

INDUSTRIAL MARKET REPORT

QUARTER LEE NOTE

It is hard to believe we've already completed the second quarter of 2016. While leasing activity remains steady, it is still not quite as robust as we saw in 2015. Development continues at a rapid pace, especially speculative development. The vast majority of the product being developed is rear load distribution space, with the majority of that being in the southeast submarket. With the volume of deals in the pipeline, especially big deals, we expect the third quarter and fourth quarter to be very good. Time to make hay while the sun shines!

MARKET TRENDS: CHANGE FROM PREVIOUS QUARTER



MARKET OVERVIEW

The Central Florida market had another steady quarter of leasing, adding 431,420 square feet of positive absorption to the market. This activity helped lower the overall direct market vacancy rate to 8.7 percent, with three of the submarkets we track dropping to just below or at 5 percent vacancy. Flex product held more than half of the positive absorption this quarter and had almost a 2 percent improvement in overall vacancy from the previous quarter.

Building sales continue to be strong this year, adding \$93.5 million in sales this quarter to the 2016 total sales. 17 of the 27 building sales this quarter were in Orange County, and the average price per square foot of the buildings sold was \$56.20 per square foot.

The construction pipeline continues to be steady with nineteen buildings underway in Central Florida, adding 723,453 square feet to the pipeline this quarter, and many of them either half or fully 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.** 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-16	2Q-16
Flex	\$7.89	\$8.05
Bulk/Distribution	\$3.77	\$3.57
Manufacturing	\$4.90	\$4.89
Office/Warehouse	\$4.33	\$4.33
Total Market	\$5.14	\$5.14

Comparison of Market Vacancy:		
	1Q-16	2Q-16
Direct	8.8%	8.7%
Sublet	0.7%	0.7%
Total Market	9.5%	9.3%

Comparison of Absorption in SF:		
	1Q-16	2Q-16
Quarterly Amount	366,644	431,420
Year-to-date	366,644	798,064

Construction Pipeline: 20,000SF+		
	1Q-16	2Q-16
U/C	1,675,179	2,398,362

Building Sales:		
	1Q-16	1Q-16
For the quarter	\$63.6M	\$93.5M
Avg Price PSF	\$65.29	\$56.20

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QUARTER IN REVIEW

Total market vacancy fell .1 percent in the second quarter, repeating the overall market vacancy lows we have not seen in 10 years. Flex product saw an improvement of almost 2 percent, while all other product types remained nearly unchanged from the vacancy rates posted in the first quarter of 2016. The Central Orlando submarket's direct vacancy remained the lowest of all the submarkets we track at 4.5 percent, closely followed by the Southwest submarket at 5.1 percent and the Northwest submarket at 5.9 percent. The highest vacancy rate was seen in the Longwood/Lake Mary/Sanford submarket at 14.3 percent, however, this is a .5 percent improvement from the previous quarter.

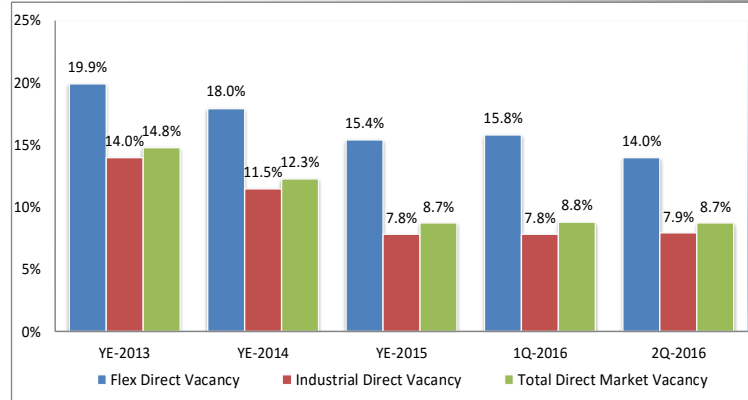
We are still not seeing much movement in the overall asking market rental rates. The average overall asking rate of \$5.14 per square foot has remained unchanged for nearly 2 years. The 33rd Street and the Eastside/University submarkets hold the highest asking rental rates at \$7.68 and \$7.72 per square foot.

The addition of 431,420 square feet of positive absorption this quarter brings the year to date absorption to 798,064 square feet, however, overall absorption remains slower than the last few years. The North Central submarket was the only submarket to post negative absorption and it was low at (14,085) square feet. The Airport/Southeast submarket had the highest positive absorption with 167,774 square feet. For the first time in two and a half years, flex product had the highest absorption of all the product types, with 224,360 square feet.

