

AVISON
YOUNG

Orlando market fundamentals

FLORIDA INDUSTRIAL INSIGHT REPORT
Q2 2021

Key industrial takeaways



Economic conditions

- The unemployment rate in Orlando as of May 2021 was **5.4%**, down an incredible 1900 basis points from the height of pandemic unemployment in May 2020. The leisure and hospitality sector has contributed to more than half of all job losses to date.
- Oxford Economics projects that Orlando is expected to see job growth of 2.1% in 2021, **9.1%** in 2022, and should recover all of its lost jobs in Q3 2022.
- Gross domestic product (GDP) in Orlando remains 1.1% below the peak level reached in Q4 2019 but is expected to grow by 9.4% by the end of the year.



Recovery rate

- Florida was ranked **#4** in a WalletHub study of the top U.S. states for their rates of recovery, with industries gaining the most jobs over the year including leisure and hospitality, professional and business services, and trade, transportation and utilities.
- Orlando's population grew by **1.2%** over the trailing 12-month period ending with the first quarter of 2021, which is a slower pace than the previous 5-year average but still notable given that not all employment losses have been replaced.



Industrial demand

- Leasing activity is at **43.3%** of all volume recorded in 2020 and is expected to grow through the end of the year.
- Demand for large bulk distribution projects remains strong, particularly along the 429 Corridor and in the Airport/Southeast submarket.
- While tenant demand for larger blocks of class A industrial distribution space remains strong, there is also significant demand for smaller warehouse spaces between **3,000 – 5,000 sf**, which is resulting in higher asking rents for availabilities in that range.

Key industrial takeaways



Industrial supply

- As of the end of Q2 2021, there were 19 industrial buildings under construction across Orlando accounting for **2.8 million sf**. With an average floor plate size of 147,901 sf, many of these new developments will be well suited for e-commerce and distribution. Additionally, there are another 17 buildings currently proposed with plans to deliver by the end of 2022.
- Orlando's overall industrial vacancy rate continues to show resilience with vacancy at **5.3%** as of Q2, a 60-basis point decline from the previous quarter.



Pricing trends

- Base rents have increased by **9.8%** since the start of the pandemic and have continued a steady upward trajectory since 2012.
- Healthy demand and tightening leasing fundamentals are placing upward pressure on asking rents. Some institutional owners are now proposing **4%** escalations, while others now prefer 5-year terms for mid-sized deals as opposed to the 10-year that were common pre-pandemic.



Capital markets

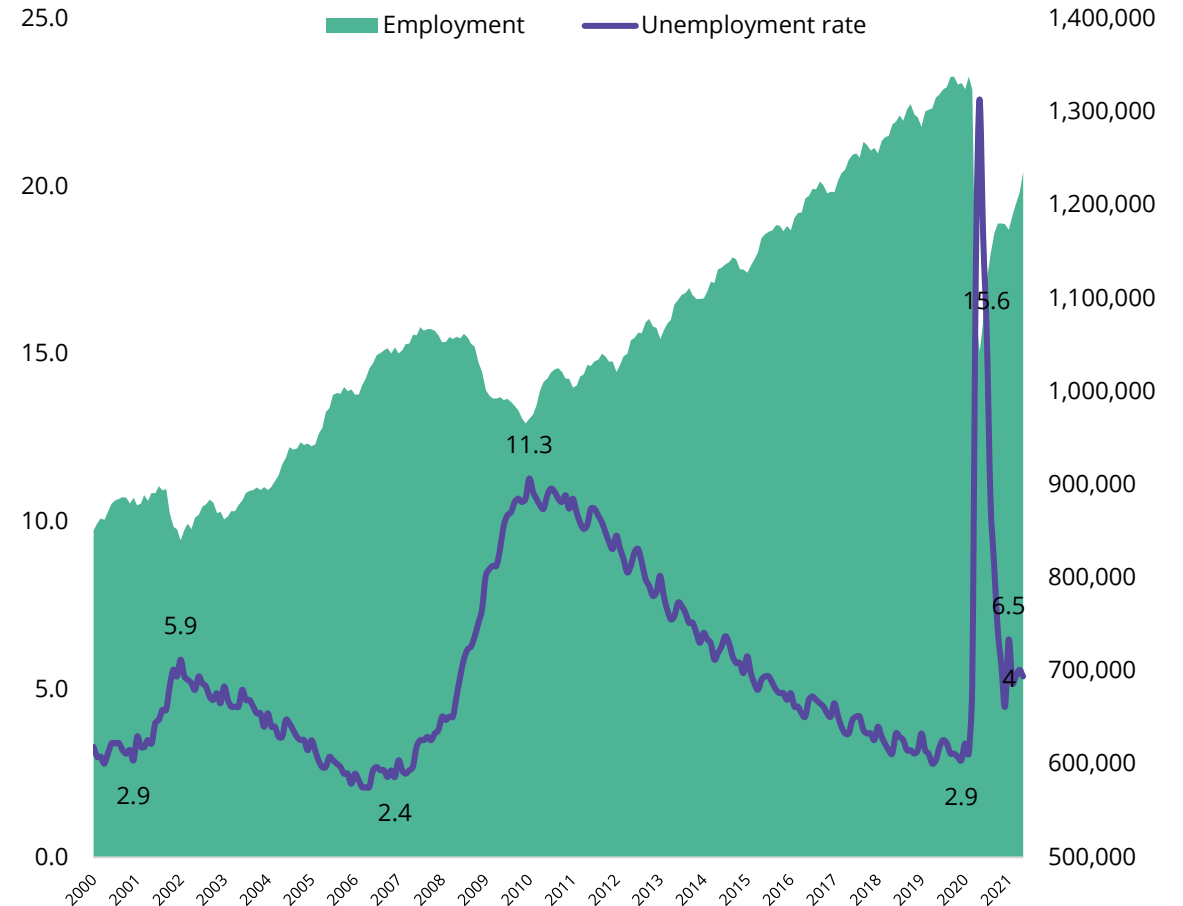
- Industrial investment activity has been heated in Orlando, with total transaction volume of **\$822.3M** for the period from Jan 2020 through Jun 2021. The largest sale YTD was EQT Exeter's acquisition of 10550 Southport Drive in the Airport/Southeast submarket for **\$17.4M**, or \$143 per sf.
- There is still a deficit between the number of prime investment opportunities and the number of investors chasing deals.

