

# CENTRAL FLORIDA INDUSTRIAL MARKET

## MARKET FUNDAMENTALS HELD DESPITE A SLIGHT CORRECTION

The third quarter of 2019 resembled a hiccup for the Central Florida industrial market, as a net negative 780,000 square feet was absorbed. This negative absorption, the first quarterly correction in more than six years, was the result of a single subtenant moving out of 1.0 million square feet in Orlando's industrial market. However, this move-out was not enough to negate Central Florida's healthy performance in the first half of 2019, as demand still outpaced supply with more than 440,000 square feet of absorption year-to-date. Overall vacancy rose 50 basis points to 5.2% from the previous quarter, pushing occupancy down 80 basis points from one year ago to just above 95.0% for the first time in more than two years. Since the beginning of 2016, robust development has accounted for more than 17.8 million square feet of new industrial product, increasing inventory more than 4.0%. Vigorous demand and strong economic fundamentals have aided the region and will likely help counteract the anomaly that occurred during the third quarter. The occupation of new industrial inventory delivered to the market lessened the quarterly impacts such strong development otherwise would have had on asking rent averages. The decrease in high-end vacancy translated into an average rent of \$6.25/SF, a 4.3% increase from one year ago. Construction activity remained strong with 24 buildings totaling more than 4.5 million square feet of new inventory underway. As a result, vacancy rates are likely to inch upward over the next 12 months despite strong demand.

## LEASING AND DEMAND

Leasing activity improved from the 2.9 million square feet of transactions recorded in the previous quarter, as there were 273 transactions totaling more than 3.7 million square feet. Year-to-date, overall transaction activity has totaled just under 10.4 million square feet, which was a slight decrease of 720 basis points from the 11.2 million square feet leased at the same time one year ago. Warehouse/distribution space dominated the market with 8.9 million square feet, followed by general industrial with 1.3 million square feet of leasing activity, while R&D/flex deals totaled a meager 204,000 square feet in the first three quarters of 2019. The majority of transaction activity came in the form of renewals and lateral relocations of existing tenants in the market, while demand from companies coming into the market has subsided from previous levels. Retail and wholesale companies have signed the most mid- to large-sized deals, accounting for 2.2 million square feet, followed by the home and building sector with 880,000 square feet. The logistics and distribution industry rounded out the top three with 803,000 square feet.

## INVESTMENT SALES

Sale activity rose significantly from the previous quarter with 24 transactions totaling 3.2 million square feet, combining with the first half of the year for a total of 5.9 million square feet that sold for \$413.0 million. This was down from the 8.1 million square feet sold from one year ago, while the average price dipped slightly to \$70/SF from \$73/SF one year ago.

## CURRENT CONDITIONS

One major moveout caused the region's first quarter correction seen since 2013 as vacancy rates moved upward.

Robust construction held throughout Central Florida as another 1.2 million square feet of new industrial inventory was completed during the quarter.

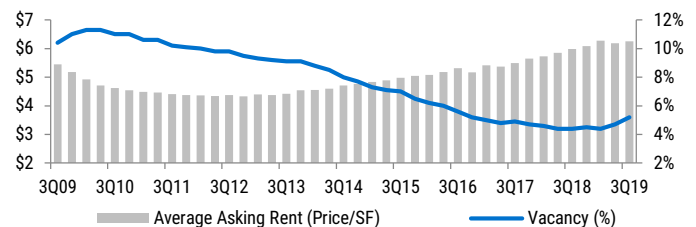
4.5 million square feet of inventory was under construction, increasing over 1.3 million square feet from one year ago.

Overall leasing activity in 2019 saw a downturn from one year ago as renewals and lateral relocations led lease deals in the market.

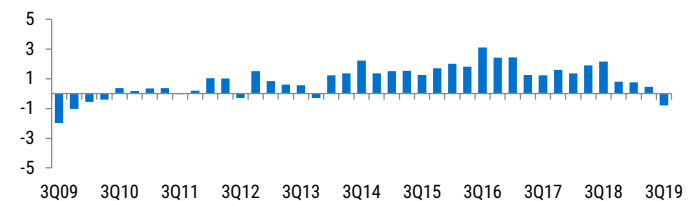
Investment sales have fallen from activity seen one year ago as lower-tier properties lead in industrial buildings exchanging hands and keeping average sale prices from rising.

