* | Orlando | Downtown | GMH Property Holdings, Inc. | 1417 East Conrod, LLC | \$2,815,000 | 7/3/2017 | 19,028 | \$147.94 |

*Cite Partners Transactions

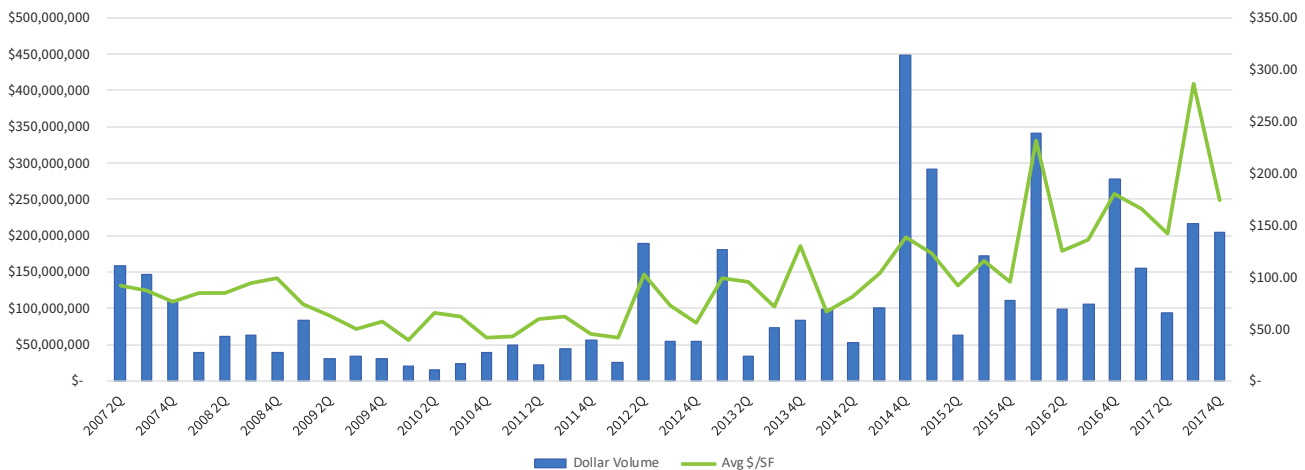
4Q 2017 Office Building Sale Stats

| | # of Sales | YTD # of Sales | \$ Volume | YTD Volume | Square Feet | Avg \$ / SF |
|---------|------------|----------------|---------------|---------------|-------------|-------------|
| 2017 4Q | 42 | 92 | \$363,337,467 | \$877,103,487 | 2,462,962 | \$147.52 |
| 2017 3Q | 22 | 50 | \$203,765,520 | \$513,766,020 | 1,169,919 | \$174.17 |
| 2017 2Q | 8 | 28 | \$216,439,000 | \$310,000,500 | 755,448 | \$286.50 |
| 2017 1Q | 20 | 20 | \$93,561,500 | \$93,561,500 | 659,482 | \$141.87 |
| 2016 4Q | 12 | 77 | \$155,137,000 | \$636,998,900 | 934,926 | \$165.94 |
| 2016 3Q | 14 | 65 | \$278,094,700 | \$481,861,900 | 1,546,786 | \$179.79 |
| 2016 2Q | 29 | 51 | \$105,423,900 | \$203,767,200 | 775,135 | \$136.01 |
| 2016 1Q | 22 | 22 | \$98,343,300 | \$98,343,300 | 784,720 | \$125.32 |
| 2015 4Q | 17 | 118 | \$340,209,000 | \$684,931,400 | 1,469,282 | \$231.55 |
| 2015 3Q | 38 | 101 | \$111,131,900 | \$344,722,400 | 1,165,295 | \$95.37 |
| 2015 2Q | 38 | 63 | \$171,509,500 | \$233,590,500 | 1,484,502 | \$115.53 |
| 2015 1Q | 25 | 25 | \$62,081,000 | \$62,081,000 | 678,312 | \$91.52 |
| 2014 4Q | 36 | 120 | \$292,192,200 | \$894,560,441 | 2,383,192 | \$122.61 |
| 2014 3Q | 37 | 84 | \$448,852,071 | \$602,368,241 | 3,237,565 | \$138.64 |

BUILDING SALES \$ Volume vs. # of Sales



Building Sales Dollar Volume vs. Avg Price / SF Previous 10 Years



QUARTERLY TRENDS



Co-Working Growth

Shared spaces and the companies that provide this type of space is nothing new to Downtown Orlando, but the number of co-working spaces opening or being announced continued in 4Q 2017. Pipeline Workspaces announced a 12,000 SF space at the 20 N. Orange building and E|Spaces will lease an entire floor of the planned Church Street Plaza. With multiple other co-working operators seeking space in the core of Orlando currently, this trend is expected to continue to meet the growing demand for flexible office space.



