LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

WE TRACK THE STUFF THAT MATTERS!

Q2 2018

ORANGE & SEMINOLE COUNTY
INDUSTRIAL MARKET REPORT

QUARTER LEE NOTE

After an unusually robust first quarter of leasing, the second quarter absorption numbers were even better with just over 1.2 million square feet of positive absorption. However, when you eliminate the two build-to-suits that delivered in this quarter, the leasing absorption was a more measured 252,000 square feet. Construction starts were moderate, down from 2017 and 2016, and are in line with current demand, making it feel like our market is well balanced. On the sales side, we saw tremendous activity and yet another record being set for the highest price paid for an industrial asset (Park 429) in our market.

The Orlando market has changed significantly in the last five or so years. First, we have the 3-4 companies that own more than 2,000,000 SF who, 5-6 years ago, were not even in our market. Second, in the last 5-6 years, we have seen more tenants with a need for more than 100,000 square feet looking to be in Orlando. Third, Orlando is now competing statewide for business with Jacksonville, Polk County and Tampa, often competing for deals as small as 30,000 square feet. But probably the biggest change in our market will be the acquisition of DCT Industrial by Prologis which, if closed in the third quarter, will make Prologis the largest owner of industrial real estate in Orlando by a factor of two, over all their competition. Orlando continues to change significantly.

MARKET TRENDS: CHANGE FROM PREVIOUS QUARTER

↑	ASKING RENTAL RATES $6.30 PSF	↓	TOTAL MARKET VACANCY 5.9%	↑	TOTAL NET ABSORPTION 1,280,410 SF	↓	CONSTRUCTION PIPELINE 1,997,223 SF

WHAT YOU NEED TO KNOW

- •Two build-to-suit projects were added to our inventory this quarter and were included in the total absorption number - PODS with 170,428 square feet and Amazon with 857,470 square feet
- •We add build-to-suit projects to our inventory when the building is complete and the tenant takes occupancy. At this time we include the positive absorption as well as the corresponding vacancy from the tenant's prior location, if applicable.
- •We add spec buildings to our inventory when a lease is signed and include the positive absorption as well. We will include the corresponding vacancy when the lease has commenced.
- •Over the last two quarters we "scrubbed" our inventory list of over 1,600 buildings and updated building square footages, addresses, etc. This had a slight effect on our direct market vacancy number of less than .5 percent.

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.** Buildings that are partially pre-leased are included in positive absorption at the time construction begins. Lee & Associates tracks over 1,640 buildings in Orange and Seminole County which total approximately 113 million square feet. The flex inventory makes up 12 percent of the total space within the market, while the industrial product makes up 88 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-18	2Q-18
Flex	$9.62	$10.29
Bulk/Distribution	$3.96	$4.07
Manufacturing	$4.94	$5.07
Office/Warehouse	$4.82	$5.68
Total Market	$5.92	$6.30

Comparison of Market Vacancy:

	1Q-18	2Q-18
Direct	5.9%	5.6%
Sublet	0.3%	0.4%
Total Market	6.3%	5.9%

Comparison of Absorption in SF:

	1Q-18	2Q-18
Quarterly Amount	1,053,747	1,280,410
Year-to-date	1,053,747	2,334,157

Construction Pipeline: 20,000SF+

	1Q-18	2Q-18
U/C (speculative & BTS)	2,208,830	1,997,223

Building Sales:

	1Q-18	2Q-18
For the quarter	$74M	$113M
Avg Price PSF	$65.16	$86.59

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QUARTER IN REVIEW

The Central Florida industrial market remained strong for the second quarter of 2018. Total market vacancy fell slightly from 6.3 to 5.9 percent. This is a reflection of the continued addition of inventory to the market alongside new leases that are quickly absorbing the newly delivered space. As noted on the first page, this quarter included the delivery of two build-to-suit projects - PODS with 170,428 square feet and Amazon with 857,470 square feet. The SilverStar submarket had the lowest total market vacancy at 3.4 percent, while the Northwest submarket had the highest at 11.9 percent. The other eight submarkets we track held total market vacancy rates of less than 10 percent each.