## MARKET ANALYSIS

### Asking Rent and Availability



### Net Absorption (SF, 100,000)



## MARKET SUMMARY

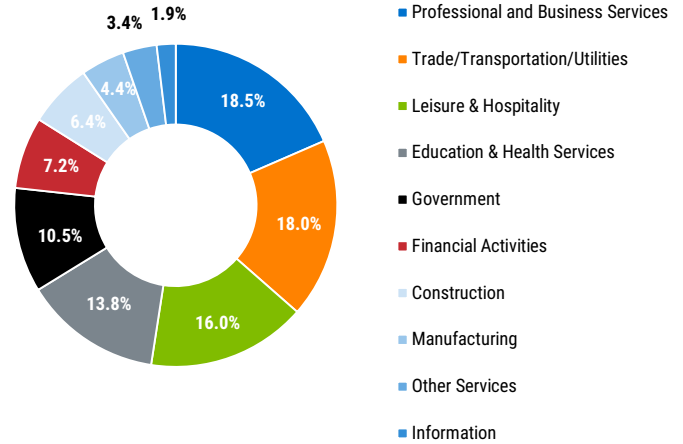
	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	447.7 MSF	446.5 MSF	442.7 MSF	↑
Vacancy Rate	5.2%	4.7%	4.4%	↑
Quarterly Net Absorption	(780,630)	463,174	2,155,056	↑
Average Asking Rent	\$6.25	\$6.19	\$5.99	↑
Under Construction	4,541,346	6,031,125	3,206,390	↓
Deliveries	1,235,440	1,552,053	2,262,648	↓

## ECONOMIC CONDITIONS

Central Florida's unemployment rate remained level at 3.4%, with 73,300 additional jobs added from August of 2018. Orlando reported the region's lowest unemployment rate, down 10 basis points to 3.2% from one year ago. Tampa/St. Petersburg's rate remained unchanged from last year during the same time period at 3.5%. Looking back from the beginning of 2019, employment growth was still healthy from previous year-over-year performances. The professional and business services sector dominated with the strongest growth of any industry for the fourth consecutive quarter with 26,800 jobs created. Population and job growth continued to aid development within the region as the construction sector moved into the number two position with 11,500 new jobs from one year ago, while Central Florida's strong ties to theme parks and global travelers helped the leisure and hospitality industry remain in the top three with 10,000 new jobs added over the past 12 months. The education and trade, transportation and utility sectors also experienced strong year-over-year percentage growth. The manufacturing sector saw continued growth with 5,200 jobs created since August of 2018, while most remaining sectors experienced modest improvements. The information sector continued to struggle with a loss of 200 jobs since one year ago.

## EMPLOYMENT BY INDUSTRY

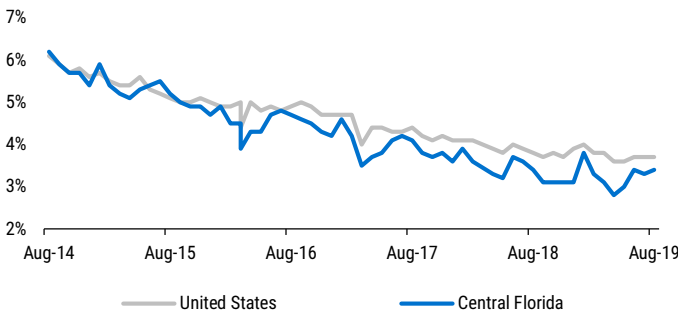
Central Florida MSA, August 2019 Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## UNEMPLOYMENT RATE

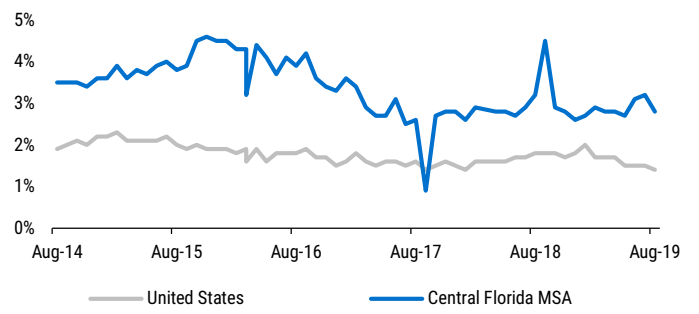
Central Florida Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## PAYROLL EMPLOYMENT

