

1Q24

# Orlando Office Market Overview



# 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.
- Office-using jobs in the market eases from historical high to 399,532 employees, reflecting 17.0% growth since 2019.

## Major Transactions

- Charles Schwab signed the quarter’s largest deal, taking 57,300 SF at 70 Keller Rd in the Maitland submarket.
- Visit Orlando’s renewal for 44,752 SF at Sea Harbor Office Center was the second largest deal of the quarter.
- The quarter’s three largest deals accounted for 26.8% of the quarter’s total leasing activity by square footage, indicating that smaller deals are driving the market’s activity.
- Notable transactions during the quarter come from a mix of tenant industries, indicating there is still appetite for space among occupiers in the market.

## Leasing Market Fundamentals

- Annual full-service asking rental rates fell slightly to \$24.88/SF, a 0.9% decrease year over year.
- Occupancy increased but a surge in deliveries in the previous quarter have pushed overall vacancy rates to increase by 120 basis points year over year, to a recent high of 12.6%.
- The under-construction pipeline remains muted with 344,991 SF in progress, accounting for only 0.5% of the market’s overall inventory.
- Total leasing activity closed the quarter at 542,535 SF, averaging 2,840 SF per deal and reflecting a decrease in deal size of 33.2% quarter over quarter and 13.1% year over year.

## Outlook

- The Orlando office market will likely see continued subdued growth in 2024. Office investment activity will remain low in the near term due to elevated inflation and a steeper cost of debt.
- Submarkets with premier office product will see rent and occupancy increases due to a winnowing construction pipeline, as flight to quality persists and supply of top tier assets becomes more constrained.
- The outlook for the Orlando office market remains positive given elevated office-using employment, diversified labor pool, and solid market fundamentals.

1. Economy
2. Leasing Market Fundamentals

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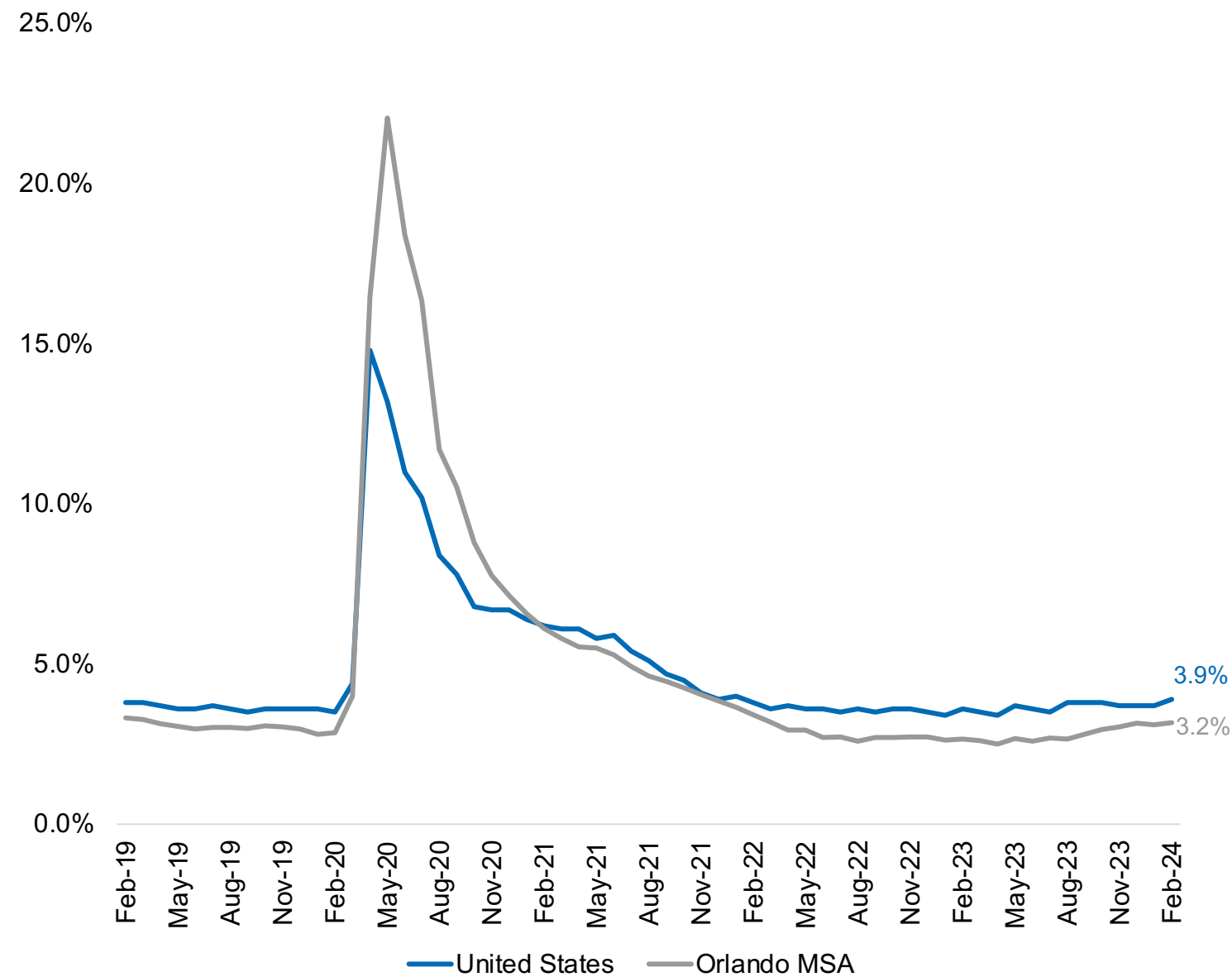
# Economy



