

ORANGE & SEMINOLE COUNTY

INDUSTRIAL MARKET REPORT

QUARTER LEE NOTE

The second quarter of 2017 was the third consecutive quarter of lower overall absorption which was a surprise. Has the market turned? Are we headed for a recession? We dug deeper into our research and concluded that there are several factors coming into play that are painting a picture that looks bad but isn't necessarily. For starters, this quarter, we delivered almost 838,000 SF of newly completed inventory to the market. Year to date, we have delivered 1,662,000 SF with eleven (11) out of twelve (12) buildings being in the SE Submarket. That is double what we delivered in all of 2016. Second, we had three major spaces come back to the market totaling over 500,000 SF which further affected our absorption and increased the vacancy rate by adding additional supply to the market. While the impact of all of this has made the numbers look bad, the truth is that the market is still very active, especially for deals over 140,000 SF of which there have been five (5) completed thus far this year alone. Looking forward, we have only three (3) buildings left to be delivered in 2017 in the SE submarket and the balance of them, nine (9) in the NW submarket.

MARKET TRENDS: CHANGE FROM PREVIOUS QUARTER



MARKET OVERVIEW

Lower absorption this quarter was a direct reflection of the addition of newly completed buildings being added to the market's inventory, alongside the return of large vacant spaces to the market. Despite several significant leases that occurred in the second quarter, we saw only 280,867 square feet of total absorption, which resulted in the total market vacancy rate increasing by a mere .5 percent. Construction is still strong, including four build to suit projects totaling 1,362,298 square feet, that are underway in Orange County. Rental rates remain relatively unchanged.

Building sales slowed down this quarter, posting \$71.6 million in total sales with an average sales price of \$74.95 per square foot. Orange County had 22 building sales and Seminole County had 5.

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:

	1Q-17	2Q-17
Flex	\$9.62	\$9.45
Bulk/Distribution	\$3.82	\$3.84
Manufacturing	\$4.35	\$4.35
Office/Warehouse	\$4.33	\$4.33
Total Market	\$5.70	\$5.54

Comparison of Market Vacancy:

	1Q-17	2Q-17
Direct	6.7%	7.3%
Sublet	0.7%	0.5%
Total Market	7.3%	7.8%

Comparison of Absorption in SF:

	1Q-17	2Q-17
Quarterly Amount	404,682	280,867
Year-to-date	404,682	685,549

Construction Pipeline: 20,000SF+

	1Q-17	2Q-17
U/C (speculative & BTS)	2,023,901	2,926,520

Building Sales:

	1Q-17	2Q-17
For the quarter	\$217M	\$71.6M
Avg Price PSF	\$67.72	\$74.95

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QUARTER IN REVIEW

Q2 2017

We added over 800,000 square feet to our inventory this quarter which included Bent Oak buildings 400 and 500, Crews Commerce Center buildings 100, 200 and 300, Semoran Commerce Center building D, and Horizon Commerce Center's buildings V and VII.

The addition of new inventory to the market, along with several large spaces that became available this quarter (Freeman, Central Florida Press and Kellogg's), had a direct affect on the second quarter absorption which totaled only 280,867 square feet. Absorption would have been well over 500,000 square feet without the return of these significant large blocks of vacant space.

Only four of the ten submarkets we track posted positive absorption, with the Airport/Southeast submarket leading at 609,114 square feet. The OCP submarket had (275,757) square feet of negative absorption due to return of 156,000 square feet at 2351 Investors Row by Kellogg's, 242,160 square feet at 2200 Consulate Drive by Freeman, and several other newly vacant spaces between 20,000 - 35,000 square feet. The 33rd Street submarket followed closely behind with (201,758) square feet of negative absorption due to 153,000 square feet of vacancy of Central Florida Press in West Park and additional blocks of newly vacant space ranging from 16,000 - 33,000 square feet. Only bulk/distribution product had positive absorption this quarter, and the typically best performing office/warehouse product, posted (194,181) square feet of negative absorption.