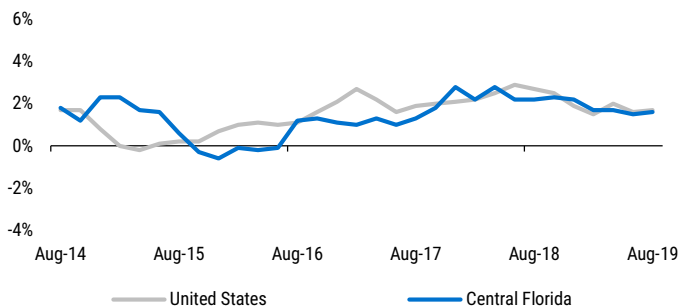
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## CONSUMER PRICE INDEX (CPI)

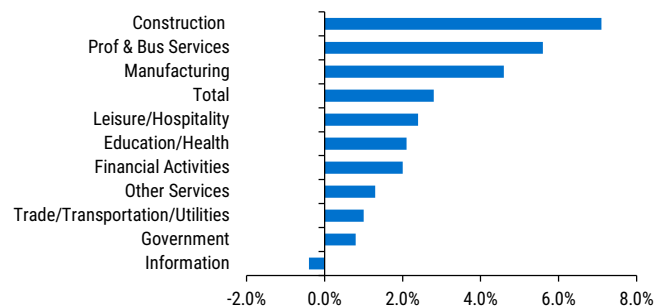
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## EMPLOYMENT GROWTH BY INDUSTRY

Central Florida, August 2019, MSA, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## TAMPA / SAINT PETERSBURG

The third quarter of 2019 saw Tampa's industrial market vacancy inch up 30 basis points from the previous quarter to 5.5%, as demand outpaced supply at a modest pace with 331,048 square feet of positive net absorption. This marked the second consecutive quarter of slower demand growth, while healthy fundamentals remained in place. The warehouse/distribution sector led the way, posting more than 355,000 square feet of positive net absorption during the third quarter. The general industrial market saw a slight correction with 23,530 square feet of space returned to the market, while the R&D/flex segment was more balanced with less than 1,000 square feet of negative net absorption.

Eight buildings totaling more than 1.5 million square feet have been completed so far in 2019, and another 13 totaling almost 3.0 million square feet remained under construction. Tight market conditions have held despite moderating conditions and strong development, but landlords in turn have yet to significantly increase asking rents while offering fewer tenant concessions, limiting them mostly to mid- and large-sized deals with terms of more than five years. Asking rates remained the most affordable in all of Florida, as the quoted average rose just \$0.25/SF to \$5.87/SF from one year ago. Year-over-year, warehouse/distribution averages increased by \$0.36/SF from \$5.02/SF. The general industrial segment followed, increasing from \$6.50/SF to \$6.83/SF, while R&D/flex average rents fell \$0.22/SF to end the third quarter of 2019 at \$8.42/SF.

### LEASING AND DEMAND

Leasing activity in third-quarter 2019 improved from previous quarters, as 152 transactions totaling 2.2 million square feet were recorded, bringing year-to-date deal activity to 5.6 million square feet. Warehouse/distribution space led for a combined 4.8 million square feet, followed by general industrial with 678,000 square feet of year-to-date leasing activity. This was in stark contrast to the meager 58,500 square feet of R&D/flex deals. The retail and wholesale sector accounted for 1.0 million square feet of leasing activity among the mid- to large-sized deals in the Tampa region. Home and building supply companies held the number-two spot with 551,000 square feet, while the logistics and distribution segment rounded out the top three with 435,000 square feet.

### INVESTMENT SALES

There were 20 sales totaling almost 2.9 million square feet and worth a combined \$211.7 million at the close of the quarter, bringing year-to-date activity to more than 4.7 million square feet that sold for a combined \$330.2 million. This was down from the 5.2 million square feet that sold at the same time last year. The average sales price did push upward to \$69/SF from the \$63/SF recorded one year ago. Strengthening market fundamentals have translated into improved sale prices, as interest in investment activity is there, but owners continued to hold on to high-end and well leased properties. The shortage of trophy investment properties should translate into continued demand for midsized and lower-tier industrial investments.

### CURRENT CONDITIONS

Growth saw a slight improvement from the previous quarter, but still cooled from levels seen from one year ago.

