



AVISON
YOUNG

Orlando Office Insight Report

Q3 2021

Key takeaways



Economic conditions

- Reopening efforts and steadily rising vaccination rates have enabled the Orlando unemployment rate to rebound from a high of 22.6% to **5.3%**, although work-from-home strategies still vary widely by company.
- Office-using job losses have totaled **7.3%** compared with 10.8% for other industries' job losses, underscoring the disproportionate impact the pandemic had on the discretionary segments of the local economy.



Recovery rate

- As of August 2021, the state of Florida had recovered 974,000 jobs, equivalent to **77%** of all job losses incurred due to the pandemic.
- The Biden administration's intention to begin allowing foreign nationals to travel from Europe, China, Brazil, and India as of this November will help propel the Orlando economy as the influx of travelers will serve to boost the still-recovering tourism and hospitality sector.



Office demand

- Year-to-date leasing activity through September has been strong, totaling **1.6 million sf**. While office occupiers in Orlando continue to contemplate their future space needs in an increasingly hybrid workplace environment and consider downsizing their physical footprints, there has been a steady uptick in activity with strong tenant interest being reported.
- There has been an uptick in the leasing of sublet space over the last two quarters, with several larger deals taking place in Lake Mary.

Key takeaways



Office supply

- Total vacancy remains at its highest point in seven years, totaling **14.8%**. Siemens placed 450,000 sf in two buildings on the market for sublease at the beginning of July, with blocks of space as small as 50,000 sf available, adversely impacting an already saturated sublease market.
- Lincoln Property Company has announced plans to begin work on a new **35-story** office tower in the urban core by the end of 2021, to be located next to the recently built \$133-million Truist Tower. The trophy office building will house 200,000 sf of office space and 230 residential units. A demolition permit has been requested to raze the existing structure on the planned construction site.



Pricing trends

- Average base rents have increased by **6.8%** from peak-to-trough due in part to an increased supply of class A space as well as improved tenant sentiment and an uptick in leasing activity. For the most part, landlords have been holding rates steady and concessions have not been aggressive.
- Demand for space is accelerating as the business economy gains momentum, employees come back to the office, and tenants that postponed their long-term occupancy strategies re-enter the market. This should have a positive impact on asking base rents.



Capital markets

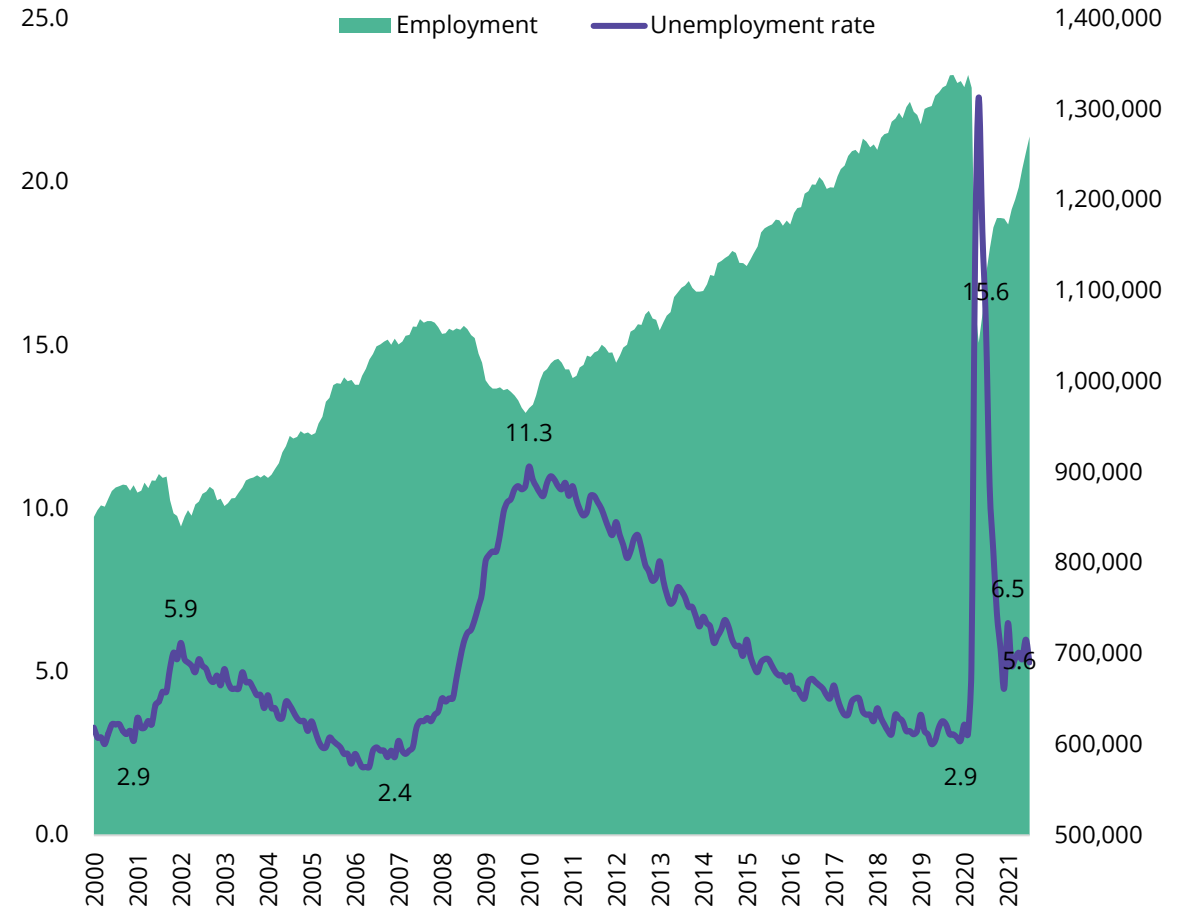
- Office investment activity has been steady in Orlando, with a total transaction volume of **\$367 million** for the period from January 2020 through year-to-date 2021. Activity during the third quarter was relatively quiet compared to 2021's second quarter. The largest sale was Williams & Company's acquisition of the Southpointe building in Maitland for \$5.0 million, or \$188 per sf.
- Orlando ranks in the **top 25 markets** in the U.S. for cross-border capital, with Canada accounting for the greatest office investment activity as of mid-year 2021.

