

ORANGE & SEMINOLE COUNTY

INDUSTRIAL MARKET REPORT

QUARTER LEE NOTE

As we close the books on 2017, we look back at what we believe was a historical year for both our market and politics. With the election of President Trump, his taking office in January and the uncertainty of how the markets would react to what would arguably be one of the most controversial figures running our country, we started the year off slowly and in turmoil. In the first quarter, the political environment reached toxic levels that were unprecedented and the chances for a stalled market were not completely farfetched. By the end of the second quarter, the industrial market seemed to leave politics behind and the third and fourth quarters were the busiest we have seen in years. We ended the year with incredible momentum and optimism that the economy will continue to push forward and grow. While not a record year for absorption, we end the year on a high note of strong optimism and fundamentals.

Looking forward to the new year, we see a few clouds on the horizon that could slow things a bit such as increasing construction costs, scarcity of available land to develop and the Federal Reserve's planned rate increases, however the new tax bill should help continue to expand the economy. We remain upbeat and optimistic about 2018, especially with ecommerce's continual expansion.

MARKET TRENDS: CHANGE FROM PREVIOUS QUARTER



MARKET OVERVIEW

The fourth quarter absorption of 702,223 square feet brought 2017's total absorption to just over 1.8 million square feet. Even with the addition of just over 2.6 million square feet of new buildings in 2017 to the inventory we track, the total market vacancy rate dropped again this quarter to 6.9 percent, a .7 percent improvement from year end 2016. Leasing activity has been strong and steady this year, especially in the Airport/Southeast and SilverStar submarkets, and we believe it will continue in 2018.

There is still over 1.7 million square feet of speculative product in the construction pipeline, most of which is scheduled to be delivered in 2018, and we expect to see more speculative product added to the pipeline next year. With the addition of \$35.7 million in buildings sales this quarter, total sales in 2017 reached \$374 million, the highest total sales volume since 2007.

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 include 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-17	4Q-17
Flex	\$9.36	\$9.64
Bulk/Distribution	\$3.79	\$3.66
Manufacturing	\$4.38	\$4.41
Office/Warehouse	\$4.33	\$4.33
Total Market	\$5.52	\$5.51

Comparison of Market Vacancy:

	3Q-17	4Q-17
Direct	6.9%	6.6%
Sublet	0.4%	0.3%
Total Market	7.3%	6.9%

Comparison of Absorption in SF:

	3Q-17	4Q-17
Quarterly Amount	429,005	702,223
Year-to-date	1,114,554	1,816,777

Construction Pipeline: 20,000SF+

	3Q-17	4Q-17
U/C (speculative & BTS)	3,622,054	2,751,058

Building Sales:

	3Q-17	4Q-17
For the quarter	\$50.6M	\$35.7M
Avg Price PSF	\$84.91	\$65.07

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QUARTER IN REVIEW

Q4 2017

The Central Florida industrial market ended the fourth quarter of 2017 with 702,223 square feet in positive absorption, bringing the year to date total to 1,816,777 square feet. The top performing submarkets with regard to total absorption this quarter were the Airport/Southeast with 282,318 square feet, SilverStar with 141,812 square feet, and Orlando Central Park with 133,433 square feet. Only manufacturing product had negative absorption and it was minimal at (37,175) square feet.

Post recession, we saw positive absorption increase year over year from 2011 through 2015, with 2015's total year end absorption reaching as high as 3.4 million square feet. Since then, there has been a slow decline in the year over year absorption - 1.3 million square foot decline from 2015 to 2016, and a 300,000 square foot decline from 2016 to 2017. This is a direct result of the of the delivery of nearly 4 million square feet of new buildings to the market since the beginning of 2015, and highlights the strength of the market with continued strong absorption numbers even with the addition of new inventory.