Employment and unemployment rate

5.4%

Orlando unemployment rate as of May 2021, down 1900 bps since the record high reached in May 2020

Historically tightened labor market conditions were halted by the pandemic with nearly 300,000 job losses between February and May 2020. However, reopening efforts have enabled the economy to add nearly 193,000 jobs since May 2020.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Property type job gains and losses

-10.7%

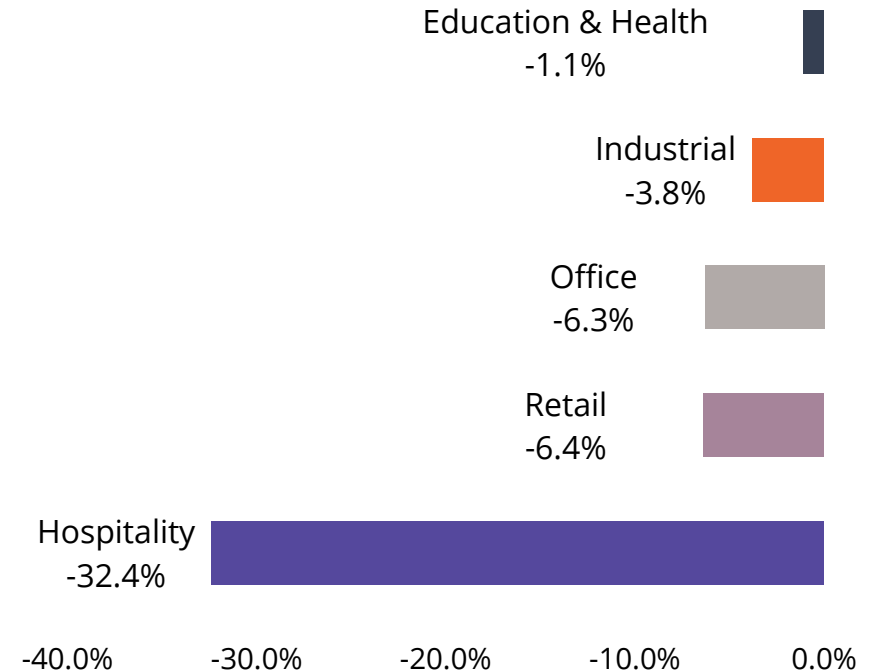
Change in total employment during the pandemic

The Orlando metro area has lost 10.7% of its total labor force since the pandemic began, the vast majority of which has occurred in the hospitality sector, though industrial losses are less severe at 3.8%. The strength of the industrial sector in Orlando pre-pandemic helped to offset the minor losses that have occurred.

[VIEW DASHBOARD](#)

Total change in Orlando MSA* job gains/(losses)

February 2020 to May 2021



Note: Not seasonally adjusted data. *Metropolitan statistical area.
Source: Bureau of Labor Statistics

Industrial job gains and losses

-3.8%

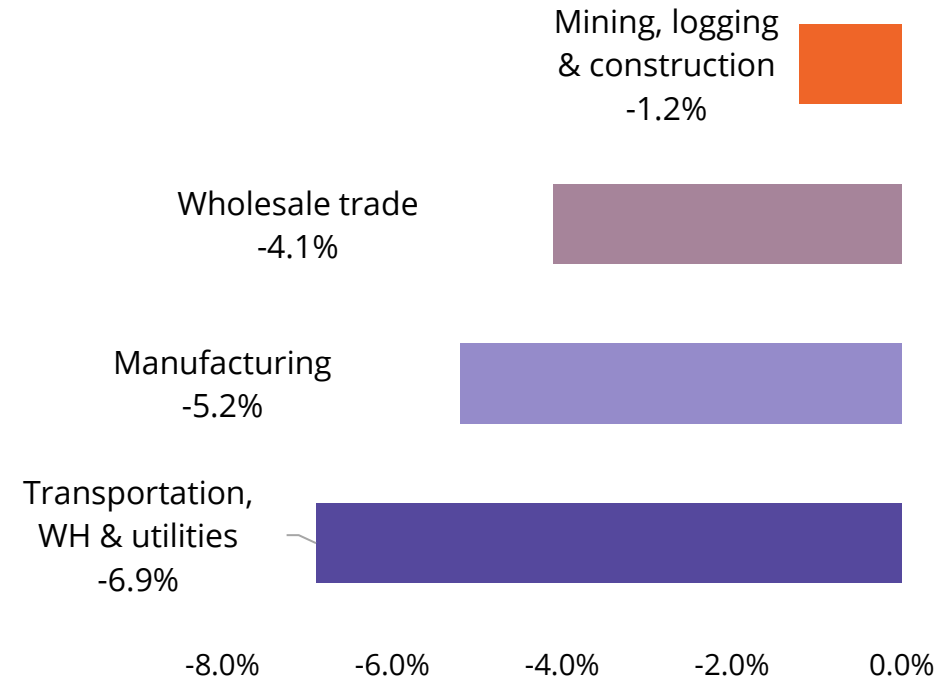
Change in industrial employment during the pandemic

Orlando MSA job losses have declined significantly since the start of the pandemic, though industrial jobs are down by just 3.8%. This recession's impact on the industrial labor market has been considerably less severe than the global financial crisis, when total job losses totaled 21.5%.