Employment and unemployment rate

5.3%

Orlando unemployment rate as of July 2021

Historically tightened labor market conditions were halted by the pandemic with nearly 295,188 job losses between February and May 2020. However, reopening efforts have enabled the economy to add 21.8% jobs since May 2020.



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

Office-using job gains and losses

-7.3%

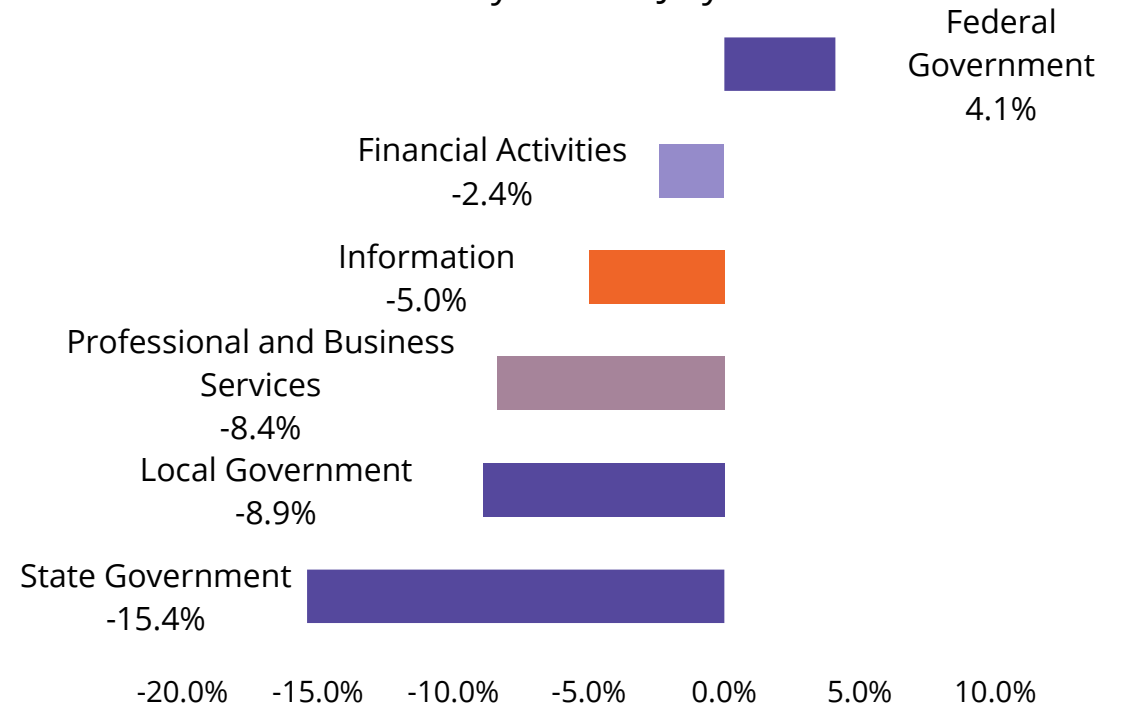
Change in office-using employment during the pandemic

Orlando MSA job losses have declined by 9.6% since the start of the pandemic, though office-using jobs contracted by just 7.3%. This recession's impact on the office-using labor market has been less severe than the global financial crisis that ended in 2009.

[VIEW DASHBOARD](#)

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

February 2020 to July 2021



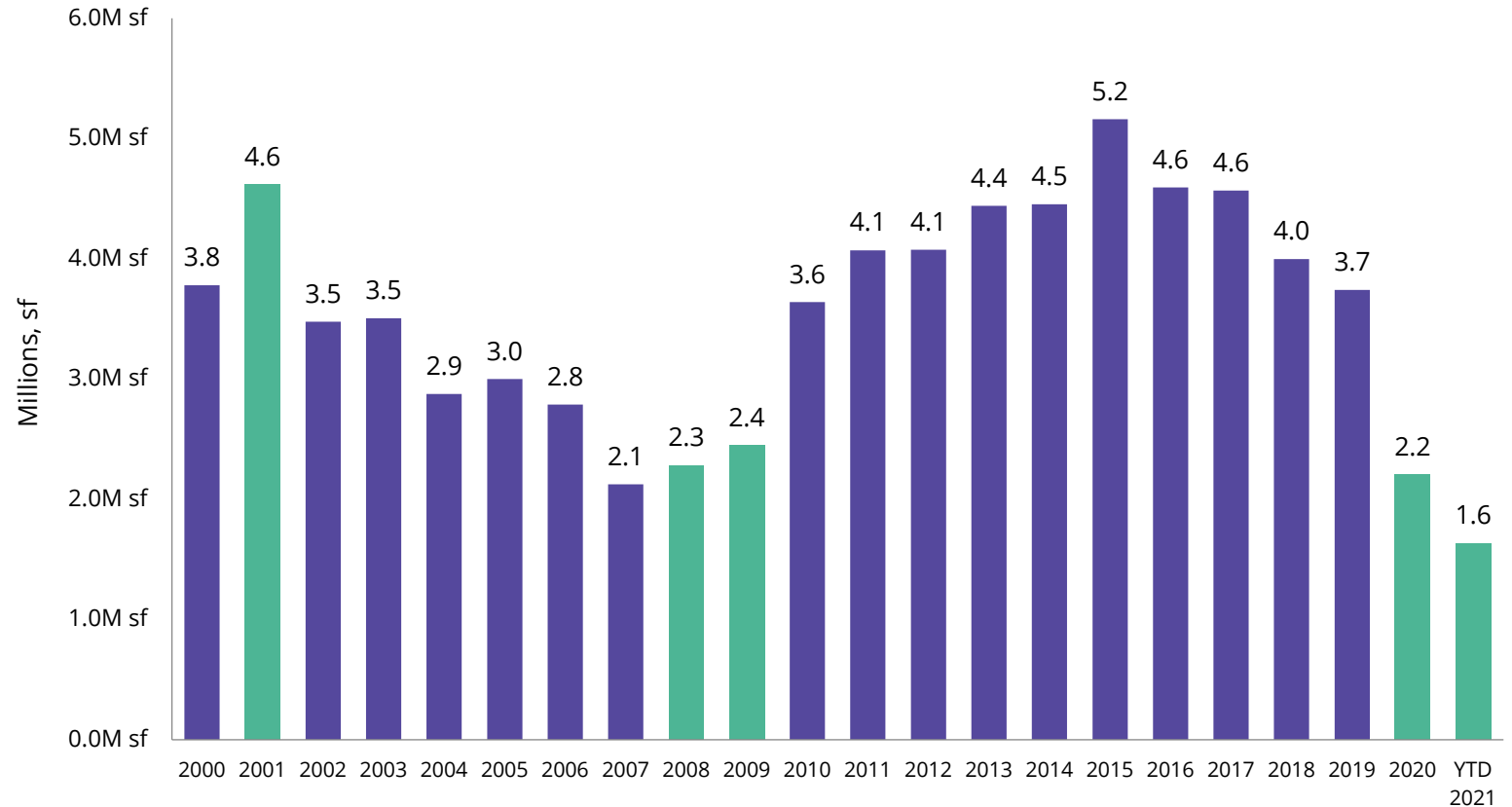
Note: Not seasonally adjusted data. *Metropolitan statistical area.
Source: Bureau of Labor Statistics