Asking rents have ticked upward slowly, keeping warehouse space in the Tampa market the most affordable for Florida's key industrial sectors.

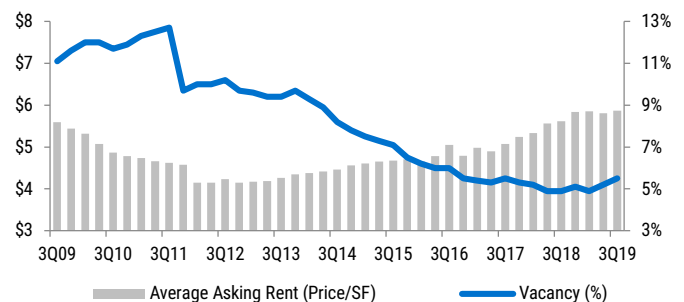
Construction activity slowed with 2.9 million square feet remaining under development, down from the over 4.0 million square feet underway in the previous two quarters.

Vacancy rates have begun to inch upward as new inventory is delivered and demand growth cools.

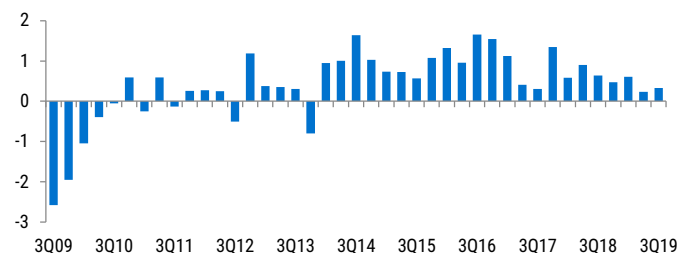
Tampa dominated investment sale activity in the region with more than 80.0% sold in Central Florida, while investor interest remained strong but limited high-end industrial product was available for sale.

### 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	261.3 MSF	260.4 MSF	257.9 MSF	↑
Vacancy Rate	5.5%	5.2%	4.9%	↑
Quarterly Net Absorption	331,048	231,571	640,549	↔
Average Asking Rent	\$5.87	\$5.81	\$5.62	↔
Under Construction	2,971,247	4,353,743	4,075,244	↓
Deliveries	806,050	707,391	710,808	↔

**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	21,653,849	845,354	2.6 %	-34,293	-69,727	\$5.26	N/A	\$5.26
E Hillsborough/Plant City	12,615,668	804,412	3.0 %	44,800	198,199	\$5.09	N/A	\$5.17
East Side Tampa	59,993,319	644,470	6.8 %	244,352	499,485	\$5.01	\$7.58	\$5.60
NE Hillsborough/University	1,572,640	0	3.4 %	-569	-4,849	\$5.58	\$8.75	\$6.56
North Pinellas	10,901,606	0	1.0 %	23,029	19,139	\$4.45	\$4.50	\$6.87
NW Hillsborough	2,428,841	0	6.8 %	-2,500	9,800	\$5.72	N/A	\$8.85
Pasco County	8,071,437	0	4.4 %	-2,400	50,021	\$7.47	\$5.49	\$7.04
Polk County	51,437,241	677,011	7.8 %	188,068	766,486	\$4.71	\$3.00	\$4.94
S Tampa Ind	3,740,869	0	10.0 %	2,500	-22,032	\$4.01	N/A	\$1.85
Sarasota	17,111,925	0	2.7 %	-15,579	-97,463	\$6.68	\$6.50	\$7.23
SE Hillsborough	2,648,798	0	8.3 %	0	0	\$6.00	N/A	\$4.95
South Pinellas	51,646,533	0	5.3 %	-107,314	-169,827	\$6.48	\$11.35	\$6.64
Westshore/Airport	17,430,490	0	4.3 %	-9,046	-10,249	\$6.40	\$10.00	\$7.18
<b>Totals</b>	<b>261,253,216</b>	<b>2,971,247</b>	<b>5.5 %</b>	<b>331,048</b>	<b>1,168,983</b>	<b>\$5.38</b>	<b>\$8.42</b>	<b>\$5.87</b>