[VIEW DASHBOARD](#)

Total change in Orlando MSA* job gains/(losses)

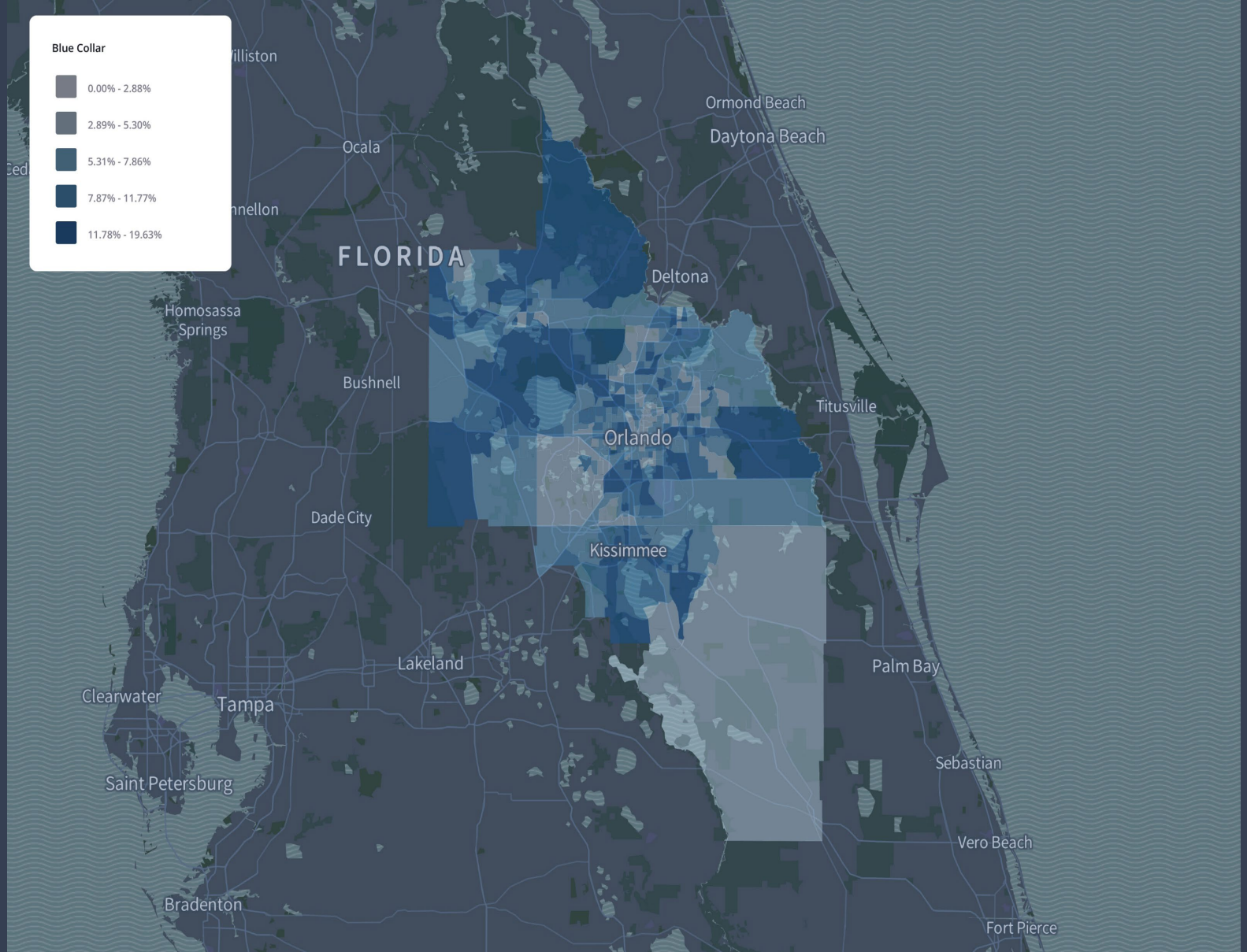
February 2020 to May 2021



Note: Not seasonally adjusted data. *Metropolitan statistical area.
Source: Bureau of Labor Statistics

Blue-collar workforce concentration

Source: AVANT by Avison Young, ESRI
Large pockets of blue-collar workforce are found
throughout Orlando's largest Industrial submarkets.

