LEE & ASSOCIATES®
COMMERCIAL REAL ESTATE SERVICES

WE TRACK THE STUFF THAT MATTERS!

Q4 2016

ORANGE & SEMINOLE COUNTY

INDUSTRIAL MARKET REPORT

QUARTER LEE NOTE

As we wrapped up the final quarter of 2016, this year will be remembered as another solid performing year for the Orlando industrial market. Although not having the absorption numbers that 2015 had (3,414,000 SF), we ended the year with great momentum and optimism. Almost 50 percent of all of the absorption came from the SE submarket in 2016.

At the completion of the 3rd quarter, there was an uncertainty that lay ahead as the elections neared. The election of a Republican as President and control of both houses of Congress was certainly surprising to many. In surveying a number of our clients, developers and brokers, there seems to be a sense that our market will continue to be robust. This is being backed up by building sales at cap rates that have not been seen in Orlando's history and record low vacancy rates, both fueled by low interest rates and perceived upside in hard assets as a hedge against inflation. Looking forward to 2017, there are some clouds on the horizon such as rising construction costs and overall pricing which could cool development. We remain upbeat and optimistic for a solid 2017.

MARKET TRENDS: CHANGE FROM PREVIOUS QUARTER

ASKING RENTAL RATES	TOTAL MARKET VACANCY	TOTAL NET ABSORPTION	NEW CONSTRUCTION
↑ $5.63 PSF	↓ 7.7%	↑ 891,833 SF	↑ 2,294,894 SF

MARKET OVERVIEW

We ended 2016 on a very high note. Total market absorption of 891,833 square feet brought the total direct market vacancy rate down to 7.1 percent, and average asking rental rates increased to $5.63 per square foot. The Airport/Southeast and OCP submarkets continue to outperform the other submarkets, and office/warehouse and manufacturing buildings lead in lowest vacancy and continued positive absorption.

Building sales this quarter were exceptionally high at $107 million, with an average price of $79.99 per square foot. Total sales for the year were $347 million, a high not seen since 2007.

There is still over 2.3 million square feet of new product under construction at this time, of which 1,082,000 square feet has been pre-leased.

UNDERSTANDING THE REPORT

WE TRACK THE STUFF THAT MATTERS!

We do not track ancillary smaller buildings. Lee & Associates **tracks all industrial buildings 20,000 square feet and greater within Orange and Seminole counties**. Condominium and self-storage properties are not included in this report. Among the buildings tracked, there are four categories: flex, bulk/distribution, manufacturing and office/warehouse. Flex space is defined as a building that provides a configuration allowing tenants a flexible amount of office/showroom area in combination with manufacturing, warehouse and distribution space. Flex buildings will have a higher parking ratio than office/warehouse or bulk buildings, are typically grade level and have an office finish greater than 30 percent. Bulk/distribution is defined as a building which has a clear height of 22' or greater, has a minimum depth of 160' and typically has less than 10 percent office finish. Manufacturing denotes a property used for conversion or assembly of raw or partially raw materials into goods/products. Office/warehouse is defined as buildings that have a clear height of up to 21', have a maximum depth of up to 160' and typically have a higher office finish of 10-25 percent more than bulk buildings. The term "industrial" combines all categories with the exception of flex space, which is tracked and reported separately.

All rental rates reported do not include operating expenses or CAM charges and are reported on a triple net basis. **In addition, sublet space is not included in the overall absorption or weighted average rental rates.** In addition, we do not include build-to-suits that are 100 percent occupied by a tenant as positive absorption, however, we do note these events as activity in the market. Buildings that are partially pre-leased are included in positive absorption at the time construction begins. Lee & Associates tracks over 1,650 buildings in Orange and Seminole County which total approximately 109 million square feet. The flex inventory makes up 20 percent of the total space within the market, while the industrial product makes up 80 percent. We end our statistical gathering of data approximately one week prior to the end of each quarter.