The addition of inventory made up by both new buildings and new vacant spaces, along with lower absorption, pushed the total market vacancy rate up slightly by .5 percent from the previous quarter to 7.8 percent in the second quarter. Despite negative absorption this quarter, the SilverStar submarket had the lowest total vacancy at 5.3 percent. The 33rd Street submarket posted the highest total vacancy at 13.5 percent, an increase of 4.5 percent from the previous quarter. Building product types continue to perform the same as they have in previous quarters with flex product holding the highest total vacancy at 14 percent, and office/warehouse product with the lowest total vacancy at 5.7 percent.

As reported over the last year, rental rates remain rather unchanged in all product types, with the total asking market rate hovering around the mid \$5 mark.

Building sales slowed down significantly this quarter with a total of \$71 million in sales. This slowdown is attributed to no inventory to buy. Orange County continues to lead in the number of building sales with 22, while Seminole County had 5 sales. The average asking rate YTD increased slightly from \$67.72 PSF to \$69.38 PSF.

There is currently 1,564,222 square feet of speculative development under construction. These buildings include:

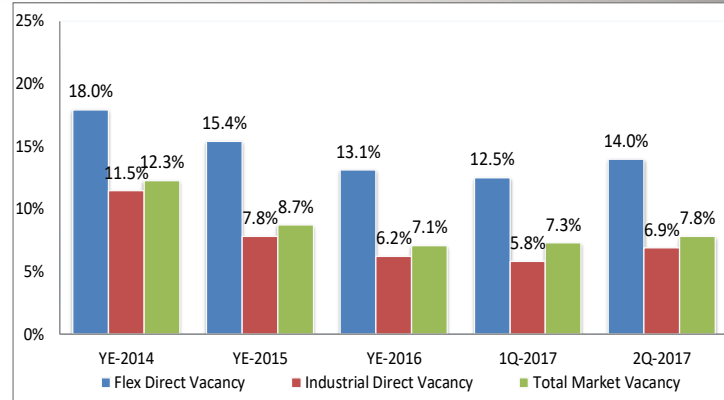
- Becknell's Air Commerce Park with 478,400 square feet
- EastGroup's Horizon XII with 139,089 square feet
- BlueScope's two Park 29 buildings totaling 439,500 square feet
- Whitley Capital's building on Gills Drive totaling 54,000 square feet
- Panattoni's Center of Commerce building totaling 93,500 square feet
- Foundry's two Princeton Oaks buildings totaling 229,200 square feet
- Four buildings at Winter Garden Commerce Center totaling 130,933 square feet

There is currently 1,362,298 square feet of build to suit space under construction. These buildings include:

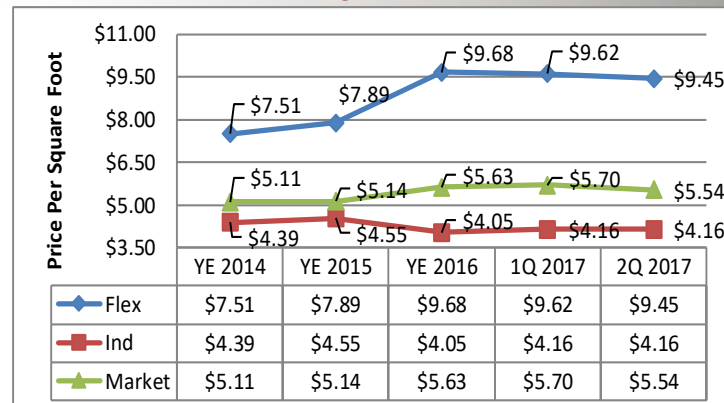
- Oakmont's BTS for QCD totaling 180,000 square feet
- Liberty's BTS for Stihl totaling 154,400 square feet
- Duke Realty's BTS for PODS totaling 170,428 square feet
- Seefried's BTS for Amazon totaling 857,470 square feet*

