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1Q24

# Orlando Industrial Market Overview

**NEWMARK**

# Market Observations

## Economy

- The market's unemployment rate ticked up by 52 basis points year over year to 3.2% but remained well below the five-year average of 4.9%.
- Job growth pace has slowed compared with recent highs to 1.8% year over year, and employment growth has fallen below pre-pandemic levels, with 2019 growth averaging 2.9%.
- All sectors, except financial activities, reported employment growth, with education and health leading job gains at 3.8% over the past 12 months.
- Industrial-using jobs in the market continued to reflect yearly growth, with trade/transportation/utilities jobs and manufacturing jobs growing by 2.1% and 0.4% year over year, respectively.

## Major Transactions

- Cencora signed the largest lease of the quarter, renewing 328,074 SF in Building 1304 at 10910 Lee Vista Blvd.
- Pinto Transport leased the entirety of the newly built, 167,242 SF MCO Logistics @ AIPO, for the quarter's second largest lease.
- All five of the quarter's largest leases took place in the SE Orange County submarket, underscoring the submarket's desirability among occupiers.

## Leasing Market Fundamentals

- The market reported 102,769 SF of positive absorption in the first quarter of 2024, decreasing 86.5% quarter over quarter.
- Overall rental rates grew 2.2 % year over year to \$10.12/SF but fell from the historical high of \$10.45/SF reported the previous quarter.
- Construction deliveries rose to 2.5 SF delivered in the first quarter of 2024, while the pipeline receded to 4.3 MSF under construction, shifting toward pre-pandemic levels.
- Vacancy increased by 240 basis points year over year to 6.3% in the first quarter of 2024, pushed up by an influx of deliveries which outpaced demand for the second consecutive quarter.

## Outlook

- The Orlando industrial market will continue to see an influx of supply on the market in the near term, due to 2.4% of the current market's inventory being under construction. New deliveries, which are 53.0% pre-leased, will outpace demand in the near term.
- Vacancy rates are expected to increase in the near term, as supply outpaces occupancies, before flattening again once the new supply is absorbed.
- Asking rents will likely continue to increase, due to elevated inflation and a large pipeline of quality new product commanding higher pricing coming online.

1. Economy
2. Leasing Market Fundamentals



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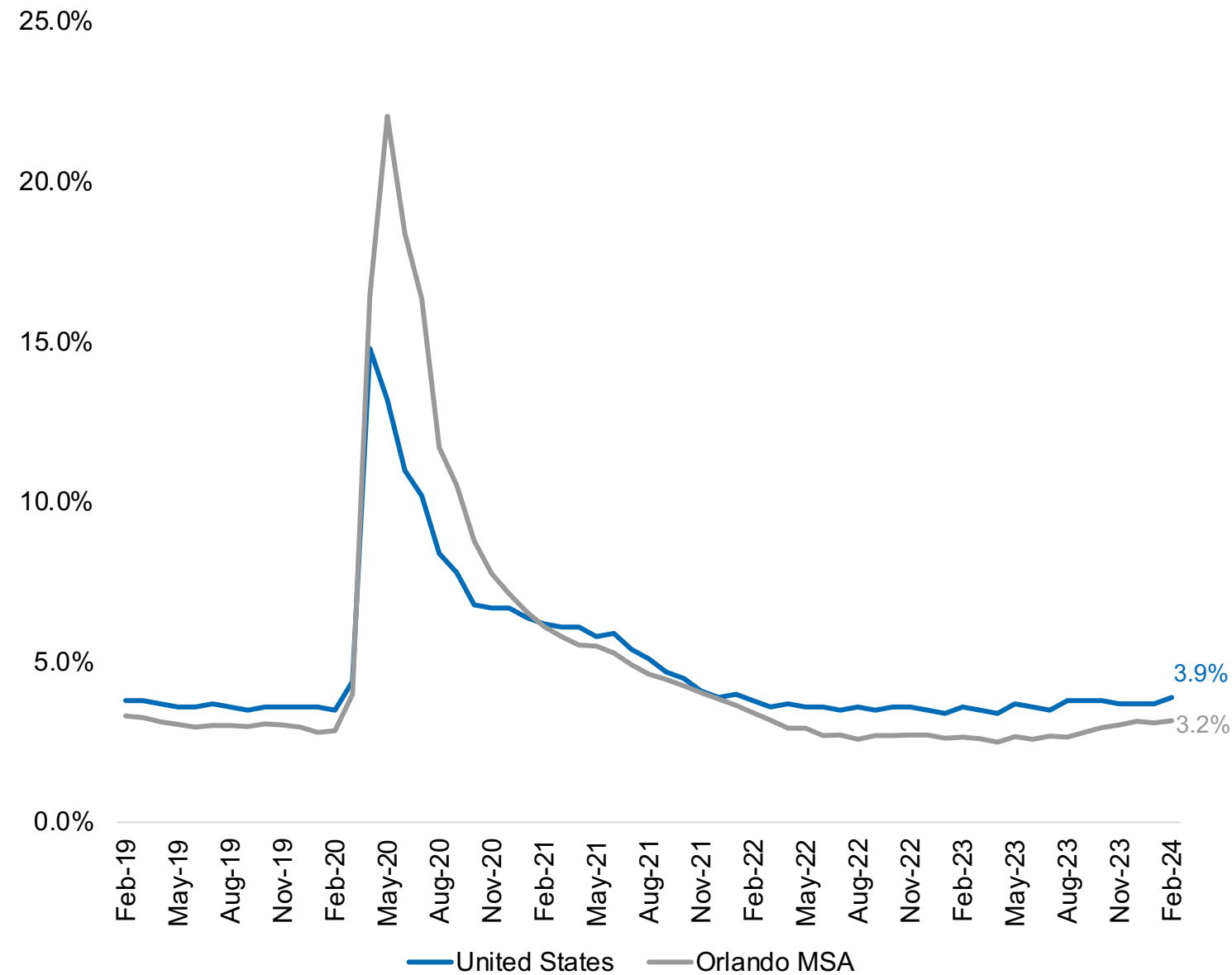
# Economy



