

CENTRAL FLORIDA INDUSTRIAL MARKET

GROWTH HELD THROUGH MIDYEAR WITH SIGNALS OF DEMAND SLOWING

The Central Florida industrial market saw another healthy quarter, as almost 996,000 square feet was absorbed during the second quarter of 2018, bringing year-to-date net absorption to 1.8 million square feet. This was down from the 3.8 million square feet absorbed at the end of second quarter one year ago, showing a significant slowdown in demand growth. Four buildings totaling approximately 619,000 square feet were delivered during the quarter, and 88.0% of the space remained vacant, contributing to the 10-basis-point drop to 4.7% from the previous quarter. The recent surge in industrial development brought an additional 3.4 million square feet of new warehouse/distribution space over the past 12 months. In spite of recent new development, the region's demand still pushed overall vacancy down 30 basis points from the 5.0% rate recorded one year ago. Another 15 buildings totaling over 3.8 million square feet were under construction.

Landlords have begun to take advantage of growing space needs by slowly pushing up quoted rents, although not to the levels seen in South Florida. Year-over-year, the overall weighted average asking rental rate increased \$0.47/SF to \$5.88/SF. General industrial space saw the largest increase, of \$1.06/SF from \$5.32/SF one year ago. Warehouse/distribution rates increased \$0.19/SF from \$5.07/SF, while R&D/flex rates were up \$0.53/SF from \$7.37/SF. Significant increases in the weighted averages were hindered by the pre-leasing of newly delivered inventory, which increased lower-tier availabilities. The amount of new high-end industrial product coming to the market could begin to push up average rents over the next year. The region's affordability is attractive to major companies that do not want to pay South Florida prices.

LEASING AND DEMAND

There were 346 lease deals totaling more than 3.7 million square feet in the second quarter, an improved performance that brought overall transaction activity to almost 7.6 million square feet for the first half of the year. Warehouse/distribution space led the market with a combined 4.1 million square feet, followed by general industrial with 1.2 million square feet of leasing activity. This was in stark contrast to the 142,000 square feet of R&D/flex deals in the first two quarters combined. The retail/wholesale industry comprised the bulk of mid- to large-size lease deals in the first half, accounting for 1.0 million square feet, while home and building supply companies trailed far behind with 251,000 square feet for the second spot. The equipment and machinery segment rounded out the top three with 241,000 square feet.

INVESTMENT SALES

Sale activity fell during the second quarter with 27 transactions totaling 2.1 million square feet, for a combined \$129.4 million in the first half of 2018. Activity dipped 22.0% from sales that took place in the first quarter. Sales also fell by 1.0 million square feet from the midyear point recorded one year ago for a combined \$327.0 million. Owners have slowed on selling industrial properties, as strong market fundamentals favor sellers, but investors held onto their properties. The average price rose slightly to \$57.00/SF from \$53.00/SF one year ago.

CURRENT CONDITIONS

The industrial market experienced strong market fundamentals as growth outpaced supply.

3.8 million square feet of new industrial construction is slated to come online over the next twelve months.

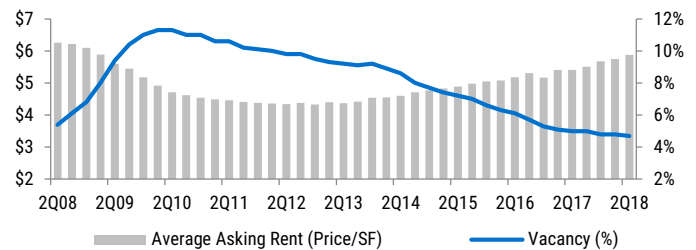
Leasing activity picked up in the second quarter.

The retail/wholesale industry dominated midsize to large deal transactions throughout the region.