(*building footprint only, excludes mezzanine)

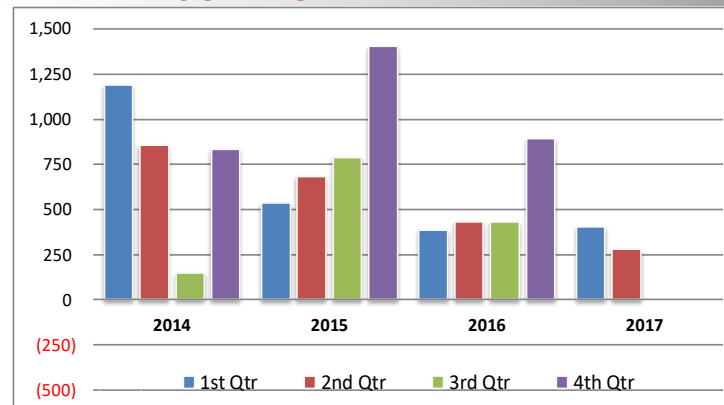
VACANCY



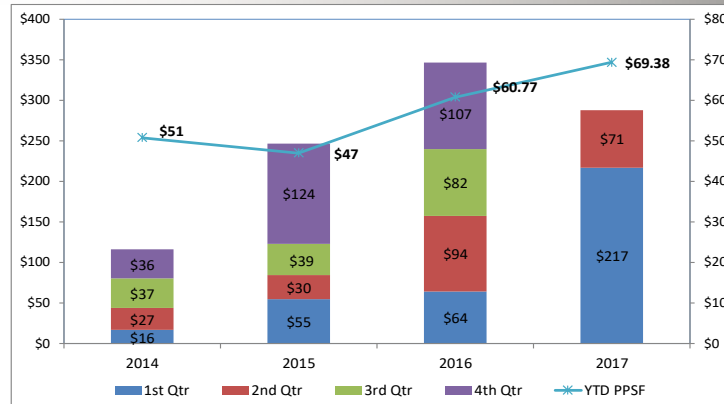
RENTAL RATES



ABSORPTION





SALES & AVERAGE PRICE PSF



QUARTER IN REVIEW

Q2 2017

TOP SECOND QUARTER LEASE TRANSACTIONS (RANKED BY SQUARE FEET)

Building Name	Tenant	Total SF	Submarket	Type
2199 Tradeport Drive	Lennox	172,875	Southeast	New
1801 Boice Pond	Rhino Tire	144,500	Southeast	New
1401 Tradeport Drive	Geodis	141,120	Southeast	New
6800 Kingspointe Parkway	Xymogen	101,200	Southwest	Expansion
1700 Tradeport Drive	Suddath	63,116	Southeast	New
1850 Cypress Lake Drive	TLS	62,377	Southeast	Expansion
1702 Boice Pond Road	Vital Records	60,771	Southeast	New
4125 LB McLeod Road 	Complete Health Management	20,500	33rd	New
3901 Center Loop 	Emil America	17,584	SilverStar	Renewal

TOP SECOND QUARTER SALE TRANSACTIONS (RANKED BY SQUARE FEET)