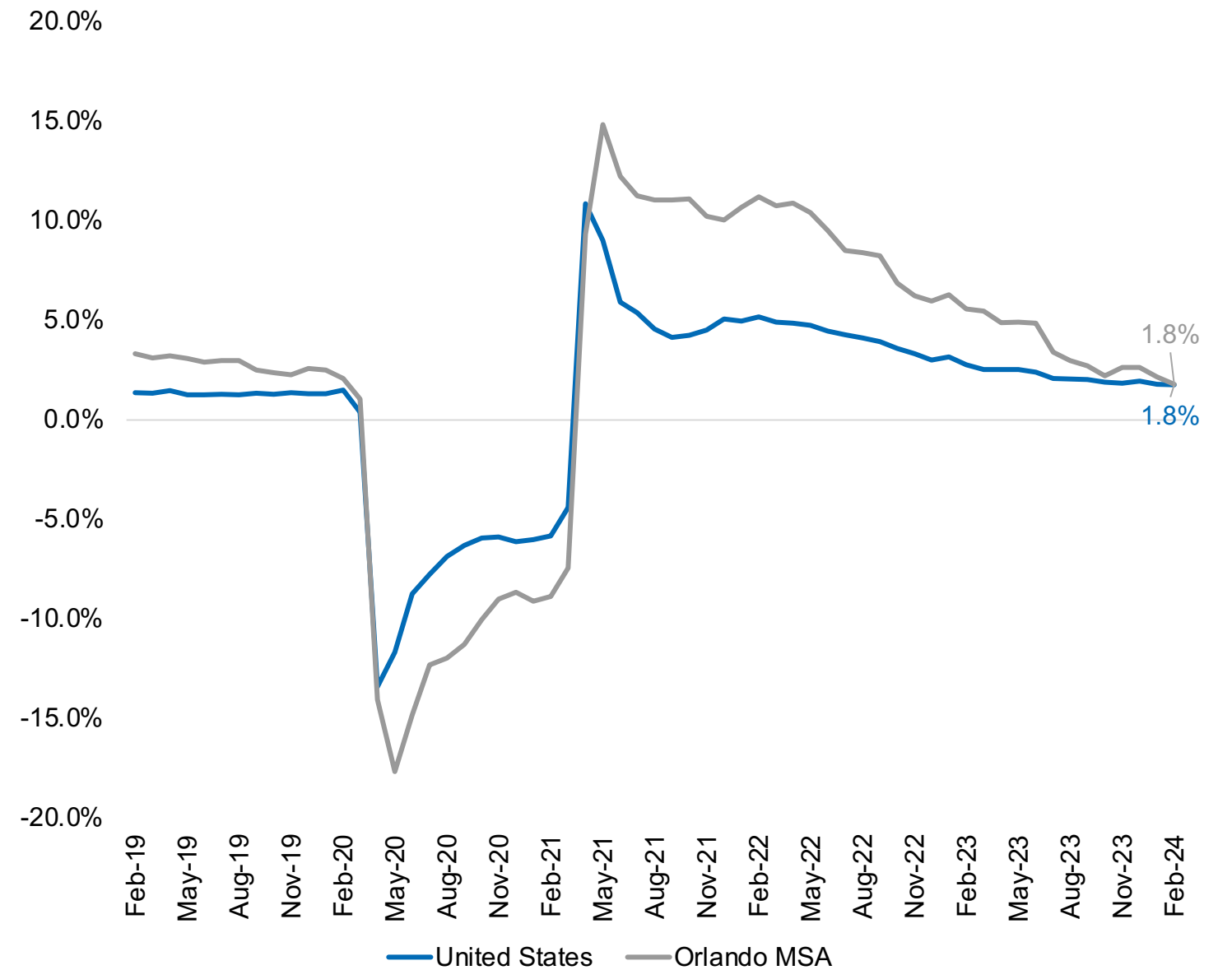
# Metro Employment Trends Continue to Signal a Slowing Economy

The Orlando market has generally reported lower unemployment rates compared with the national average, while being an outperformer in employment growth. Although the region's unemployment rate increased by 52 basis points year over year, national economic headwinds have pushed employment year-over-year growth rate to slow by 378 basis points compared with the previous year.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change



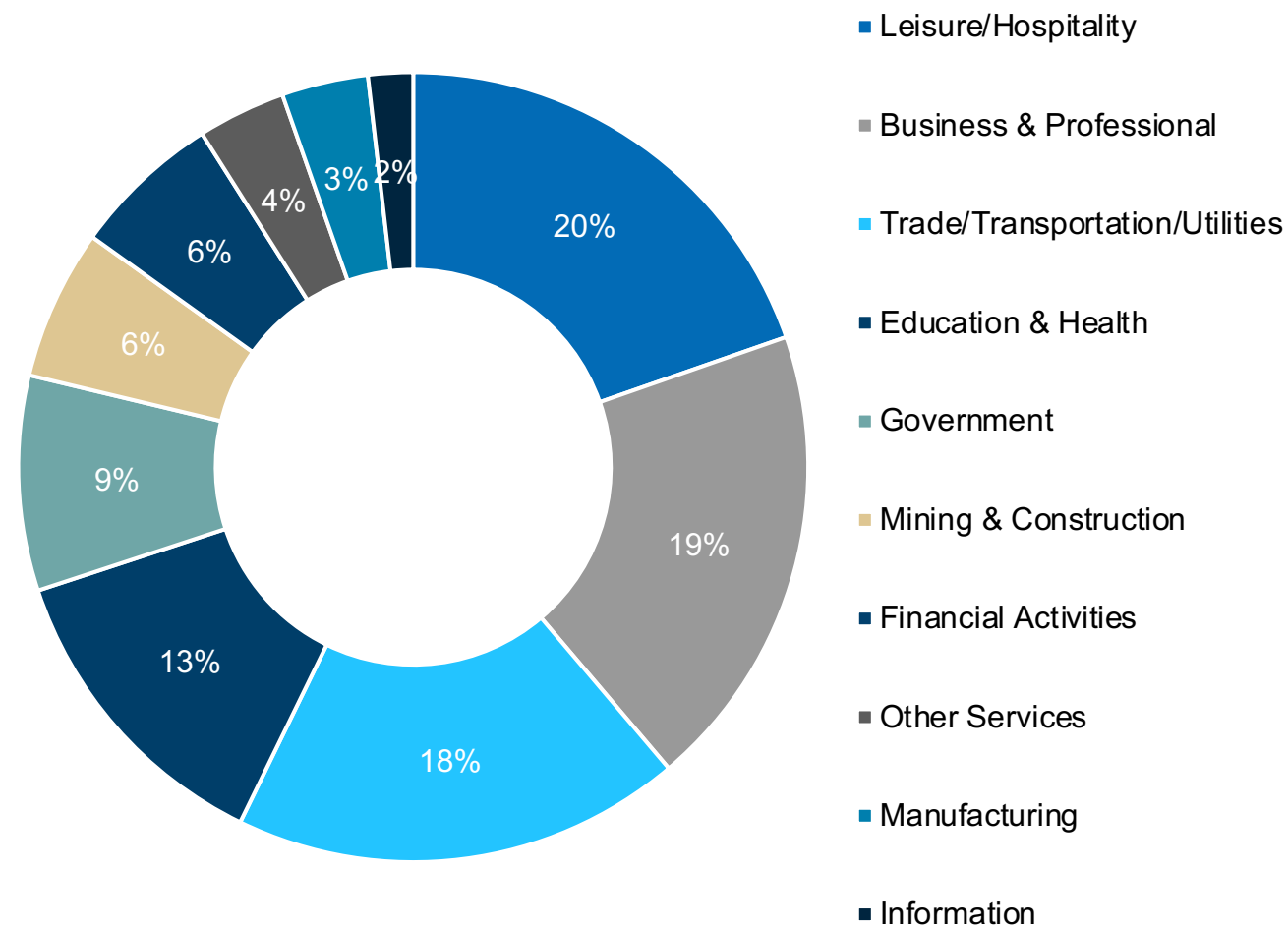
Source: U.S. Bureau of Labor Statistics, Orlando MSA



