Marcus & Millichap

Industrial Research Market Report

Second Half 2016

Orlando Metro

Specialized Industry Owner-Users, Broad-Based Economy Spur Investor Moves

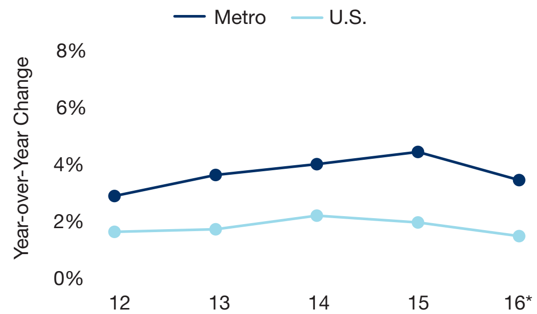
A robust tourism industry, coupled with a considerable concentration of computer simulation businesses, has led to tremendous demand for local industrial space in Orlando. The specialized spaces that these firms require has led to a pickup in development over the past few years, yet the building has been unable to quench demand for spaces as net absorption has exceeded supply growth in every year since 2009. The majority of construction over the current cycle has favored locations along Interstate 4 and Highway 408 that provide quick access to major metro thoroughfares and other distribution networks. While this year's slate of projects will skew toward similar destinations, the amount of new supply will fall below the last two years, fostering another reduction in the metro vacancy rate. Tightening local operations have spilled over into robust average asking rent gains over the past two years yet asking rents still remain below the levels seen in the previous cycle peak, highlighting the potential for further appreciation as tenants scoop up the remaining properties. This will encourage another year of asking-rent appreciation in the high single digits, with vacancy tumbling to the lowest point of the current cycle.

Broad availability of commercial credit, coupled with continued low interest rates, is driving considerable interest in Orlando industrial assets. In addition to these factors, a diverse buyer pool has nearly pushed dollar volume above 2015 levels with several months remaining in the year, highlighting the acceleration in transaction velocity as market operations tighten significantly. The shortage of quality spaces has led to bidding wars in order to deploy capital for business expansion or investment income, compressing cap rates to the mid-7 percent range metrowide. Plummeting vacancy rates have also triggered a willingness to pay higher prices per square foot as well, pushing prices toward the mid-$60 per square foot range. Warehouses near transportation routes have garnered the majority of investor activity, accounting for nearly two-thirds of all closed deals year to date. A slower pace of development in 2016 will strengthen the conviction of buyers, while sellers will be reluctant to sell without first considering refinancing assets and holding out for higher cash flows.

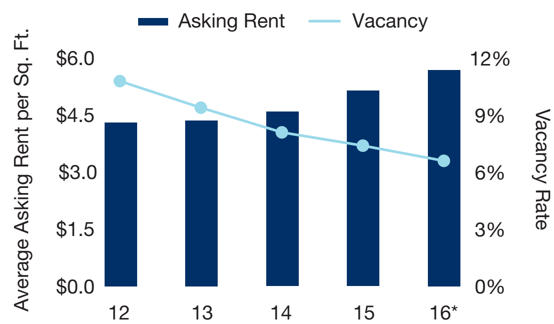
2016 Market Outlook

- **Employment:** Orlando firms will hire 50,000 workers this year, expanding payrolls by 4.2 percent and matching the amount of jobs created in 2015.
- **Construction:** Developers will complete 1 million square feet of industrial space this year, a modest slowdown from the 1.4 million square feet delivered in the prior four quarters.
- **Vacancy:** Net absorption will reach nearly 3 million square feet in 2016, prompting a 170-basis-point reduction in vacancy to 5.7 percent. Last year, vacancy fell 70 basis points.
- **Rent:** After rising 12 percent last year, asking rents will climb 7.2 percent this year to $5.50 per square foot.
- **Investment:** Modern spaces near transportation routes will generate multiple offers, led by owner-users seeking floor plates for expansion.

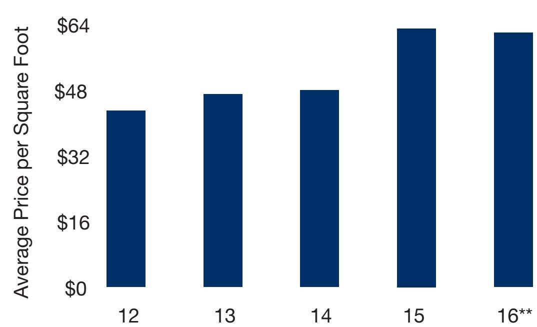
Employment Trends



Asking Rent and Vacancy Trends



Sales Trends



* Forecast ** Trailing 12 months through 2Q

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Moody's Analytics

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