Office leasing activity

-25.8%

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

While leasing activity at the midway point of the year has fallen short of being half of the prior year's activity, leasing interest remains strong and should pick up through the remainder of the year.



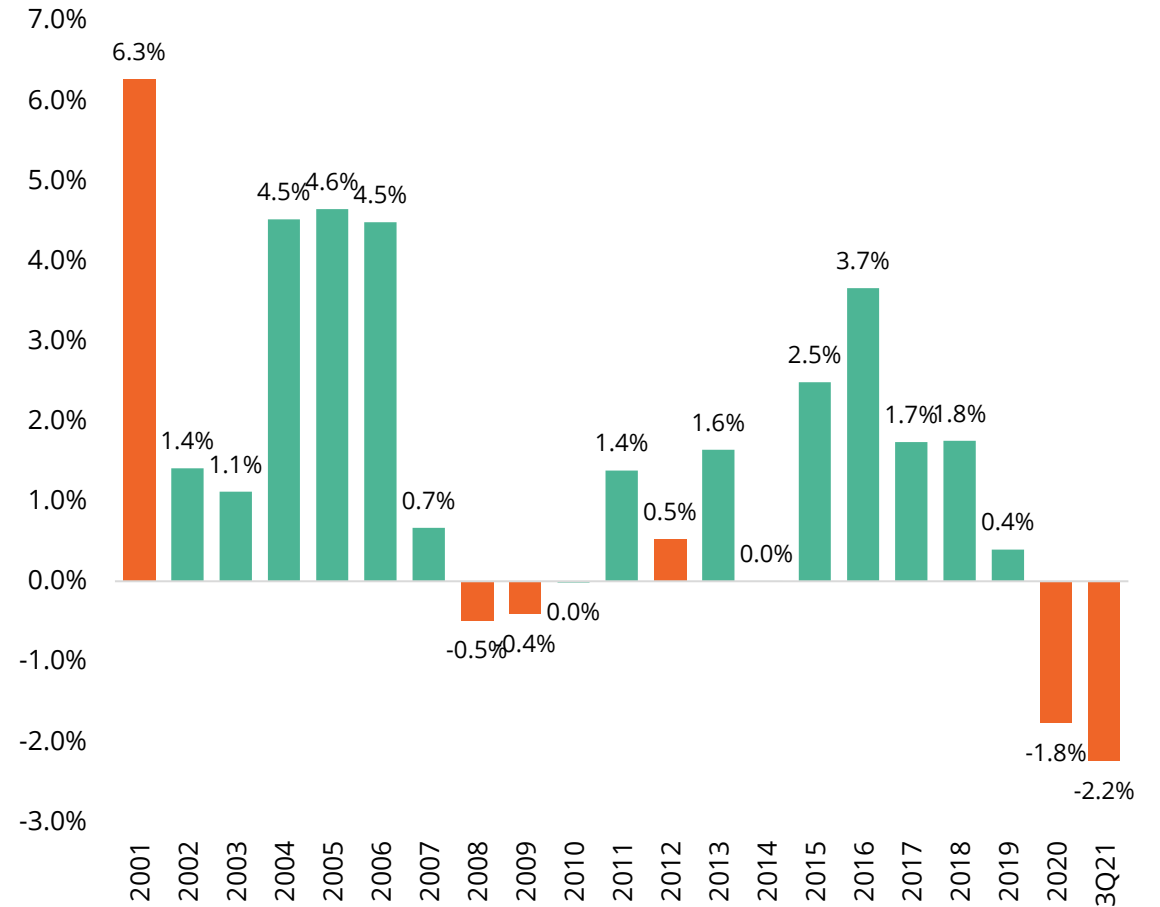
Source: AVANT by Avison Young

Absorption

-4.0%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Negative absorption from 2020 to 3Q21 has totaled 1.5 million sf, totaling -4.0% of the existing stock. This negative absorption significantly surpasses the low of the global financial crisis (-0.5%).