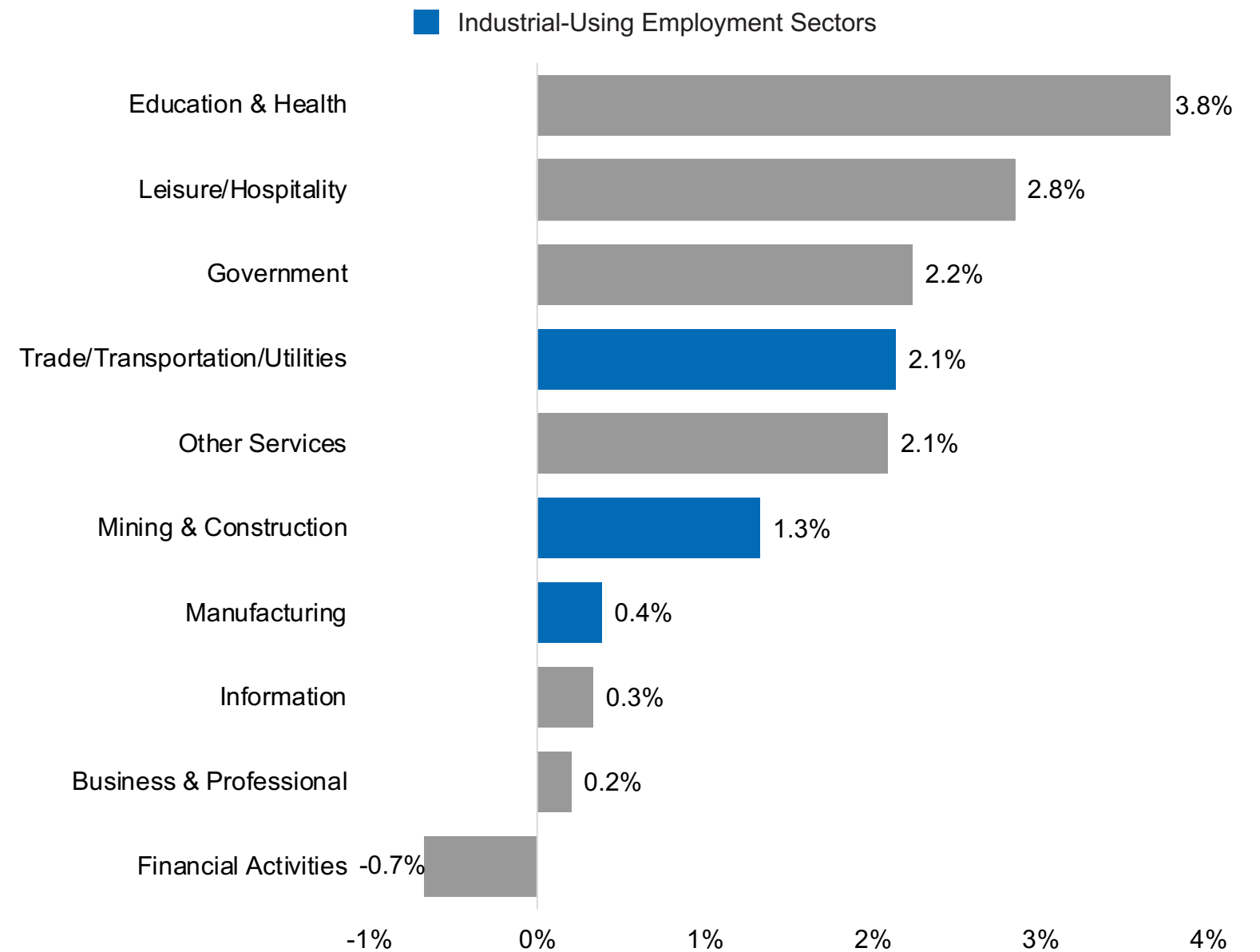
# Employment Growth Across All Industrial Sectors

Known for its tourism sector, the Orlando market's top two employment industries account for 38.8% of the market share. The industrial-using employment's trade/transportation/utilities sector is the third-largest industry sector in the metroplex at 18.4%. All industries in the metro, except for financial activities, reported growth with industrial-using industries reporting year-over-year gains ranging from 0.4% to 2.1%.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