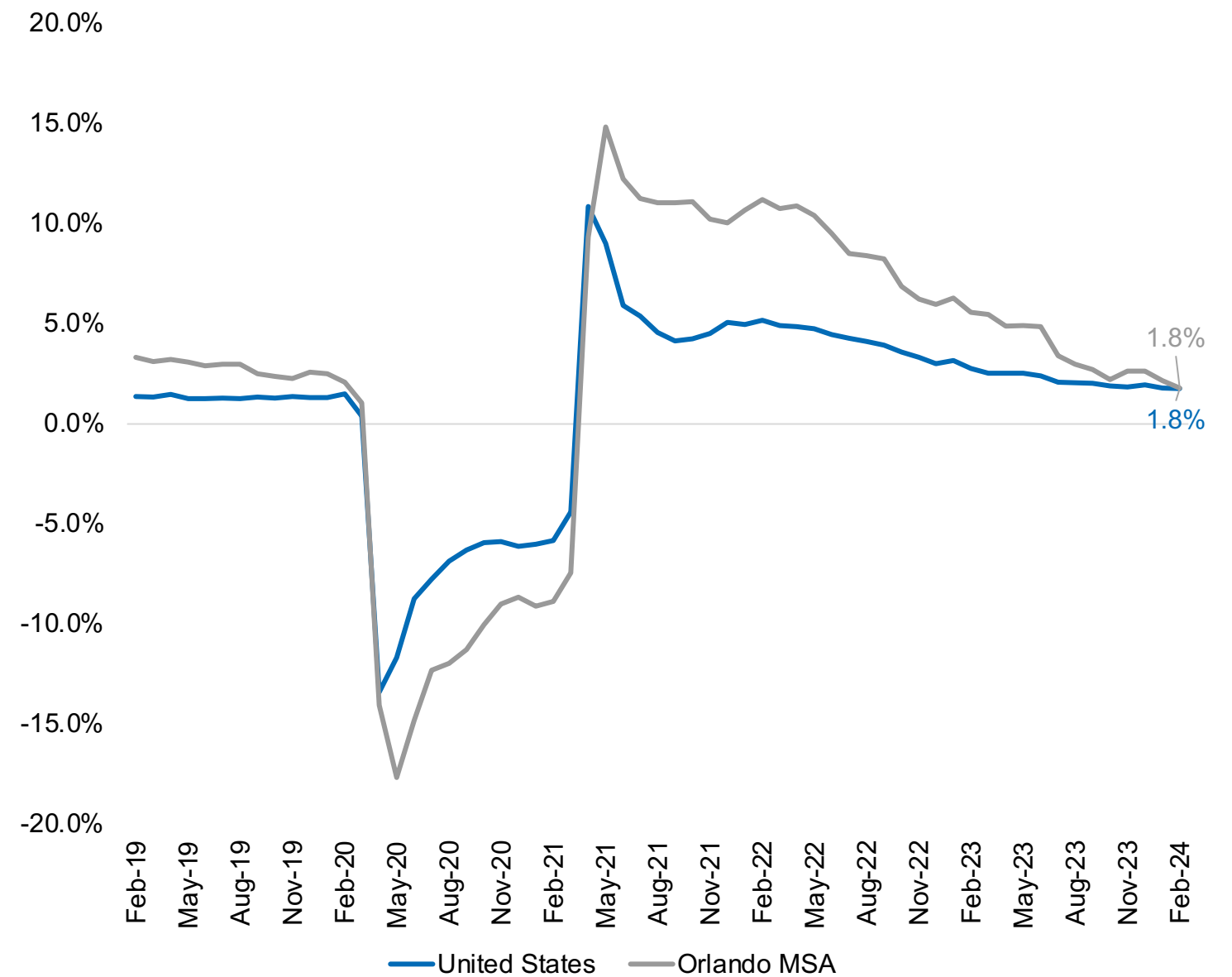
# Metro Employment Trends Continue to Signal a Slowing Economy

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