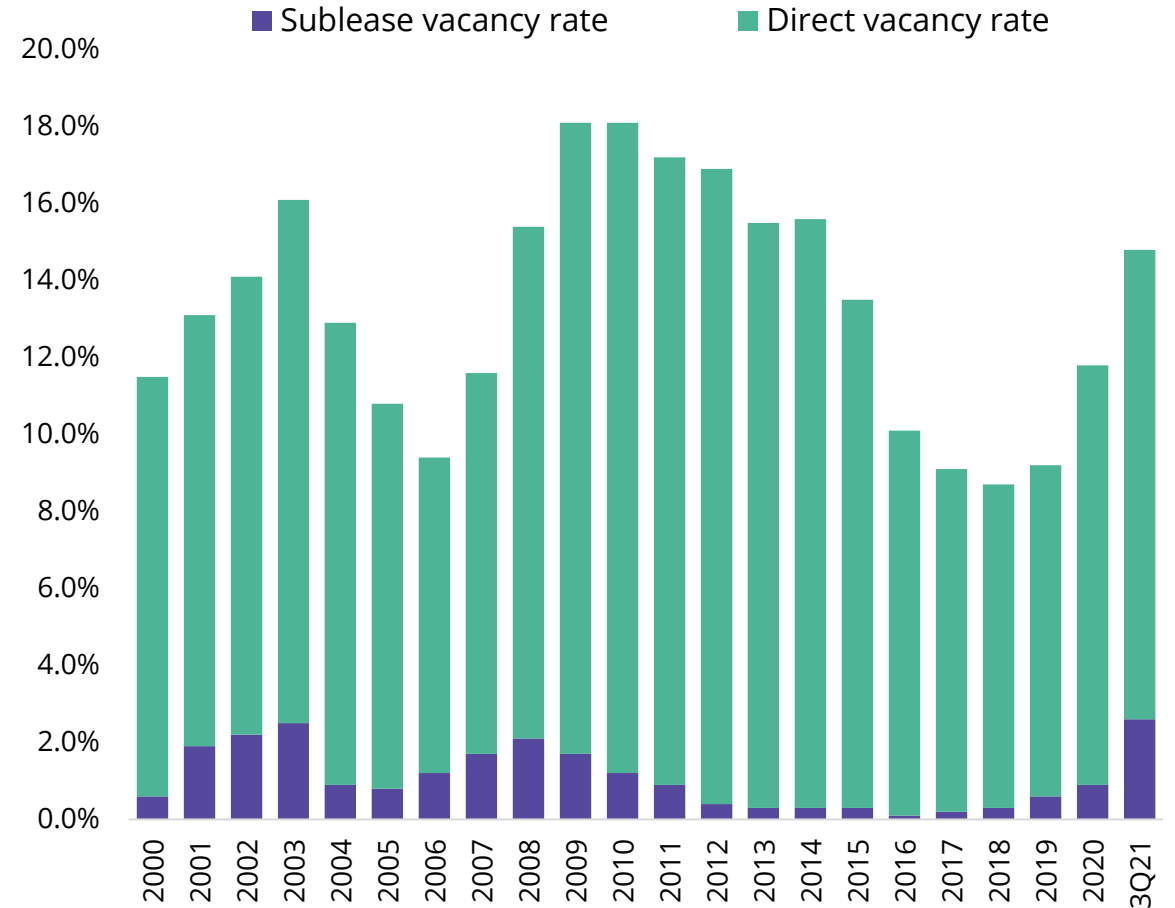
Source: AVANT by Avison Young

Vacancy rate

14.8%

Current vacancy remains at the highest level in seven years

The Q3 2021 vacancy rate is at its highest point since 2014 but remains well below the 18.9% recorded in 2010, which was the highest rate in the previous 20-year period. Overall rents for the current quarter have increased by 0.8% year-over-year.