There was a .3 percent drop in direct market vacancy and a .1 percent drop in sublet vacancy, bringing the total market vacancy down to 6.9 percent. This is the lowest total market vacancy we have seen since 2008. The only submarket this quarter with a total market vacancy rate over 10 percent is the Northwest submarket at 11.9 percent. The SilverStar submarket had the lowest total market vacancy at 4.1 percent.

There were a total of 14 building sales this quarter with 14 in Orange County. The 549,982 square feet of buildings sold for a total of \$35.7 million and an average sale price of \$65.07 per square foot. Five of the building sales took place in the SilverStar submarket, including the largest sale this quarter at 3620-3648 SilverStar Road, where 254,915 square feet sold for just over \$12 million.

Asking market rental rates across all product types have shown minimal change over the last 3 years, and we ended this quarter with a \$5.51 per square foot asking market rental rate.

There is currently 1,723,160 square feet of speculative development under construction or immanent. These buildings include:

- McDonald Development's Lee Vista Business Center building G rear load with 159,884 square feet
- EastGroup's Horizon X with 103,721 square feet
- Becknell's Air Commerce Park Track B with a 399,000 square foot cross dock and a 133,400 square foot rear load
- BlueScope's two Park 29 buildings totaling 439,500 square feet
- Whitley Capital's building on Gills Drive totaling 54,000 square feet
- Foundry's two Princeton Oaks buildings totaling 229,200 square feet
- Cite Partner's three buildings at Winter Garden Commerce Center totaling 110,955 square feet
- Panattoni's Center of Commerce building totaling 93,500 square feet

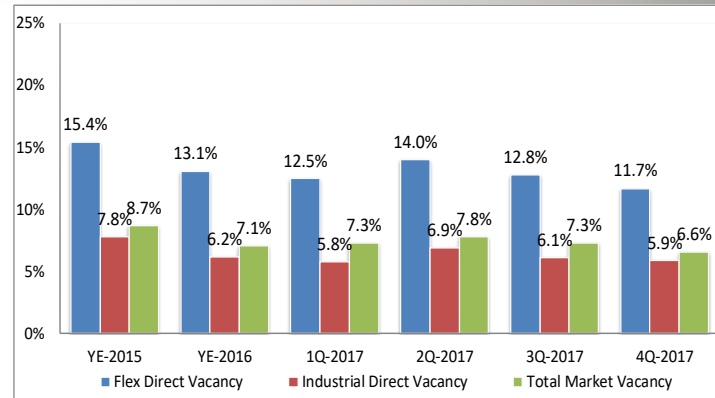
There is currently 1,027,898 square feet of build to suit space under construction. These buildings include:

- 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)

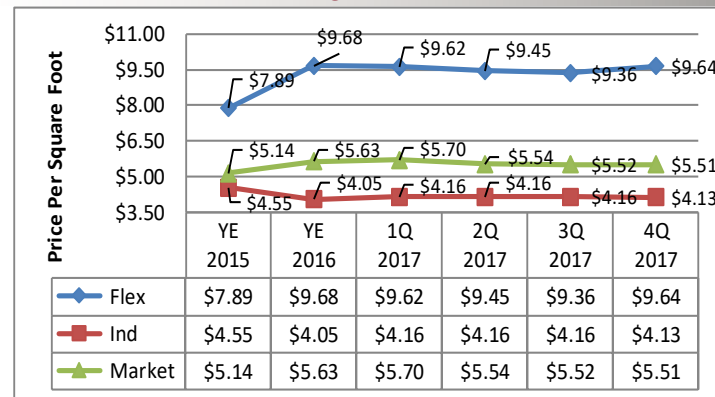
A total of 801,867 square feet was delivered this quarter:

- Liberty's BTS for Stihl totaling 154,400 square feet
- EastGroup's Horizon XII with 139,089 square feet
- Cite Partner's Winter Garden Commerce Center building 300 with 29,978 square feet