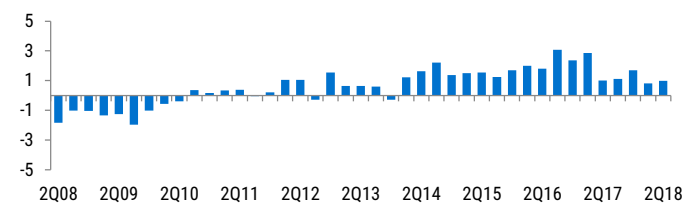
Investment sales of lower-tier buildings should continue as owners will likely hold on to Class A-high-end industrial product through this economic cycle.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, 100,000)



MARKET SUMMARY

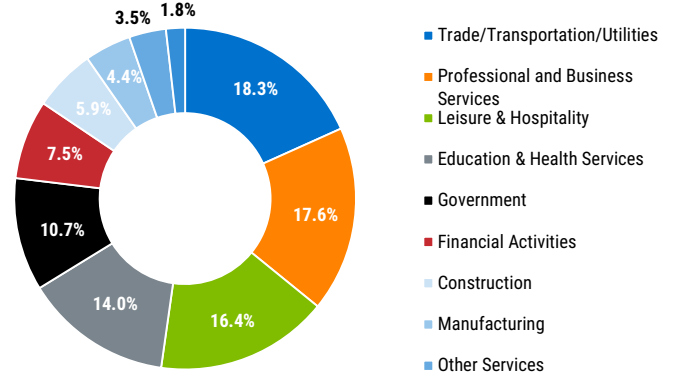
	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	440.1 MSF	439.4 MSF	436.2 MSF	↑
Vacancy Rate	4.7%	4.8%	5.0%	↑
Quarterly Net Absorption	995,776	819,019	1,016,609	↔
Average Asking Rent	\$5.88	\$5.75	\$5.41	↑
Under Construction	3,870,180	3,544,654	2,819,561	↑
Deliveries	619,011	889,688	1,213,767	↑

ECONOMIC CONDITIONS

Central Florida's unemployment rate ticked downward 70 basis points to 3.1%, with 74,400 additional jobs added from May 2017. Orlando reported the region's lowest unemployment rate, down 70 basis points to 3.0% from one year ago. Tampa/St. Petersburg's rate saw a decrease of 60 basis points to 3.3% from last year during the same period. Looking back from the second quarter-2017, the leisure and hospitality sector held onto the lead in the strongest growth of any industry in central Florida with 19,700 jobs created, while the Health and Education services industry moved into the second spot with an increase of 13,100 jobs over the past 12 months. Rounding out the top three included the financial segment with the creation of 12,300 new positions. This sector picked up after a slow 2017 and moved into the third spot but also saw the largest annual percentage increase in employment from one year ago. Professional and business service jobs experienced strong growth with an increase in 10,800 jobs from one year ago. Construction also experienced another good year, seeing an additional 8,800 jobs added. Most remaining sectors experienced modest improvements with the information sector continuing to struggle with 1,000 jobs lost since May of 2017, while government employment fell by 1,300 jobs. Central Florida's job growth remained healthy as the regions economy looks to be thriving still.

EMPLOYMENT BY INDUSTRY

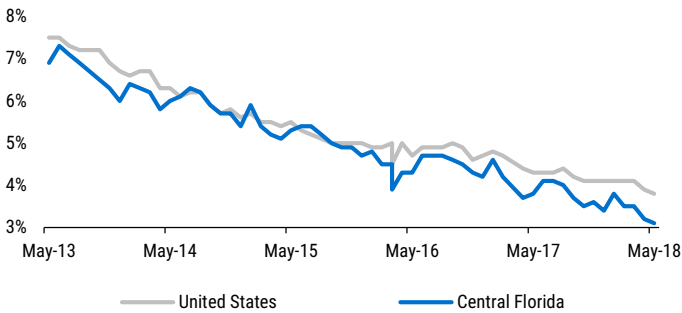
Central Florida MSA, Feb 2018 Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

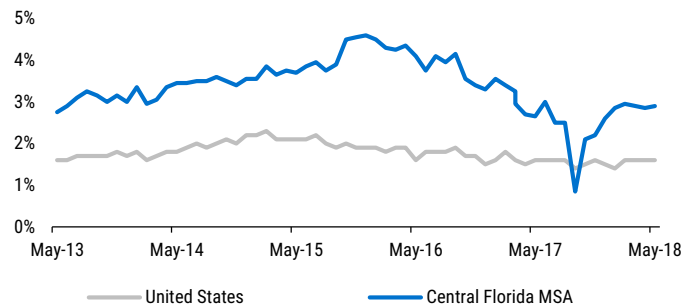
Central Florida Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