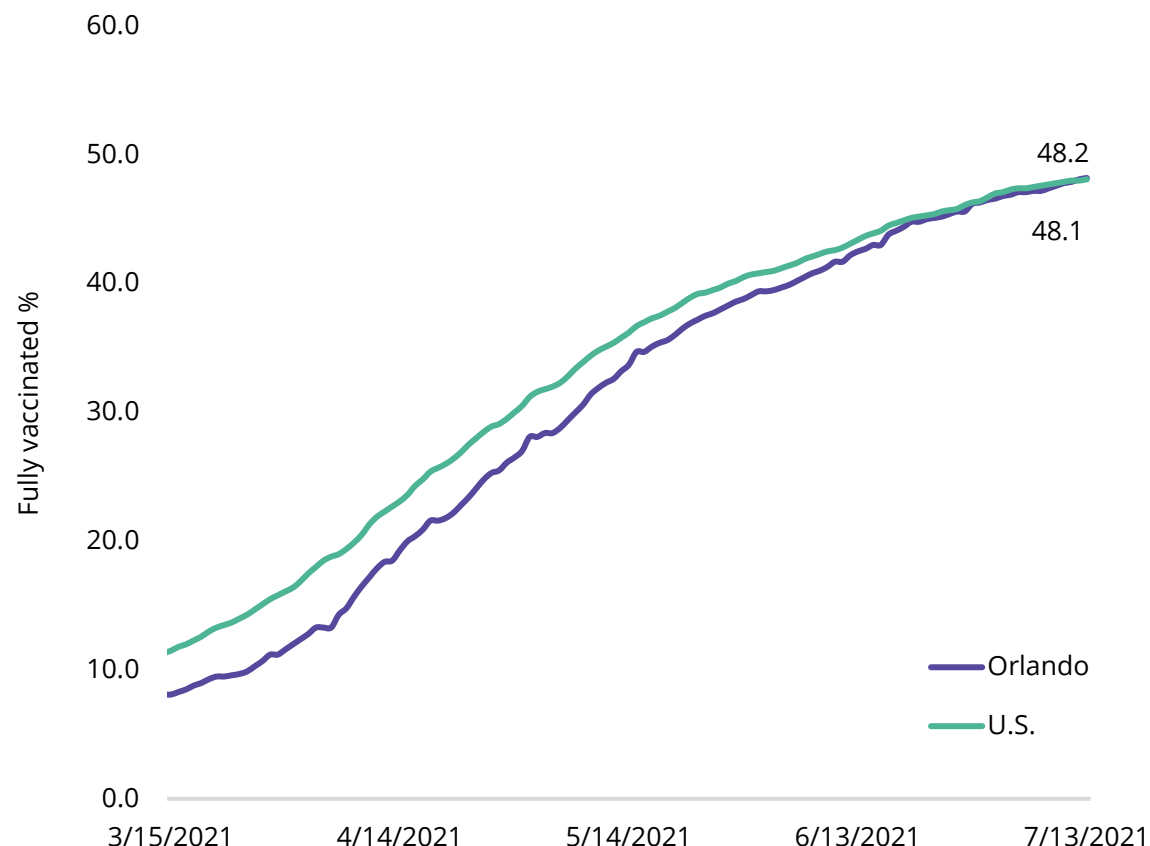


Vaccination rates

48.2%

Share of total Orlando population that is fully vaccinated

While the data seems to indicate that the Orlando area vaccination rate is slightly ahead of the U.S. average, it only covers which residents got vaccinated in the county in which they reside. As many traveled to adjacent counties, exact numbers are difficult to determine.



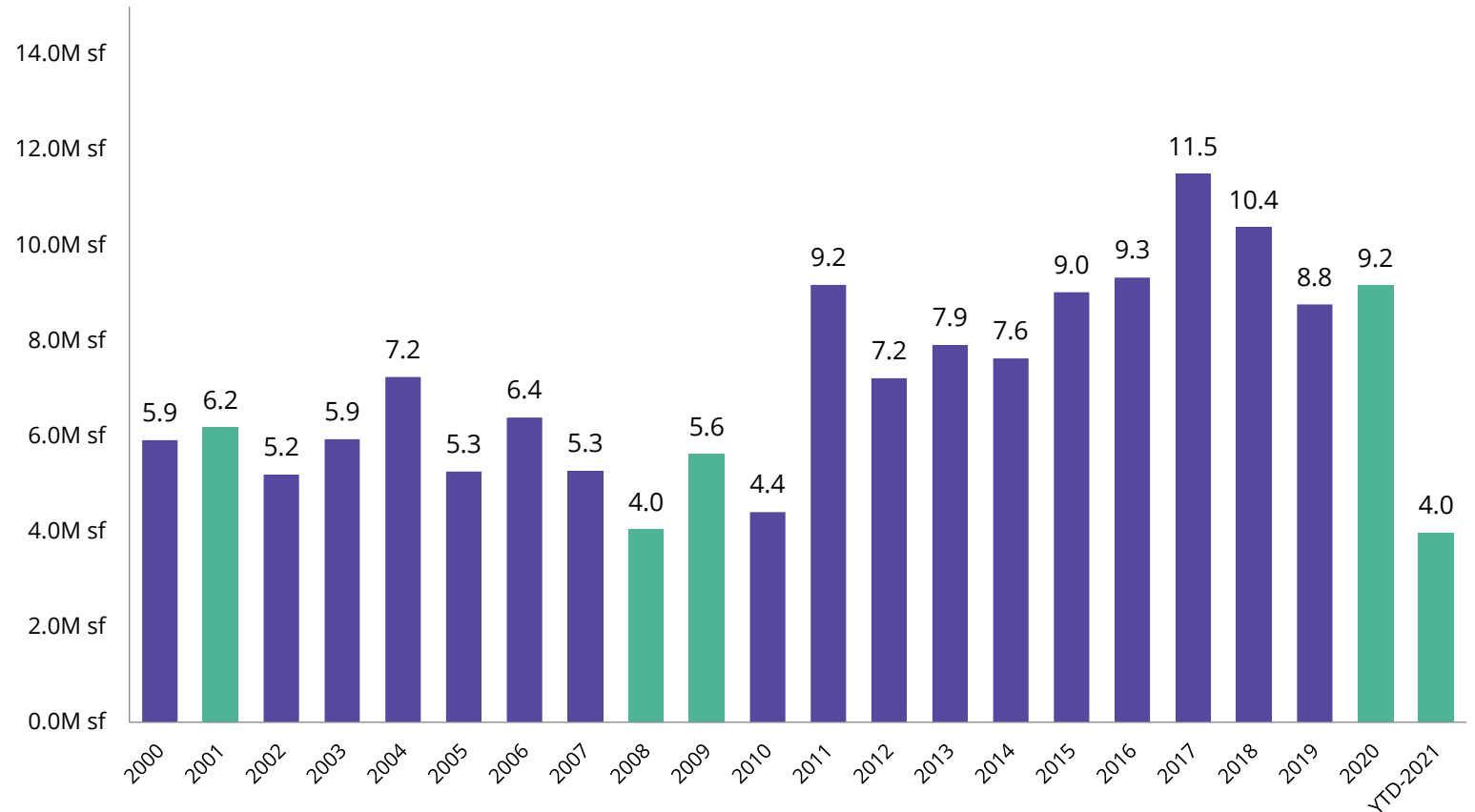
Source: CDC

Industrial leasing activity

43.3%

**Year-to-date 2021
leasing activity
compared to YE-2020**

Leasing activity has been strong through Q2 2021, following on the heels of 10 straight years of strong leasing that collectively averaged over 9 million sf per year.