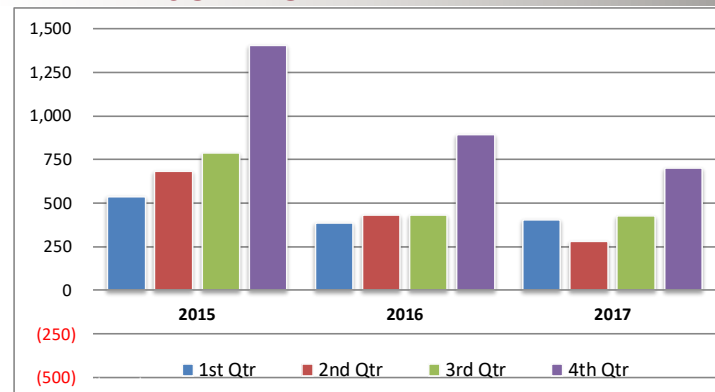
VACANCY



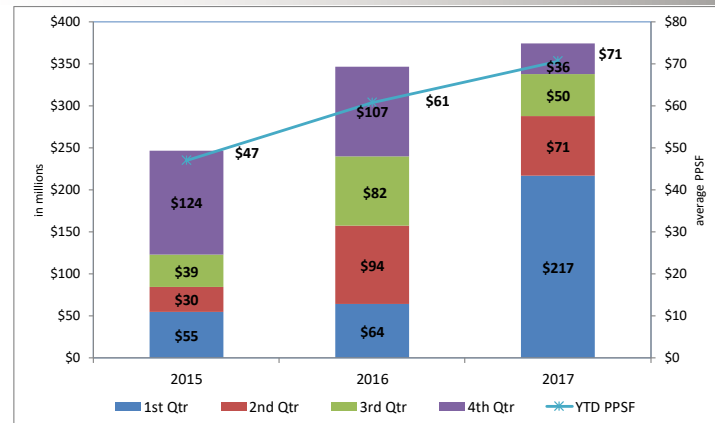
RENTAL RATES



ABSORPTION







SALES & AVERAGE PRICE PSF



QUARTER IN REVIEW

Q4 2017

TOP FOURTH QUARTER LEASE TRANSACTIONS (RANKED BY SQUARE FEET)

Building Name	Tenant	Total SF	Submarket	Type
7575 Chancellor Drive  LEE & ASSOCIATES COMMERCIAL REAL ESTATE SERVICES	Walgreens	201,600	OCP	Renewal
2351 Investors Row	XPO Logistics	156,000	OCP	New
1030 Crews Commerce Center Parkway, Building 300	Goodwill	108,188	Airport/Southeast	New
1702 Boice Pond Road	Vital Records	50,619	Airport/Southeast	Expansion
7320 Kingspointe Parkway, Suite 580  LEE & ASSOCIATES COMMERCIAL REAL ESTATE SERVICES	Bound Tree Medical	28,962	Southwest	Renewal
7320 Kingspointe Parkway, Suite 530  LEE & ASSOCIATES COMMERCIAL REAL ESTATE SERVICES	Tri-Anum Health Services, Inc.	21,681	Southwest	Renewal
4210 LB McLeod Road  LEE & ASSOCIATES COMMERCIAL REAL ESTATE SERVICES	Alda Holdings	17,940	33rd Street	New
6835 Conway Road	Hole Products	16,552	Airport/Southeast	New

TOP FOURTH QUARTER SALE TRANSACTIONS (RANKED BY SQUARE FEET)

