Marcus & Millichap

Industrial Research

2018 INVESTMENT FORECAST

Orlando Metro Area

Expanding Economy Incites Amplified Development, Strong Investor Interest

Low vacancy contributes to healthy rent growth. Exceptional household formation and employment growth in recent years has prompted businesses to seek industrial space closer to central Florida's rapidly growing population as the need for additional distribution channels has increased. Robust demand reduced the metro's vacancy rate 280 basis points since 2015, aided by sub-3 percent rates in northeast Orange County and north Osceola County. To help alleviate tight market conditions, construction levels will remain heightened this year, specifically in Orlando's northwestern sections where over 1 million square feet is slated for delivery. A large portion of that development is located along Florida 429 in Ocoee and Winter Garden where speculative space comprises the majority of the new supply. Other notable expansions include two warehouses at Horizon Commerce Park in the Sky Lake area, which will combine for roughly 240,000 square feet of space. Rents post one of the largest increases in the nation this year as vacancy remains low.

Favorable returns attract diverse array of buyers. Tight vacancy and new inventory lured investors to Orlando in past years, sparking escalated transaction velocity. Sales activity should remain strong again this year as local investors seek warehouses in the Seaboard Industrial neighborhood just northwest of downtown. Although assets in this area lack some modern amenities found in facilities in southern parts of the metro, this Class B/C space allows buyers with limited capital to invest in value-add opportunities as cap rates may extend into the upper-8 percent band. Institutional investors look to deploy capital into Class A assets near Orlando International Airport. Here, space sells upward of $50 per square foot and initial returns fluctuate in the low-6 to low-7 percent range.

2018 Market Forecast

Employment up 3.1% — Hiring continues as 40,000 workers are added to payrolls this year. This is the sixth consecutive year employment growth exceeds 3 percent.

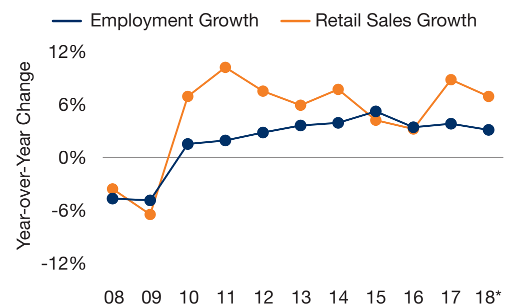
Construction 2.3 million sq. ft. — Following a completion total of 2.6 million square feet last year, Orlando records a minor slowdown in development in 2018.

Vacancy up 10 bps — With much of the new space largely unleased, vacancy logs a slight uptick this year, pushing the rate to 4.4 percent. Last year, vacancy dropped 50 basis points.

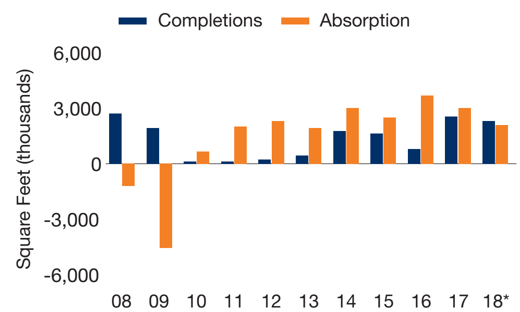
Rent up 8.1% — Consistent demand in the Orlando industrial market results in a notable rise in the average asking rent, pushing the figure to $6.39 per square foot.

Investment — As household formation continues to intensify, investors will seek new space in outer-ring suburbs due to surging demand for consumer goods in these parts.

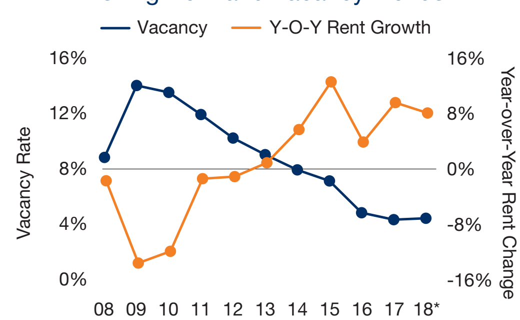
Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



* Forecast
Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Real Capital Analytics

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