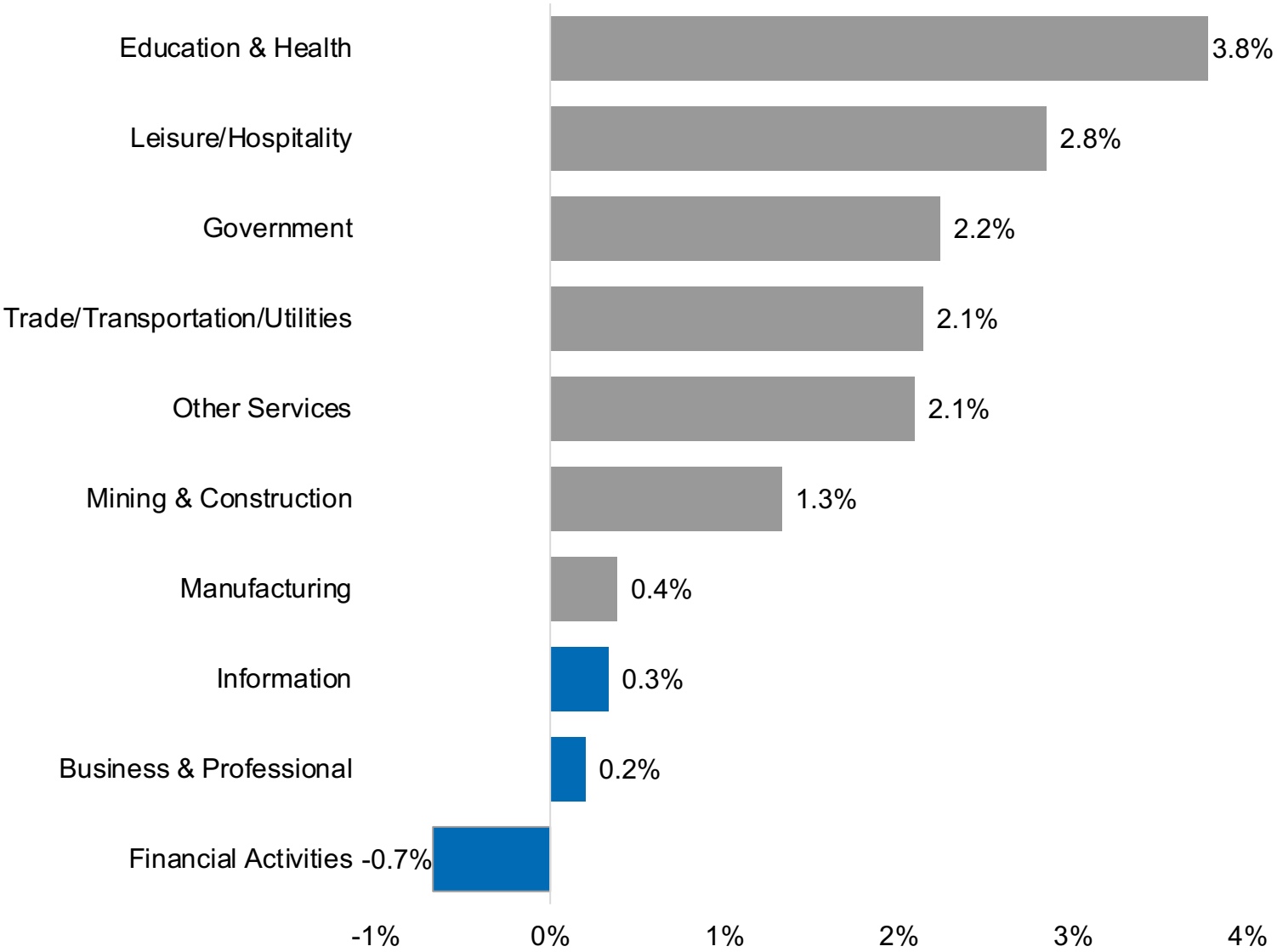
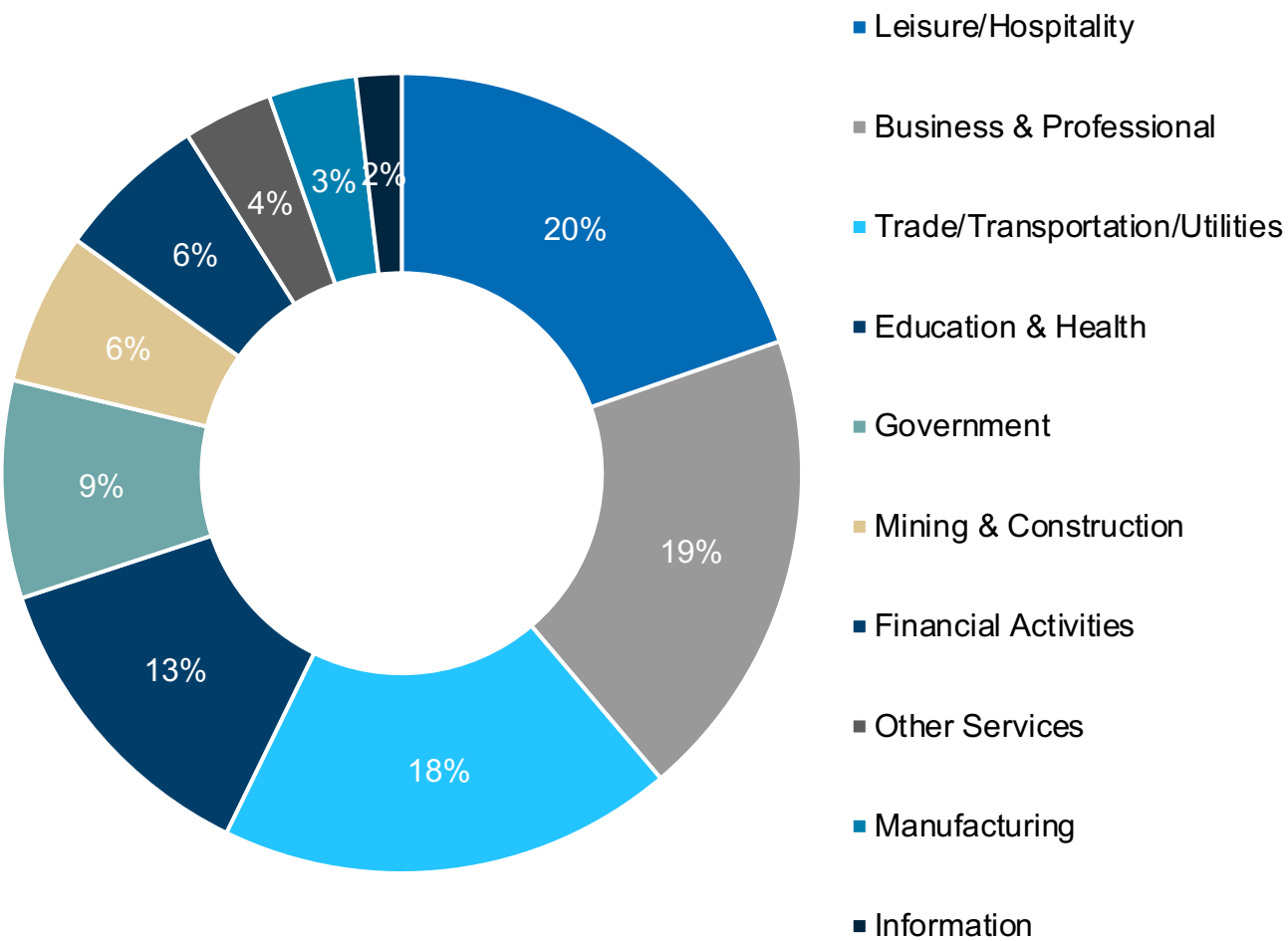
Source: U.S. Bureau of Labor Statistics, Orlando MSA