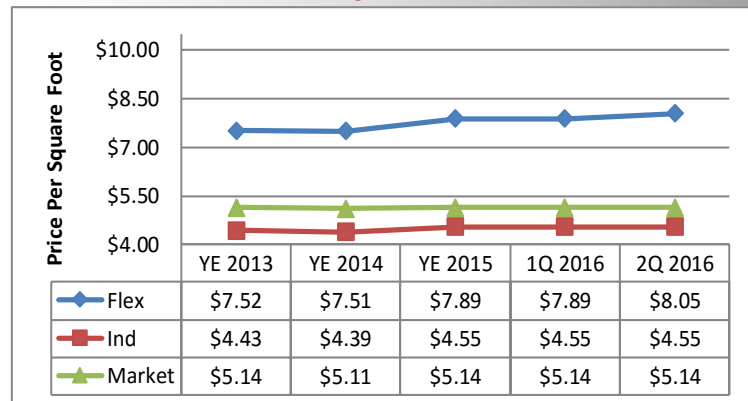
There were 27 building sales this quarter with 17 of them in Orange County and 10 in Seminole County, and an average price per square foot of \$56.20. Total sales this quarter of \$94 million brings the year to date total to \$158 million. If the sales market continues to stay strong for the remainder of 2016, we will easily surpass 2015's total sales volume of \$248 million.

Buildings currently under construction total 2,398,362 square feet. These buildings include: McDonald Development's 89,240 square foot building at 450 Gills Drive, which is 50 percent leased; four of McCraney Property Company's Bent Oak buildings totaling 826,893 square feet; DCT's ADC North Building D with 95,036 square feet; Becknell Development with Air Commerce Park on Tradeport Drive with 478,400 square feet; EastGroup's Horizon VII building on Beacon Lake Drive with 110,533 square feet; Max King Realty's four buildings on McCoy Road totaling 92,000 square feet; NAI Realvest's two buildings on Shadowridge Road totaling 71,340 square feet; Foundry's three buildings off of Taft Vineland totaling 337,920 square feet and Prologis' Wetherbee Road building with 297,000 square feet.

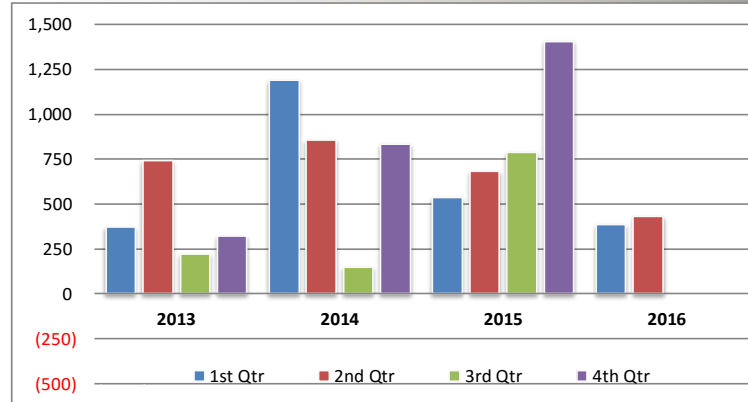
VACANCY



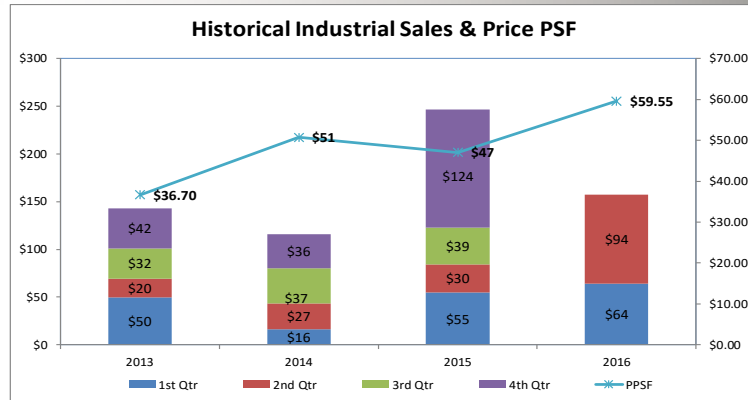
RENTAL RATES



ABSORPTION



SALES & AVERAGE PRICE PSF



QUARTER IN REVIEW

Q2 2016

TOP SECOND QUARTER LEASE TRANSACTIONS (RANKED BY SQUARE FEET)