Total positive absorption this quarter of 1,280,410 square feet included several leases over 40,000 square feet on top of the 2 build to suit projects previously mentioned. Total positive absorption this year of just over 2.3 million square feet is more than the total annual absorption of 2016 and 2017 combined, and with more than 2 million square feet in the construction pipeline, we expect positive absorption to remain high for the next few quarters. The Airport/Southeast submarket had the highest positive absorption at 1,055,480 square feet, consisting primarily of the Amazon lease. Four of the ten submarkets we track had negative absorption with the Eastside/University submarket posting the highest at (82,546) square feet.

Twenty one building sales occurred in the second quarter totaling $113 million, with an average sale price of $86.59 per square foot. This represents a total of 1,313,601 square feet with 18 sales in Orange County and 3 sales in Seminole County. The total sales amount of $113 million is the highest we have seen since the fourth quarter of 2015.

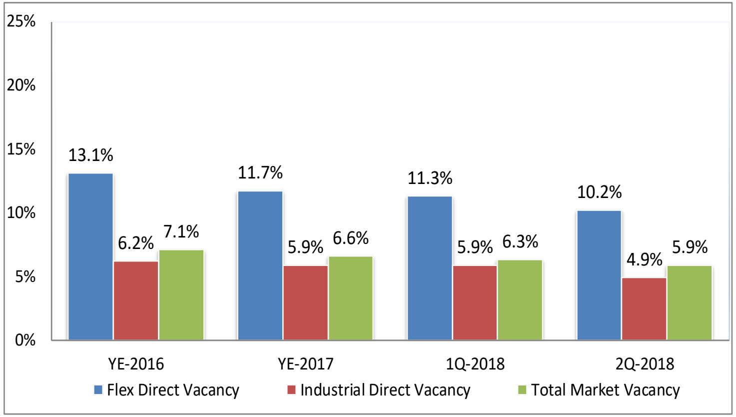
There is currently 1,997,223 square feet of speculative development under construction or immanent. These buildings include:

- *Becknell's* Air Commerce Park Tract A & B with a 399,000 square foot cross dock and a 133,400 square foot rear load
- *Whitley Capital's* building on Gills Drive totaling 54,000 square feet
- *McCraney's* Bent Oak Building 800 totaling 77,219 square feet
- *DCT's* Airport Distribution Center Building E with 101,747 square feet
- *McNulty Group's* four buildings on Hoffner Avenue totaling 87,700 square feet
- *Realvest's* three buildings at Beulah Commerce Center totaling 96,140 square feet
- *Liberty's* Tradeport Drive building totaling 134,000 square feet
- *McCraney's* two buildings at Distribution 429 totaling 248,950 square feet
- *Exeter's* Air Commerce Park Tract C building totaling 530,000 square feet
- *EastGroup's* Horizon XI rear load building 135,067 square feet

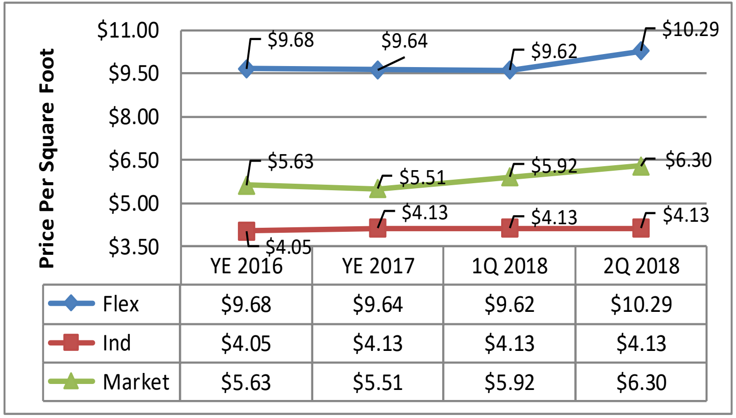
A total of 1,336,843 square feet was delivered this quarter:

- *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 (leased)
- *McCraney's* flex building on Emma Oaks Trail totaling 45,340 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