# Slow Employment Growth Across Most Office Sectors

Known for its tourism sector, the Orlando market’s top two employment industries account for 38.8% of the market share. The office-using employment’s business and professional sector is the second-largest industry sector in the metroplex at 19.1%. All industries in the metro, except for financial activities, reported growth with office-using industries reporting slight year-over-year gains ranging from 0.2% to 0.3% while the information sector reflected a decline of 0.7%.

Employment by Industry, February 2024

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

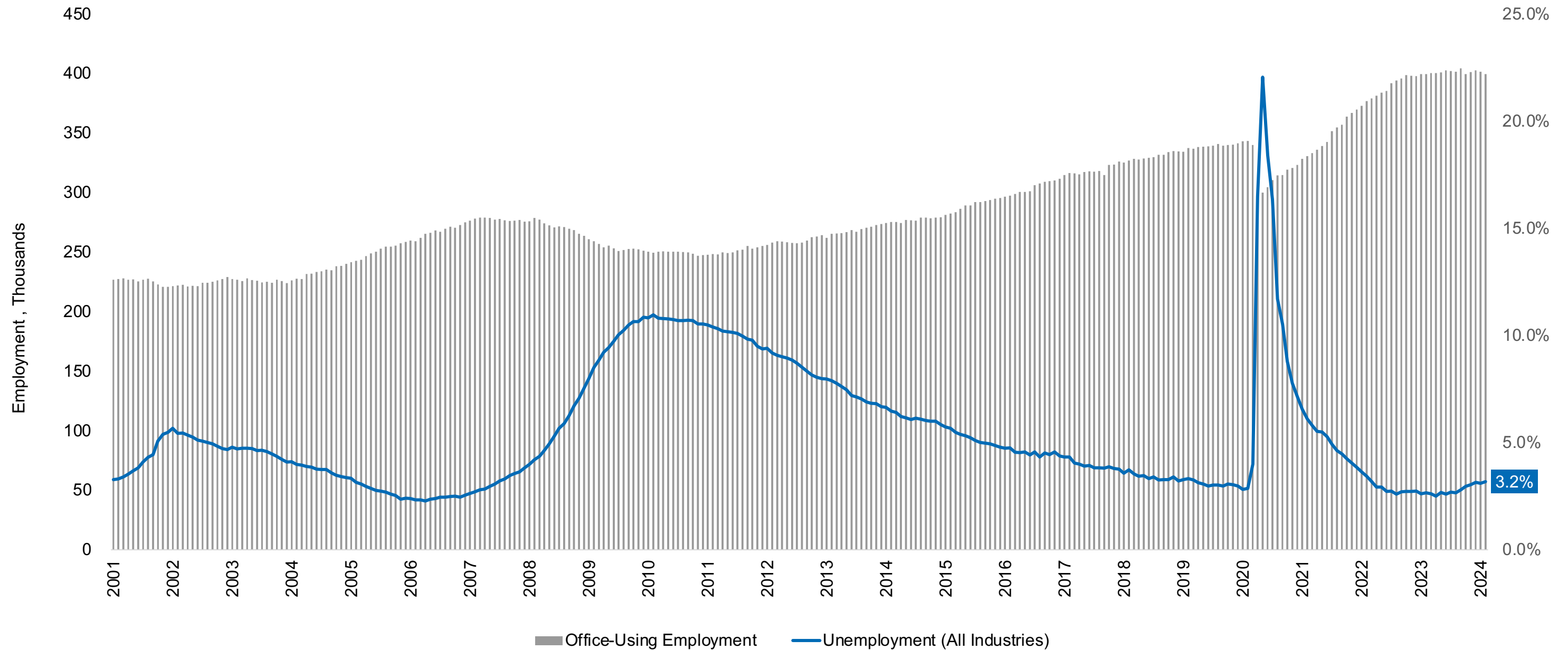


Source: U.S. Bureau of Labor Statistics, Orlando MSA

# Overall Office-Using Employment Eases from Historical Highs

Office-using employment in the Orlando market continues to remain elevated at 399,532 employees as of the end of February 2024, easing from the historical high of 404,343 employees reported in September 2023. Currently, the seasonally adjusted unemployment rate is at 3.2%, on par with the 3.1% average levels reported in 2019, indicating that other industries outside of office-using jobs are part of the contributing factor in rising unemployment rate in the market.

Office-Using Employment\* and Unemployment Across All Industries



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

\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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# Leasing Market Fundamentals

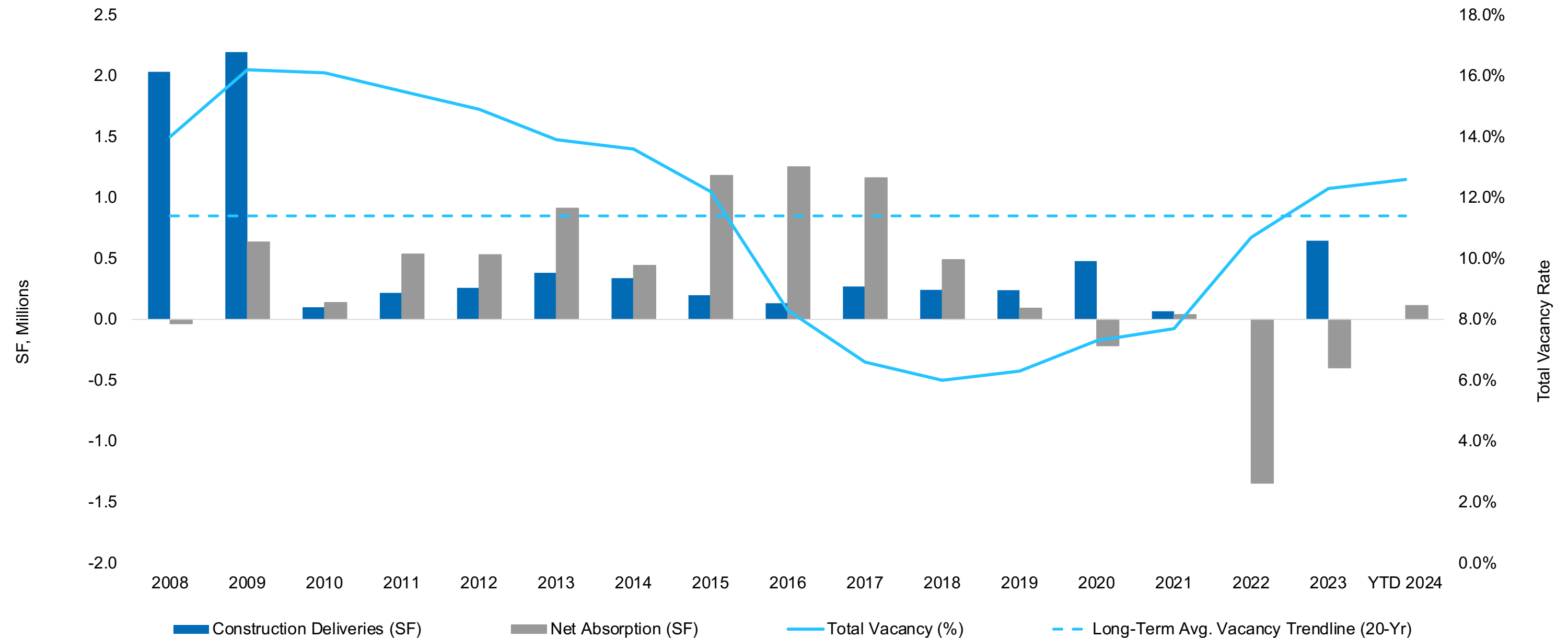




# Vacancy Reaches Recent High as Occupancies Remain Muted

The Orlando office vacancy rate increased by 120 basis points year over year, to a recent high of 12.6% in the first quarter of 2024. Since the pandemic, occupancies have slowed in the market, with minimal deliveries occurring. As a result, vacancy rates continued to increase since the pandemic but remain below peaks levels witnessed following the Global Financial Crisis.

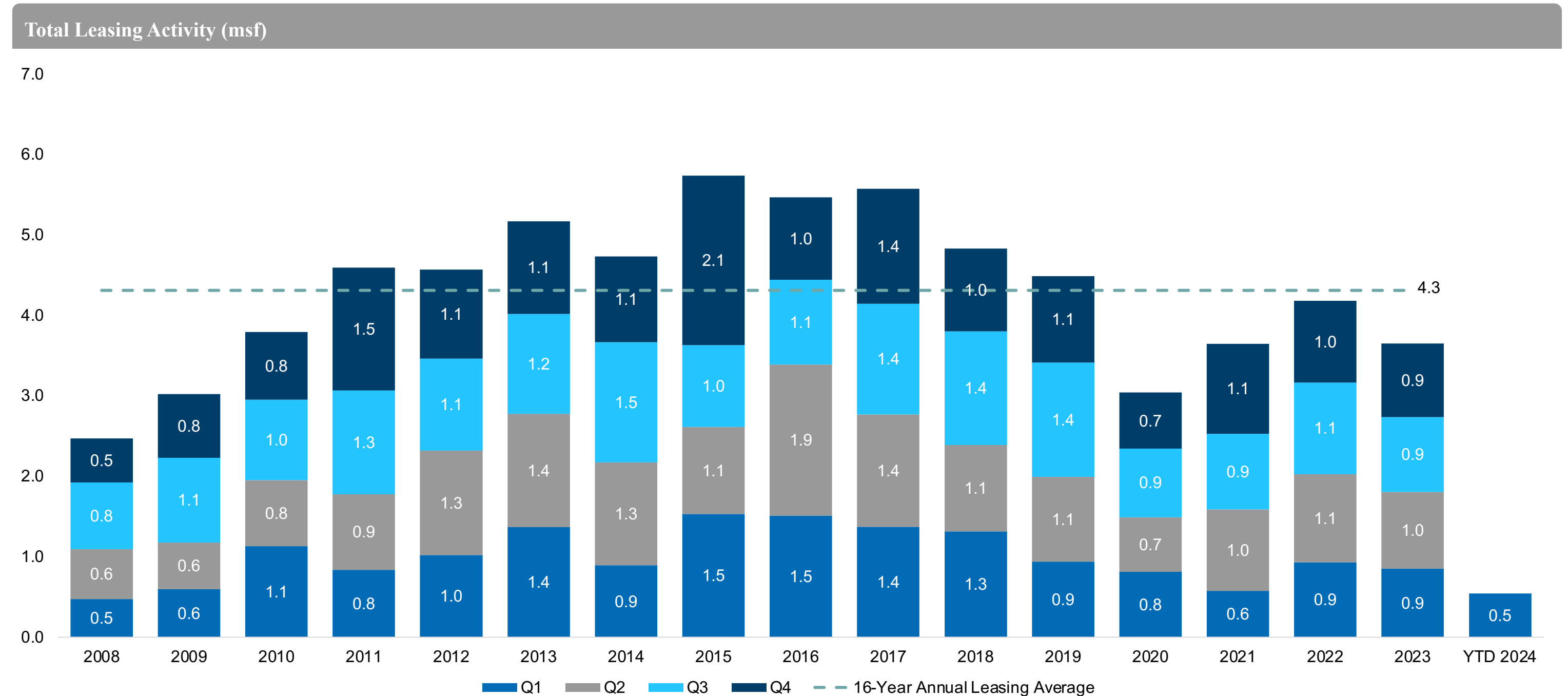
## Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