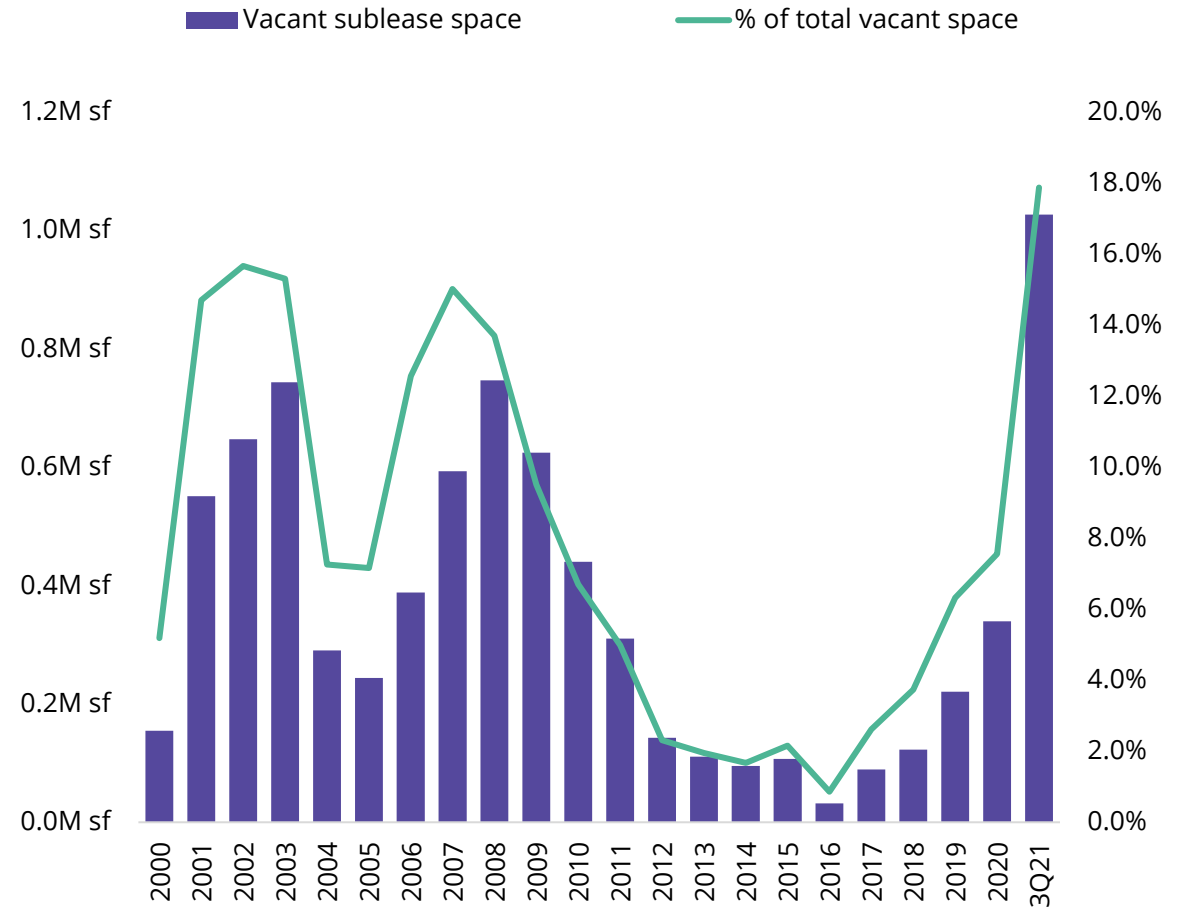
Source: AVANT by Avison Young

Vacant sublease space

1.0 msf

Sublease vacant space nearing levels of prior recessions

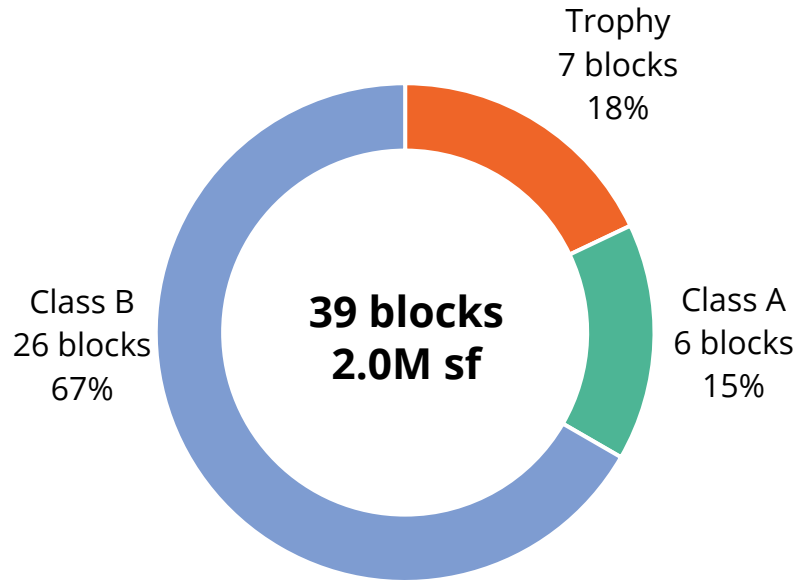
The share of sublease-to-total vacant space of 17.9% has exceeded the peak levels seen during the global financial crisis (14.0%), and the early 2000s recession (14.9%).



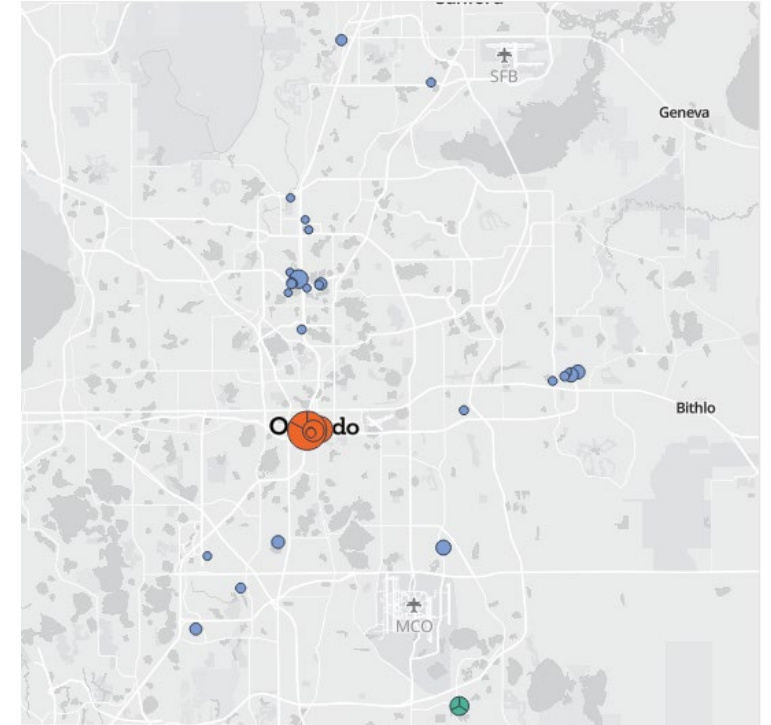
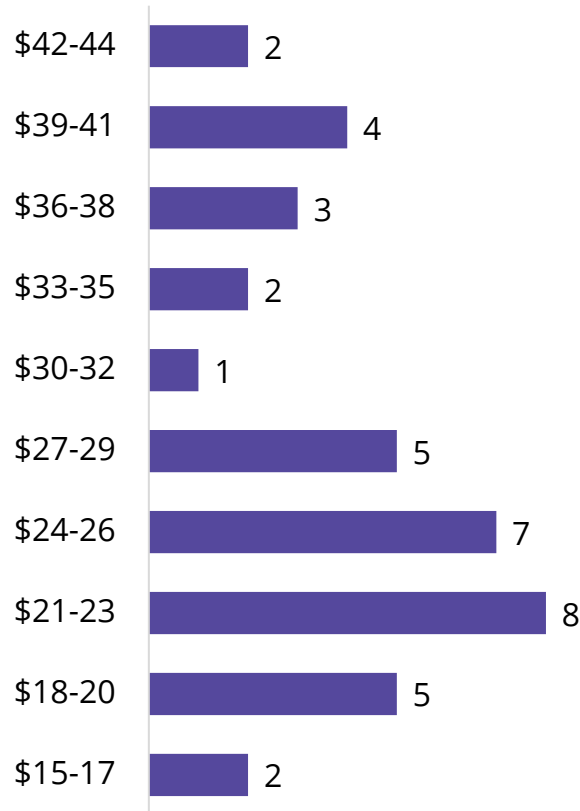
Source: AVANT by Avison Young