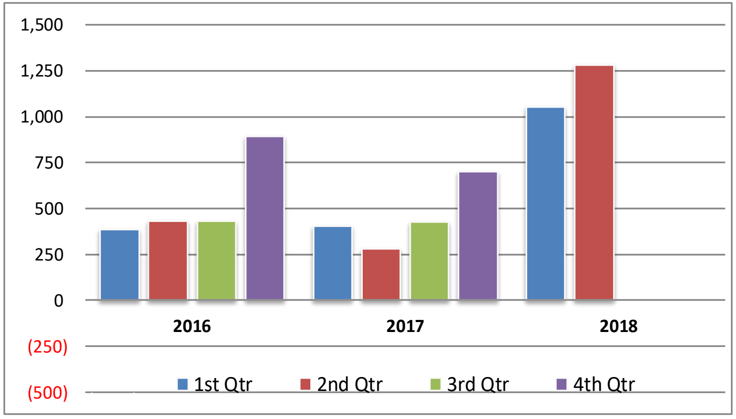


RENTAL RATES

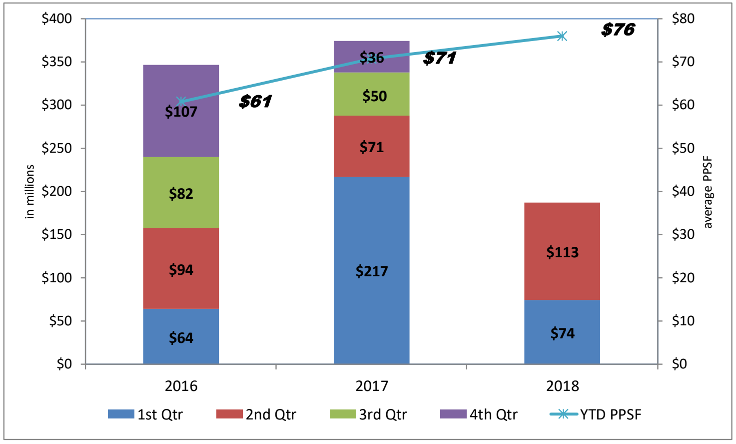


	YE 2016	YE 2017	1Q 2018	2Q 2018
Flex	$9.68	$9.64	$9.62	$10.29
Ind	$4.05	$4.13	$4.13	$4.13
Market	$5.63	$5.51	$5.92	$6.30

ABSORPTION



SALES & AVERAGE PRICE PSF



QUARTER IN REVIEW

TOP SECOND QUARTER LEASE TRANSACTIONS (RANKED BY SQUARE FEET)

Building Name	Tenant	Total SF	Submarket	Type
Beltway Commerce Center	Czarnowski	79,840	Airport/Southeast	Renewal
1031 Crews Commerce Center	FGT Cabinetry	62,040	Airport/Southeast	New
1750 Cypress Lake Drive LEE & ASSOCIATES COMMERCIAL REAL ESTATE SERVICES	Meyer Distributing	60,018	Airport/Southeast	New
6855 Presidents Drive LEE & ASSOCIATES COMMERCIAL REAL ESTATE SERVICES	Wizard Connection	57,900	OCP	Renewal
3831 Bryn Mawr Street LEE & ASSOCIATES COMMERCIAL REAL ESTATE SERVICES	Spec Building Products	40,000	SilverStar	Renewal
7433 Emerald Dunes Drive LEE & ASSOCIATES COMMERCIAL REAL ESTATE SERVICES	JetBlue	27,200	Airport/Southeast	New
3600 E. Commerce Place LEE & ASSOCIATES COMMERCIAL REAL ESTATE SERVICES	Specialty Tile	25,500	SilverStar	New

TOP SECOND QUARTER SALE TRANSACTIONS (RANKED BY SQUARE FEET)