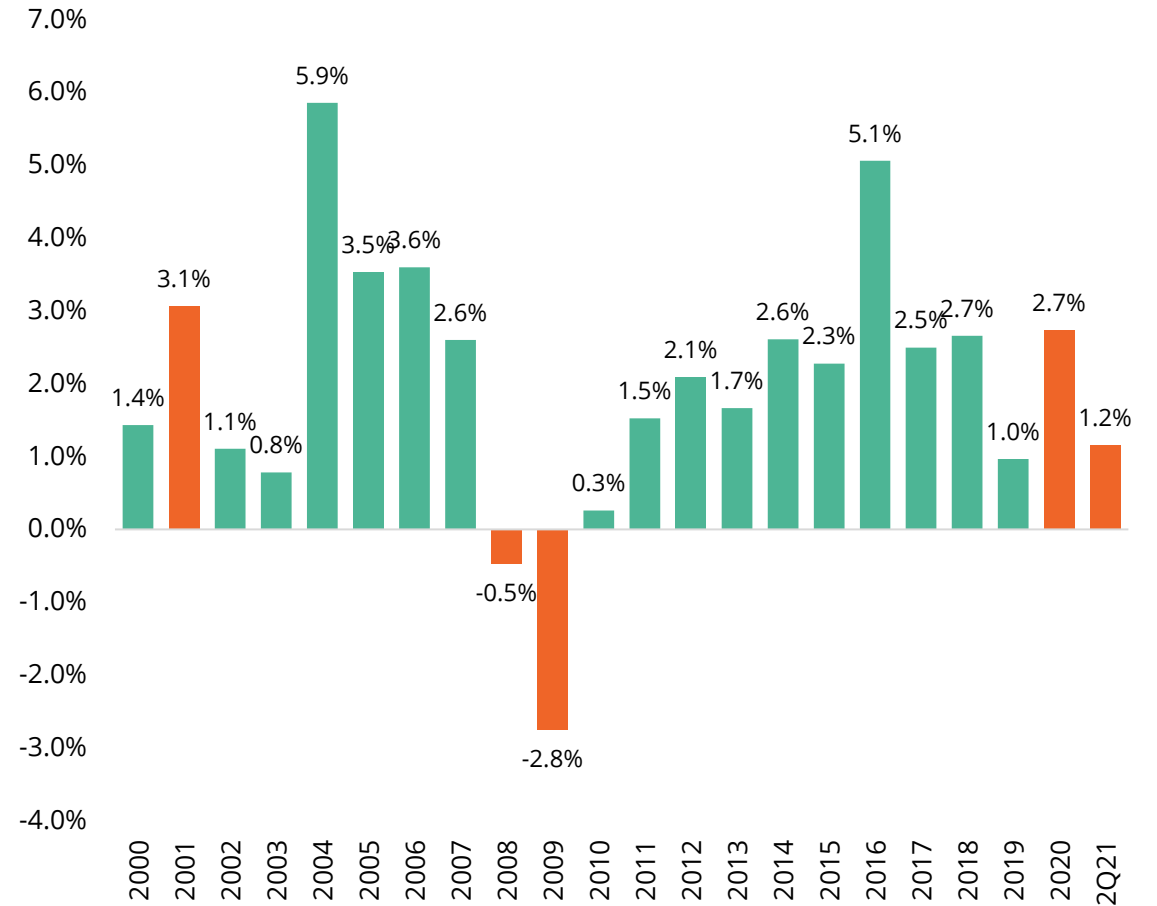
Note: Green represents recession years.
Source: CoStar

Industrial net absorption

3.9%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Absorption through mid-year remains healthy and has already eclipsed the total net absorption recorded in 2019. Totaling 1.7 million sf as of Q2 2021, absorption for this year is on pace to match last year's performance, which was aided by the steady lease up of recently delivered distribution space.



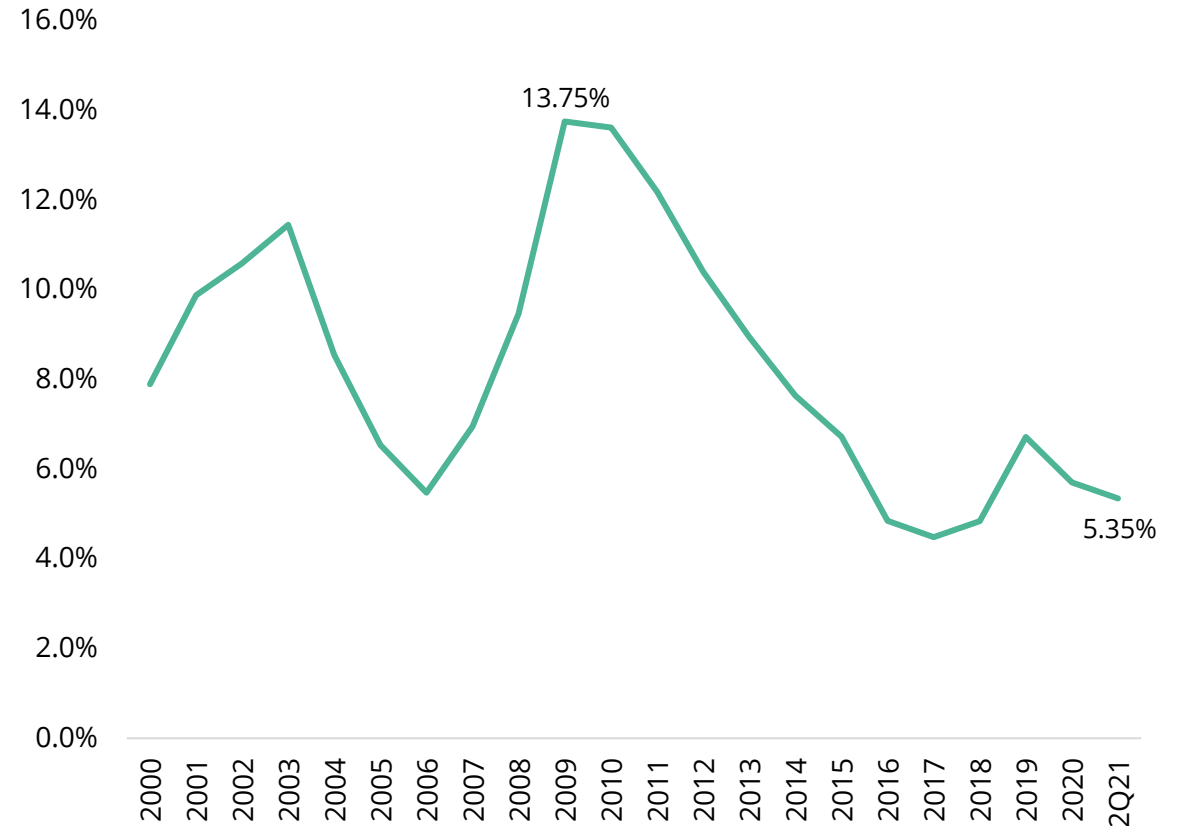
Note: Absorption is measured as the year-over-year change in occupied square feet. Orange represents recession years.
Source: CoStar

Industrial vacancy rate

5.3%

Total vacancy in Orlando is at its lowest point since 2018

The Q2 2021 total vacancy rate of 5.3% reflects the lowest rate recorded since 2018, and the fourth lowest in the previous 20-yr period. Average asking rents have increased 11.7% over that same time period, underscoring how industrial demand has largely outstripped supply in Orlando.