Large block supply pipeline

Building classification



Asking rent per square foot



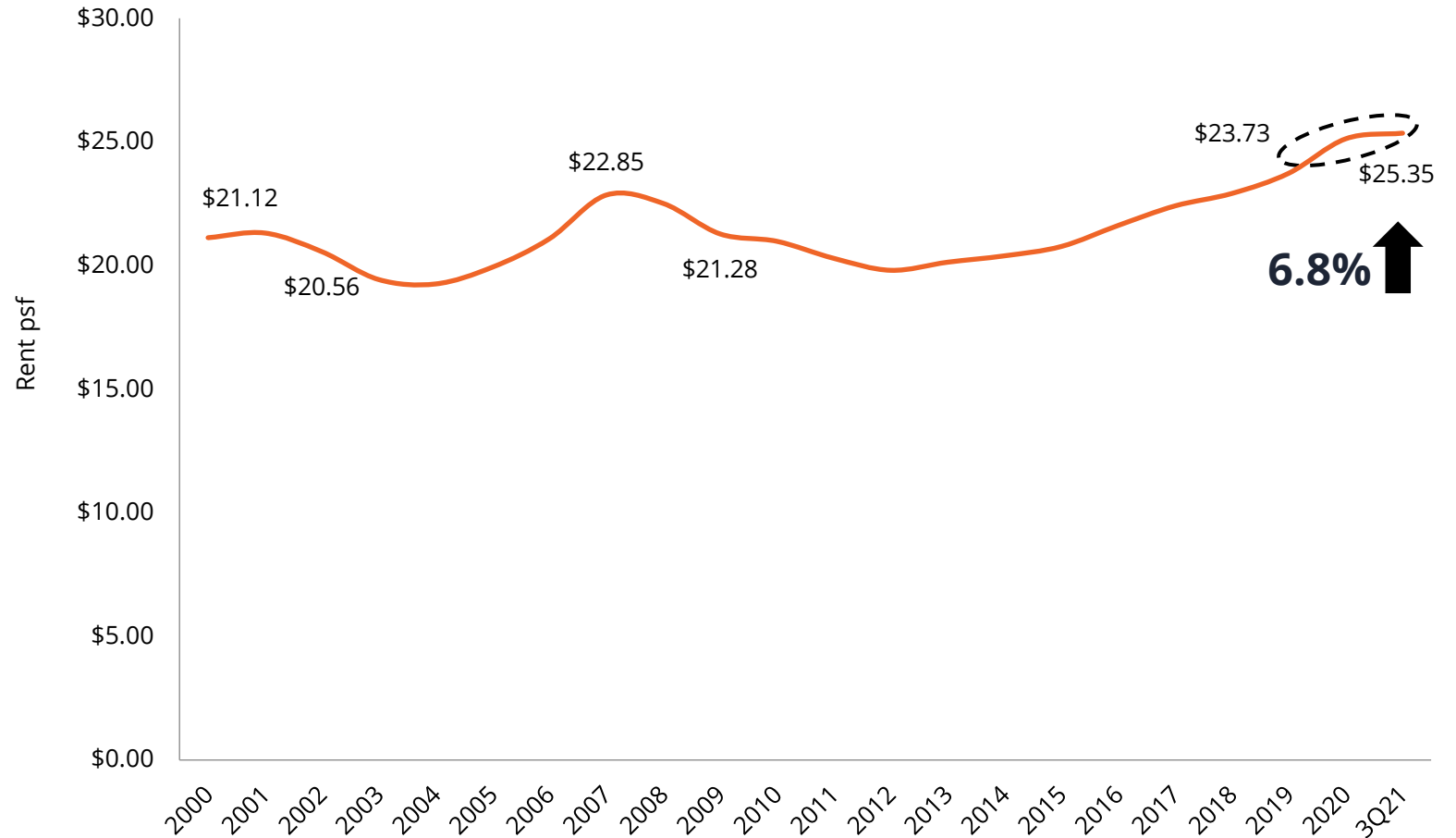
Source: AVANT by Avison Young

Base rents

6.8%

Peak-to-trough change in rents since the onset of the pandemic

Base rents have increased notably since the onset of the pandemic and the resulting recession due in part to an increased supply of class A space, which is the opposite of what occurred in the prior two recessions.



Source: AVANT by Avison Young

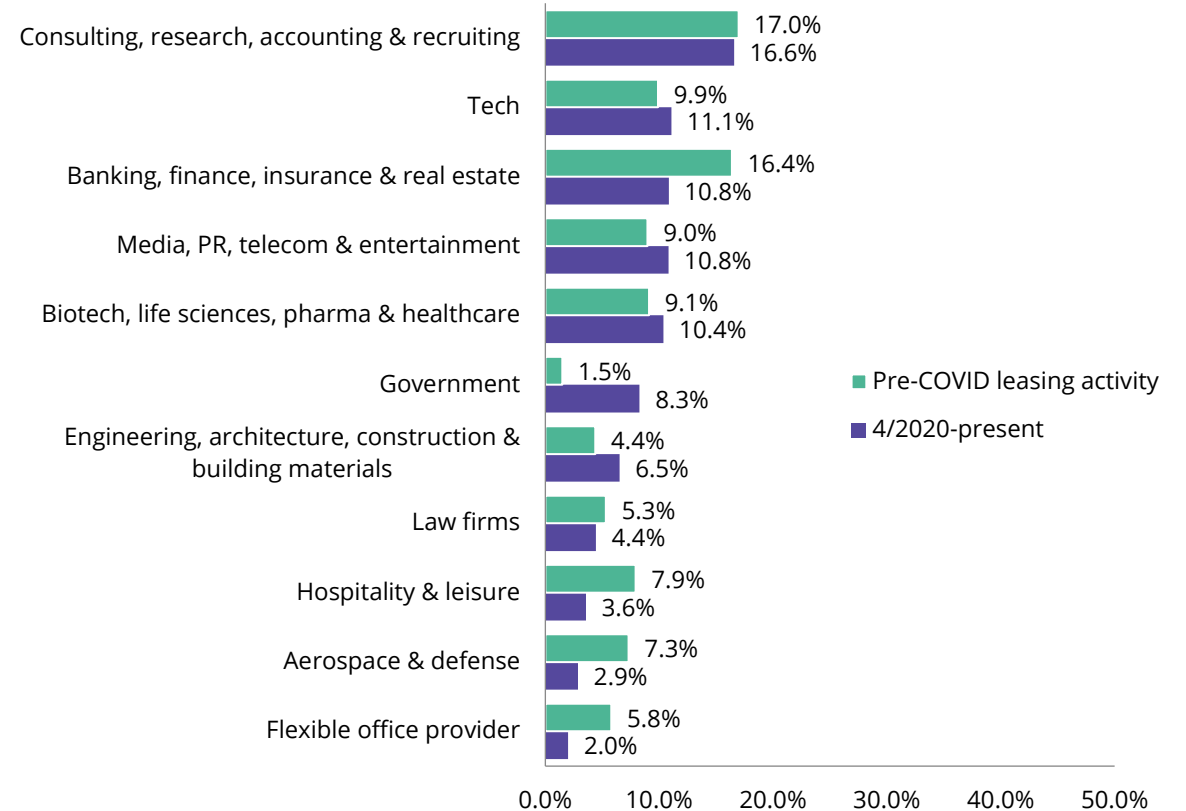
Leasing activity trends

16.6%

of post-COVID leasing activity has been from consulting, research, accounting & recruiting firms

There has also been healthy representation from the banking and FIRE industry and healthcare sectors, with TogetherHealth accounting for the largest new lease deal to date in 2021—a 46,341-sf sublease space in Lake Mary’s Primera development.