Building Name/Address	Submarket	Total SF	Buyer	Seller	Sale Price	PPSF
639 East Crown Point Road	Northwest	441,175	BCI IV Park 429 Logistics Center LLC	BPG Ocoee 1 LLC	$45,700,000	$103.59
10601 Southport Drive	Airport/Southeast	292,000	Finlayson Logistics Assets LLC	Exeter 10601 Southport LLC	$22,500,000	$77.05
3200 Mercy Drive	Silver Star	146,566	Gramarcy Property Trust	3200 Mercy Drive Holdings LLC	$9,800,000	$66.86
4506 L B McLeod Road	33rd Street	77,800	ADA Compliant LP	NW 28th LC	$5,405,000	$69.47
4060 Doctor Love Lane	Northwest	58,872	HC Transport Inc	MBM-Beef QRS 15-18 Inc	$3,800,000	$64.55
6435 Hazeltine National Drive	Airport/Southeast	42,008	Anson Logistics Assets LLC	Exeter 6435 Hazeltine National LLC	$5,600,000	$133.31
7605 Presidents Drive	OCP	35,244	Truss Bolt LLC	Lee Laser Inc	$2,600,000	$73.77
1942 W. NewHampshire Ave	Silver Star	26,200	Welsh Properties West New Hampshire LLC	D and D Investments LLC	$1,950,000	$74.43
608 E. Landstreet Road	Airport/Southeast	24,816	Charles J Frazee	MDS 608 E Landstreet LLC	$3,300,000	$132.98