# Deals Smaller in Size and Quantity Result in Slowing Leasing Activity

Leasing activity in the market continues to slow as first quarter 2024 leasing activity totaled 542,535, a decrease of 40.7% from the previous quarter. Since 2008, first-quarter leasing activity averaged 1.0 MSF. Deal size averaged 2,840 SF in the first quarter of 2024, an average of 1,413 SF less than the previous quarter and 429 SF less than a year ago. The slowing leasing activity pace is largely attributed to smaller, and fewer, deals being done, likely impacted by a more challenging debt liquidity environment preventing larger deals from occurring as easily.

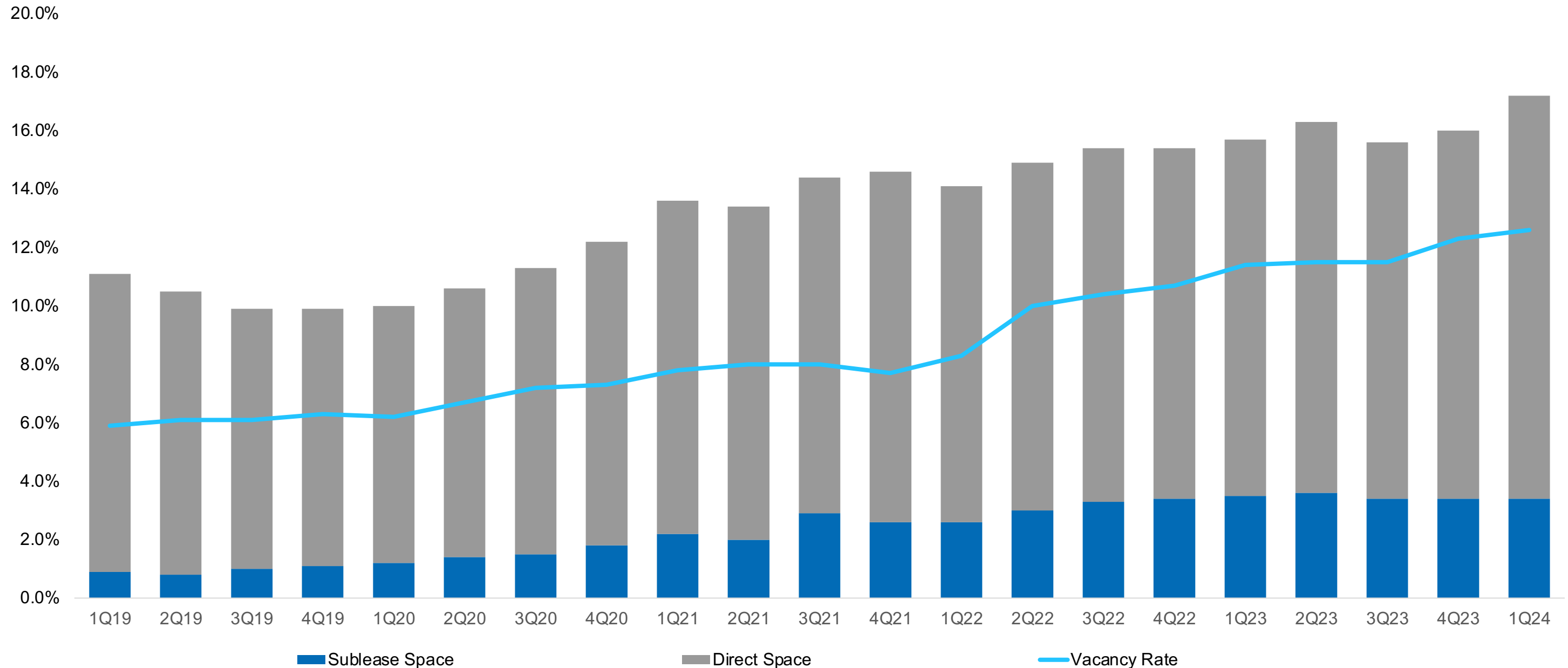


Source: Newmark Research, CoStar

# Availability Reaches New Recent High

Sublease availability in the Orlando market has continued to slowly inch upward since the pandemic. As of the end of the first quarter of 2024, sublease availability in the market was at 3.4%, unchanged from the previous two quarters. Following a similar trajectory, direct availability has also continued to increase, rising 500 basis points since 2019 to 13.8% in the first quarter of 2024. As a result, vacancies have continued to increase, with an overall rate of 12.6% as of quarter-end.