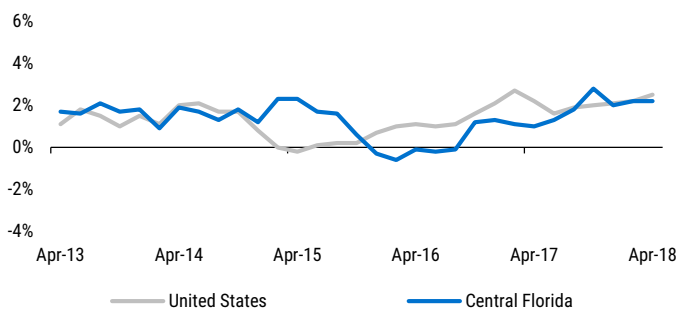
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

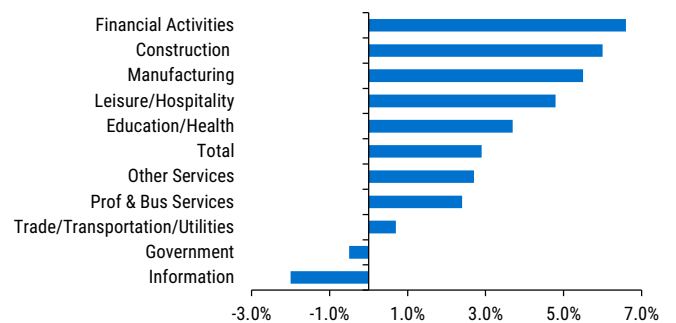
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Central Florida, Feb 2018, MSA, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

TAMPA / SAINT PETERSBURG OFFICE MARKET

The industrial market has now seen demand outpace supply for more than four years, with approximately 386,000 square feet of positive net absorption taking place during the second quarter of 2018. Since the recovery began, robust demand has pushed vacancy down 490 basis points to settle at 5.3%. The more than 2.1 million square feet of new inventory delivered over the past year, coupled with tightening market conditions, has yet to significantly impact increases in asking rents, as the average rate increased \$0.67/SF from one year ago to \$5.64/SF. Rents for industrial space remained below those of other major markets in Florida, making Tampa the most affordable market in the state.

Although leasing and occupations remained sturdy, the vacancy rate dipped slightly from one year ago, dropping only 10 basis points from the 5.4% recorded during the second quarter of 2017. Nine warehouse buildings touting approximately 2.6 million square feet are projected to come on line over the next year. Just under half is spoken for, and 650,800 million square feet of that can be attributed to Best Buy's new distribution facility underway in Polk County, which is expected to be completed in third quarter. The trend of demand outpacing supply with slight increases in vacancy because of new inventory being delivered is likely to continue over the next 12 months.

LEASING AND DEMAND

Leasing activity increased significantly compared with that of previous quarters, as 198 transactions totaling over 2.5 million square feet were completed during the second quarter. For the first half of the year, overall transaction activity in the market was in excess of 4.1 million square feet. The first half of 2018 was dominated by approximately 3.2 million square feet of warehouse/distribution deals, followed by 771,500 square feet of general industrial leasing transactions; a lackluster 97,000 square feet of R&D/flex deals also took place. Retail/wholesale companies accounted for 271,000 square feet of leasing activity, followed closely by the home/building supply industry with 186,000 square feet. The food and beverage sector rounded out the top three with 224,000 square feet.

INVESTMENT SALES

There were 14 sales totaling 537,000 square feet during the second quarter. This was down significantly from the previous quarter, bringing year-to-date activity to 2.8 million square feet worth a combined \$162.5 million. Strengthening market fundamentals have yet to translate into increased sales, while owners of the higher-tier investment properties hold onto their well-leveraged properties. The average sales price rose to \$48/SF from \$38/SF from the previous quarter in large part because owner/user sales and lower-tier investment properties made up the majority of transactions. It is notable that Class A industrial investment sales remained limited but are sought after and selling for around \$100/SF when they come on the market.

CURRENT CONDITIONS

A slowdown in growth appeared to be trending but vacancy still pushed downwards.

Warehouse/distribution space continued to lead demand as well as construction activity in the market.