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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	227,250	30.8%	0	3.7%	34.5%	(36)	274,527	$ -
Flex	17	581,323	19,029	3.3%	7,500	1.3%	4.6%	0	5,025	$ 7.11
Manufacturing	14	664,500	7,700	1.2%	0	0.0%	1.2%	0	1,225	$ 5.99
Office/Warehouse	64	3,983,736	350,194	8.8%	0	0.0%	8.8%	106,731	70,105	$ 3.09
Submarket Total	*105*	*6,679,324*	*604,173*	*10.9%*	*7,500*	*1.0%*	*11.9%*	*106,695*	*350,882*	*$ 4.13*
SILVER STAR										
Bulk/Distribution	16	3,363,912	53,955	1.6%	19,200	0.6%	2.2%	25,500	(18,300)	$ 5.46
Flex	29	1,313,618	127,890	9.7%	0	0.0%	9.7%	(5,366)	(25,586)	$ 8.31
Manufacturing	17	1,809,590	34,472	1.9%	0	0.0%	1.9%	(12,400)	(12,400)	$ 6.25
Office/Warehouse	179	9,773,226	309,502	3.2%	4,880	0.0%	3.2%	152,682	160,035	$ 5.92
Submarket Total	*241*	*16,260,346*	*525,819*	*3.2%*	*24,080*	*0.1%*	*3.4%*	*160,416*	*103,749*	*$ 6.12*
33RD STREET										
Bulk/Distribution	3	213,000	0	0.0%	0	0.0%	0.0%	0	0	$ -
Flex	31	878,557	78,779	9.0%	0	0.0%	9.0%	(2,310)	3,617	$ 11.42
Office/Warehouse	82	3,813,456	292,857	7.7%	15,716	0.4%	8.1%	(59,522)	(17,780)	$ 8.23
Submarket Total	*116*	*4,905,013*	*371,636*	*7.6%*	*15,716*	*0.3%*	*7.9%*	*(61,832)*	*(14,163)*	*$ 8.91*
NORTH CENTRAL										
Flex	39	1,122,511	104,382	9.3%	0	0.0%	9.3%	14,072	(2,246)	$ 10.41
Manufacturing	10	490,567	128,591	26.2%	0	0.0%	26.2%	(3,123)	(18,123)	$ 6.91
Office/Warehouse	49	1,910,707	86,065	4.5%	0	0.0%	4.5%	(8,285)	(6,385)	$ 5.62
Submarket Total	*98*	*3,523,785*	*319,038*	*9.1%*	*0*	*0.0%*	*9.1%*	*2,664*	*(26,754)*	*$ 7.71*
LONGWOOD/LAKE MARY/SANFORD										
Bulk/Distribution	9	1,539,201	318,895	20.7%	0	0.0%	20.7%	0	0	$ 5.50
Flex	56	2,220,784	254,786	11.5%	3,250	0.1%	11.6%	31,951	51,355	$ 9.21
Manufacturing	42	2,552,158	307,202	12.0%	0	0.0%	12.0%	(6,000)	2,000	$ 4.55
Office/Warehouse	144	6,404,647	128,516	2.0%	0	0.0%	2.0%	49,082	(284)	$ 6.68
Submarket Total	*251*	*12,716,790*	*1,009,399*	*7.9%*	*3,250*	*0.0%*	*8.0%*	*75,033*	*53,071*	*$ 6.30*
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	3,789,785	272,128	7.2%	21,004	0.6%	7.7%	(27,200)	(57,503)	$ 7.13
Submarket Total	*108*	*5,224,862*	*374,980*	*7.2%*	*21,004*	*0.4%*	*7.6%*	*(27,200)*	*(57,503)*	*$ 7.38*
EAST SIDE / UNIVERSITY										
Bulk/Distribution	1	350,140	0	0.0%	0	0.0%	0.0%	0	0	$ 4.50
Flex	29	1,390,539	248,740	17.9%	42,363	3.0%	20.9%	(25,000)	1,884	$ 11.00
Manufacturing	8	352,806	0	0.0%	0	0.0%	0.0%	0	1,125	$ 6.25
Office/Warehouse	53	2,499,148	124,589	5.0%	2,000	0.1%	5.1%	(57,546)	(51,394)	$ 6.76
Submarket Total	*91*	*4,592,633*	*373,329*	*8.1%*	*44,363*	*1.0%*	*9.1%*	*(82,546)*	*(48,385)*	*$ 9.59*
AIRPORT / SOUTHEAST										
Bulk/Distribution	98	18,103,185	932,418	5.2%	0	0.0%	5.2%	882,253	1,092,019	$ 3.61
Flex	68	3,100,235	307,049	9.9%	27,699	0.9%	10.8%	39,665	103,488	$ 10.09
Office/Warehouse	237	16,520,853	498,226	3.0%	57,445	0.3%	3.4%	133,562	432,431	$ 4.43
Submarket Total	*403*	*37,724,273*	*1,737,693*	*4.6%*	*85,144*	*0.2%*	*4.8%*	*1,055,480*	*1,627,938*	*$ 4.99*
ORLANDO CENTRAL PARK										
Bulk/Distribution	55	8,644,975	615,450	7.1%	15,639	0.2%	7.3%	(91,661)	(12,527)	$ 5.38
Flex	37	1,765,457	95,651	5.4%	0	0.0%	5.4%	24,365	53,308	$ 9.41
Office/Warehouse	79	4,907,885	57,182	1.2%	0	0.0%	1.2%	8,318	182,033	$ 5.05
Submarket Total	*171*	*15,318,317*	*768,283*	*5.0%*	*15,639*	*0.1%*	*5.1%*	*(58,978)*	*222,814*	*$ 5.86*
SOUTHWEST										
Bulk/Distribution	16	2,529,405	68,902	2.7%	164,077	6.5%	9.2%	(68,902)	(68,902)	$ 4.25
Flex	13	871,325	82,485	9.5%	25,204	2.9%	12.4%	25,096	31,751	$ 16.11
Office/Warehouse	35	2,672,123	70,740	2.6%	0	0.0%	2.6%	154,484	159,659	$ 7.04
Submarket Total	*64*	*6,072,853*	*222,127*	*3.7%*	*189,281*	*3.1%*	*6.8%*	*110,678*	*122,508*	*$ 9.91*
TOTAL FLEX	331	13,755,437	1,396,308	10.2%	106,016	0.8%	10.9%	102,473	222,596	$ 10.29
TOTAL BULK/DISTRIBUTION	208	35,255,070	2,216,870	7.4%	198,916	0.2%	7.6%	747,154	1,266,817	$ 4.07
TOTAL MANUFACTURING	102	6,793,610	503,300	7.4%	0	0.0%	7.4%	(21,523)	(26,173)	$ 5.07
TOTAL OFFICE/WAREHOUSE	1007	56,275,566	2,189,999	3.9%	101,045	0.2%	4.1%	452,306	870,917	$ 5.68
TOTAL INDUSTRIAL SPACE	1317	97,768,768	4,910,169	5.9%	299,961	0.2%	6.0%	1,177,937	2,111,561	$ 4.13
TOTAL MARKET	**1,648**	**111,498,537**	**6,306,477**	**6.6%**	**405,977**	**0.3%**	**6.9%**	**1,280,410**	**2,334,157**	**$ 6.30**

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