Building Name	Tenant	Total SF	Submarket	Type
1151 Gills Drive  COMMERCIAL REAL ESTATE SERVICES	Office Depot	252,000	Southeast	Renewal
8650 Transport Drive	Electrolux	191,000	Southeast	Renewal
7433 Emerald Dunes Drive  COMMERCIAL REAL ESTATE SERVICES	Thyssen-Krupp	79,300	Southeast	New
2481 Principal Row	Grendene	67,397	OCP	Renewal
10670 Central Port Drive	Shaw Industries	52,372	Southeast	Expansion
7000 Kingspointe Parkway  COMMERCIAL REAL ESTATE SERVICES	Shell	42,360	Southwest	New
2900 Titan Row	Trojan Battery	31,500	OCP	New
7433 Emerald Dunes Drive  COMMERCIAL REAL ESTATE SERVICES	Zenith Lighting	26,500	Southeast	New
7443 Emerald Dunes Drive  COMMERCIAL REAL ESTATE SERVICES	Goodman	19,800	Southeast	New

TOP SECOND QUARTER SALE TRANSACTIONS (RANKED BY SQUARE FEET)

Building Name/Address	Submarket	Total SF	Buyer	Seller	Sale Price	PPSF
2515 Shader Road	Silver Star	302,420	Hanover Platinum LLC	Orlando Shader Realty Associates Ltd	\$10,700,000	\$35.38
100, 200, 250, 255 & 525 Tech Drive	Lake Mary	297,874	RCS Tech Park LLC	Sun Life Assurance Co of Canada	\$21,300,000	\$71.51
Multiple Buildings on Northlake Blvd	Altamonte Springs	273,028	RCS Northlake Business I LLC	EAT 1603 LLC	\$17,200,000	\$63.00
3122 Shader Road	Silver Star	124,587	3122 Shader Road Investors LLC	Cawley-Odell Enterprises Inc	\$6,300,000	\$50.57
7466 Chancellor	OCP	103,501	Realty Associates Fund XI LP	Chancellor Realty LLC	\$6,850,000	\$66.18
11250 Astronaut Blvd	Airport/SE	60,376	Lawrence B Stone Properties #800, LLC	Steel Construction Systems	\$1,611,000	\$26.68
4460 N. Goldenrod Road	Eastside	51,183	WR Winter Park LLC	Vaughan Industrial Properties LLC	\$3,750,000	\$73.27
1230 W. Central Blvd	Central	44,896	Sunny Beauty Supply Corp	Hammond Electronics Inc.	\$2,343,600	\$52.20
4201 LB McLeod Road	33rd	27,694	TKLCC LLC	MBA McKinney Properties I Ltd	\$2,050,000	\$74.02
1650 E. Lake Mary Blvd	Sanford	25,000	McAvoy Finaical Assets FL Division Inc.	American Bronze Foundry Inc.	\$1,329,700	\$53.19
4116 - 4120 N. Orange Blossom Trail	Silver Star	24,231	Orange Blossom Trail 4116 LLC	Williams Industrial Properties Ltd	\$1,800,000	\$74.29
2510 N. Ronald Reagan Blvd	Longwood	24,172	Grimaldi & Giambrone Management Co Inc.	G&D Enterprises LLC	\$1,000,000	\$41.37