Building Name/Address	Submarket	Total SF	Buyer	Seller	Sale Price	PPSF
10805 Southport Drive	Southeast	126,230	Breit Industrial HS Property Owner LLC	Southport Palmbay Investors LP	\$ 12,450,000	\$98.62
6300 Hazeltine National Drive	Southeast	122,999	RREF Lake Point LLC	Lake Point Note Investors LLC	\$ 11,850,000	\$96.34
3362 All American Blvd	Silver Star	116,735	American Builders & Contractors Supply Co Inc	Smyth Enterprises Inc	\$ 5,025,000	\$43.04
2729 Hansrob Road	Silver Star	87,505	JS Investments Property Group Inc	Hansrob Road Partners LLP	\$ 3,500,000	\$39.99
10805 Southport Center	Southwest	74,214	Breit Industrial HS Property Owner LLC	Southport Palmbay Investors LP	\$ 7,319,688	\$98.63
2380 W. 25th Street	Sanford	53,000	2380 Sanford LLC	Thomas Cornwall Properties LLC	\$ 1,838,000	\$34.68
10950 Palmbay Drive	Southwest	52,016	Breit Industrial HS Property Owner LLC	Southport Palmbay Investors LP	\$ 5,130,311	\$98.63
2320 N Orange Blossom Trail	Northwest	35,740	Chris Cowart Properties LLC	Valentine Equities LLC	\$ 2,800,000	\$78.34
2301 Premier Row	OCP	30,679	HJA Realty LLC	Max King Realty LLC	\$ 2,500,000	\$81.49