Leasing activity



Source: AVANT by Avison Young

Orlando's construction pipeline

25 properties

proposed or under construction

4.0 msf

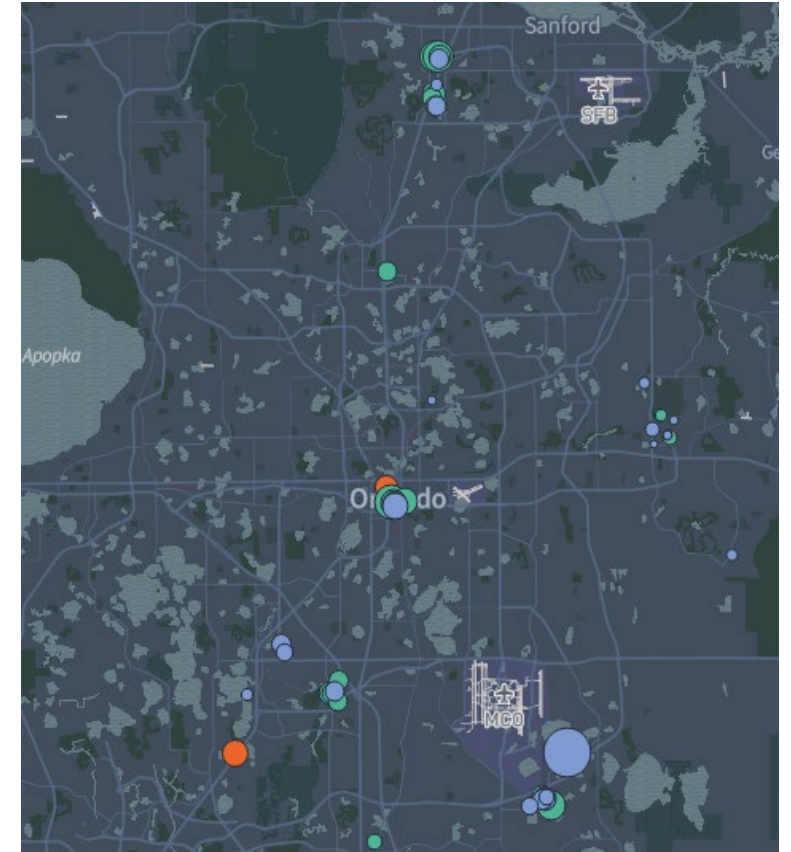
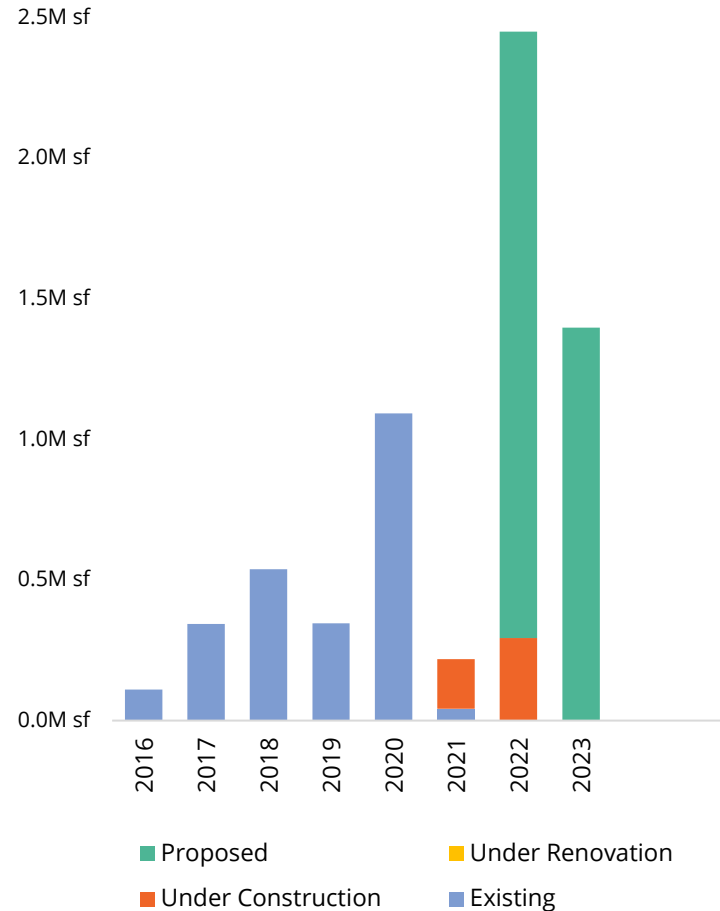
proposed or under construction