**TAMPA / SAINT PETERSBURG LEASE / USER TRANSACTIONS**

Tenant	Building	Submarket	Type	Square Feet
Conn Appliances Inc	Interstate 4 Log Hub-8401 State Rd 33 N	Bradenton/Manatee	Direct	413,400
Republic National Distributing	Tampa Regional Ind Pk 2-13040 Bay Industrial Dr	SE Hillsborough	Direct	243,000
Ta Chen International	Lakeland Logistics Ctr 200-2025 W Memorial Blvd	Polk County	Direct	157,500
Formulated Solutions	Sarkey Lakes South-8515 126 <sup>th</sup> Ave	South Pinellas	Direct	96,000
Nestor Sales	7337 Bryan Dairy Rd	South Pinellas	Direct	91,100

**TAMPA / SAINT PETERSBURG LEASE / USER TRANSACTIONS**

Building	Submarket	Sale Price	Price/SF	Square Feet
*Tampa Distribution Ctr-4501-4962 Distribution Dr	East Side Tampa	\$69,250,000	\$73	955,000
Key Logistics Ctr 300-5300 Allen K Breed Hwy	Polk County	\$25,200,000	\$72	349,929
*Grand Oaks 75 Bus Ctr-6455 S Falkenburg Rd	East Side Tampa	\$30,700,000	\$96	319,373
*14880 & 14550 62 <sup>nd</sup> St N	South Pinellas	\$6,759,323	\$30	224,192
Tampa W Ind Ctr-4908 Tampa W Blvd	Westshore/Airport	\$12,500,000	\$60	210,000

\*Denotes portfolio sale

## ORLANDO

The third-quarter correction was caused by a subtenant moving out of 1.0 million square feet at Winn-Dixie's former distribution center in the NW Orange County submarket, as negative net absorption this quarter exceeded 1.1 million square feet. Otherwise, the market would have experienced a more balanced quarter with supply barely outpacing demand. Although this move-out was a temporary setback, the absorbed space in the first half of the year was not enough to counteract it with 728,000 square feet of year-to-date negative net absorption. Orlando's industrial vacancy rate jumped 80 basis points to 4.8% from the previous quarter and 120 basis points from the rate recorded one year ago.

Two buildings totaling 429,000 square feet of new industrial product were delivered during the quarter, bringing more than 1.5 million square feet the new inventory delivered to the market since the beginning of 2019. Industrial developers in the Orlando market have pulled back slightly on projects breaking ground, with 11 buildings totaling almost 1.5 million square feet under construction at the close of third-quarter 2019. This was down by half from the latest peak of 3.0 million square feet that was underway at the end of 2017. The majority of space is available for lease, as little pre-leasing has occurred and will likely push vacancy rates upward over the next couple of quarters. The recorded average rent increased \$0.33/SF from this time last year to \$6.77/SF in third-quarter 2019. Year-over-year, warehouse/distribution averages increased by \$0.30/SF from \$5.85/SF. The moderate gains in this sector can be explained by healthy leasing activity within the new inventory being delivered. General industrial rents saw similar growth, with a \$0.42/SF increase from \$5.55/SF, while R&D/flex average rents moved up by \$0.74/SF to end the third quarter at \$9.04/SF.

### LEASING AND DEMAND

Leasing activity in the third quarter remained consistent with previous quarters, as 121 transactions totaling almost 1.5 million square feet were recorded, bringing year-to-date deal activity to more than 4.8 million square feet. However, this was down from the 5.2 million square feet of year-to-date activity recorded one year ago. Warehouse/distribution space led with 4.0 million square feet, while general industrial came in second, totaling approximately 622,000 square feet. The disparity seen in R&D/flex deals held, with transactions totaling just 145,600 square feet so far this year. The retail and wholesale industry led demand activity, accounting for 1.1 million square feet, while the food and beverage segment remained in second place with 420,000 square feet of deals despite a lack of mid- and large-sized lease deals during the third quarter. Logistic and distribution companies rounded out the top three with 369,000 square feet leased.

### INVESTMENT SALES

Four investment sales totaling 242,000 square feet were sold for more than \$23.0 million in the third quarter of 2019. Sales activity continued its decline from previous quarters, as 17 sales totaling a meager 1.7 million square feet changed hands for a combined \$82.8 million year-to-date, compared with 3.2 million square feet that sold for \$265.1 million at the same time last year. Owners have pulled back from placing industrial properties on the market for sale, while investor interest in well-leveraged properties remained high. This has caused the sale of lower-tier properties to negatively impact the overall sale average, as the price per square foot for industrial properties dipped from \$77/SF one year ago to \$72/SF.