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%	30,567	29,742	\$ 6.61
Manufacturing	14	664,500	8,925	1.3%	0	0.0%	1.3%	0	0	\$ 5.17
Office/Warehouse	79	3,736,899	298,701	8.0%	0	0.0%	8.0%	0	14,760	\$ 3.75
Submarket Total	116	5,813,097	344,780	5.9%	9,375	0.2%	6.1%	30,567	44,502	\$ 4.36
SILVER STAR										
Bulk/Distribution	16	3,363,912	304,442	9.1%	0	0.0%	9.1%	0	(111,878)	\$ 4.80
Flex	29	1,313,618	225,386	17.2%	0	0.0%	17.2%	65,672	78,035	\$ 8.67
Manufacturing	17	1,809,590	119,186	6.6%	0	0.0%	6.6%	(1,186)	(1,186)	\$ 6.48
Office/Warehouse	176	9,450,526	615,486	6.5%	26,700	0.3%	6.8%	(22,579)	(15,721)	\$ 5.07
Submarket Total	238	15,937,646	1,264,500	7.9%	26,700	0.2%	8.1%	41,907	(50,750)	\$ 5.78
33RD STREET										
Bulk/Distribution	4	332,722	0	0.0%	0	0.0%	0.0%	0	0	\$ -
Flex	31	878,557	87,277	9.9%	0	0.0%	9.9%	9,886	(992)	\$ 11.05
Office/Warehouse	81	3,734,619	390,812	10.5%	15,716	0.4%	10.9%	26,967	(36,703)	\$ 6.92
Submarket Total	116	4,945,898	478,089	9.7%	15,716	0.3%	10.0%	36,853	(37,695)	\$ 7.68
NORTH CENTRAL										
Flex	39	1,122,511	113,467	10.1%	0	0.0%	10.1%	1,015	977	\$ 9.53
Manufacturing	10	490,567	60,618	12.4%	0	0.0%	12.4%	0	0	\$ 5.21
Office/Warehouse	49	1,910,095	122,506	6.4%	0	0.0%	6.4%	(15,100)	535	\$ 4.52
Submarket Total	98	3,523,173	296,591	8.4%	0	0.0%	8.4%	(14,085)	1,512	\$ 6.58
LONGWOOD/LAKE MARY/SANFORD										
Bulk/Distribution	9	1,539,201	469,750	30.5%	0	0.0%	30.5%	11,500	11,500	\$ 4.28
Flex	55	2,075,977	358,951	17.3%	14,908	0.7%	18.0%	12,481	(53,031)	\$ 7.84
Manufacturing	43	2,582,313	304,952	11.8%	0	0.0%	11.8%	0	6,000	\$ 4.58
Office/Warehouse	146	6,518,362	690,324	10.6%	0	0.0%	10.6%	35,449	93,770	\$ 4.72
Submarket Total	253	12,715,853	1,823,977	14.3%	14,908	0.1%	14.5%	59,430	58,239	\$ 5.20
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	3,840,348	132,401	3.4%	57,798	1.5%	5.0%	3,975	67,199	\$ 5.25
Submarket Total	110	5,275,425	235,253	4.5%	57,798	1.1%	5.6%	3,975	67,199	\$ 6.47
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	269,525	19.4%	42,363	3.0%	22.5%	(3,300)	26,460	\$ 8.47
Manufacturing	8	352,806	1,125	0.3%	0	0.0%	0.3%	6,000	0	\$ 6.25
Office/Warehouse	52	2,497,248	129,308	5.2%	0	0.0%	5.2%	(397)	(109)	\$ 6.22
Submarket Total	90	4,589,405	399,958	8.7%	42,363	0.9%	9.6%	2,303	26,351	\$ 7.72
AIRPORT / SOUTHEAST										
Bulk/Distribution	91	16,020,304	1,746,712	10.9%	299,793	1.9%	12.8%	71,493	485,126	\$ 2.89
Flex	68	3,044,584	433,454	14.2%	0	0.0%	14.2%	52,203	30,938	\$ 8.74
Office/Warehouse	235	16,026,459	1,132,193	7.1%	30,801	0.2%	7.3%	44,078	44,095	\$ 4.73
Submarket Total	394	35,091,347	3,312,359	9.4%	330,594	0.9%	10.4%	167,774	560,159	\$ 4.28
ORLANDO CENTRAL PARK										
Bulk/Distribution	55	8,644,697	701,288	8.1%	0	0.0%	8.1%	4,500	(33,141)	\$ 3.15
Flex	37	1,765,457	158,602	9.0%	18,847	1.1%	10.1%	50,504	56,801	\$ 8.78
Office/Warehouse	79	4,907,885	128,068	2.6%	0	0.0%	2.6%	0	34,032	\$ 4.29
Submarket Total	171	15,318,039	987,958	6.4%	18,847	0.1%	6.6%	55,004	57,692	\$ 4.20
SOUTHWEST										
Bulk/Distribution	16	2,529,405	99,533	3.9%	87,000	3.4%	7.4%	42,360	5,660	\$ 5.62
Flex	13	871,325	149,416	17.1%	28,036	3.2%	20.4%	5,332	5,332	\$ 8.27
Office/Warehouse	34	2,501,695	50,120	2.0%	0	0.0%	2.0%	0	59,863	\$ 6.23
Submarket Total	63	5,902,425	299,069	5.1%	115,036	1.9%	7.0%	47,692	70,855	\$ 7.04
TOTAL FLEX	330	13,553,651	1,900,749	14.0%	113,529	0.8%	14.9%	224,360	174,262	\$ 8.05
TOTAL BULK/DISTRIBUTION	198	33,610,756	3,331,725	9.9%	386,793	1.2%	11.1%	129,853	357,267	\$ 3.38
TOTAL MANUFACTURING	103	6,823,765	520,141	7.6%	0	0.0%	7.6%	4,814	4,814	\$ 4.89
TOTAL OFFICE/WAREHOUSE	1018	55,124,136	3,689,919	6.7%	131,015	0.2%	6.9%	72,393	261,721	\$ 4.33
TOTAL INDUSTRIAL SPACE	1319	95,558,657	7,541,785	7.9%	517,808	0.5%	8.4%	207,060	623,802	\$ 4.55
TOTAL MARKET	1,649	109,112,308	9,442,534	8.7%	631,337	0.67%	9.3%	431,420	798,064	\$ 5.14

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

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