Building Name/Address	Submarket	Total SF	Buyer	Seller	Sale Price	PPSF
3620 - 3648 Silver Star Road  LEE & ASSOCIATES COMMERCIAL REAL ESTATE SERVICES	Silver Star	254,915	Denholtz Silverstar LLC	3600 Silverstar LLC	\$12,050,000	\$47.27
450 Gills Drive  LEE & ASSOCIATES COMMERCIAL REAL ESTATE SERVICES	Airport/Southeast	86,240	FR 450 Gills Drive LLC	McDonald Ventures XXXII LLC	\$8,235,000	\$95.49
3860-3868 Bengert Street	Silver Star	30,000	5 Oaks Properties Inc	Green Bananas LLC	\$1,500,000	\$50.00
2664 Jewett Lane	Sanford	30,000	Quantumflo, Inc.	AMR Florida Holdings LLC	\$1,440,000	\$48.00
4116 - 4120 N. Orange Blossom Trail	Silver Star	24,231	not listed yet	Orange Blossom Trail 4116 LLC	\$2,954,000	\$121.91
4333 N John Young Parkway	Silver Star	23,864	DJD Real Estate Holdings	Neff Machinery Inc	\$2,736,100	\$114.65
1133 - 1123 Crown Park Circle	Northwest	19,481	Magma Holdings LLC	Crown Point Partners LLC	\$1,850,000	\$94.96
1144 Ocoee Apopka Road	Northwest	16,000	Proshot Property Investments LLC	TC Property Venture LLC	\$810,000	\$50.63
2520 Hansrob Road	Silver Star	15,420	Euro Group Investment LLC	Alla Jorgo	\$550,000	\$35.67