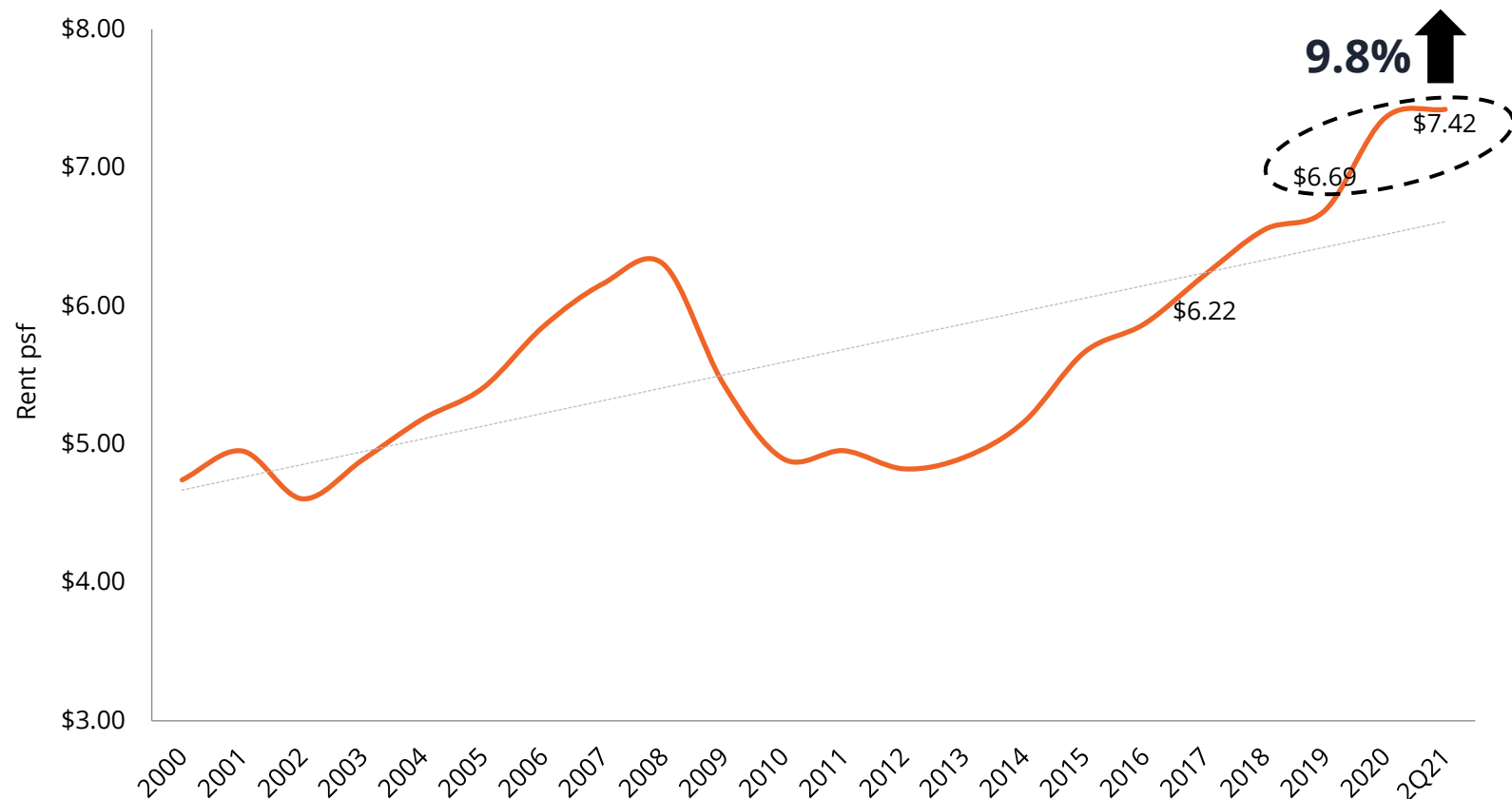
Source: CoStar

Base rents

+9.8%

Base rents since the onset of the pandemic

Base rents grew incrementally during the second quarter and have generally trended upward over the last decade, rising steadily since 2012 and increasing by 35.0% over that period.



Source: AVANT by Avison Young

Big-box demand drives construction

52 properties

Proposed or under construction

9.7 msf

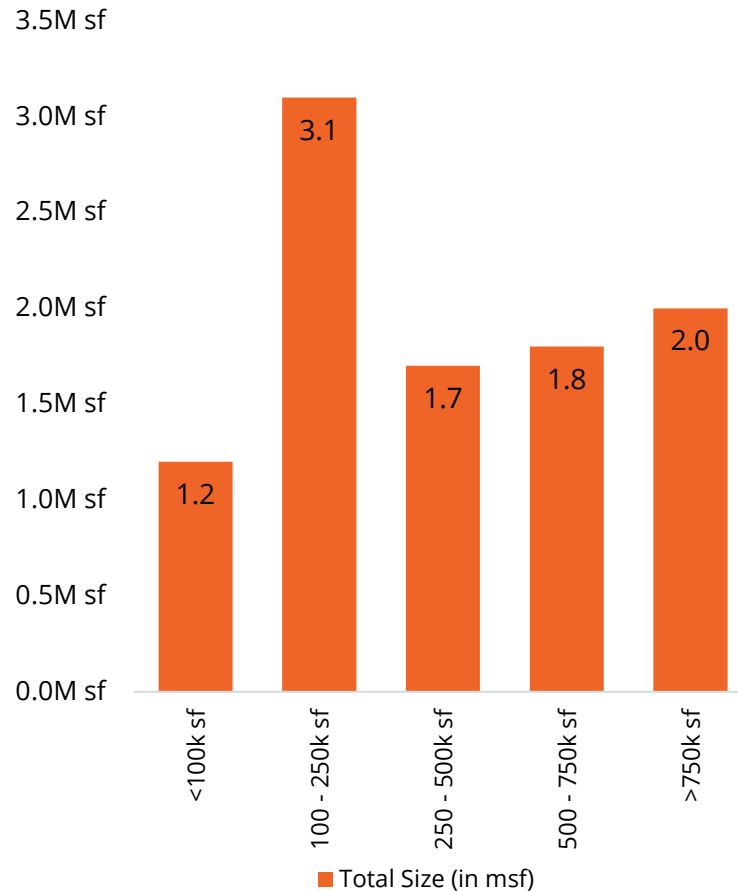
Proposed or under construction

7.8%

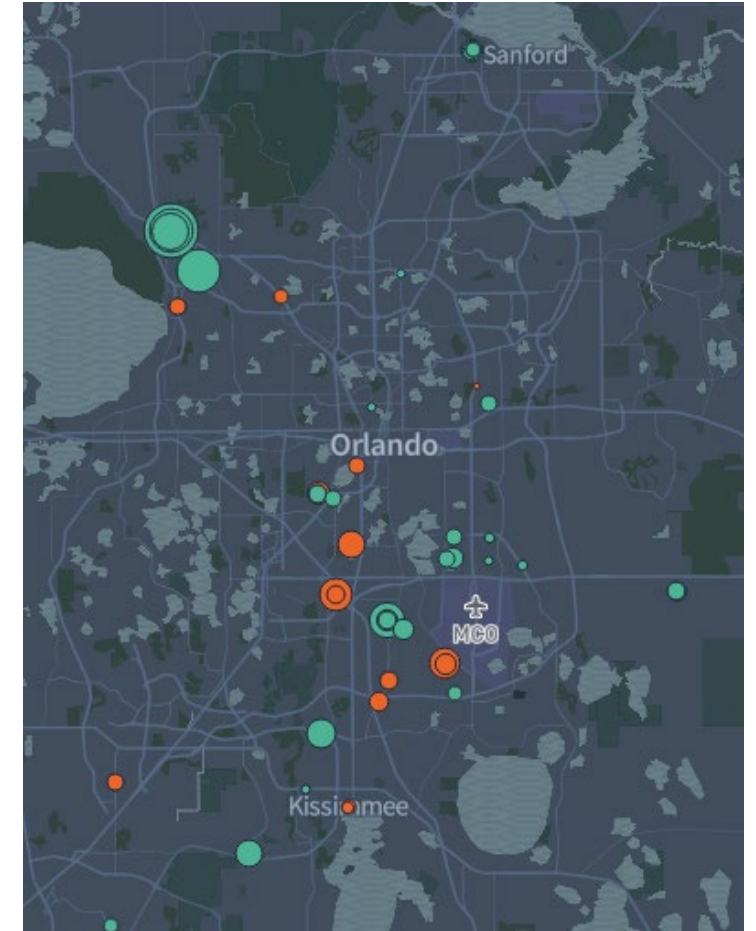
Share of industrial inventory

Airport/Southeast

Submarket with the most projects under construction at 4



Source: AVANT by Avison Young



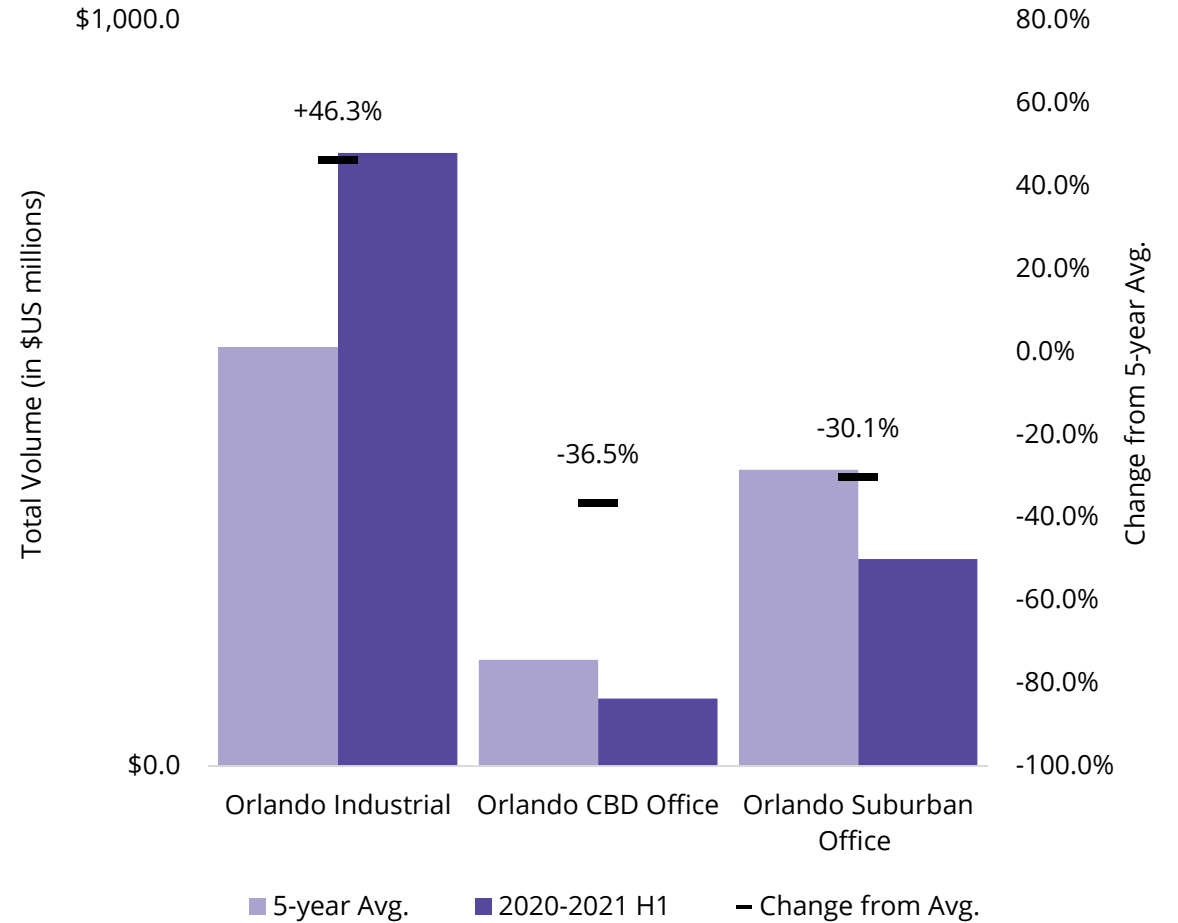
Orange circle: Under construction Green circle: Proposed