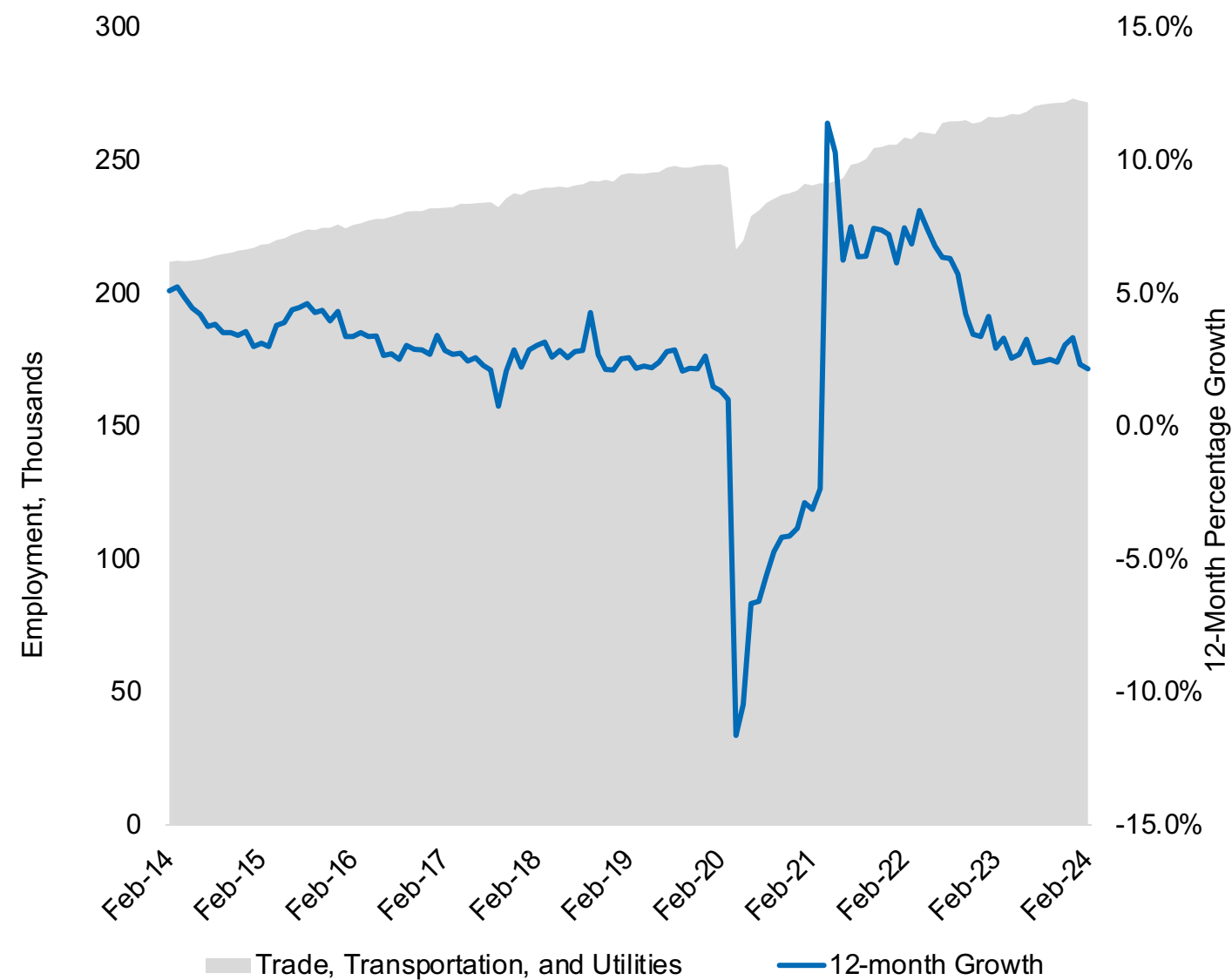


Source: U.S. Bureau of Labor Statistics, Orlando MSA

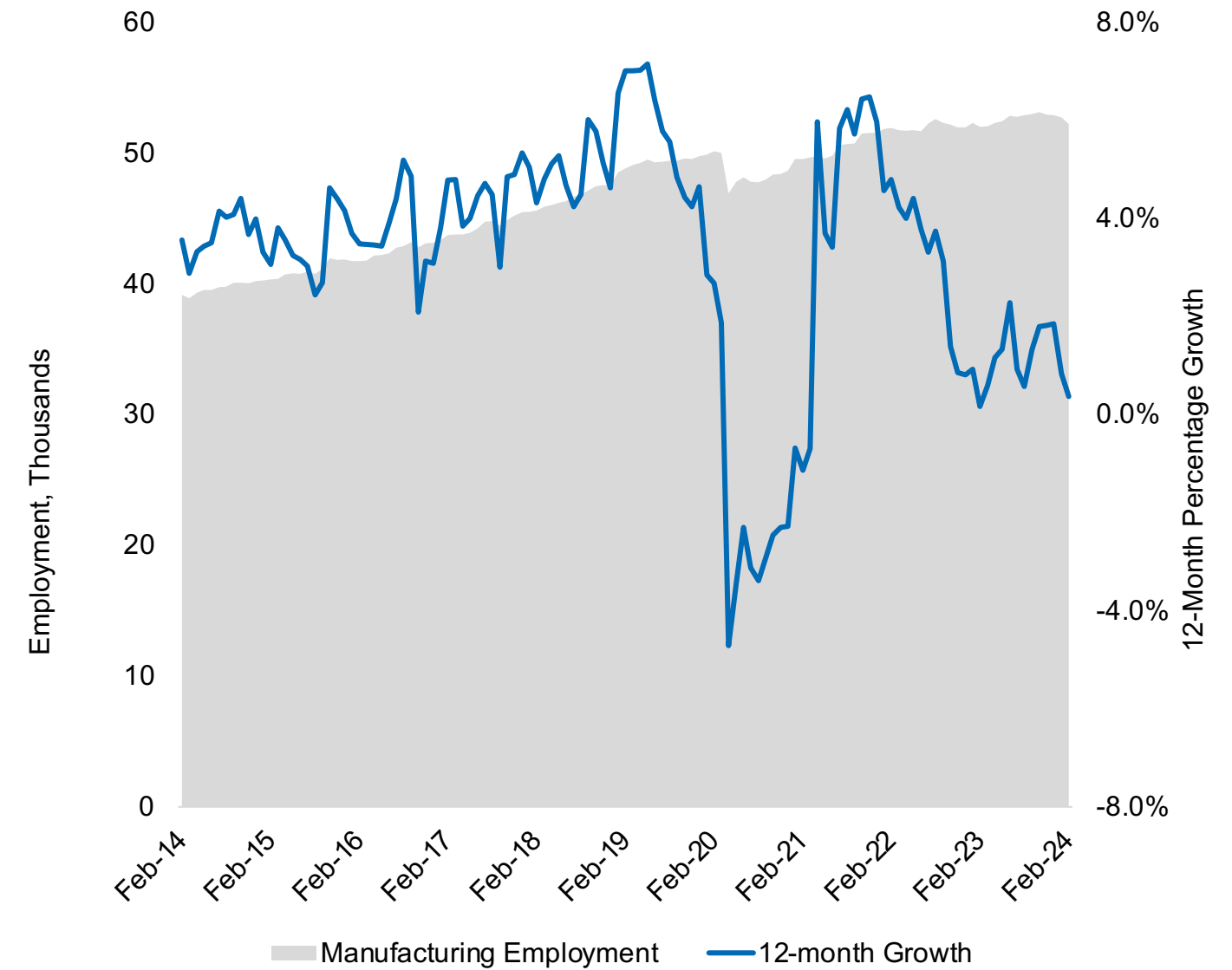
# Industrial Employment Growth Eases but Remains Elevated

Trade/transportation/utilities employment as of the end of February 2024 was at 271,565 employees, easing from an all-time high of 273,022 employees reported in December 2023. Manufacturing employment continues to remain elevated, with year over year growth of 0.4% and 52,206 employees in February 2024. Industrial-using employment continues to show yearly growth, albeit at a slower pace than before, reflecting a slowing economy.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Orlando MSA



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# Leasing Market Fundamentals

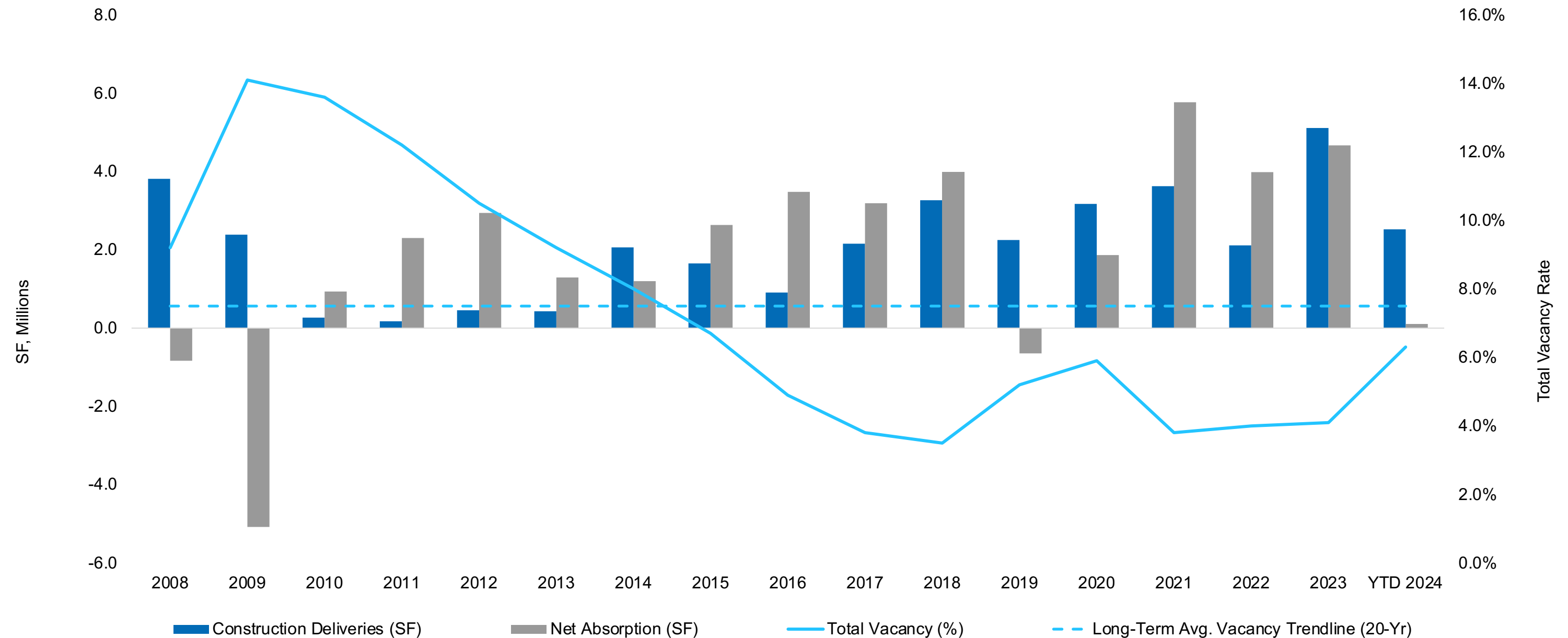




# Demand Remains Positive Despite Increased Deliveries

The Orlando industrial vacancy rate increased by 240 basis points year over year to 6.3% in the first quarter of 2024, pushed up by new supply coming online. Deliveries continue to remain strong in the market, with new supply totaling 2.5 MSF in the first quarter of 2024, higher than the annual totals reported in 2022. Despite dropping 86.5% quarter over quarter, demand remains positive, with net absorption totaling 102,769 SF in the first quarter of 2024.

## Historical Construction Deliveries, Net Absorption, and Vacancy

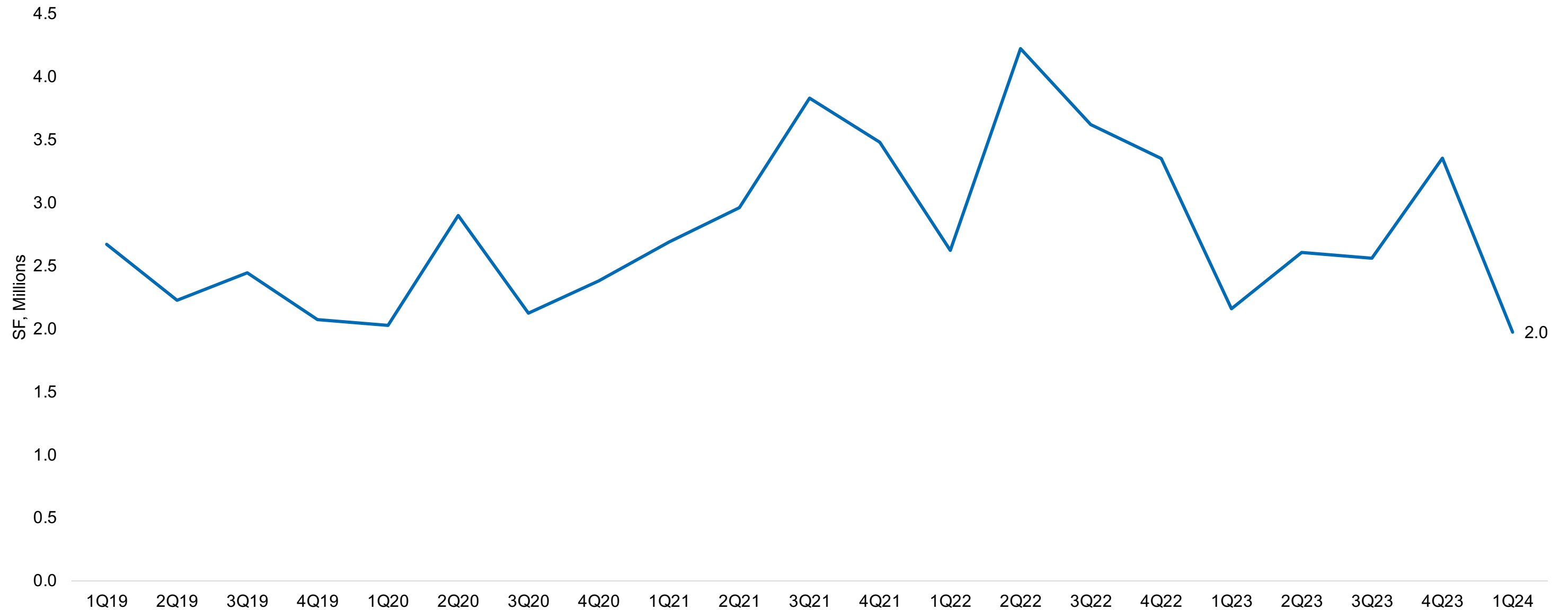


Source: Newmark Research, CoStar

# Industrial Leasing Activity Decelerates to Pre-Pandemic Levels

In the first quarter of 2024, leasing activity decelerated from the previous quarter to 2.0 MSF, falling to levels reported pre-pandemic. Despite slowing leasing activity likely resulting from national economic headwinds, demand continues to remain positive in the market.