Available Space as Percent of Overall Market

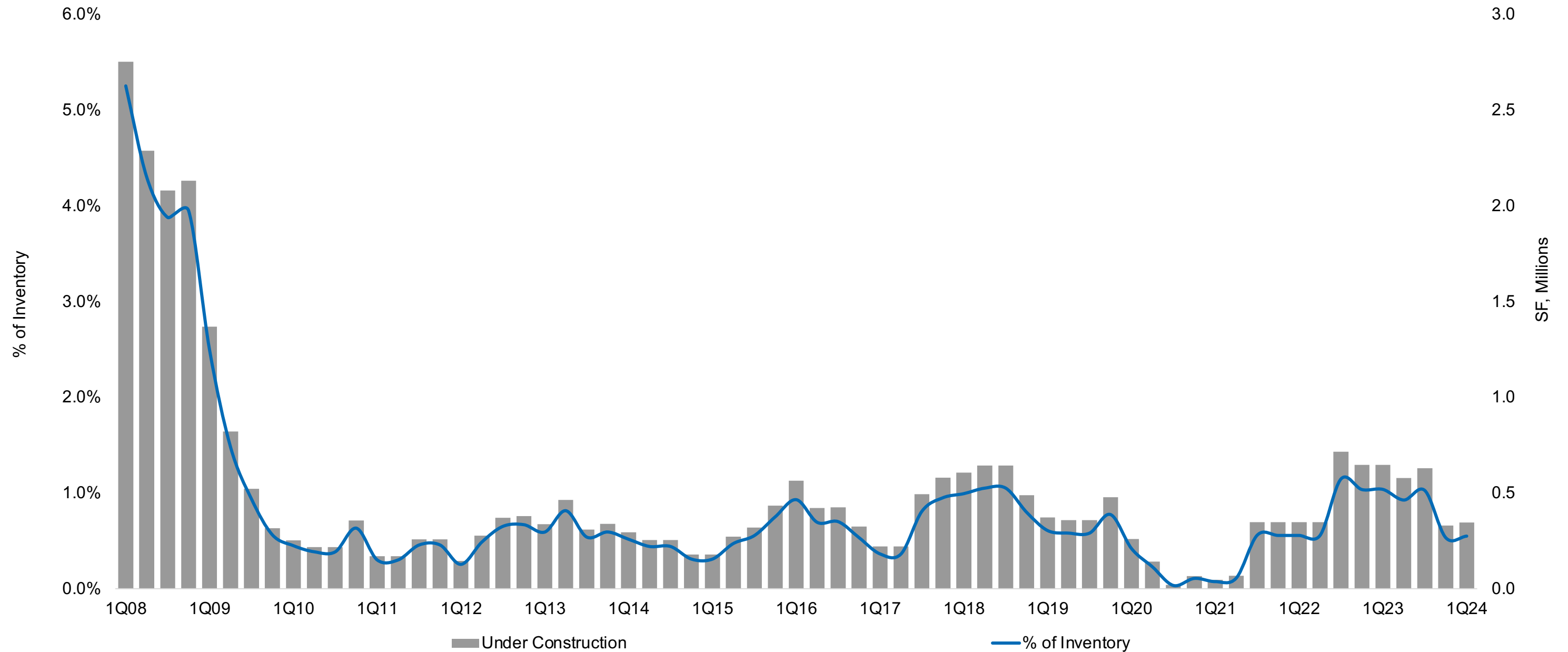


Source: Newmark Research, CoStar

# Construction Activity Remains Muted

Construction activity in the Orlando market has trended downward in recent quarters and started 2024 still well below the recent high seen in the third quarter of 2022. As of the first quarter of 2024, the market had 344,991 SF under construction, accounting for 0.5% of the market's inventory, indicating there is less risk of overbuilding.

