

ORANGE & SEMINOLE COUNTY

INDUSTRIAL MARKET REPORT

QUARTER LEE NOTE

As we completed the first quarter of 2017, the industrial market continued to remain healthy and strong. Although absorption in the first quarter was lower than the previous quarter, we continued to post positive absorption. This is the 18th quarter in a row for positive absorption in the market.

Construction activity is full throttle across all areas of commercial real estate, with the exception of perhaps office, where there has been restraint. Residential construction is steady and we are not overbuilt like in 2005. Financing is still favorable for owner users, but speculative lending has tightened a bit as lenders have filled up their allocations with multi family loans. Flying into Orlando and seeing cranes in the air everywhere you look, has changed the perspective of Central Florida for investors throughout the United States. The interest level in Central Florida as a place to invest, work and live has reached a new level we have not seen. One small example on the industrial side would be the investment sales that occurred in the last year and the first quarter of this year. Cap rates are at all-time lows on both institutional and non-institutional property. We believe this represents a strong vote of confidence for real estate in Central Florida. Looking forward, we so no reason to believe the market will deviate from the path we are on.

MARKET TRENDS: CHANGE FROM PREVIOUS QUARTER



MARKET OVERVIEW

The Central Florida market had a steady start to 2017 with 404,682 square feet of absorption, bringing total vacancy rates down by .3 percent to 7.5 percent. Only two of the ten submarkets we track had negative absorption and the Longwood/Lake Mary/Sanford submarket had the highest absorption with 176,664 square feet. Asking market rental rates were relatively unchanged.

There was a tremendous amount of sales activity with 32 buildings totaling 3.2 million square feet, selling for \$217 million at an average sales price of \$67.72 per square foot. Construction numbers remain strong with just over 2 million square feet under construction and more projects set to begin later this year.

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:

	4Q-16	1Q-17
Flex	\$9.68	\$9.62
Bulk/Distribution	\$3.43	\$3.82
Manufacturing	\$4.40	\$4.35
Office/Warehouse	\$4.33	\$4.33
Total Market	\$5.63	\$5.70

Comparison of Market Vacancy:

	4Q-16	1Q-17
Direct	7.1%	6.8%
Sublet	0.7%	0.7%
Total Market	7.8%	7.5%

Comparison of Absorption in SF:

	4Q-16	1Q-17
Quarterly Amount	891,833	404,682
Year-to-date	2,122,016	404,682

Construction Pipeline: 20,000SF+

	4Q-16	1Q-17
U/C	2,294,894	2,023,901

Building Sales:

	4Q-16	1Q-17
For the quarter	\$107M	\$217M
Avg Price PSF	\$79.99	\$67.72

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QUARTER IN REVIEW

Q1 2017

Although the leasing activity in the first quarter of 2017 was slower than the fourth quarter of 2016, vacancy rates continued to improve, posting an overall total market vacancy of 7.3 percent. Direct market vacancy fell .4 percent to 6.7 percent, and sublease vacancy remains at .67 percent.

Flex product holds the highest total vacancy at 12.5 percent, while office/warehouse holds the lowest total vacancy at 5 percent. All but one of the submarkets we track have vacancy rates under 10 percent, with the Northwest and OCP submarkets posting 3.9 percent vacancy. The Longwood/Lake Mary/Sanford submarket saw an improvement this quarter dropping from 13 to 11.7 percent vacancy.

Absorption for the first quarter totaled 404,685 square feet, falling in line with absorption numbers we had in the first three quarters of 2016. All product types except bulk/distribution had positive absorption, with office/warehouse product continuing to lead the group.

Two of the nine submarkets, 33rd Street and Airport/Southeast, posted negative absorption. For the first time in years, the Longwood/Lake Mary/Sanford submarket had the highest total quarterly absorption of all the submarkets at 176,664 square feet.