MARKET SNAPSHOT

Comparison Rental Rates PSF:

	3Q-16	4Q-16
Flex	$8.19	$9.68
Bulk/Distribution	$3.60	$3.43
Manufacturing	$4.88	$4.40
Office/Warehouse	$4.33	$4.33
Total Market	$5.36	$5.63

Comparison of Market Vacancy:

	3Q-16	4Q-16
Direct	7.9%	7.1%
Sublet	0.7%	0.7%
Total Market	8.5%	7.7%

Comparison of Absorption in SF:

	3Q-16	4Q-16
Quarterly Amount	432,119	891,833
Year-to-date	1,230,183	2,122,016

Construction Pipeline: 20,000SF+

	3Q-16	4Q-16
U/C	2,274,278	2,294,894

Building Sales:

	3Q-16	4Q-16
For the quarter	$82.3M	$107M
Avg Price PSF	$44.00	$79.99

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QUARTER IN REVIEW

Direct market vacancy in the fourth quarter dropped by .8 percent to 7.1 percent, bringing the total market vacancy, including sublease space, to 7.7 percent. Sublease vacancy remained at .67 percent. All product types showed an improvement in overall occupancy with manufacturing showing the greatest improvement of 1.7 percent. All of the submarkets we track, except the Longwood/Lake Mary/ Sanford submarket, posted direct vacancy rates under 9 percent. The Northwest submarket had the lowest direct vacancy at 3.7 percent, followed closely behind by the Southwest submarket at 4.5 percent and OCP at 4.6 percent.

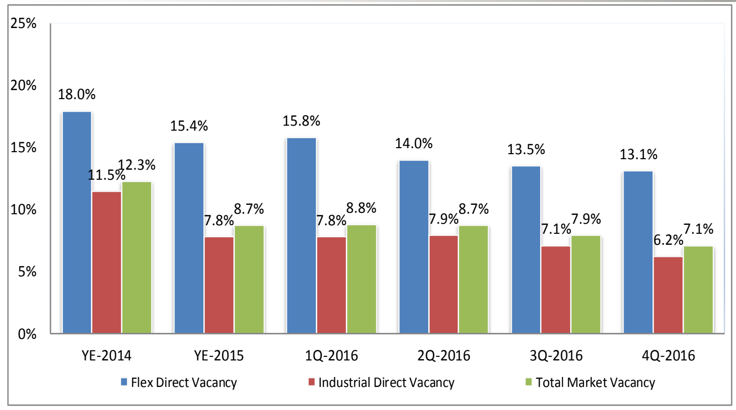
We ended 2016 with 891,833 square feet of positive absorption, bringing the year's total to 2,122,016 square feet. The 2016 total absorption is less than what we saw in 2014 and 2015, however, in line with absorption numbers we saw in the early to mid 2000's when the market was strong. The Airport/Southeast submarket had the highest absorption at 270,343 square feet, followed closely by the OCP submarket with 237,016 square feet. The Central Orlando and EastSide/University submarkets had 0 square feet of absorption. Office/warehouse product had the highest absorption at 529,745 square feet, while flex product had negative absorption of (5,153) square feet.

We saw an increase in the asking market rental rate for flex product and in the total asking market rental rate this quarter. The overall market asking rental rate had an increase of $.27 per square foot. Despite higher asking rental rates from new buildings that have been delivered over the last 18 months, lower asking rental rates on older buildings continue to negatively affect the average asking rate. As vacancy continues to decline in the older buildings, we expect the average asking rental rates in all product types to increase.

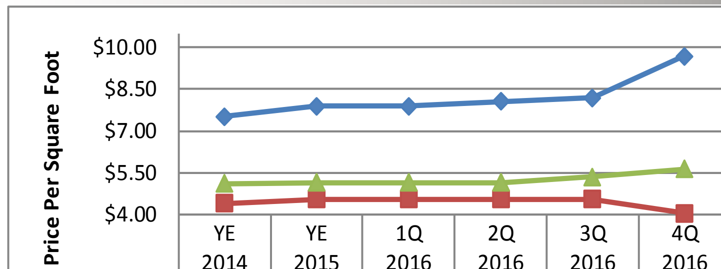
There is currently 2,294,894 square feet under construction. These buildings include:
McCraney Property Company's Bent Oak buildings - #300 with 111,390 square feet, #400 with 131,840 square feet, #500 with 131,840 square feet and #600 with 451,440 square feet.
Becknell Development's Air Commerce Park with 478,400 square feet.
EastGroup's Horizon V with 140,742 square feet and Horizon VII with 109,174 square feet.
Realvest Development's two buildings on Shadowridge Road totaling 71,340 square feet.
Foundry's three buildings off of Taft Vineland totaling 337,920 square feet.
Oakmont's two buildings totaling 329,156 square feet.

