

CENTRAL FLORIDA OFFICE MARKET REPORT

1Q 2018

1Q 2018 OFFICE MARKET

DON'T STOP BELIEVIN'

As the famous rock group from the '80's and '90's used to sing, "Don't stop believin' - Hold on to the feelin'." Orlando's office market continues to, pardon the pun here, rock & roll.

The First Quarter of 2018 has flown by and, by all accounts, the hot market here in Orlando that we saw through 2017 has continued. Certain submarkets have felt a bit of a slowdown. But, overall, Orlando's office market is still in a very healthy position. Key contributors to the hot office market are in place, namely low unemployment as Orlando's unemployment rate of 3.5% bests the state of Florida's rate of 3.9% and that of the nation, which is at 4.1% (per the Department of Numbers website as of February 2018).

It was announced during the first quarter of 2018 that Orlando saw a record number of visitors in 2017 with over 68 million having visited our area during the past year. This beats the previous record of 66 million from 2015. Orlando International Airport also continues to shuffle millions through our region's airport hub. The total passenger flow through OIA for 2017 was 44,611,265 people. This was a 6.4% increase over 2016, with both domestic and international passengers having seen a strong uptick in numbers.

Overall vacancy within Orlando for the first quarter of 2018 sits at 6.9%. While this number is a very, very healthy one, there is a curious trend growing that is worth noting. Sublease space in Orlando grew in the first quarter from the end of 2017. Close to 31,000 square feet of sublease space was added to the sublease inventory this past quarter, with over 230,000 square feet of sublease space now available in Orlando. The question that needs to be reviewed is "why?" Are companies growing? Are companies shrinking? Our Central Florida office team is witness to groups that lie on both sides of the spectrum. Regardless, it is worth keeping an eye on as direct lease rates continue to climb, sublease alternatives will be attractive for occupants to consider.

Investors are still hungry for opportunities here in Orlando, with groups such as The Orlando Collection Offices LLC (South Florida based) and Piedmont Realty (REIT out of Atlanta) having purchased assets here in Orlando during the first quarter (3 office buildings in Maitland & Casselberry, total, and the HD Supply building in Downtown Orlando, respectively). Activity for investors with properties that are well-located and show a solid tenant base having multiple suitors to purchase those assets. The term, "Value-Add," doesn't necessarily exist any longer, with investors now having to consider paying sticker-price for an asset to simply get a foothold in the market. This new strategy by investors allows them to be in the market and work to take advantage of rising rents and work to jump on other opportunities faster.

As we progress through 2018, will the office market here in Orlando "Keep On Believin'," or will we start to see a pull-back from the market? Will Orlando continue to be an attractive market for users and investors? Will the office market be able to "Hold on to the Feelin'?"

1Q 2018 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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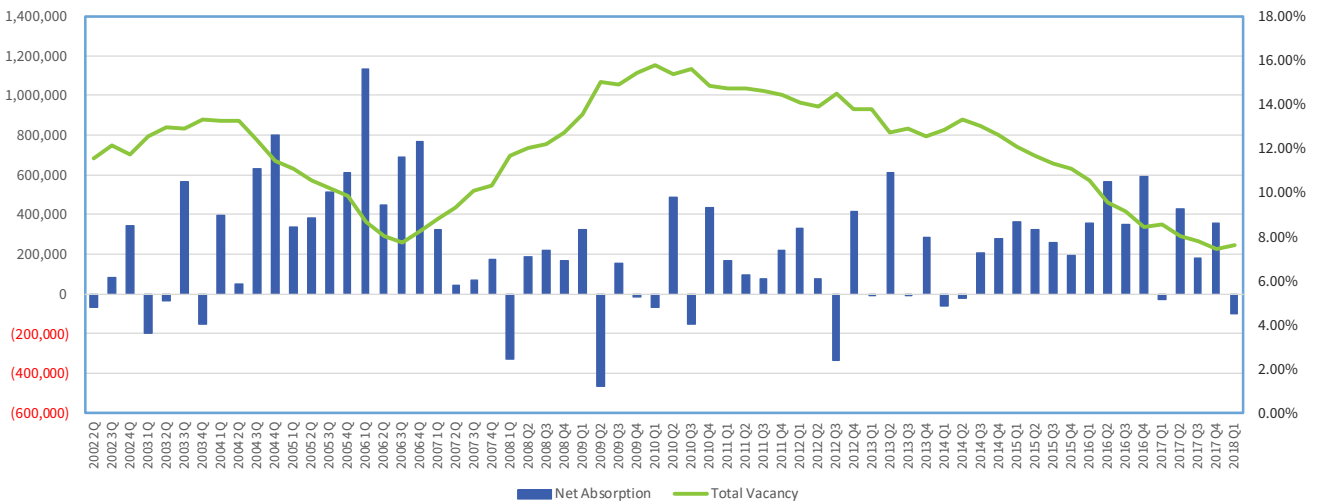
1Q 2018 Central Florida Office Market Stats