Total Leasing Activity (SF)



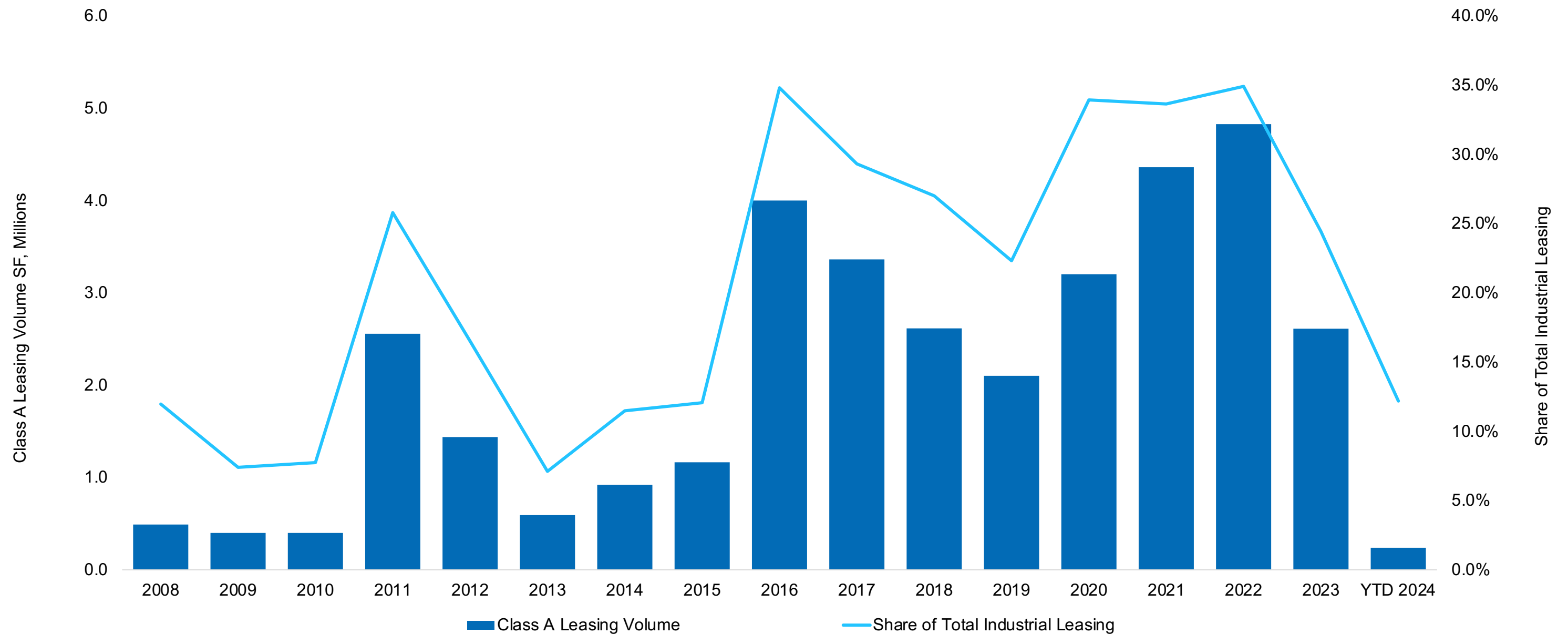
Source: Newmark Research, CoStar



# Class A Warehouse Leasing Has Slow Start to the Year

Leasing activity for Class A warehouse decreased at the start of 2024, despite strong activity within the asset class the previous quarter. Class A warehouse leasing activity totaled 240,495 SF in the first quarter of 2024, reflecting a sharp decline from 1.1 MSF reported the previous quarter. Class A warehouse leasing represented 12.2% of overall activity in the first quarter of 2024, down from 20.9% in the first quarter of 2023.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

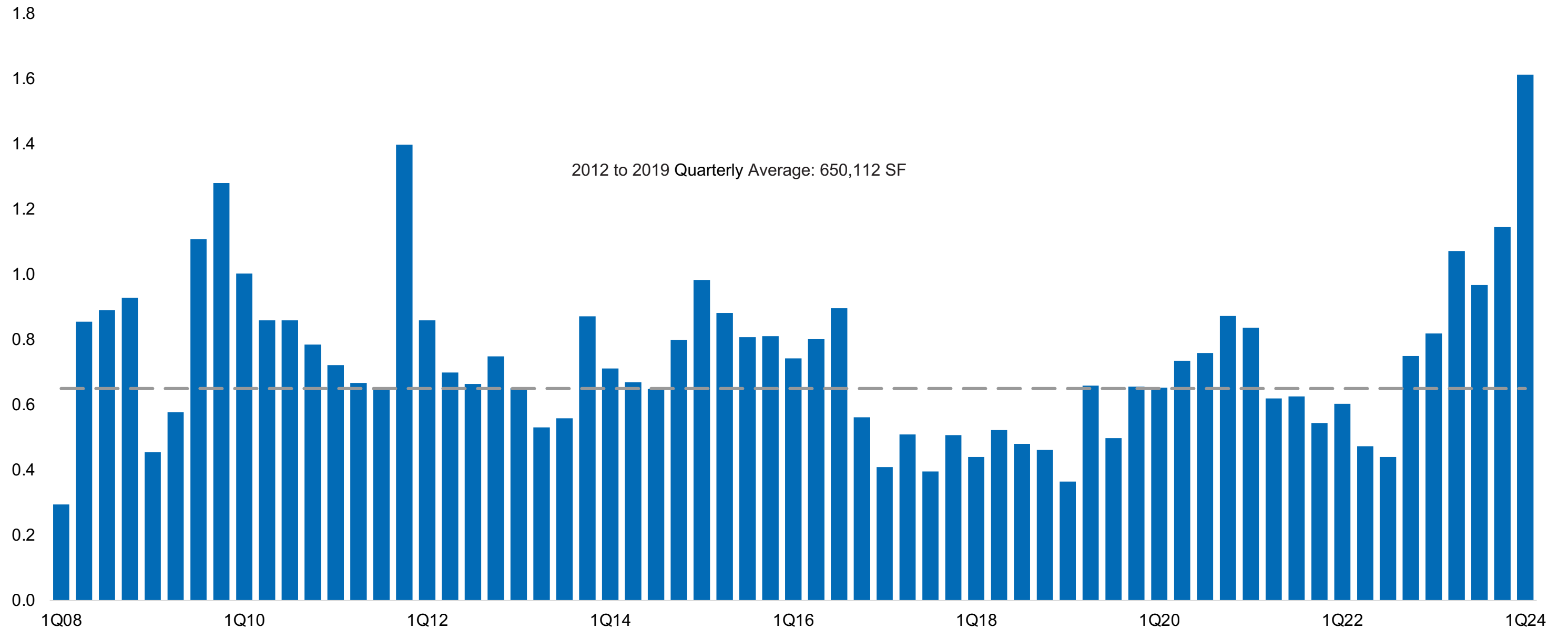


Source: Newmark Research, CoStar

# Industrial Sublease Climbs to New High

Sublease volume has increased to a recent high of 1.6 MSF in the first quarter of 2024, an increase of 40.9% quarter over quarter. The rate at which subleases were added to the market has accelerated with the first quarter of 2024 increasing by 96.9% year over year. Rising interest rates, an inflationary environment and declining consumer demand are driving some firms to control costs via supply chain optimization and consolidation, which includes putting excess or underutilized space up for sublease.