9.4%

share of office inventory

2.4 msf

new construction deliveries in Orlando since 2016



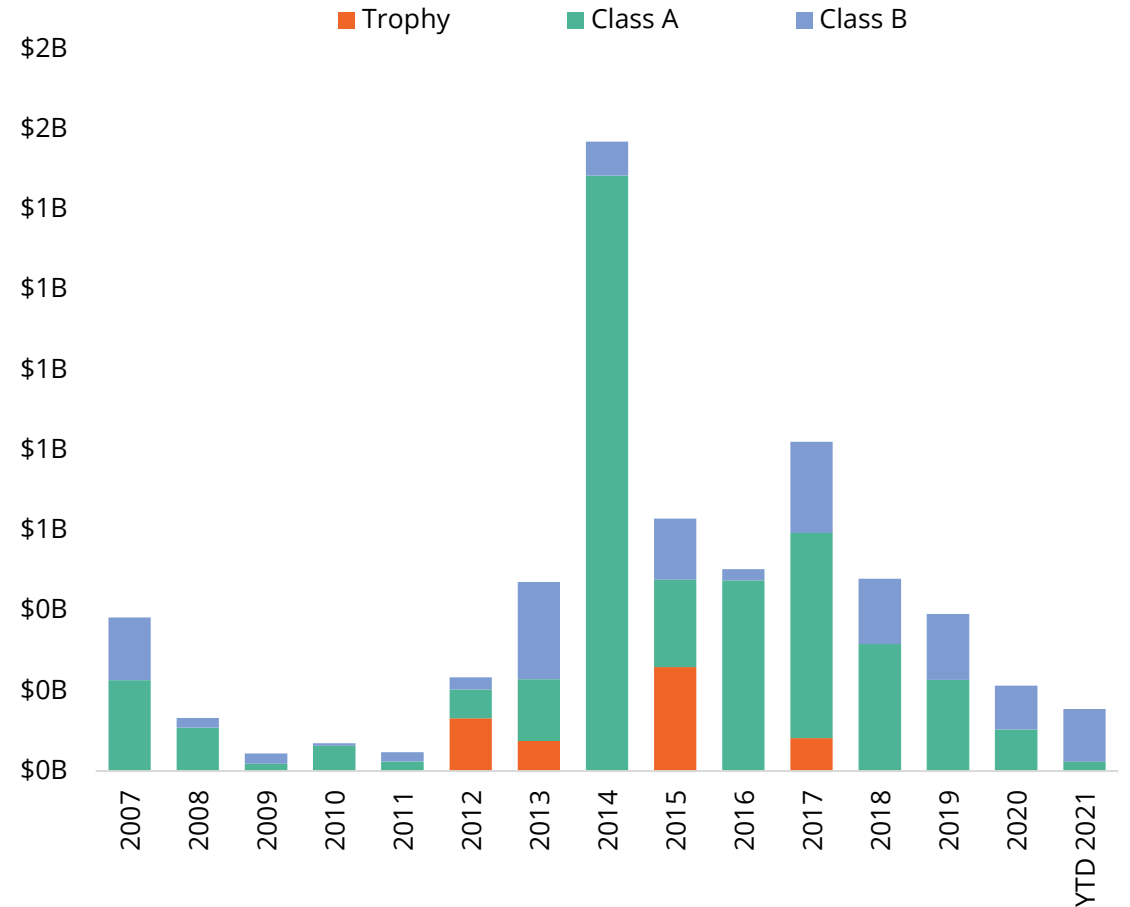
Source: AVANT by Avison Young

Office investment dollar volume

\$367M

Orlando office dollar volume 2020 to present

Office sales activity temporarily paused during the pandemic and, as a result, total sales volume from 2020 through year-to-date 2021 remains down 35% compared to the prior five-year average dollar volume.



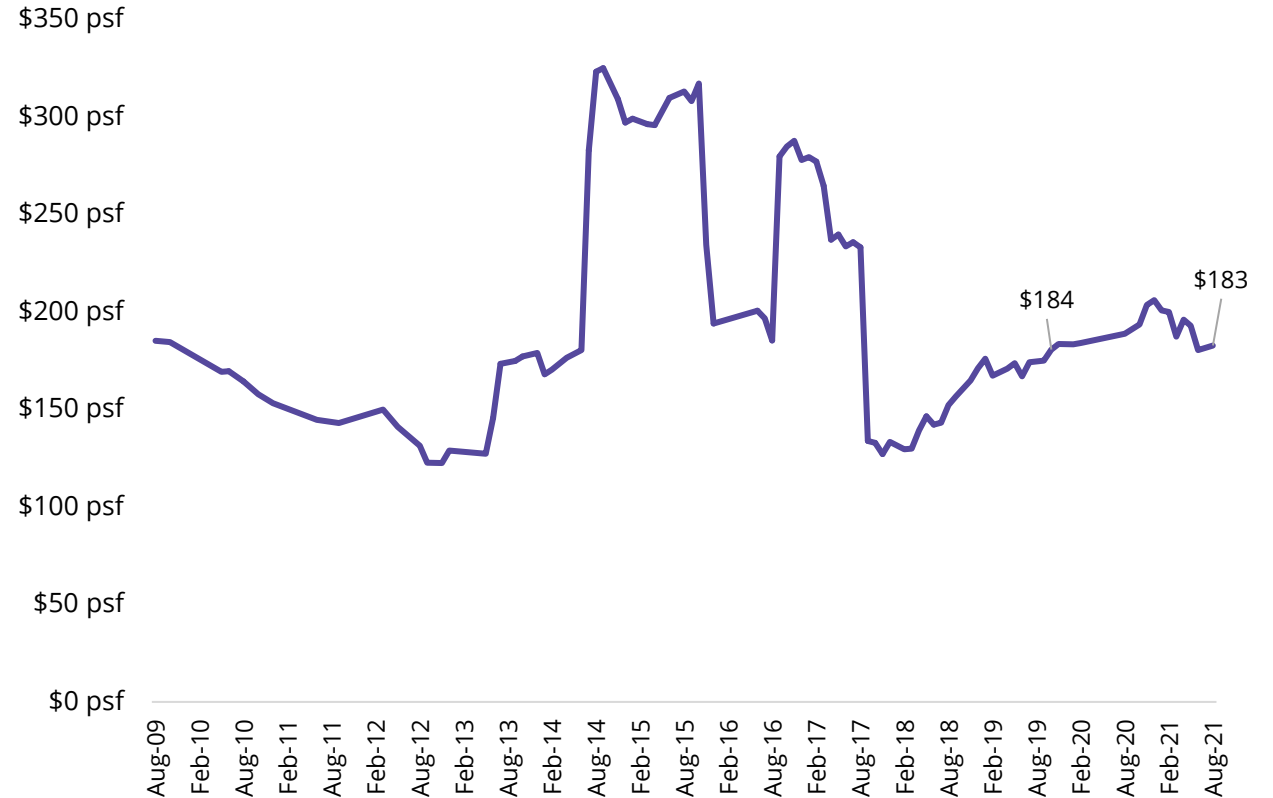
Source: AVANT by Avison Young

Office asset pricing

-0.4%

Orlando office pricing from November 2019 to present

Orlando's office pricing was minimally impacted during the pandemic as investors briefly put sales on hold. As investment activity has begun to pick back up, office pricing has recovered well in 2021, declining only slightly year-over-year by -0.4% from \$184 psf in August 2020 to \$183 psf in August 2021.



Source: AVANT by Avison Young, RCA

Looking forward



Here's what we can expect

- With an ever-increasing number of office occupiers once again comfortable returning to the office, look for an uptick in the **demand for space** heading into 2022.
- **Corporate relocations** have been picking up, most recently evidenced by The Walt Disney Company's decision to relocate 2,000 jobs to the Lake Nona area with an average annual salary of \$120,000. Technology company Checkr, Inc. has also announced it will be opening a third HQ in Orlando, creating 600 jobs in the process. Look for this trend of corporate expansion/relocation to continue heading into 2022 as the Orlando market continues to recover the strong footing it had pre-pandemic.
- Office **leasing momentum** will continue to build heading toward year-end, with a strong fourth quarter expected as available sublease space is further absorbed.
- Moving forward, an increasing number of institutional owners will begin incorporating **ESG initiatives** into their portfolios with a focus on reducing carbon footprints and improving overall wellness for occupiers, although the trend will likely be slow to adapt.



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Let's talk

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