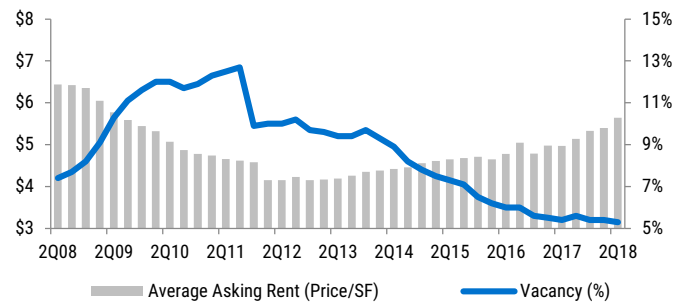
Asking rents have slowly climbed but not at levels seen in South Florida, making the Tampa market cheapest of the major Florida markets.

More than 2.6 million square feet of new industrial product is underway and will come online over the next year.

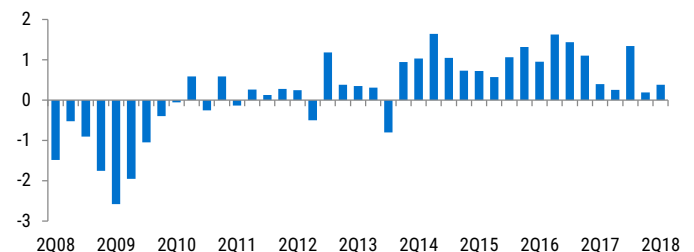
Industrial investment sales continued to fall as owners held on to their industrial properties, while prices have slightly ticked upward.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, 100,000)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	257.3 MSF	257.1 MSF	254.9 MSF	↑
Vacancy Rate	5.3%	5.4%	5.4%	↔
Quarterly Net Absorption	385,923	192,477	396,979	↔
Average Asking Rent	\$5.64	\$5.40	\$4.97	↑
Under Construction	2,638,301	1,841,842	2,309,124	↓
Deliveries	179,511	427,791	397,447	↑

TAMPA / SAINT PETERSBURG SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Bradenton/Manatee	21,593,790	0	2.6 %	53,279	46,838	\$4.56	N/A	\$4.51
E Hillsborough/Plant City	12,400,455	215,213	5.9 %	22,657	6,242	\$4.58	N/A	\$4.55
East Side Tampa	58,749,092	684,150	6.1 %	82,586	-12,055	\$4.93	\$8.85	\$5.25
NE Hillsborough/University	1,572,640	0	3.4 %	0	0	\$3.25	\$9.50	\$5.44
North Pinellas	10,899,842	0	1.6 %	18,178	46,367	\$5.87	\$2.85	\$6.88
NW Hillsborough	2,428,841	0	10.0 %	-58,637	-42,980	\$5.62	N/A	\$9.14
Pasco County	7,811,437	260,000	2.4 %	20,519	3,093	\$4.78	\$7.83	\$6.09
Polk County	49,255,313	1,478,938	6.7 %	753,893	787,521	\$4.48	\$6.15	\$4.97
S Tampa Ind	3,740,869	0	10.3 %	42,433	20,023	\$4.70	N/A	\$2.07
Sarasota	17,089,085	0	2.9 %	539	26,141	\$6.03	\$4.37	\$7.12
SE Hillsborough	2,648,798	0	8.3 %	15,000	15,000	\$5.50	N/A	\$4.62
South Pinellas	51,634,255	0	5.7 %	-592,255	-515,301	\$5.28	\$10.22	\$6.45
Westshore/Airport	17,428,839	0	4.0 %	27,731	197,511	\$6.58	\$9.26	\$7.49
Totals	257,253,256	2,638,301	5.3 %	385,923	578,400	\$4.92	\$8.13	\$5.64

TAMPA / SAINT PETERSBURG LEASE / USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
SolarCity Inc	Tampa Reg Ind Pk 2-13040 Bay Ind Dr	SE Hillsborough	Direct	243,000
Keuhne & Nagel	Prologis Davenport Ind Ctr-2314 Waverly Barn Rd	Polk County	Renewal	224,000
C&C Associates	Four Corners Bus Pk-4501 Home Run Blvd	Polk County	Direct	110,600
XPO Las Mile Inc	Madison Ind Pk A-4531 Madison Ind Ln	East Tampa	Direct	105,000
Pellon Consumer Products	Gateway Comm Ctr-13590 Automobile Blvd	South Pinellas	Direct	90,140