| | # of Bldgs | Total SF | Total Vacancy | Avg Asking Base Rent | Net Absorption | YTD Absorption | # U/C | Under Construction | # Delivered | Delivered |
|---------|------------|------------|---------------|----------------------|----------------|----------------|-------|--------------------|-------------|-----------|
| 2018 Q1 | 1,161 | 59,131,797 | 7.6% | \$19.27 | (100,986) | 871,977 | 11 | 1,216,216 | 0 | 0 |
| 2017 Q4 | 1,159 | 59,085,752 | 7.4% | \$19.43 | 359,124 | 842,815 | 11 | 1,224,500 | 0 | 0 |
| 2017 Q3 | 1,157 | 58,935,252 | 7.8% | \$18.72 | 183,535 | 1,178,603 | 8 | 561,500 | 0 | 0 |
| 2017 Q2 | 1,155 | 58,890,252 | 8.0% | \$19.01 | 430,304 | 1,343,715 | 7 | 372,500 | 0 | 0 |
| 2017 Q1 | 1,151 | 58,771,032 | 8.6% | \$18.53 | (29,162) | 1,476,732 | 10 | 401,720 | 0 | 0 |
| 2016 Q4 | 1,150 | 58,726,232 | 8.5% | \$18.44 | 593,926 | 1,865,180 | 7 | 313,020 | 0 | 0 |
| 2016 Q3 | 1,148 | 58,529,232 | 9.2% | \$18.53 | 348,647 | 1,463,050 | 8 | 495,020 | 0 | 0 |
| 2016 Q2 | 1,145 | 58,408,232 | 9.6% | \$18.08 | 563,321 | 1,376,520 | 10 | 582,020 | 0 | 0 |
| 2016 Q1 | 1,145 | 58,408,232 | 10.5% | \$18.23 | 359,286 | 1,136,965 | 7 | 512,000 | 0 | 0 |
| 2015 Q4 | 1,142 | 58,338,232 | 11.1% | \$17.92 | 191,796 | 1,140,038 | 5 | 369,000 | 0 | 0 |
| 2015 Q3 | 1,141 | 58,316,810 | 11.3% | \$17.64 | 262,117 | 1,229,417 | 6 | 285,422 | 0 | 0 |
| 2015 Q2 | 1,140 | 58,231,810 | 11.7% | \$17.60 | 323,766 | 1,176,080 | 5 | 206,422 | 0 | 0 |
| 2015 Q1 | 1,138 | 58,122,566 | 12.1% | \$17.54 | 362,359 | 831,235 | 3 | 194,244 | 0 | 0 |
| 2014 Q4 | 1,136 | 58,097,166 | 12.6% | \$17.55 | 281,175 | 411,405 | 5 | 219,644 | 0 | 0 |