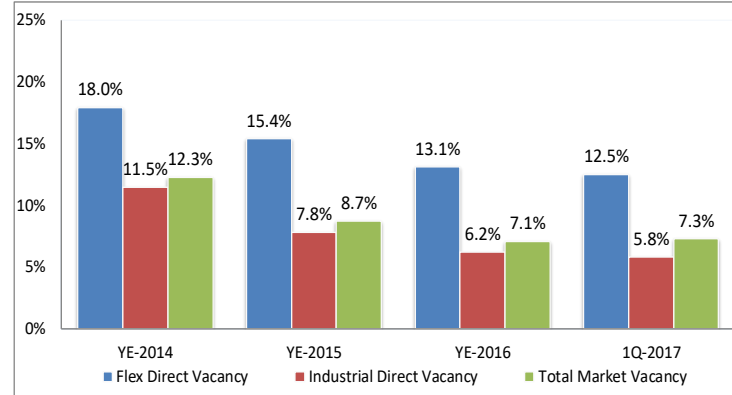
There was a minimal increase in the overall asking market rental rates this quarter. The Eastside/University submarket continues to hold the highest asking market rate at \$9.97 per square foot, while the Airport/Southeast submarket holds the lowest asking market rate at \$4.29 per square foot.

Elevated sales activity this quarter made up for the slower leasing activity we had. There were a total of 32 sales this quarter, with 25 of them in Orange County. Total sales of \$217 million for 3,210,886 square feet of space, gave an average price per square foot of \$67.72. The Southeast/Airport submarket had the most activity this quarter and also had the largest sale - 401 & 501 Gills and 2501 & 2507 Investors Row sold for \$67.1 million.

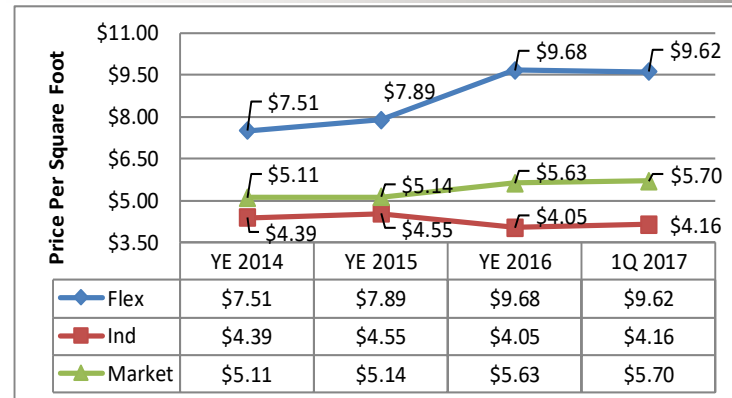
There is currently 2,023,901 square feet under construction. These buildings include:

- McCraney Property Company's Bent Oak buildings - #400 with 131,840 square feet, and #500 with 131,840 square feet
- Becknell Development's Air Commerce Park with 478,400 square feet
- EastGroup's Horizon V with 140,742 square feet, Horizon VII with 109,174 square feet, and Horizon XII with 139,089 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
- Liberty's BTS for Stihl totaling 154,400 square feet