## CURRENT CONDITIONS

One major moveout created the first market correction seen as supply outpaced demand for the first time since recovery from the great recession began in 2012.

Vacancy rates rose significantly due to the 1.0-million-square-foot relocation of a subtenant from the NW Orange County submarket.

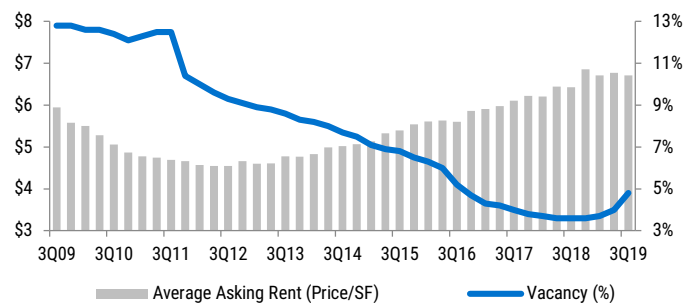
Leasing activity held level during the third quarter but was in the form of renewals and lateral relocations while demand from new tenants coming into the market have diminished.

Construction slowed down as activity dipped by 1.5 million square feet from 6.0 million square feet underway in the previous quarter.

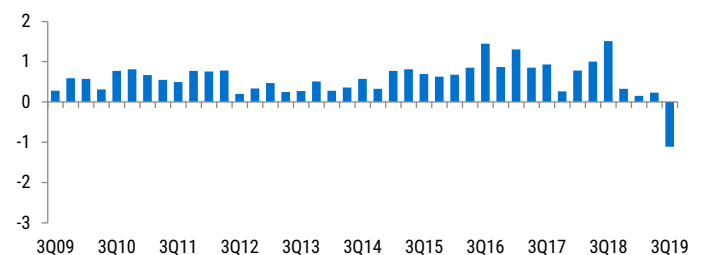
Tepid investment activity held during third-quarter.

## 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	186.6 MSF	186.2 MSF	184.8 MSF	↑
Vacancy Rate	4.8%	4.0%	3.6%	↑
Quarterly Net Absorption	(1,111,678)	231,603	1,514,507	↑
Average Asking Rent	\$6.77	\$6.71	\$6.44	↔
Under Construction	1,570,099	1,677,382	1,332,827	↓
Deliveries	429,390	844,662	1,551,840	↔



## 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	25,516,061	0	3.4 %	122,907	330,667	\$6.78	\$9.05	\$7.39
Lake County	9,201,368	107,566	2.4 %	14,481	-21,349	\$3.95	\$7.91	\$4.56
NE Orange County	1,852,653	0	1.5 %	1,291	4,303	\$12.18	\$16.84	\$15.47
NW Orange County	34,477,100	747,746	7.3 %	-1,079,649	-956,499	\$6.79	\$7.87	\$6.50
Osceola County	7,679,866	0	2.1 %	29,992	23,970	\$5.96	N/A	\$6.35
SE Orange County	49,969,349	714,787	5.9 %	-25,573	52,977	\$5.70	\$12.07	\$6.64
Seminole County	25,891,438	0	4.4 %	43,653	145,341	\$6.81	\$6.73	\$6.66
SW Orange County	32,056,031	0	3.6 %	-218,780	-307,423	\$6.65	\$8.63	\$7.17
<b>Totals</b>	<b>186,643,866</b>	<b>1,570,099</b>	<b>4.8 %</b>	<b>-1,111,678</b>	<b>-728,013</b>	<b>\$6.15</b>	<b>\$9.04</b>	<b>\$6.77</b>