TAMPA / SAINT PETERSBURG LEASE / USER TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
Rubin Automobile Portfolio -12900 Automobile Blvd	South Pinellas	\$1,581,781	\$31	267,850
1044 W Griffin Rd Bld 1 & 2 Portfolio	Polk County	\$3,865,115	\$48	79,936
Interstate Bus Pk-4531 Oak Fair Blvd	East Tamp	\$4,800,000	\$77	61,957
PineRidge Bus Ctr-2200 Tall Pines Dr	South Pinellas	\$1,600,000	\$40	40,251
4320 Wallance Dr	Polk County	\$1,300,000	\$48	27,048

ORLANDO

Orlando's industrial vacancy rate remained level during the second quarter of 2018, unchanged from the 3.9% in the first quarter. Positive net absorption was recorded for the 26th consecutive quarter, bringing year-to-date net absorption to more than 1.2 million square feet. All three segment types saw demand outpace supply, although warehouse/distribution space dominated the market with 804,000 square feet of absorbed space. This is stark contrast to general industrial, which posted 206,000 square feet, while R&D/flex space saw 227,000 square feet of year to date net absorption. Healthy development growth over the past year continued, contributing to modest drops in vacancy despite construction completions. Eleven buildings totaling approximately 1.3 million square feet were added over the past 12 months, while only 21.3% remained available on the market. Overall vacancy fell 50 basis points from the 4.4% recorded this time last year. Industrial developers have tempered projects breaking ground, with six buildings totaling 1.2 million square feet under construction at the close of the quarter.

After multiple quarters of moderate growth, industrial rents have yet to gain significant momentum, as owners slowly pushed rents upward. The recorded average increased \$0.27/SF to \$6.18/SF from this time last year. Year-over-year, warehouse/distribution averages rose by \$0.15/SF from \$5.59/SF. General industrial rents saw a slightly greater increase of \$0.33/SF increase from \$5.07/SF, while R&D/flex average rents moved up by \$0.39/SF to end the second quarter at \$7.86/SF.

LEASING AND DEMAND

Leasing activity in second-quarter 2018 decreased from the previous quarter's 2.2 million square feet, with 148 transactions totaling more than 1.2 million square feet. Warehouse/distribution space more than doubled in the second quarter for a combined 2.9 million square feet, followed by general industrial with 402,000 square feet of year-to-date leasing activity. A tepid 45,000 square feet of R&D/flex deals also took place. The retail/wholesale industry led demand activity, accounting for 772,000 square feet that can be attributed to Walmart's 640,000-square-foot deal for a new distribution center in Brevard County during the first quarter. The equipment/machinery sector came in second with 128,000 square feet of deals, while manufacturing companies rounded out the top three with 101,000 square feet leased. The majority of transactions fell below the mid-size deal threshold of 20,000 square feet.

INVESTMENT SALES

Industrial sales saw a slight increase with 13 sales totaling 1.6 million square feet of investment during the second quarter of 2018. Nineteen deals totaling 2.0 million square feet sold in the first half of the year for a combined total of \$159.6 million. This was down from the 32 sales totaling 3.2 million square feet that sold for \$216.0 million at the same time last year, although the average sale price increased from \$66/SF to \$74/SF, the as tight market conditions contributed to increases in lower-tier and owner/user prices.

CURRENT CONDITIONS

Orlando tied with the Miami industrial market to boast having the second lowest vacancy rate in Florida's major commercial markets.

Over one million square feet of new industrial inventory will likely begin to impact vacancy rates in the second half of 2018.

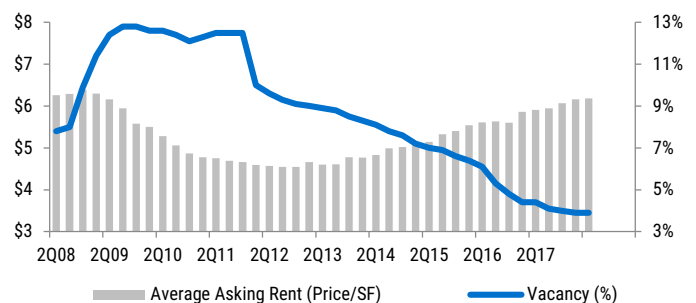
Landlord's have yet to significantly increase asking rents allowing the market to have the second lowest average rate in Florida.