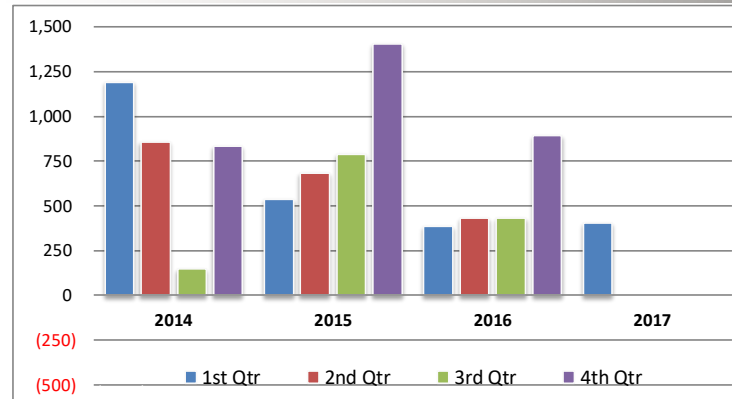
VACANCY



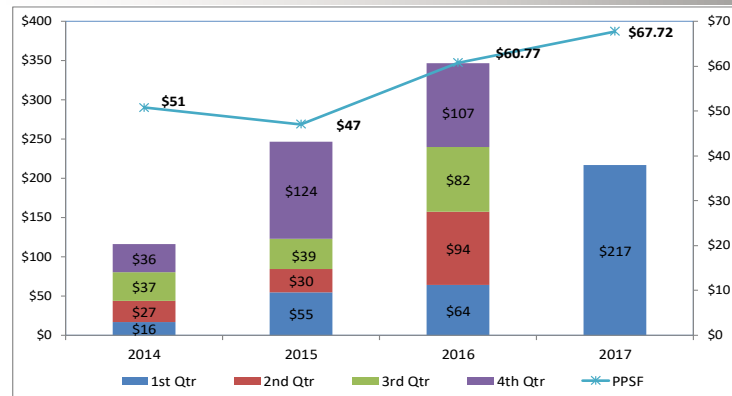
RENTAL RATES



ABSORPTION



SALES & AVERAGE PRICE PSF



QUARTER IN REVIEW

Q1 2017

TOP FIRST QUARTER LEASE TRANSACTIONS (RANKED BY SQUARE FEET)

Building Name	Tenant	Total SF	Submarket	Type
2200 East Landstreet Road	USPS	355,732	Southeast	Renewal
2904 Tradeport Drive (BTS)	Stihl	154,000	Southeast	New
4401 Shader Road	Goodman Manufacturing	68,500	SilverStar	New
1750 Cypress Lake Drive	Hildrup	60,188	Southeast	Renewal
6855 Presidents Drive 	American Furniture Rentals	39,250	OCP	Renewal
7320 Kingspointe Parkway 	Tire Centers	36,921	Southwest	Renewal
Bent Oak 400 	Evergreen Express	18,676	Southeast	New
2901 Titan Row 	Ace Relocation	17,030	OCP	New

TOP FIRST QUARTER SALE TRANSACTIONS (RANKED BY SQUARE FEET)

Building Name/Address	Submarket	Total SF	Buyer	Seller	Sale Price	PPSF
401 & 501 Gills Drive / 2501 & 2507 Investors Row	Southeast/ Southwest	946,971	Colfin 2017-2 Industrial Owner LLC	Orlando Warehouse Portfolio Inc.	\$67,100,000	\$70.86
1401 Tradeport Drive	Southeast	348,360	MDH/Orl Jax Portfolio LLC	City National Bank of Miami Tr	\$20,925,300	\$60.07
9535, 9603, 9901, 9500 Satellite Blvd	Southeast	256,838	Denholtz Cypress Park LLC	9535/9603/9901/9500 Satellite Blvd LLC	\$18,500,000	\$72.03
6325 N. Orange Blossom Trail	Silver Star	153,206	G and I IX Orange Blossom LLC	Cabot II	\$9,457,100	\$61.73
1500 Tradeport Drive	Southeast	125,990	MDH/Orl Jax Portfolio LLC	Industrial Park Development Corp	\$8,081,900	\$64.15
North Park Commerce Center 3800 & 3830 Enterprise Way 	Sanford	117,600	Cabot IV FL 1W01-W02 LLC	McDonald Ventures XXVI LLC	\$10,400,000	\$88.44
3600 Vineland Road	33rd Street	116,400	MDH/Orl Jax Portfolio LLC	Industrial Park Development Corp	\$8,812,000	\$75.70
1700 Tradeport Drive	Southeast	110,310	MDH/Orl Jax Portfolio LLC	City National Bank of Miami Tr	\$6,626,100	\$60.07