Office Under Construction and % of Inventory

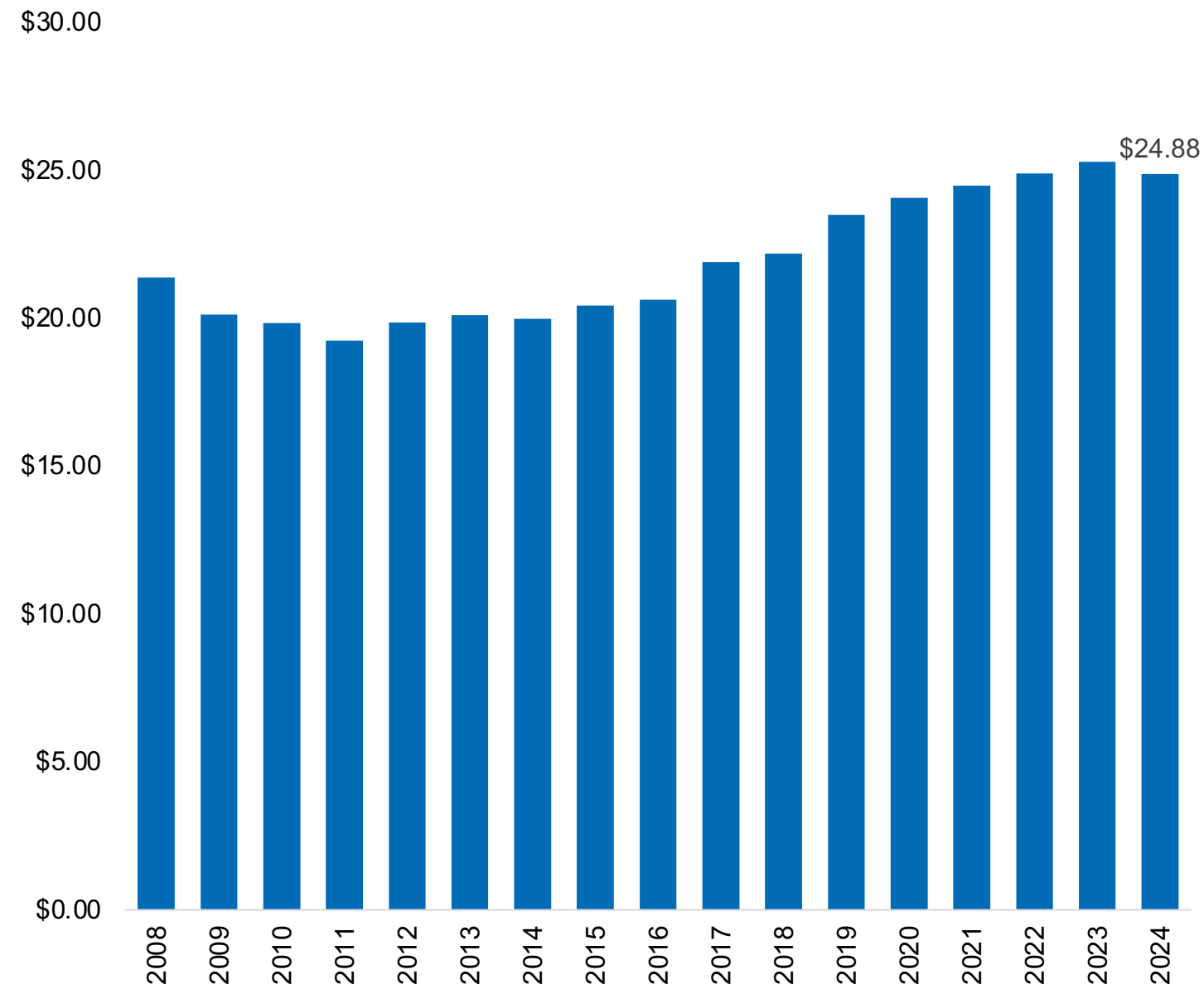


Source: Newmark Research, CoStar

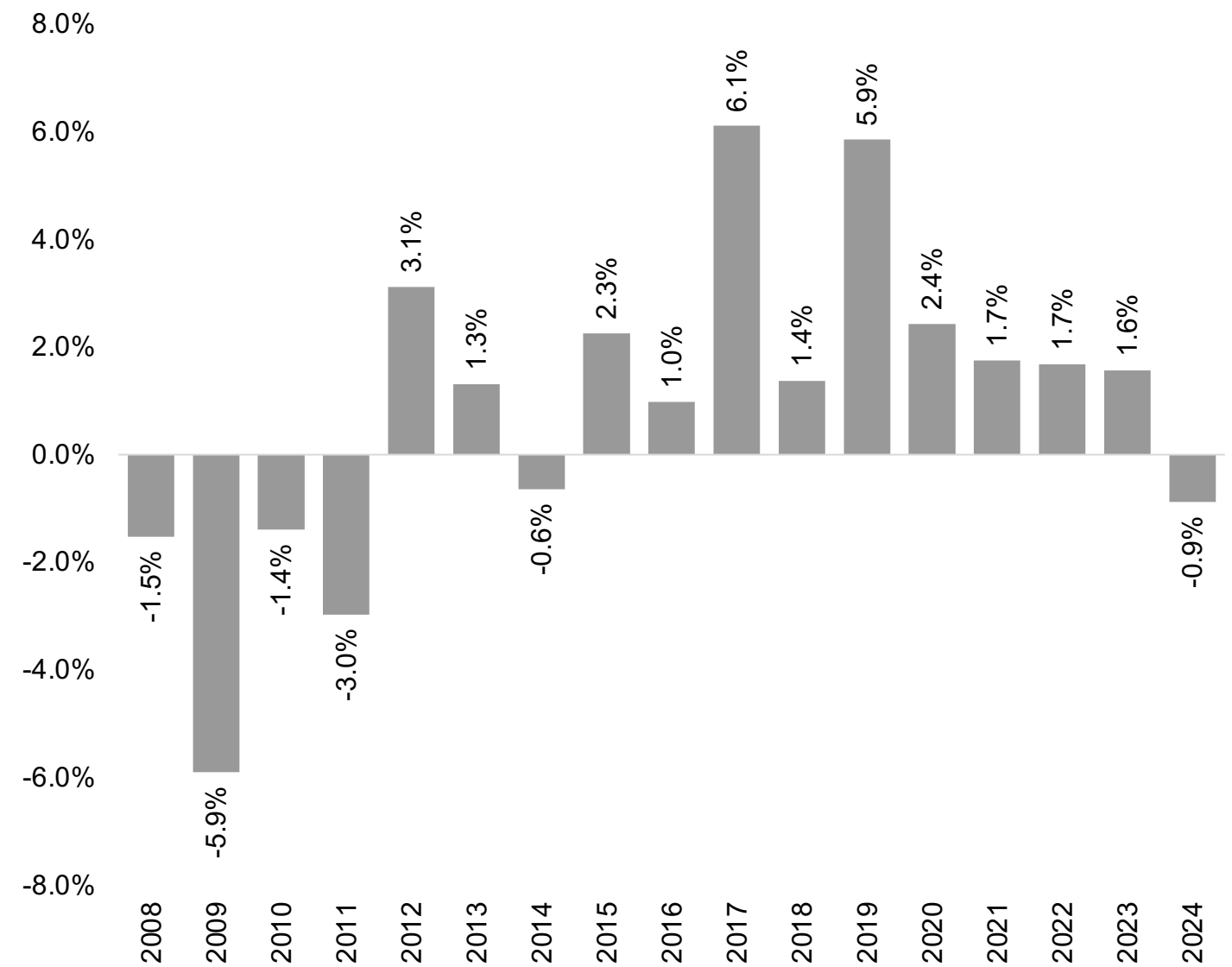
# Rents Fall Slightly From Recent High

Rents decreased in the first quarter of 2024 to \$24.88/SF, falling slightly from the high of \$25.28/SF in the previous quarter. Year over year, rental rate growth in the market declined by 0.9%. Rent growth in the market is generally attributed to higher-quality space availability as bolstered by more delivery of new product in recent quarters. Asking rents are likely to remain elevated in a market impacted by inflation and increasing operating costs.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