1Q 2018 Central Florida Office Submarket Breakdown

| | # of Bldgs | Total SF | Total Vacancy | Rental Rate | Net Absorption | YTD Absorption | # U/C | Under Construction | # Delivered | Delivered |
|-----------------------|------------|------------|---------------|-------------|----------------|----------------|-------|--------------------|-------------|-----------|
| Downtown | 119 | 9,288,127 | 9.9% | \$26.35 | 62,953 | 87,797 | 1 | 484,500 | 0 | 0 |
| Maitland Ctr | 107 | 7,232,956 | 9.9% | \$19.04 | (22,042) | 84,383 | 0 | 0 | 0 | 0 |
| SE Orlando | 196 | 8,763,461 | 5.7% | \$20.60 | (24,408) | 38,699 | 1 | 155,000 | 0 | 0 |
| SW Orlando | 184 | 10,364,669 | 5.9% | \$24.24 | 20,925 | 97,038 | 5 | 306,000 | 1 | 15,000 |
| University / East | 85 | 5,697,547 | 6.7% | \$21.51 | 15,134 | 59,113 | 1 | 39,000 | 1 | 30,000 |
| NW Orlando | 96 | 3,614,790 | 9.3% | \$17.38 | (14,220) | (38,022) | 0 | 0 | 0 | 0 |
| Winter Park | 138 | 3,980,305 | 2.9% | \$24.71 | (11,709) | (22,162) | 1 | 26,716 | 0 | 0 |
| Lake Mary / Heathrow | 126 | 7,649,693 | 9.3% | \$21.59 | (104,279) | (17,626) | 1 | 115,000 | 0 | 0 |
| Lee Road | 30 | 903,515 | 10.0% | \$17.74 | 6,615 | 6,615 | 1 | 90,000 | 0 | 0 |
| Kissimmee / St. Cloud | 80 | 1,636,734 | 7.0% | \$21.09 | (29,955) | (19,218) | 0 | 0 | 0 | 0 |

Absorption vs. Vacancy
Previous 15 Years



1Q 2018 Office Notable Lease Transactions

| Property Address | City | Submarket | Tenant | Landlord | Lease Size |
|---------------------------|----------|---------------------|---------------------------------------|-------------------------------|------------|
| 100 E Pine St* | Orlando | Downtown | Protean Design Group | Denholtz East Pine Owner, LLC | 13,138 |
| 8517 South Park Circle | Orlando | Tourist Corridor | Crown Castle | AEW Capital Management | 17,135 |
| 2600 Maitland Center Pkwy | Maitland | Maitland | Industrial Container Services | Emerson International | 16,651 |
| 2603 Discovery Dr | Orlando | University Research | Luminar Technologies | Taurus Southern Investments | 42,363 |
| 390 N Orange Ave | Orlando | Downtown | Beusse Wolter SanksMora 7 Maire, PPLC | Southwest Value Partners | 15,038 |

1Q 2018 Office Notable Sale Transactions

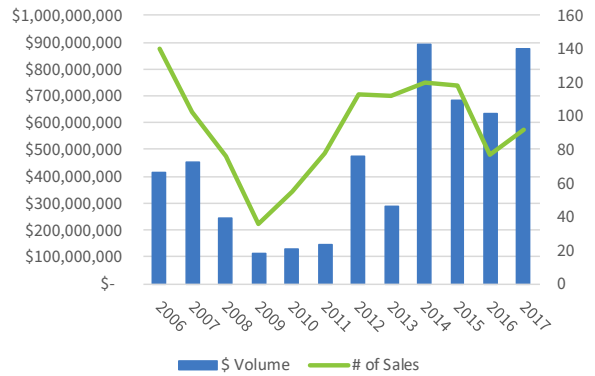
| Property Address | City | Submarket | Buyer | Seller | Sale Price | Sale Date | Bldg Size | Price Per SF |
|--------------------|-------------|---------------|---|------------------------------|--------------|-----------|-----------|--------------|
| 445 W Colonial Dr* | Orlando | West Colonial | West Colonial Drive Investment Properties | Micahel Broussard | \$905,000 | 1/18/2018 | 4,853 | \$186.48 |
| 4804 Edgewater Dr* | Orlando | West Colonial | Ted Kaplan | Thakoor Dean Revocable Trust | \$550,000 | 2/2/2018 | 4,110 | \$133.82 |
| 2699 Lee Rd | Winter Park | Lee Road | Owens Realty Capital | Sugarokr Lee Road LLC | \$10,500,000 | 2/14/2018 | 89,316 | \$117.56 |
| 501 W Church St | Orlando | Downtown | Piedmont 501 W Church Street LLC | Pavilion Orlando LLC | \$28,000,000 | 2/22/2018 | 190,626 | \$146.88 |
| 2600 Technology Dr | Orlando | West Colonial | Building Hope Technology Drive | Aetna Life Ins Co | \$5,600,000 | 1/3/2018 | 61,564 | \$90.96 |