Available Industrial Sublease Volume (msf)



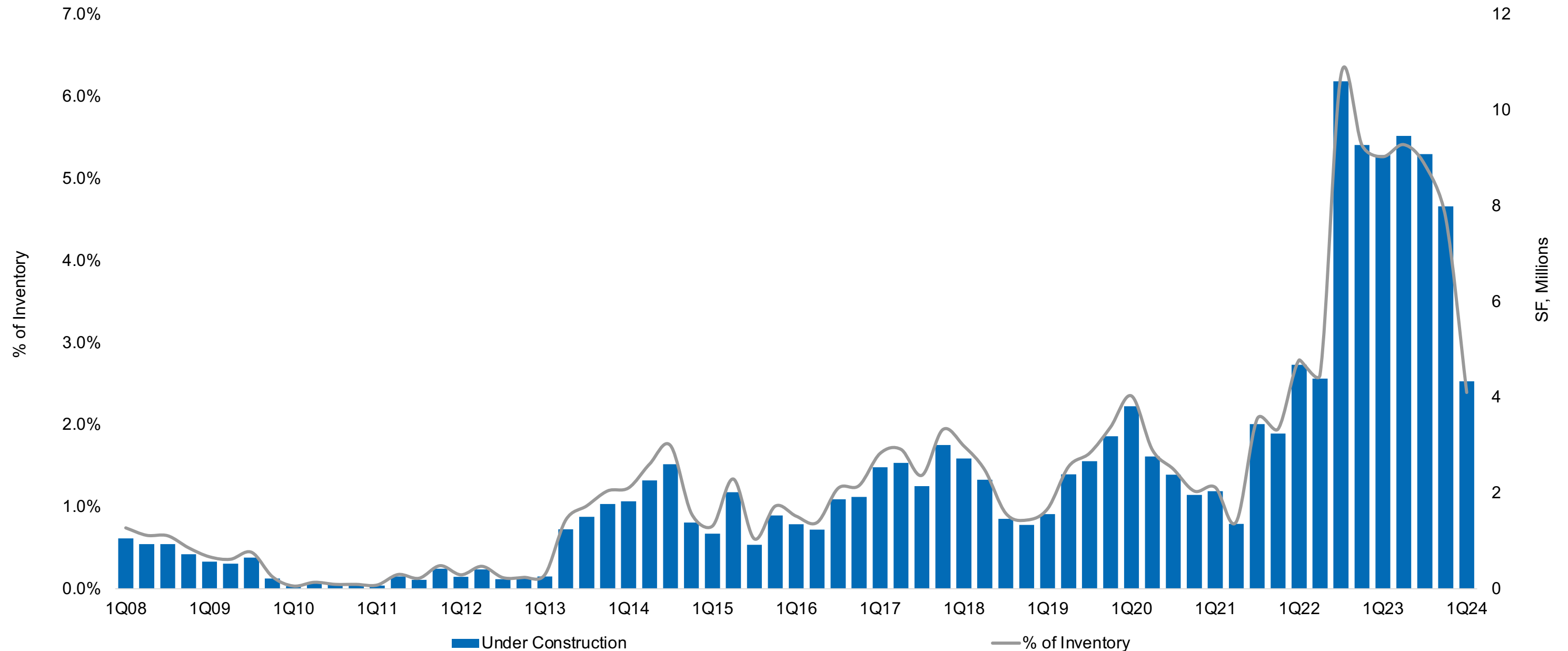
Source: Newmark Research, CoStar



# Industrial Supply Pipeline Continues to Decrease from Historical High

The construction pipeline decreased in the first quarter of 2024 to 4.3 MSF following consecutive quarters of decline after the pipeline reached a historical high in the third quarter of 2022 at 10.6 MSF. The pipeline will continue to decline as many developers are pausing new development amid slowing leasing activity and a challenging financing environment for new construction. Due to this, there will be a possibility for potential supply constraints as economic conditions improve in 2024 and 2025.