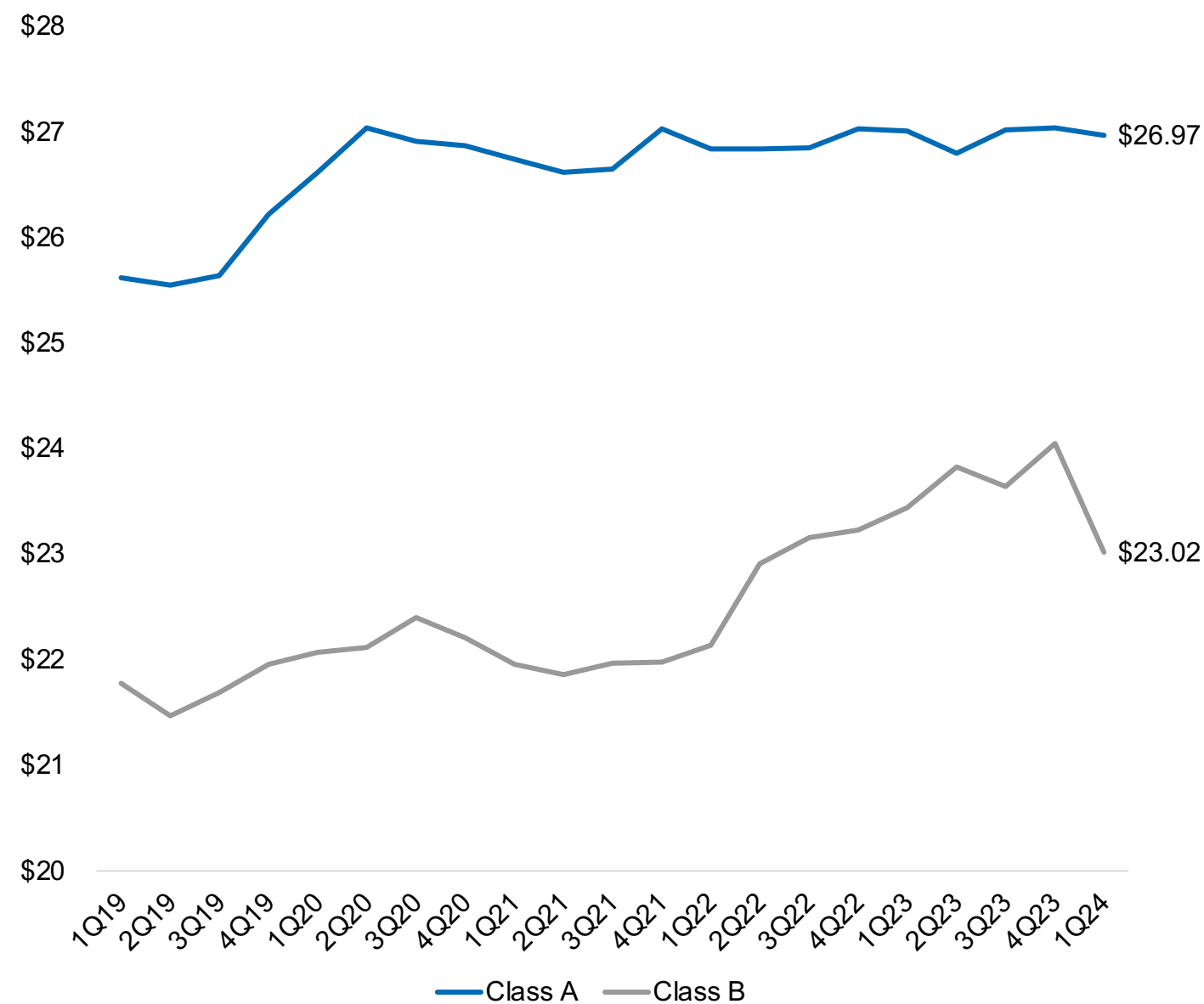


Source: Newmark Research, CoStar

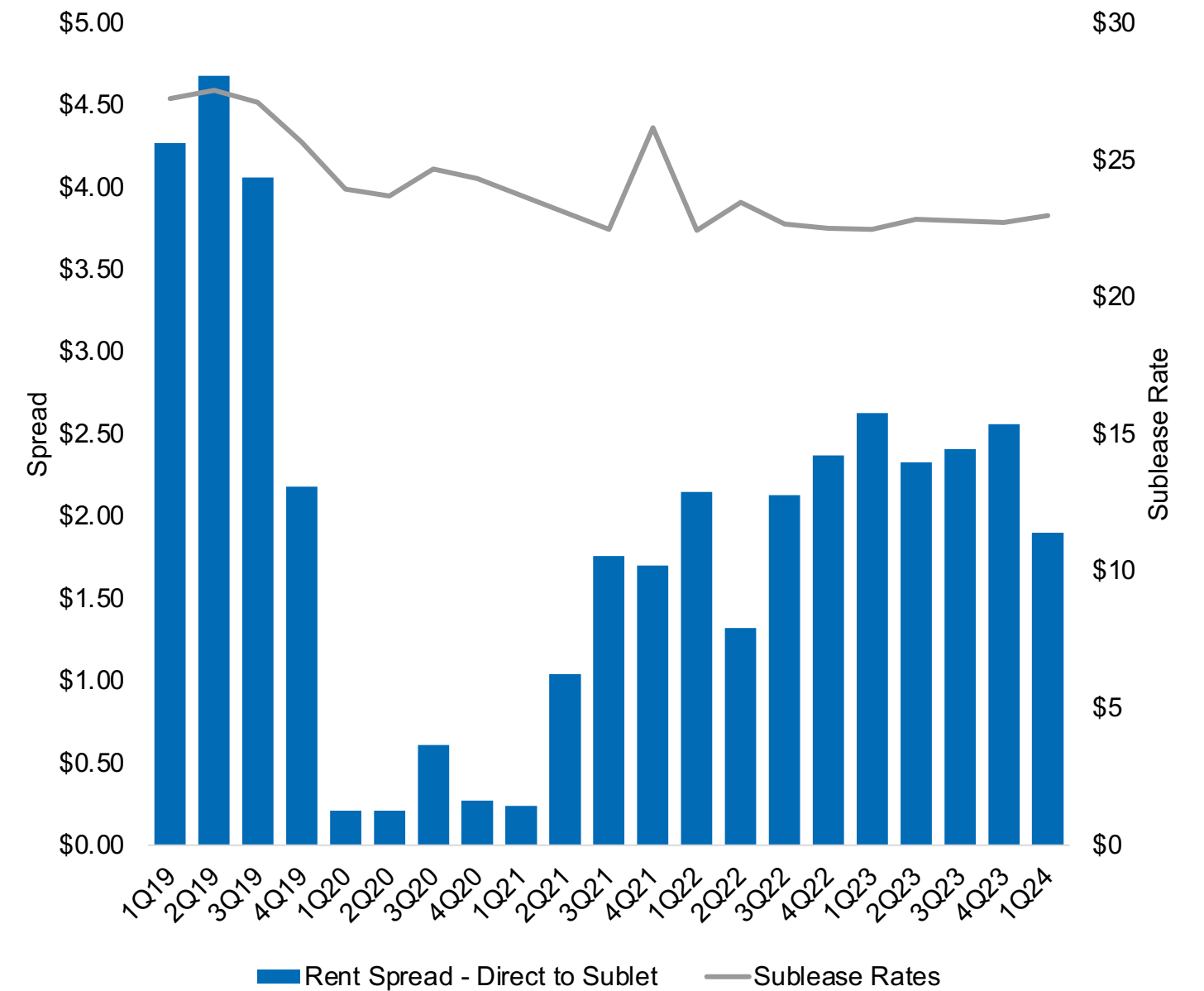
# Decreasing Rent Spread on Class A Assets Continues

As of the end of first quarter of 2024, Class A rents ended at \$26.97/SF, while Class B reported \$23.02/SF. Rent difference between the two assets is at \$3.95/SF, a 7.3% spread decrease since 2019. The closing rent spread between Class A and Class B assets will likely push more tenants to shed unused space and lease smaller footprints in higher-quality assets. Sublease rates have generally flattened in recent quarters, with a slight increase of 1.1% from the previous quarter.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

# Flight-to-Quality Leasing Activity Persists

Despite slowing leasing activity, flight to quality increases as a trend in the market due to the closing spread in Class A rental rates since 2019. As of the end of the first quarter of 2024, Class A space accounted for 60.9% of the market's leasing activity by SF, but only 33.0% of the market's deal volume. Average leases signed in Class A space were 5,241 SF and continue to remain larger than the average market deal size of 2,840 SF.

## Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Charles Schwab	70 Keller Rd	Maitland Center	Direct New	57,300
<i>Financial services firm, Charles Schwab, signed for 57,300 SF, taking the entirety of 70 Keller Rd. in the Maitland Center submarket.</i>				
Visit Orlando	Sea Harbor Office Center	Dr. Phillips/Tourist Corridor	Renewal	44,752
<i>Visit Orlando renewed its lease at Sea Harbor Office Center in the Tourist Corridor for 44,752 SF.</i>				
Galen College of Nursing	12650 Ingenuity Dr	University/University Research	Direct New	43,261
<i>Galen College of Nursing leased 43,261 SF at 12650 Ingenuity Dr. with plans to occupy in Q3 2024.</i>				
CACI International	12661 Challenger Pky	University/University Research	Expansion	26,816
<i>Information technology company, CACI International, leased an additional 26,816 SF at 12661 Challenger Parkway.</i>				
Avant Healthcare	2301 Lucien Way	Maitland Center	Direct New	24,779
<i>Professional health care services company, Avant Healthcare, leased 24,779 SF at 2301 Lucien Way in the Maitland Center submarket.</i>				

Source: Newmark Research, CoStar



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