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	10	1,630,684	501,777	30.8%	60,012	3.7%	34.5%	88,554	98,554	\$ -
Flex	17	581,323	24,054	4.1%	7,500	1.3%	5.4%	(3,000)	3,100	\$ 6.56
Manufacturing	14	664,500	8,925	1.3%	0	0.0%	1.3%	0	0	\$ 5.17
Office/Warehouse	60	3,832,795	159,287	4.2%	0	0.0%	4.2%	29,978	11,378	\$ 3.75
Submarket Total	101	6,679,324	728,738	10.9%	67,512	1.0%	11.9%	115,532	113,032	\$ 4.36
SILVER STAR										
Bulk/Distribution	16	3,363,912	35,655	1.1%	19,200	0.6%	1.6%	0	169,337	\$ 5.93
Flex	29	1,313,618	72,782	5.5%	31,165	2.4%	7.9%	27,157	67,321	\$ 8.78
Manufacturing	17	1,809,590	0	0.0%	0	0.0%	0.0%	5,900	1,186	\$ 6.25
Office/Warehouse	252	9,655,160	480,425	5.0%	22,000	0.2%	5.2%	108,755	89,615	\$ 5.20
Submarket Total	314	16,142,280	588,862	3.6%	72,365	0.4%	4.1%	141,812	327,459	\$ 5.74
33RD STREET										
Bulk/Distribution	3	213,000	0	0.0%	0	0.0%	0.0%	0	0	\$ -
Flex	31	878,557	82,396	9.4%	0	0.0%	9.4%	17,102	3,344	\$ 11.11
Office/Warehouse	82	3,811,183	354,877	9.3%	15,716	0.4%	9.7%	30,780	(156,818)	\$ 7.83
Submarket Total	116	4,902,740	437,273	8.9%	15,716	0.3%	9.2%	47,882	(153,474)	\$ 8.45
NORTH CENTRAL										
Flex	39	1,122,511	123,686	11.0%	0	0.0%	11.0%	12,759	10,380	\$ 9.45
Manufacturing	10	490,567	53,118	10.8%	0	0.0%	10.8%	0	7,500	\$ 5.10
Office/Warehouse	49	1,910,095	146,486	7.7%	0	0.0%	7.7%	(20,185)	(1,385)	\$ 5.65
Submarket Total	98	3,523,173	323,290	9.2%	0	0.0%	9.2%	(7,426)	16,495	\$ 7.02
LONGWOOD/LAKE MARY/SANFORD										
Bulk/Distribution	9	1,539,201	318,895	20.7%	0	0.0%	20.7%	0	12,200	\$ 5.50
Flex	55	2,175,444	310,596	14.3%	14,908	0.7%	15.0%	3,250	15,403	\$ 9.71
Manufacturing	42	2,549,563	352,277	13.8%	0	0.0%	13.8%	(43,075)	(48,575)	\$ 4.59
Office/Warehouse	146	6,518,362	237,839	3.6%	0	0.0%	3.6%	31,226	275,072	\$ 5.72
Submarket Total	252	12,782,570	1,219,607	9.5%	14,908	0.1%	9.7%	(8,599)	254,100	\$ 6.35
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	122,743	3.2%	21,004	0.6%	3.8%	54,500	109,077	\$ 5.97
Submarket Total	108	5,223,862	225,595	4.3%	21,004	0.4%	4.7%	54,500	109,077	\$ 6.91
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	204,439	14.7%	67,363	4.8%	19.6%	8,350	44,581	\$ 11.03
Manufacturing	8	352,806	1,125	0.3%	0	0.0%	0.3%	0	0	\$ 6.25
Office/Warehouse	53	2,499,148	95,663	3.8%	0	0.0%	3.8%	(19,599)	27,751	\$ 7.14
Submarket Total	91	4,591,305	301,227	6.6%	67,363	1.5%	8.0%	(11,249)	72,332	\$ 9.75
AIRPORT / SOUTHEAST										
Bulk/Distribution	96	17,084,431	1,005,683	5.9%	0	0.0%	5.9%	49,168	669,185	\$ 3.48
Flex	69	3,121,235	441,888	14.2%	19,713	0.6%	14.8%	25,456	(1,106)	\$ 8.31
Office/Warehouse	235	16,327,553	795,037	4.9%	0	0.0%	4.9%	207,694	471,468	\$ 2.65
Submarket Total	400	36,533,219	2,242,608	6.1%	19,713	0.1%	6.2%	282,318	1,139,547	\$ 4.14
ORLANDO CENTRAL PARK										
Bulk/Distribution	55	8,644,697	706,613	8.2%	0	0.0%	8.2%	125,167	(147,582)	\$ 5.29
Flex	37	1,765,457	173,875	9.8%	9,819	0.6%	10.4%	(1,392)	(24,528)	\$ 8.86
Office/Warehouse	79	4,907,885	184,447	3.8%	14,768	0.3%	4.1%	9,658	(37,622)	\$ 5.20
Submarket Total	171	15,318,039	1,064,935	7.0%	24,587	0.2%	7.1%	133,433	(209,732)	\$ 5.86
SOUTHWEST										
Bulk/Distribution	16	2,529,405	87,200	3.4%	0	0.0%	3.4%	(41,198)	190,576	\$ 4.25
Flex	13	871,325	97,453	11.2%	23,365	2.7%	13.9%	(4,782)	8,346	\$ 14.09
Office/Warehouse	34	2,501,695	75,811	3.0%	0	0.0%	3.0%	0	(50,981)	\$ 6.70
Submarket Total	63	5,902,425	260,464	4.4%	23,365	0.4%	4.8%	(45,980)	147,941	\$ 8.90
TOTAL FLEX	331	13,729,769	1,608,686	11.7%	173,833	1.3%	13.0%	84,900	126,841	\$ 9.64
TOTAL BULK/DISTRIBUTION	206	35,255,070	2,614,625	7.4%	79,212	0.2%	7.6%	221,691	992,270	\$ 3.66
TOTAL MANUFACTURING	102	6,791,015	440,780	6.5%	0	0.0%	6.5%	(37,175)	(39,889)	\$ 4.41
TOTAL OFFICE/WAREHOUSE	1075	55,752,661	2,652,615	4.8%	73,488	0.1%	4.9%	432,807	737,555	\$ 4.33
TOTAL INDUSTRIAL SPACE	1383	97,768,768	5,742,715	5.9%	152,700	0.2%	6.0%	617,323	1,689,936	\$ 4.13
TOTAL MARKET	1,714	111,498,537	7,351,401	6.6%	326,533	0.3%	6.9%	702,223	1,816,777	\$ 5.51
<i>*Note that total market consists of both Flex and Industrial properties combined</i>										