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	7	979,531	149,156	15.2%	0	0.0%	15.2%	10,000	10,000	\$ -
Flex	17	581,323	24,804	4.3%	9,375	1.6%	5.9%	(750)	2,350	\$ 6.69
Manufacturing	14	664,500	8,925	1.3%	0	0.0%	1.3%	0	0	\$ 5.17
Office/Warehouse	58	3,802,817	149,222	3.9%	0	0.0%	3.9%	(18,600)	(18,600)	\$ 3.75
Submarket Total	96	6,028,171	332,107	5.5%	9,375	0.2%	5.7%	(9,350)	(6,250)	\$ 4.36
SILVER STAR										
Bulk/Distribution	16	3,363,912	144,882	4.3%	58,800	1.7%	6.1%	(6,500)	(25,500)	\$ 5.11
Flex	29	1,313,618	198,154	15.1%	0	0.0%	15.1%	23,032	9,018	\$ 8.39
Manufacturing	17	1,809,590	1,186	0.1%	0	0.0%	0.1%	0	0	\$ 4.75
Office/Warehouse	176	9,450,526	443,543	4.7%	2,000	0.0%	4.7%	(88,412)	(8,503)	\$ 5.58
Submarket Total	238	15,937,646	787,765	4.9%	60,800	0.4%	5.3%	(71,880)	(24,985)	\$ 6.20
33RD STREET										
Bulk/Distribution	3	213,000	17,766	8.3%	0	0.0%	8.3%	0	0	\$ -
Flex	31	878,557	104,284	11.9%	0	0.0%	11.9%	(3,399)	(14,344)	\$ 10.54
Office/Warehouse	82	3,811,183	497,554	13.1%	43,216	1.1%	14.2%	(198,359)	(200,387)	\$ 6.77
Submarket Total	116	4,902,740	619,604	12.6%	43,216	0.9%	13.5%	(201,758)	(214,731)	\$ 7.21
NORTH CENTRAL										
Flex	39	1,122,511	139,894	12.5%	0	0.0%	12.5%	(13,825)	(5,828)	\$ 9.82
Manufacturing	10	490,567	53,118	10.8%	0	0.0%	10.8%	0	7,500	\$ 5.10
Office/Warehouse	49	1,910,095	93,480	4.9%	0	0.0%	4.9%	8,500	0	\$ 5.89
Submarket Total	98	3,523,173	286,492	8.1%	0	0.0%	8.1%	(5,325)	1,672	\$ 7.66
LONGWOOD/LAKE MARY/SANFORD										
Bulk/Distribution	9	1,539,201	450,849	29.3%	0	0.0%	29.3%	0	0	\$ 5.01
Flex	55	2,175,444	311,880	14.3%	14,908	0.7%	15.0%	(11,651)	14,119	\$ 9.68
Manufacturing	43	2,582,313	309,202	12.0%	0	0.0%	12.0%	(8,000)	(5,500)	\$ 4.53
Office/Warehouse	146	6,518,362	276,115	4.2%	0	0.0%	4.2%	68,162	216,556	\$ 5.74
Submarket Total	253	12,815,320	1,348,046	10.5%	14,908	0.1%	10.6%	48,511	225,175	\$ 6.13
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	85	3,788,785	177,243	4.7%	0	0.0%	4.7%	(8,687)	17,113	\$ 5.24
Submarket Total	108	5,223,862	280,095	5.4%	0	0.0%	5.4%	(8,687)	17,113	\$ 6.27
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	210,289	15.1%	42,363	3.0%	18.2%	450	25,976	\$ 11.16
Manufacturing	8	352,806	1,125	0.3%	0	0.0%	0.3%	0	0	\$ 6.25
Office/Warehouse	53	2,499,148	71,032	2.8%	0	0.0%	2.8%	22,238	76,561	\$ 6.99
Submarket Total	91	4,591,305	282,446	6.2%	42,363	0.9%	7.1%	22,688	102,537	\$ 10.06
AIRPORT / SOUTHEAST										
Bulk/Distribution	95	16,930,031	1,446,703	8.5%	143,081	0.8%	9.4%	499,475	414,717	\$ 3.21
Flex	69	3,121,235	401,349	12.9%	29,313	0.9%	13.8%	(15,244)	8,182	\$ 8.85
Office/Warehouse	242	16,163,183	960,347	5.9%	62,971	0.4%	6.3%	124,883	149,069	\$ 2.48
Submarket Total	406	36,214,449	2,808,399	7.8%	235,365	0.6%	8.4%	609,114	571,968	\$ 3.77
ORLANDO CENTRAL PARK										
Bulk/Distribution	55	8,644,697	677,382	7.8%	0	0.0%	7.8%	(198,786)	(116,501)	\$ 5.07
Flex	37	1,765,457	169,208	9.6%	18,847	1.1%	10.7%	(24,046)	(17,090)	\$ 8.69
Office/Warehouse	79	4,907,885	237,040	4.8%	14,768	0.3%	5.1%	(52,925)	(47,280)	\$ 4.76
Submarket Total	171	15,318,039	1,083,630	7.1%	33,615	0.2%	7.3%	(275,757)	(180,871)	\$ 5.57
SOUTHWEST										
Bulk/Distribution	16	2,529,405	0	0.0%	87,000	3.4%	3.4%	229,074	231,774	\$ 4.25
Flex	13	871,325	143,853	16.5%	23,365	2.7%	19.2%	(4,782)	13,128	\$ 9.54
Office/Warehouse	34	2,501,695	101,101	4.0%	0	0.0%	4.0%	(50,981)	(50,981)	\$ 6.54
Submarket Total	63	5,902,425	244,954	4.2%	110,365	1.9%	6.0%	173,311	193,921	\$ 9.98
TOTAL FLEX	331	13,729,769	1,781,232	13.0%	138,171	1.0%	14.0%	(50,215)	35,511	\$ 9.45
TOTAL BULK/DISTRIBUTION	202	34,549,917	2,886,738	8.4%	288,881	0.8%	9.2%	533,263	514,490	\$ 3.84
TOTAL MANUFACTURING	103	6,823,765	398,891	5.8%	0	0.0%	5.8%	(8,000)	2,000	\$ 4.35
TOTAL OFFICE/WAREHOUSE	1004	55,353,679	3,006,677	5.4%	122,955	0.2%	5.7%	(194,181)	133,548	\$ 4.33
TOTAL INDUSTRIAL SPACE	1309	96,727,361	6,292,306	6.5%	411,836	0.4%	6.9%	331,082	650,038	\$ 4.16
TOTAL MARKET	1,640	110,457,130	8,073,538	7.3%	550,007	0.5%	7.8%	280,867	685,549	\$ 5.54
<i>*Note that total market consists of both Flex and Industrial properties combined</i>										

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