## Industrial Under Construction and % of Inventory

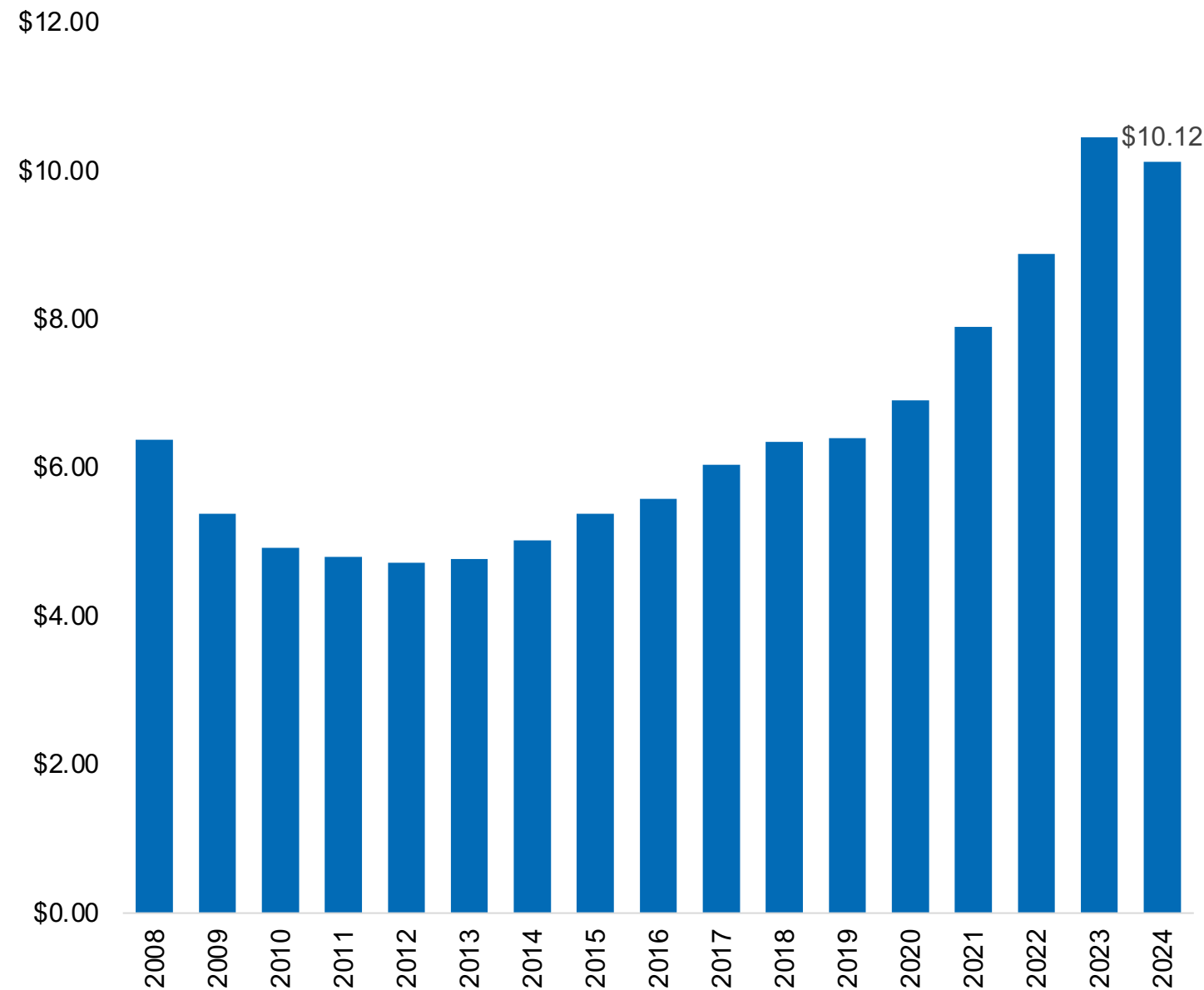


Source: Newmark Research, CoStar

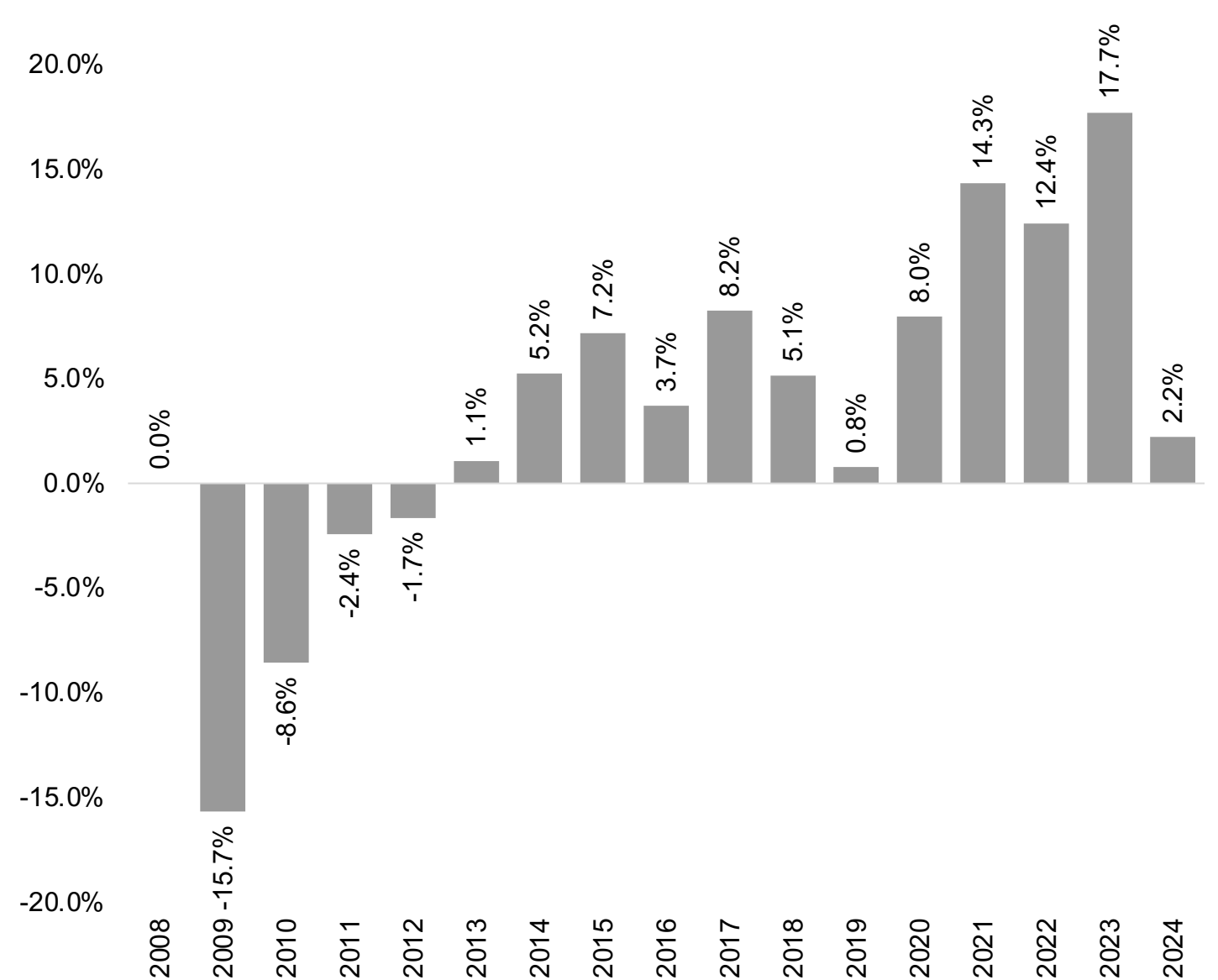
# Asking Rents Decrease from All-Time High

Industrial average asking rents fell slightly in the first quarter of 2024 to \$10.12/SF, after six consecutive quarters of growth. Asking rents in the market have grown by about 28.1% annually since 2021, with year over year growth of 2.2% in the first quarter of 2024. Rent growth is expected to continue increasing in the near term, as new, higher-quality assets deliver.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar



# Notable 1Q24 Lease Transactions

Leasing activity increased decreased in the first quarter of 2024, with quarterly leasing activity at 2.0 MSF. Most of the quarter's leasing activity centered around direct leases, which totaled 1.9 MSF, while sublease activity ended the quarter accounting for only 91,786 SF. Under-construction projects in the market are 53.0% pre-leased.

## Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Cencora <i>Pharmaceutical solutions firm, Cencora, renewed its lease at 10910 Lee Vista Blvd where it occupies 328,074 SF.</i>	10910 Lee Vista Blvd- Bldg 1304	SE Orange County	Renewal	328,074
Pinto Transport Inc <i>Pinto Transport Inc., a warehouse and distribution management company, leased 167,242 SF of space in newly built MCO Logistics @ AIPO in the SE Orange County submarket.</i>	MCO Logistics @ AIPO	SE Orange County	Direct New	167,242
CORT <i>Furniture rental company, CORT, signed for 151,791 SF at 8550 McCoy Rd in the McCoy Commerce Center industrial park.</i>	8550 McCoy Rd	SE Orange County	Direct New	151,791
Undisclosed Tenant <i>An undisclosed tenant leased 141,680 SF at 1091 Gills Dr. in the SE Orange County submarket. .</i>	1091 Gills Dr- Building C	SE Orange County	Direct New	141,680
Undisclosed Tenant <i>An undisclosed tenant leased the remaining 110,671 SF at 8550 McCoy Rd, where it will occupy alongside CORT.</i>	8550 McCoy Rd	SE Orange County	Direct New	110,671





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