Investment dollar volume

\$822.3M

Industrial dollar volume, 2020 to Q2 2021

Office sales activity temporarily paused during the risk-pricing crisis, decreasing by an annualized rate of 36.5% and 30.1% in CBD and Suburban markets, respectively, compared with the prior five-year average dollar volume. Industrial volumes have surged +46.3% against the prior 5-year average due to stronger fundamentals.



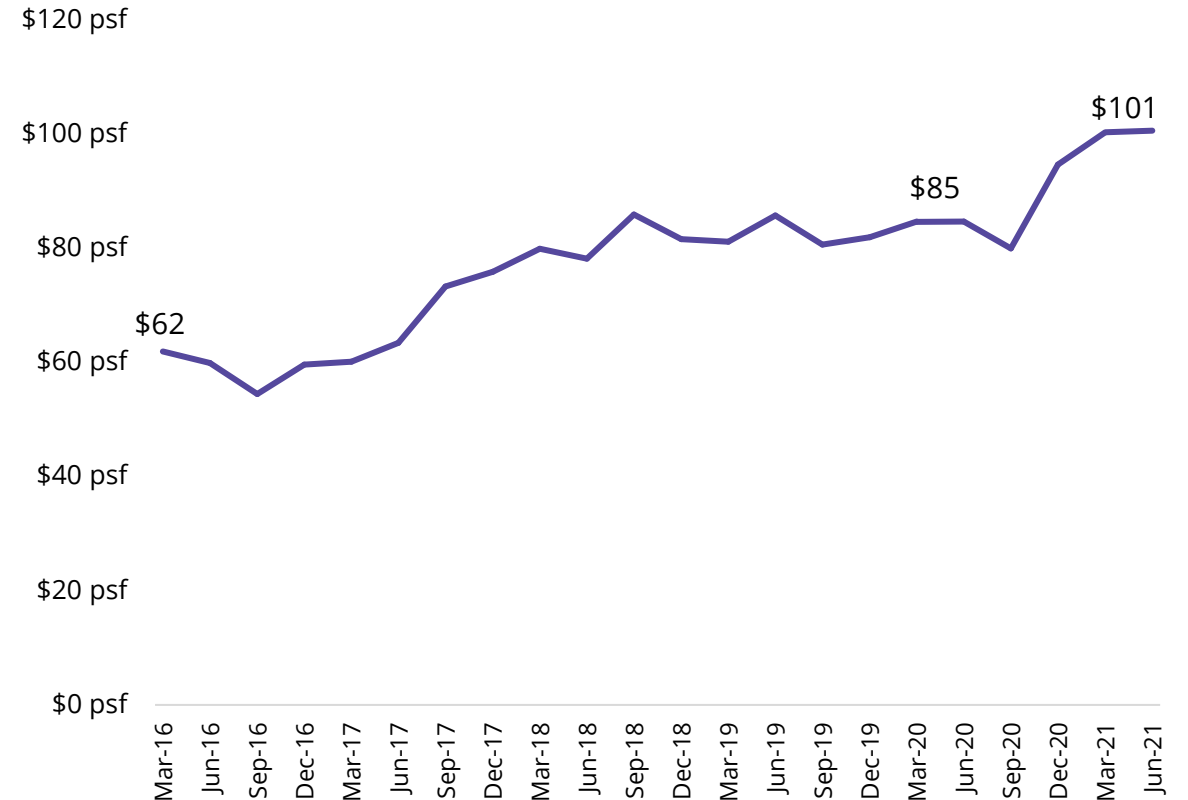
Source: AVANT by Avison Young
RCA

Industrial asset pricing

+ 18.8%

Orlando industrial pricing, March 2020 to June 2021

Pricing for Orlando industrial assets has continued to elevate since 2016, particularly since the pandemic, as an influx of investors seek exposure to properties that can accommodate the rise of e-commerce distribution.



Source: AVANT by Avison Young
RCA

Looking forward



Here's what we can expect

- In order to remain profitable, the **increasing cost of land, labor and construction materials** will result in an acceleration in rents for newly delivered industrial projects, making it more difficult for older, existing product to achieve the same rate of rent growth they have attained over the last several years.
- Continued growth in the **logistics, transportation and construction** sectors will drive much of the industrial leasing activity in Orlando in the latter half of 2021, which is expected to accelerate from its current pace.
- The construction sector will contribute significantly to **GDP growth** in Orlando moving forward through 2025.
- While **supply chain disruption** was an issue at the beginning of the pandemic, semiconductor shortages coupled with the Suez Canal blockage further highlighted frailties within global supply chains. Central Florida is the state's fastest growing region, and the U.S. Census Bureau expects it to outpace the growth of South Florida by a factor of 2 to 1 for the next several years. Moving forward, creating logistics, distribution and shipping efficiencies, in addition to reshoring efforts, will be critical in preventing the kind of disruption that took place in 2020.



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Let's talk

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