*Cite Partners Transactions

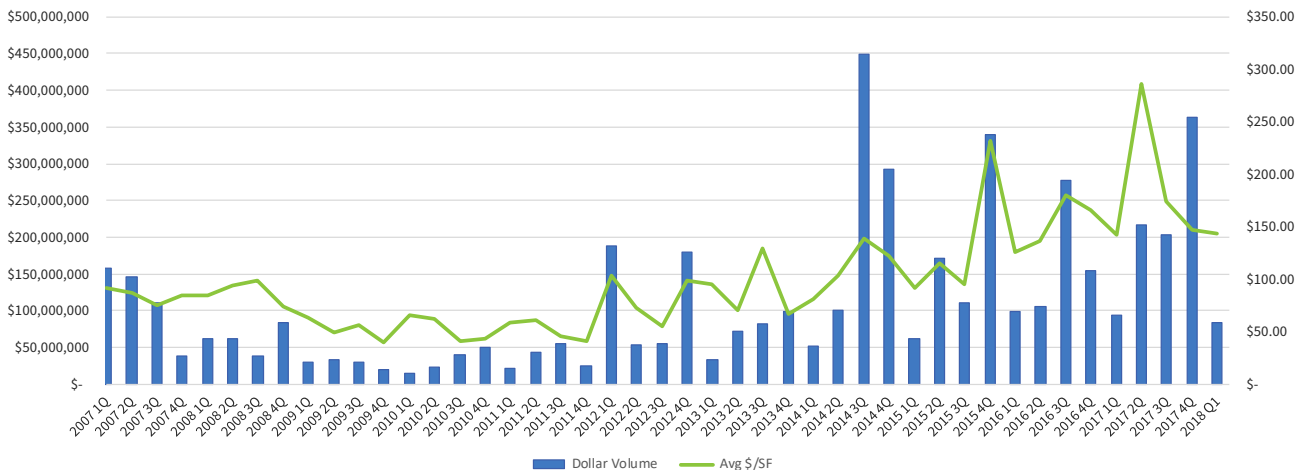
1Q 2018 Office Building Sale Stats

| | # of Sales | YTD # of Sales | \$ Volume | YTD Volume | Square Feet | Avg \$ / SF |
|---------|------------|----------------|---------------|---------------|-------------|-------------|
| 2018 Q1 | 12 | 12 | \$83,861,416 | \$83,861,416 | 584,052 | \$143.59 |
| 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 |

BUILDING SALES \$ Volume vs. # of Sales



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



QUARTERLY TRENDS



Flexible Office

Flexible office means a couple of different things in today's market. Companies are downsizing a bit and giving their employees an option to work remotely some or all the time. For the times they are in the office, the layout needs to be able to accommodate extra people with common work/huddle areas. Flexibility also comes in the form of a great location being essential, a bright, trendy, environmentally friendly space that is walkable from both housing and nearby amenities. These flexible concepts keep employees productive, energetic, and happy!



Going Green

Bouncing off from flexibility in the office, groups are being more environmentally friendly with their workspace. With recent and ongoing technological advancements, groups are moving to be paperless within the office. In turn, groups are needed less space for storage allowing them to have the open office concept. With this, big window, high ceiling office spaces are continuing to take over the office market. We are also seeing more owner/user buildings adding solar panels to their newly purchased office buildings. Bye file cabinets!



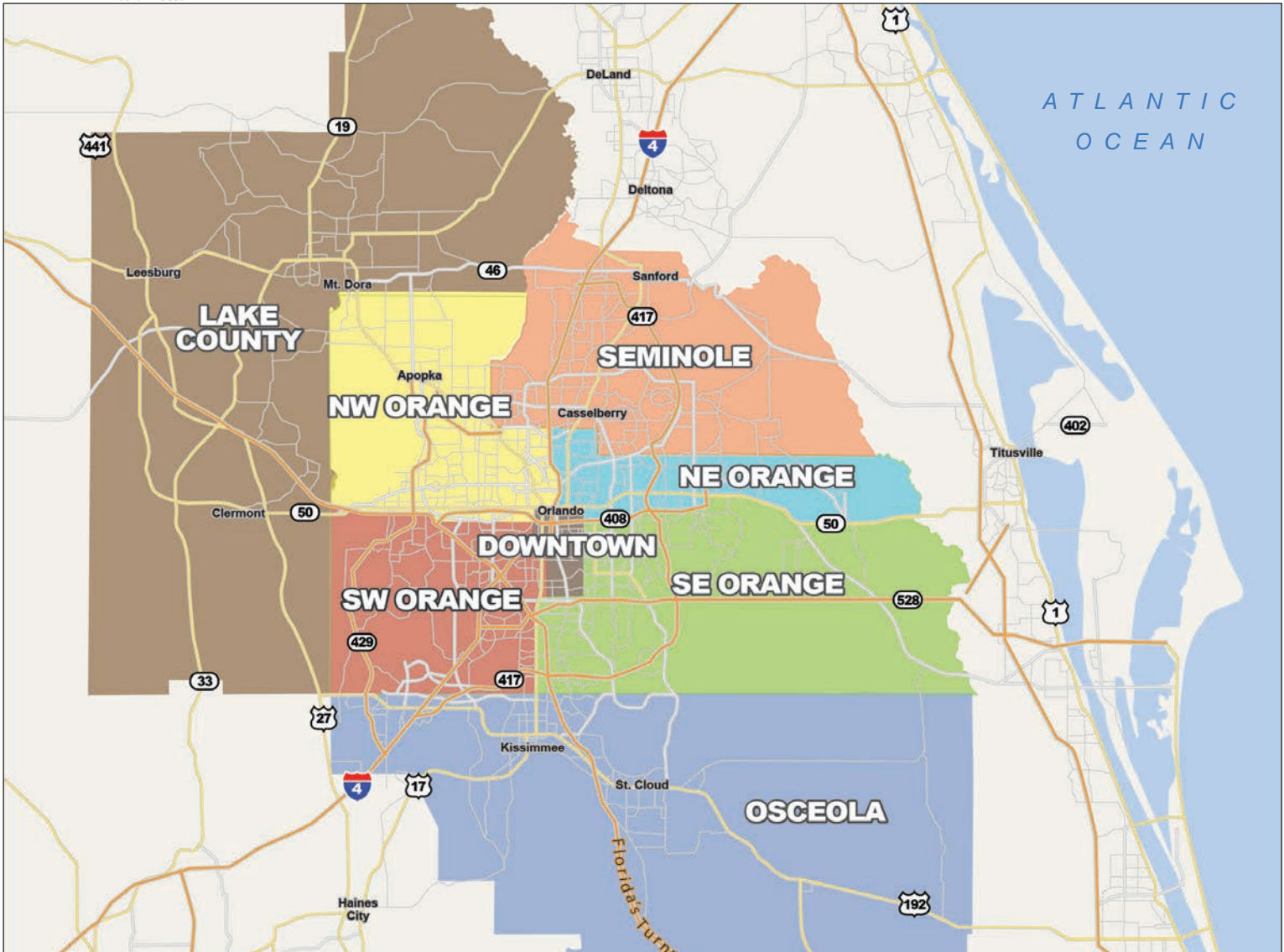
Limited Space? Not For Long!

In the 1st quarter of 2018, there was a 2% drop in vacancy, taking us down to 7.6%. Luckily for office users as well as brokers, there is quite a bit of proposed office space as well as new buildings underway. Creative Village plans to have 1,200,000 square feet of office/creative space within their project. The Church Street Plaza will contain 200,000 square feet of Class A Office Space as well. Other Central Florida submarkets have offices popping up and after these past 10 years of "office drought," this will be good for the market!



Sublease Vacancy Increase

2018 has already seen a 31,000 square foot increase in sublease vacancy space. This paired with the new office developments will play a big role in the office market. The economy is booming, allowing companies continued growth as they excel in their fields. With these new vacancies in the market, the Central Florida office market has several "moving pieces" for those willing to play the game!



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