Warehouse/distribution space continued to rule the market leading in demand, leasing and construction activity.

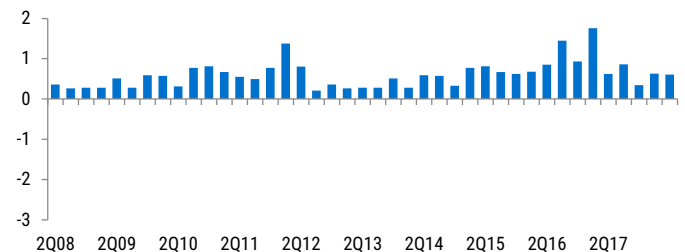
Owners have held onto investment properties as diminished transactions have taken place.

MARKET ANALYSIS

Asking Rent and Availability



Net Absorption (SF, 100,000)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	182.8 MSF	182.3 MSF	181.4 MSF	↑
Vacancy Rate	3.9%	3.9%	3.9%	↑
Quarterly Net Absorption	609,853	626,542	619,630	↓
Average Asking Rent	\$6.18	\$6.16	\$5.91	↑
Under Construction	1,231,879	1,702,812	510,437	↓
Deliveries	439,500	461,897	816,320	↑

ORLANDO SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Brevard County	23,692,046	911,840	5.2 %	-123,652	-62,475	\$6.15	\$6.92	\$6.20
Lake County	9,175,680	0	2.6 %	31,117	39,515	\$2.37	\$5.59	\$3.18
NE Orange County	1,852,653	0	1.1 %	9,935	9,935	N/A	\$11.83	\$10.77
NW Orange County	34,034,736	32,652	3.9 %	422,749	284,185	\$6.05	\$8.80	\$6.16
Osceola County	7,679,866	0	2.5 %	8,682	10,901	\$4.25	N/A	\$4.51
SE Orange County	48,581,393	269,327	3.5 %	179,168	652,034	\$5.67	\$11.77	\$7.03
Seminole County	25,768,038	18,060	5.5 %	133,095	370,157	\$5.67	\$5.79	\$5.52
SW Orange County	32,056,031	0	3.1 %	-51,241	-67,857	\$5.96	\$7.10	\$6.20
Totals	182,840,443	1,231,879	3.9 %	609,853	1,236,395	\$5.74	\$7.86	\$6.18