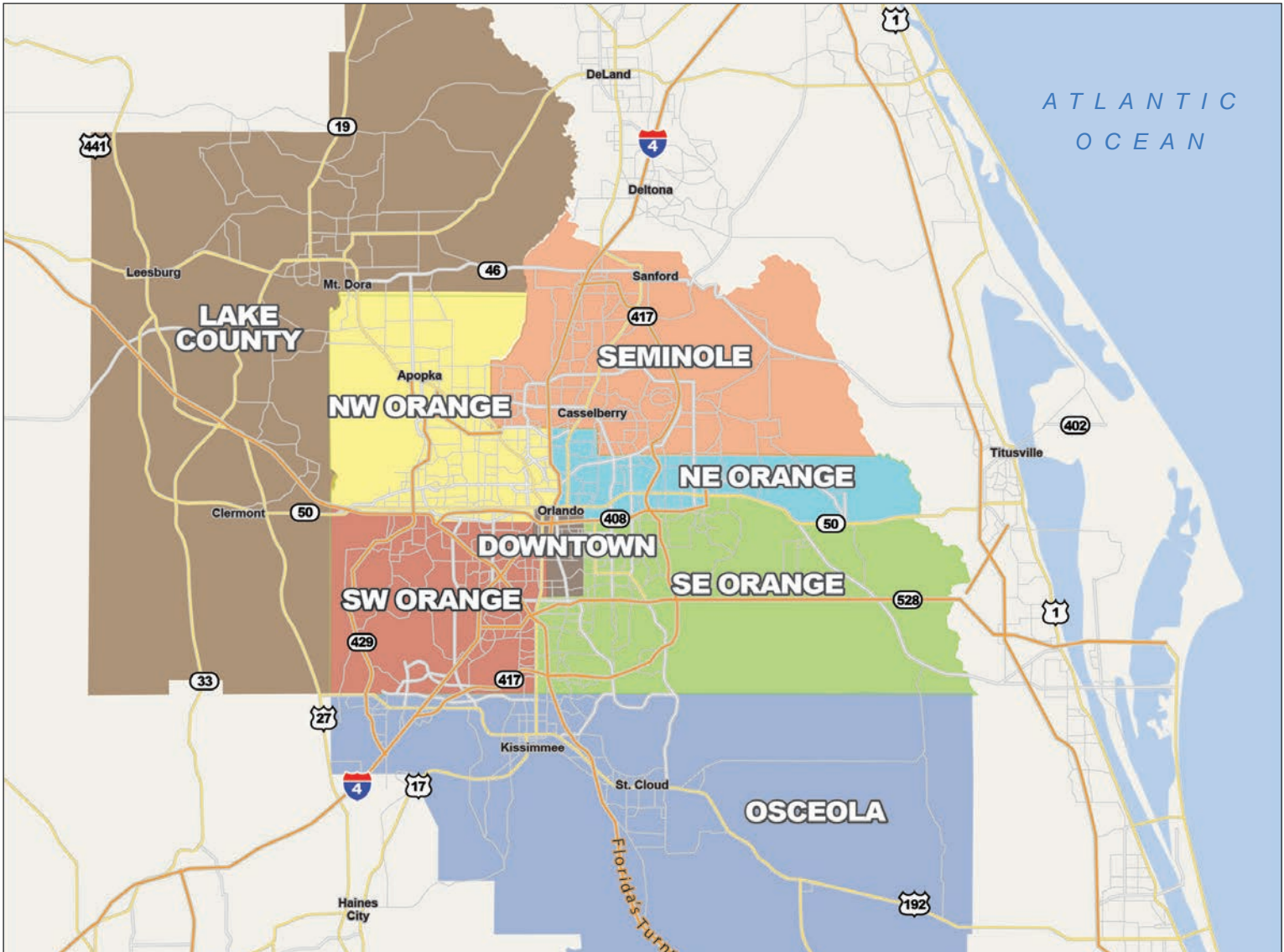
Labor and Materials

As the Central Florida economy continues to expand with the current cycle, the increased demand for construction materials and labor led to a sharp increase in construction pricing. While rental rates have increased, it is often difficult for Landlords to make sense of delivering a move-in ready space to office tenants without having some type of contribution from the tenant side. Tenants have been more willing to utilize their own capital knowing that the current generation of employees are more productive in an environment that includes amenities, natural light, modern finishes, and open areas for collaboration; and existing spaces often need to be modified significantly to achieve these characteristics.



Institutional Investments Continue

The number of institutional investors interested in the Orlando MSA continued to grow as evidenced by Southwest Value Partners acquisition of a 1,037,603 SF, three building office portfolio in the Orlando core. This increased interest from investors throughout the U.S. speaks to the market's perception that Central Florida's economy possesses attractive fundamentals.



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