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	24,054	4.1%	9,375	1.6%	5.8%	3,100	3,100	\$ 6.68
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%	0	0	\$ 3.75
<i>Submarket Total</i>	<i>95</i>	<i>5,879,015</i>	<i>217,187</i>	<i>3.7%</i>	<i>9,375</i>	<i>0.2%</i>	<i>3.9%</i>	<i>3,100</i>	<i>3,100</i>	<i>\$ 4.36</i>
SILVER STAR										
Bulk/Distribution	16	3,363,912	138,382	4.1%	58,800	1.7%	5.9%	(19,000)	(19,000)	\$ 4.80
Flex	29	1,313,618	221,186	16.8%	0	0.0%	16.8%	(14,014)	(14,014)	\$ 8.54
Manufacturing	17	1,809,590	1,186	0.1%	0	0.0%	0.1%	0	0	\$ 4.75
Office/Warehouse	176	9,450,526	355,131	3.8%	2,000	0.0%	3.8%	79,909	79,909	\$ 5.38
<i>Submarket Total</i>	<i>238</i>	<i>15,937,646</i>	<i>715,885</i>	<i>4.5%</i>	<i>60,800</i>	<i>0.4%</i>	<i>4.9%</i>	<i>46,895</i>	<i>46,895</i>	<i>\$ 6.24</i>
33RD STREET										
Bulk/Distribution	4	332,722	17,766	5.3%	0	0.0%	5.3%	0	0	\$ -
Flex	31	878,557	100,885	11.5%	0	0.0%	11.5%	(10,945)	(10,945)	\$ 10.40
Office/Warehouse	81	3,734,619	282,635	7.6%	43,216	1.2%	8.7%	(2,028)	(2,028)	\$ 8.24
<i>Submarket Total</i>	<i>116</i>	<i>4,945,898</i>	<i>401,286</i>	<i>8.1%</i>	<i>43,216</i>	<i>0.9%</i>	<i>9.0%</i>	<i>(12,973)</i>	<i>(12,973)</i>	<i>\$ 8.42</i>
NORTH CENTRAL										
Flex	39	1,122,511	126,069	11.2%	0	0.0%	11.2%	7,997	7,997	\$ 9.95
Manufacturing	10	490,567	53,118	10.8%	0	0.0%	10.8%	7,500	7,500	\$ 5.10
Office/Warehouse	49	1,910,095	101,980	5.3%	3,200	0.2%	5.5%	(8,500)	(8,500)	\$ 6.05
<i>Submarket Total</i>	<i>98</i>	<i>3,523,173</i>	<i>281,167</i>	<i>8.0%</i>	<i>3,200</i>	<i>0.1%</i>	<i>8.1%</i>	<i>6,997</i>	<i>6,997</i>	<i>\$ 7.62</i>
LONGWOOD/LAKE MARY/SANFORD										
Bulk/Distribution	9	1,539,201	450,849	29.3%	0	0.0%	29.3%	0	0	\$ 4.33
Flex	55	2,175,444	300,229	13.8%	14,908	0.7%	14.5%	25,770	25,770	\$ 9.46
Manufacturing	43	2,582,313	301,202	11.7%	0	0.0%	11.7%	2,500	2,500	\$ 4.54
Office/Warehouse	146	6,518,362	434,427	6.7%	0	0.0%	6.7%	148,394	148,394	\$ 5.36
<i>Submarket Total</i>	<i>253</i>	<i>12,815,320</i>	<i>1,486,707</i>	<i>11.6%</i>	<i>14,908</i>	<i>0.1%</i>	<i>11.7%</i>	<i>176,664</i>	<i>176,664</i>	<i>\$ 5.71</i>
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	150,328	3.9%	0	0.0%	3.9%	25,800	25,800	\$ 5.64
<i>Submarket Total</i>	<i>110</i>	<i>5,286,163</i>	<i>253,180</i>	<i>4.8%</i>	<i>0</i>	<i>0.0%</i>	<i>4.8%</i>	<i>25,800</i>	<i>25,800</i>	<i>\$ 6.61</i>