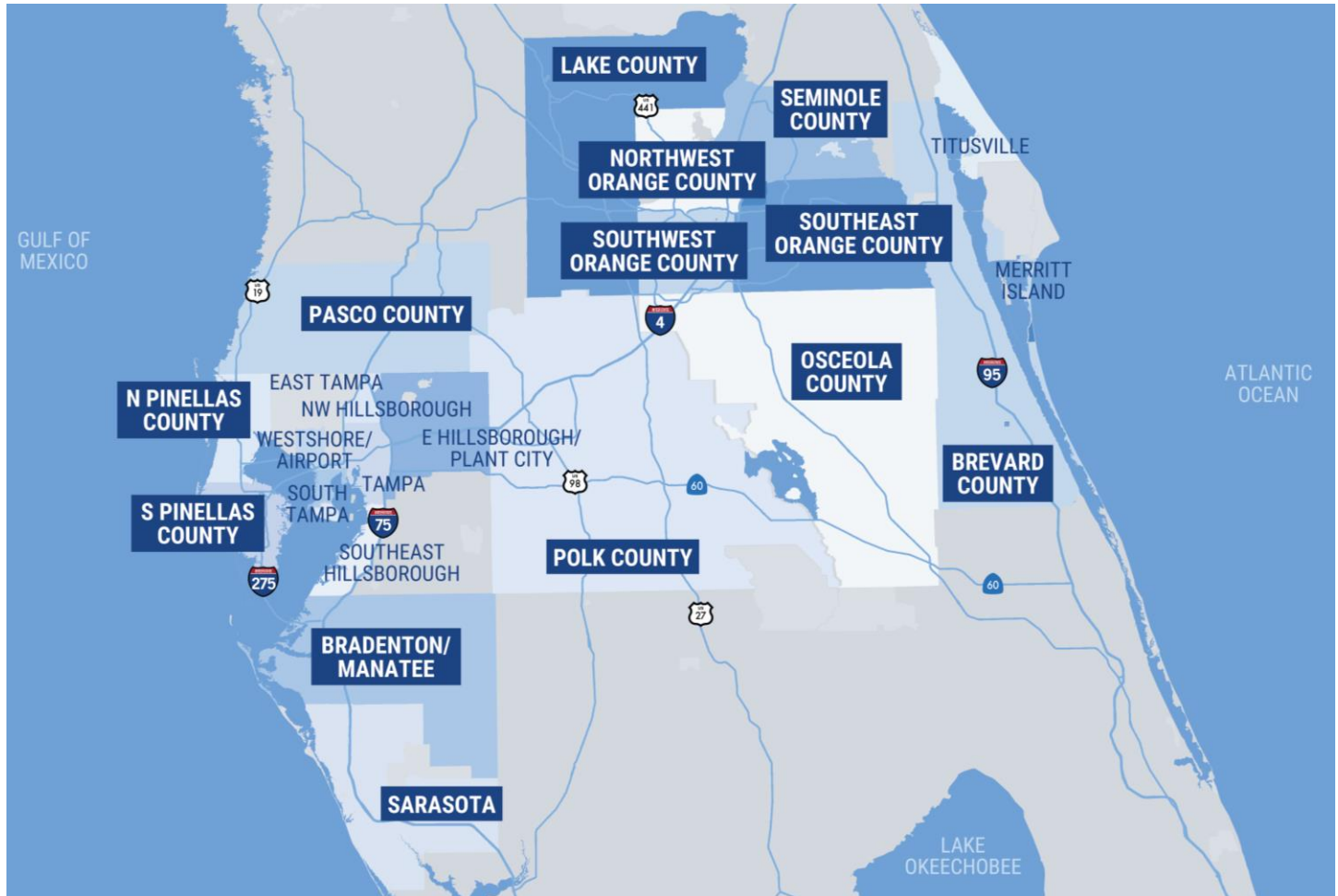
## ORLANDO LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
American Hotel Register	Cypress Park V-1750 Cypress Lake Dr	SE Orange County	Renewal	220,000
One Fat Frog Inc	Bent Oak Industrial Pk 100-1801 Boice Ponce Dr	SE Orange County	Direct	194,000
Millennium Marketing Group	1978 N Stanhome Way	NW Orange County	Renewal	50,000
Gold Meat	200 Country Rd 448	Lake County	Direct	42,500
McKesson Corp	Exchange Distribution Ctr-7503 Exchange Dr	SW Orange County	Direct	38,700

## ORLANDO SELECT SALE TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
975 Bennett Dr	Seminole County	\$4,700,000	\$67	70,000
East Park Ind Pk-2310 Mercato Dr	SE Orange County	\$4,200,000	\$63	66,254
770 Gills Dr	SE Orange County	\$6,300,000	\$117	54,000
Winter Garden Commerce Ctr-691 Garden Commerce Pky	NW Orange County	\$7,800,000	\$153	50,843

## CENTRAL FLORIDA INDUSTRIAL SUBMARKETS



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