There were 21 building sales in the fourth quarter totaling $107 million. Total square footage in sales was 1,334,316 and there was an average asking price of $79.99 per square foot. The largest sale was McDonald Development's three building portfolio on Emerald Dunes Drive in the LeeVista area. The buildings sold for $47.9 million, bringing a sales price of just under a $100 per square foot. Total sales for 2016 were $347 million, a 30 percent increase over 2015 total sales.

VACANCY

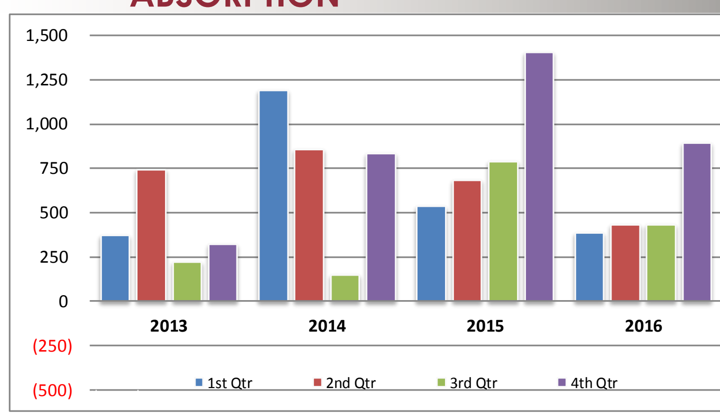


RENTAL RATES

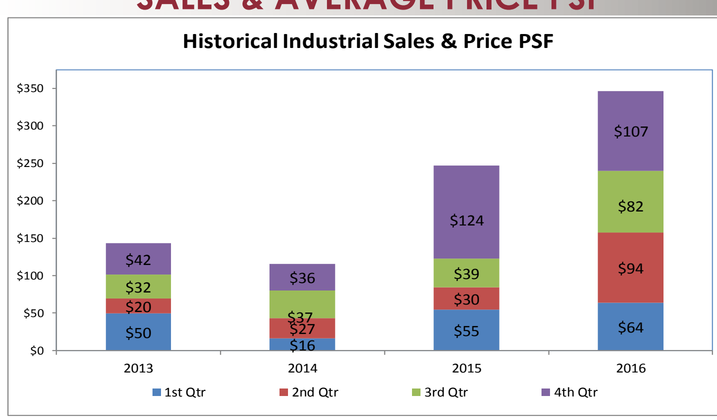


	YE 2014	YE 2015	1Q 2016	2Q 2016	3Q 2016	4Q 2016
Flex	$7.51	$7.89	$7.89	$8.05	$8.19	$9.68
Ind	$4.39	$4.55	$4.55	$4.55	$4.55	$4.05
Market	$5.11	$5.14	$5.14	$5.14	$5.36	$5.63

ABSORPTION



SALES & AVERAGE PRICE PSF



QUARTER IN REVIEW

TOP FOURTH QUARTER LEASE TRANSACTIONS (RANKED BY SQUARE FEET)

Building Name	Tenant	Total SF	Submarket	Type
8051 Beacon Lake Drive	NBC Universal	140,742	Southeast	New
1701 Boice Pond Road	Wesco	54,491	Southeast	New
7600 Kingspointe Parkway	Scenerio Cockram	50,033	OCP	New
8075 Beacon Lake Drive	STA Elements	50,709	Southeast	New
4141 John Young Parkway	Gemaire	48,500	SilverStar	New
4101 Seaboard Road	Johnson Controls	46,582	SilverStar	New
1075 Gills Drive	US Tradeshows	24,020	Southeast	Renewal

TOP FOURTH QUARTER SALE TRANSACTIONS (RANKED BY SQUARE FEET)

Building Name/Address	Submarket	Total SF	Buyer	Seller	Sale Price	PPSF
7413, 7433, 7443 Emerald Dunes Drive	Southeast	479,100	Colfin 2016-5 Industrial Owner LLC	McDonald LeeVista LLC	$47,900,100	$99.98
Monroe Commerce Center, Goldenrod Road & Hanging Moss Road	Orange / Seminole County	289,346	Orlando Industrial 3 RE, LLC	James Godey	$17,500,000	$60.48
603 Landstreet Road	Southeast	118,653	Sorensen-Mullen Properties LLC	Susquehanna Holdings Co.	$5,850,000	$49.30
7101 Presidents Drive	OCP	108,432	Avistone Presidents S LLC	JY Presidents 2 LLC	$9,300,000	$85.77
4460 N Goldenrod Road	Eastside	67,000	Vintage Winter Park LLC	WR Winter Park LLC	$5,644,000	$84.24
7452-7466-7480 Narcoosee Road	Southeast	63,000	Annapurna 10 LLC	IC BP III Holdings XII LLC	$4,500,000	$71.43
3855 Saint Valentine Way	33rd	42,233	Front Row LLC	Kennedy 34th Street LP	$3,250,000	$76.95
3439 Maggie Blvd.	33rd	21,486	Multiply Orlando LLC	Front Row LLC	$1,550,000	$72.14
1001 Cornwall Road	Sanford	18,250	Lake Mary Acquisitions Gorup LLC	Russell Brothers Aluminum	$1,050,000	$57.53
100 Thorpe Road	Southeast	15,590	SA Ltg LLC	Quikey Manufacturing Co Inc.	$1,300,000	$83.39

Logo placed within transactions listed above translates to deals where Lee & Associates participated.

Submarket	# of Bldgs	Total RSF	Direct SF Available	Direct Vacancy	Sublet SF Available	Sublet Vacancy	Total Vacancy	Quarterly Absorption	Year to Date Absorption	Dir Wtd Avg Asking Rate
NORTHWEST										
Bulk/Distribution	6	830,375	10,000	1.2%	0	0.0%	1.2%	0	0	$ -
Flex	17	581,323	27,154	4.7%	9,375	1.6%	6.3%	0	29,742	$ 6.61
Manufacturing	14	664,500	8,925	1.3%	0	0.0%	1.3%	0	0	$ 5.17
Office/Warehouse	58	3,802,817	174,208	4.6%	0	0.0%	4.6%	86,918	101,678	$ 3.75
Submarket Total	*95*	*5,879,015*	*220,287*	*3.7%*	*9,375*	*0.2%*	*3.9%*	*86,918*	*131,420*	*$ 4.36*
SILVER STAR										
Bulk/Distribution	16	3,363,912	119,382	3.5%	58,800	1.7%	5.3%	46,582	42,982	$ 4.94
Flex	29	1,313,618	207,172	15.8%	0	0.0%	15.8%	17,650	105,077	$ 8.51
Manufacturing	17	1,809,590	1,186	0.1%	0	0.0%	0.1%	0	(1,186)	$ 4.75
Office/Warehouse	176	9,450,526	479,588	5.1%	2,000	0.0%	5.1%	79,649	108,677	$ 4.37
Submarket Total	*238*	*15,937,646*	*807,328*	*5.1%*	*60,800*	*0.4%*	*5.4%*	*143,881*	*255,550*	*$ 5.52*
33RD STREET										
Bulk/Distribution	4	332,722	17,766	5.3%	0	0.0%	5.3%	(17,766)	(17,766)	$ -
Flex	31	878,557	89,940	10.2%	0	0.0%	10.2%	6,171	3,499	$ 10.81
Office/Warehouse	81	3,734,619	280,607	7.5%	30,016	0.8%	8.3%	69,686	57,602	$ 8.13
Submarket Total	*116*	*4,945,898*	*388,313*	*7.9%*	*30,016*	*0.6%*	*8.5%*	*58,091*	*43,335*	*$ 8.38*
NORTH CENTRAL										
Flex	39	1,122,511	134,066	11.9%	0	0.0%	11.9%	(3,487)	(19,622)	$ 9.41
Manufacturing	10	490,567	60,618	12.4%	0	0.0%	12.4%	0	0	$ 5.21
Office/Warehouse	49	1,910,095	93,480	4.9%	0	0.0%	4.9%	2,400	5,335	$ 5.60
Submarket Total	*98*	*3,523,173*	*288,164*	*8.2%*	*0*	*0.0%*	*8.2%*	*(1,087)*	*(14,287)*	*$ 7.29*
LONGWOOD/LAKE MARY/SANFORD										
Bulk/Distribution	9	1,539,201	450,849	29.3%	0	0.0%	29.3%	18,901	30,401	$ 4.33
Flex	55	2,075,977	296,047	14.3%	14,908	0.7%	15.0%	(9,289)	(67,093)	$ 9.44
Manufacturing	43	2,582,313	303,702	11.8%	0	0.0%	11.8%	0	7,250	$ 4.56
Office/Warehouse	146	6,518,362	591,272	9.1%	0	0.0%	9.1%	(22,842)	178,972	$ 4.92
Submarket Total	*253*	*12,715,853*	*1,641,870*	*12.9%*	*14,908*	*0.1%*	*13.0%*	*(13,230)*	*149,530*	*$ 5.51*
CENTRAL ORLANDO										
Flex	12	511,088	77,517	15.2%	0	0.0%	15.2%	0	0	$ 10.00
Manufacturing	11	923,989	25,335	2.7%	0	0.0%	2.7%	0	0	$ 1.99
Office/Warehouse	87	3,851,086	176,128	4.6%	0	0.0%	4.6%	0	67,199	$ 5.74
Submarket Total	*110*	*5,286,163*	*278,980*	*5.3%*	*0*	*0.0%*	*5.3%*	*0*	*67,199*	*$ 6.58*
EAST SIDE / UNIVERSITY										
Bulk/Distribution	1	350,140	0	0.0%	0	0.0%	0.0%	0	0	$ 4.50
Flex	29	1,389,211	225,446	16.2%	42,363	3.0%	19.3%	579	29,539	$ 11.22
Manufacturing	8	352,806	1,125	0.3%	0	0.0%	0.3%	0	0	$ 6.25
Office/Warehouse	53	2,497,248	129,125	5.2%	0	0.0%	5.2%	331	(2,524)	$ 6.46
Submarket Total	*91*	*4,589,405*	*355,696*	*7.8%*	*42,363*	*0.9%*	*8.7%*	*910*	*27,015*	*$ 9.46*
AIRPORT / SOUTHEAST										
Bulk/Distribution	91	16,019,684	1,462,805	9.1%	318,861	2.0%	11.1%	0	528,193	$ 2.64
Flex	68	3,063,474	404,259	13.2%	4,800	0.2%	13.4%	(17,200)	42,973	$ 9.81
Office/Warehouse	237	16,264,263	914,981	5.6%	53,703	0.3%	6.0%	287,543	425,383	$ 4.41
Submarket Total	*396*	*35,347,421*	*2,782,045*	*7.9%*	*377,364*	*1.1%*	*8.9%*	*270,343*	*996,549*	*$ 4.27*
ORLANDO CENTRAL PARK										
Bulk/Distribution	55	8,644,697	349,881	4.0%	0	0.0%	4.0%	216,991	170,850	$ 4.71
Flex	37	1,765,457	161,228	9.1%	18,847	1.1%	10.2%	(6,035)	54,175	$ 9.01
Office/Warehouse	79	4,907,885	189,034	3.9%	0	0.0%	3.9%	26,060	68,193	$ 4.36
Submarket Total	*171*	*15,318,039*	*700,143*	*4.6%*	*18,847*	*0.1%*	*4.7%*	*237,016*	*293,218*	*$ 5.61*
SOUTHWEST										
Bulk/Distribution	16	2,529,405	59,559	2.4%	87,000	3.4%	5.8%	102,533	100,834	$ 6.97
Flex	13	871,325	156,981	18.0%	28,036	3.2%	21.2%	6,458	11,790	$ 9.77
Office/Warehouse	34	2,501,695	50,120	2.0%	0	0.0%	2.0%	0	59,863	$ 6.28
Submarket Total	*63*	*5,902,425*	*266,660*	*4.5%*	*115,036*	*1.9%*	*6.5%*	*108,991*	*172,487*	*$ 8.49*
TOTAL FLEX	330	13,572,541	1,779,810	13.1%	118,329	0.9%	14.0%	(5,153)	190,080	$ 9.68
TOTAL BULK/DISTRIBUTION	198	33,610,136	2,470,242	7.3%	464,661	1.4%	8.7%	367,241	855,494	$ 3.43
TOTAL MANUFACTURING	103	6,823,765	400,891	5.9%	0	0.0%	5.9%	0	6,064	$ 4.40
TOTAL OFFICE/WAREHOUSE	1000	55,438,596	3,078,543	5.6%	85,719	0.2%	5.7%	529,745	1,070,378	$ 4.33
TOTAL INDUSTRIAL SPACE	1301	95,872,497	5,949,676	6.2%	550,380	0.6%	6.8%	896,986	1,931,936	$ 4.05
TOTAL MARKET	**1,631**	**109,445,038**	**7,729,486**	**7.1%**	**668,709**	**0.67%**	**7.7%**	**891,833**	**2,122,016**	**$ 5.63**

**Note that total market consists of both Flex and Industrial properties combined*

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