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	210,739	15.2%	42,363	3.0%	18.2%	25,526	25,526	\$ 11.15
Manufacturing	8	352,806	1,125	0.3%	0	0.0%	0.3%	0	0	\$ 6.25
Office/Warehouse	53	2,499,148	74,802	3.0%	0	0.0%	3.0%	54,323	54,323	\$ 6.79
<i>Submarket Total</i>	<i>91</i>	<i>4,591,305</i>	<i>286,666</i>	<i>6.2%</i>	<i>42,363</i>	<i>0.9%</i>	<i>7.2%</i>	<i>79,849</i>	<i>79,849</i>	<i>\$ 9.97</i>
AIRPORT / SOUTHEAST										
Bulk/Distribution	92	16,114,721	1,469,994	9.1%	143,081	0.9%	10.0%	(84,758)	(84,758)	\$ 3.29
Flex	68	3,066,225	361,095	11.8%	29,313	1.0%	12.7%	23,426	23,426	\$ 9.82
Office/Warehouse	238	16,375,653	1,002,185	6.1%	0	0.0%	6.1%	24,186	24,186	\$ 3.77
<i>Submarket Total</i>	<i>398</i>	<i>35,556,599</i>	<i>2,833,274</i>	<i>8.0%</i>	<i>172,394</i>	<i>0.5%</i>	<i>8.5%</i>	<i>(37,146)</i>	<i>(37,146)</i>	<i>\$ 4.29</i>
ORLANDO CENTRAL PARK										
Bulk/Distribution	55	8,644,697	267,596	3.1%	0	0.0%	3.1%	82,285	82,285	\$ 4.96
Flex	37	1,765,457	145,162	8.2%	18,847	1.1%	9.3%	6,956	6,956	\$ 8.72
Office/Warehouse	79	4,907,885	170,910	3.5%	0	0.0%	3.5%	5,645	5,645	\$ 4.12
<i>Submarket Total</i>	<i>171</i>	<i>15,318,039</i>	<i>583,668</i>	<i>3.8%</i>	<i>18,847</i>	<i>0.1%</i>	<i>3.9%</i>	<i>94,886</i>	<i>94,886</i>	<i>\$ 5.65</i>
SOUTHWEST										
Bulk/Distribution	16	2,529,405	56,859	2.2%	87,000	3.4%	5.7%	2,700	2,700	\$ 7.83
Flex	13	871,325	139,071	16.0%	23,365	2.7%	18.6%	17,910	17,910	\$ 9.25
Office/Warehouse	34	2,501,695	50,120	2.0%	0	0.0%	2.0%	0	0	\$ 6.28
<i>Submarket Total</i>	<i>63</i>	<i>5,902,425</i>	<i>246,050</i>	<i>4.2%</i>	<i>110,365</i>	<i>1.9%</i>	<i>6.0%</i>	<i>20,610</i>	<i>20,610</i>	<i>\$ 8.32</i>
TOTAL FLEX	330	13,674,759	1,706,007	12.5%	138,171	1.0%	13.5%	85,726	85,726	\$ 9.62
TOTAL BULK/DISTRIBUTION	199	33,705,173	2,411,446	7.2%	288,881	0.9%	8.0%	(18,773)	(18,773)	\$ 3.82
TOTAL MANUFACTURING	103	6,823,765	390,891	5.7%	0	0.0%	5.7%	10,000	10,000	\$ 4.35
TOTAL OFFICE/WAREHOUSE	1001	55,551,886	2,796,726	5.0%	48,416	0.1%	5.1%	327,729	327,729	\$ 4.33
TOTAL INDUSTRIAL SPACE	1303	96,080,824	5,599,063	5.8%	337,297	0.4%	6.2%	318,956	318,956	\$ 4.16
TOTAL MARKET	1,633	109,755,583	7,305,070	6.7%	475,468	0.67%	7.3%	404,682	404,682	\$ 5.70
<i>*Note that total market consists of both Flex and Industrial properties combined</i>										