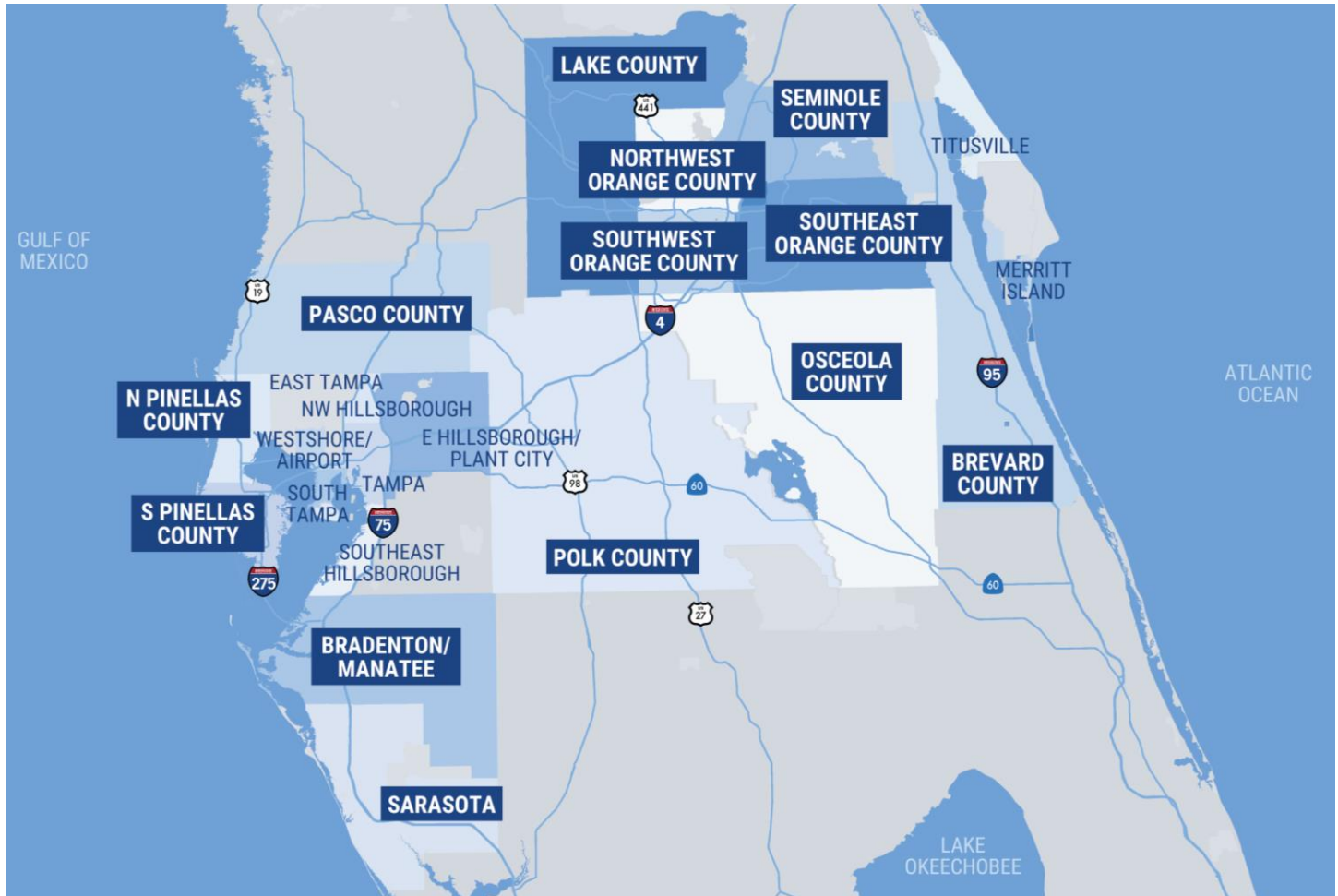
ORLANDO LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Electrolux	Beachline Corp Ctr 100-8650 Transport	SE Orange County	Direct	85,100
Czarnowski Display Service, Inc.	Prologis Beltway Comm Ctr 100-10850 Lee Vista Rd	SE Orange County	Direct	79,800
Scientific Games	Liberty Pk @ AIPO-2487 Tradeport Dr	SE Orange County	Direct	67,000
Meyer Distributing	Cypress Park V-1750 Cypress Lake Dr	SE Orange County	Direct	60,000
Dade Paper & Bag LLC	Orlando Central Pk VIII-2900 Titan Row	SW Orange County	Direct	26,400

ORLANDO SELECT SALE TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
The Park @429 200 & 300-641 Crown Point Rd	NW Orange County	\$45,700,000	\$104	441,175
La Quinta Dist Ctr-1264 La Quinta Dr	SE Orange County	\$11,000,000	\$61	181,394
3200 Mercy Dr	NW Orange County	\$9,800,000	\$67	146,566
27616 County Road 561	Lake County	\$4,750,000	\$46	102,888
Eagle's Landing @ Ctr of Comm-4401 Shader Rd	NW Orange County	\$5,135,978	\$55	93,608

CENTRAL FLORIDA INDUSTRIAL SUBMARKETS



TAMPA

4221 West Boy Scout Boulevard
Suite 440
Tampa, FL 33607
813.639.1111

ORLANDO

400 South Park Avenue
Suite 220
Winter Park, FL 32789
321.316.3030

ERIC MESSER

Research Services Manager
561.893.6234
emesser@ngkf.com

Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Knight Frank Research Reports are available at www.ngkf.com/research

All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark Knight Frank (NKF) has not verified any such information, and the same constitutes the statements and representations only of the source thereof, and not of NKF. Any recipient of this publication should independently verify such information and all other information that may be material to any decision that recipient may make in response to this publication, and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial, and tax aspects and implications. Any recipient of this publication may not, without the prior written approval of NGKF, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains.