

FIGURES | ORLANDO INDUSTRIAL | Q4 2023

# Slowing pace of ground breakings should help stabilize vacancy in 2024



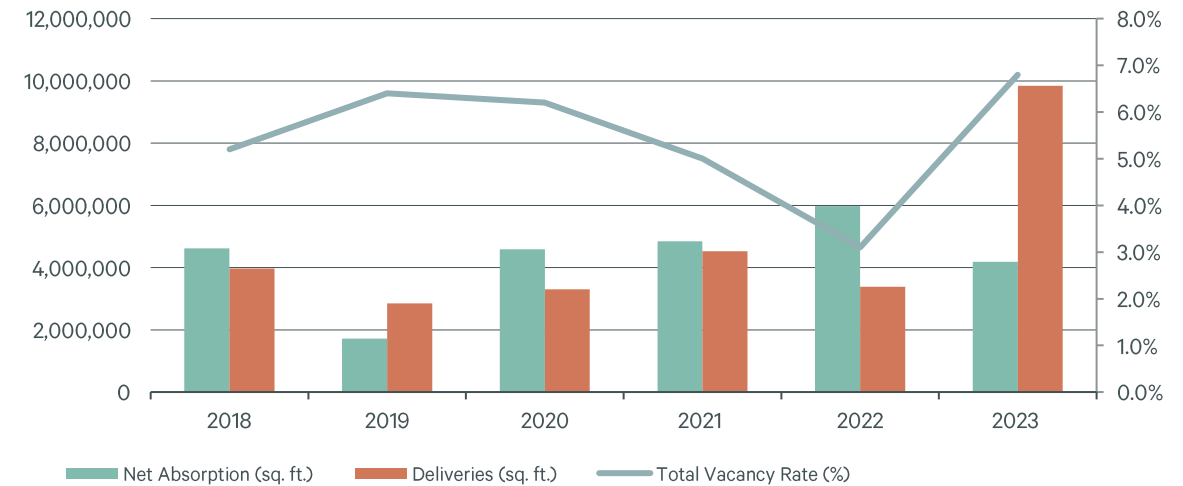
Note: Arrows indicate change from previous year.

## OVERVIEW

- Total industrial vacancy rose to 6.8%, a year over year increase of 370 basis points.
- Approximately 4.6 million sq. ft. between 16 industrial projects are under construction with over 69% of that square footage being built in Southeast Orange and Lake Counties.
- According to RCA the sale of investment-grade properties during 2023 totaled approximately \$691.3 million across 5.4 million sq. ft (\$127.71 per sq. ft.) compared to \$1.5 billion across 13.0 million sq. ft. (\$112.86 per sq. ft.) during the same period in 2022.

The Orlando industrial market ended the year on solid footing, but some clear themes throughout 2023 resulted in a different landscape compared to the start of the year. Nearly 10 million sq. ft. of new industrial deliveries over the past 12 months has pushed overall vacancy up to 6.8%, the highest mark in just over three years. While 57% of that delivered space is still available for lease, over 70% of it is made up of spaces over 200,000 sq. ft. These projects often fall within areas historically catering to bulk product, which has resulted in disproportionate impacts to submarkets like Northwest Orange and Lake Counties. As ground breakings have slowed, totaling just 637,000 sq. ft. over the fourth quarter, we could see stabilizing vacancy and less depressed average rents which have both been impacted from new bulk deliveries this year.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

Orlando recorded approximately 4.2 million sq. ft. of positive net absorption during 2023 with 750,000 sq. ft. contributed from the fourth quarter. Over 9.8 million sq. ft. was completed year-to-date with over 43% leased thus far. Major occupiers of space included Performance Food Group (291,875 sq. ft.), Assa Abloy (150,150 sq. ft.), Mitsubishi (109,500 sq. ft.) and JCQ Services (100,800 sq. ft.). Leasing activity during 2023 decreased 34.5% over the same period a year ago, totaling 8.1 million sq. ft. While most leases were signed by small to mid-sized tenants, large blocks of space have seen some interest over the last 90 days, including a full building, 980,000 sq. ft. lease in Lake County.

VACANCY

Due to over 9.8 million sq. ft. of construction completions this year, including 2 million sq. ft. that came online in Q4, the vacancy rate rose 370 basis points year-over-year to 6.8%. However, some current vacancies have pending move-ins, which when accounted for drop the rate to 5.9%. Northwest Orange accounted for 4.8 million sq. ft. of the completions and 4.0 million sq. ft. of vacancy added to the market during 2023. The slowing pace of ground breakings (637,000 sq. ft. during Q4 2023) should help lower vacancy in 2024.

PRICING

Direct weighted-average asking rents recorded \$8.84 per sq. ft. at the close of 2023. Asking rents dropped 0.9% year over year. The major driver of this decrease was due to the completion of three big box speculative buildings totaling 2.5 million sq. ft. The asking rents of those buildings ranged from \$6.50 to \$6.95 per sq. ft commanding more weight in the asking rent average. The current average rate of \$8.84/sq. ft. NNN will continue to climb as more bulk product is leased.

FIGURE 2: Statistical Snapshot Q4 2023

Submarket	Total Inventory (Sq. Ft.)	Total Vacancy (%)	Q4 2023 Net Absorption (Sq. Ft.)	2023 Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/SF/NNN)
Lake	11,254,647	13.1	393	236,283	1,572,155	7.40
NE Orange	5,432,678	3.1	111,381	233,091	246,580	16.60
NW Orange	30,960,589	14.7	285,002	935,899	529,368	7.63
Osceola	7,331,817	3.4	316,005	939,603	481,944	10.38
Seminole	18,367,111	5.8	127,747	163,142	163,700	11.10
SE Orange	45,810,780	3.9	(239,102)	1,119,880	1,594,212	10.56
SW Orange	28,744,409	2.6	147,943	557,533	0	11.57
Orlando Total	147,902,031	6.8	749,369	4,185,431	4,587,989	8.84

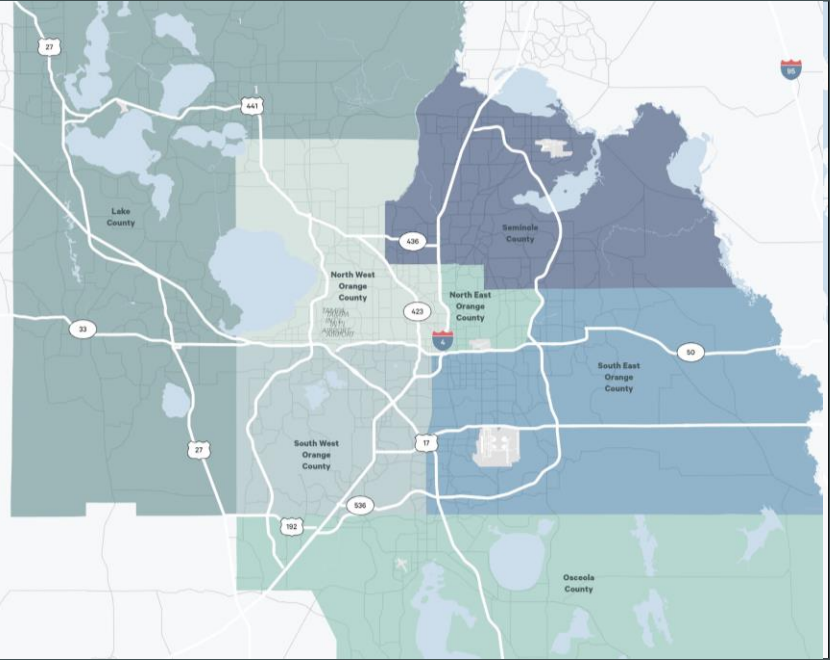
FIGURE 3: Notable Leases Q4 2023

Submarket	Property	Transaction (SF)
Lake County	Turnpike Logistics Center	977,441
Osceola County	Osceola Logistics Center	280,800
SE Orange County	Air Commerce Park II - Building 1	245,582

FIGURE 4: Notable Sales Q4 2023

Submarket	Property	Sale Price (\$)	Transaction (SF)
SE Orange	901 West Landstreet Rd	100,029,749	595,564
NW Orange	1218-1232 Winter Garden Vineland Rd	23,816,666	91,734
SE Orange	6200 Lee Vista Blvd	10,619,600	52,800

Market Area Overview



ECONOMIC OUTLOOK

The combination of continued economic momentum with a likelihood that the Fed’s dramatic tightening cycle is now complete makes a ‘soft landing’ appear more likely for early 2024 but the pace of growth will be more modest than in recent quarters. Foremost, lower and middle-income households no longer have the luxury of excess savings and the pace of wage growth, whilst remaining elevated, is slowing. This nuance with wage growth is important. Higher wages are helping to maintain higher, albeit decelerating, core inflation.

This backdrop will likely translate into the Fed only slowly lower its target rate in 2024. (CBRE expects 75 – 100 basis points worth of rate cuts in 2024.) This outlook may deter some spending, but it does help illuminate a pathway forward for real estate capital markets. Indeed, the combination of healthy fundamentals for many sectors and thawing credit markets could provide some welcome upside surprises for real estate performance in 2024.

**Survey Criteria:** Includes all competitive industrial buildings 10,000 sq. ft. and greater in size in Orange, Osceola and Seminole counties (excluding self-storage and industrial-condos).

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