

ORANGE & SEMINOLE COUNTY

INDUSTRIAL MARKET REPORT

QUARTER LEE NOTE

As we conclude the first quarter of 2018, the market has proven yet again that there is still solid and sustained demand for Industrial real estate in Central Florida. Our supply of speculative product has diminished slightly and our demand has increased, making this an opportune time to be an owner in Orlando.

In the first quarter alone, we absorbed 58% of what we did in all of 2017! On the supply side, the buildings delivered this quarter are already 70% leased and of the buildings currently under construction, approximately 20% are already leased and there are leases pending that would take them to over 60% leased. Activity is very good for buildings in the core or centered close to a major road network. Looking ahead, we do see obstacles that will have to be navigated. High land costs and suitable sites for development are scarce. In addition, we are seeing substantial increases in construction costs. This can be attributed to both labor and material cost increases on products like steel.

Looking forward, we are upbeat and optimistic about 2018 being yet another solid year for the industrial real estate market.

MARKET TRENDS: CHANGE FROM PREVIOUS QUARTER



MARKET OVERVIEW

The first quarter of 2018 started off strong with just over 1 million square feet in positive absorption, and more than half of it taking place in the Airport/Southeast submarket. The majority of leases signed this quarter were over 50,000 square feet, and many took place in the new buildings being delivered to the market. The combination of new product delivery and high positive absorption kept the total market vacancy rate unchanged from the previous quarter at 6.9 percent.

Of the 873,155 square feet of new space delivered to the market this quarter, 552,130 square feet was in the Northwest submarket. While our construction pipeline saw a slight decline this quarter, many new projects have been announced and will be added in once construction begins later this year. A total of 27 building sales took place this quarter for \$74 million in sales with an average sale price just over \$65 per square foot.

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-17	1Q-18
Flex	\$9.64	\$9.62
Bulk/Distribution	\$3.66	\$3.96
Manufacturing	\$4.41	\$4.94
Office/Warehouse	\$4.33	\$4.82
Total Market	\$5.51	\$5.92

Comparison of Market Vacancy:

	4Q-17	1Q-18
Direct	6.6%	6.6%
Sublet	0.3%	0.3%
Total Market	6.9%	6.9%

Comparison of Absorption in SF:

	4Q-17	1Q-18
Quarterly Amount	702,223	1,053,747
Year-to-date	1,816,777	1,053,747

Construction Pipeline: 20,000SF+

	4Q-17	1Q-18
U/C (speculative & BTS)	2,751,058	2,208,830

Building Sales:

	4Q-17	1Q-18
For the quarter	\$35.7M	\$74M
Avg Price PSF	\$65.07	\$65.16

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QUARTER IN REVIEW

The Central Florida industrial market had a strong start to the first quarter of 2018 with total positive absorption of 1,053,747 square feet. This was a direct result of the execution of several large leases, including City Furniture at Park 429 for 246,031 square feet and Oceaneering at Horizon X for 103,722 square feet. Three submarkets had substantial positive absorption this quarter - Airport/Southeast with 572,458 square feet, Orlando Central Park with 281,702 square feet, and Northwest with 244,187 square feet. Nearly all of the positive absorption was in bulk/distribution and office/warehouse product.

The combination of 873,155 square feet of new space being delivered to the market in addition to over 1 million square feet of positive absorption, kept total market vacancy rates unchanged from the previous quarter. Direct vacancy stayed at 6.6 percent, while the total market vacancy remained at 6.9 percent. The SilverStar submarket continued to have the lowest total vacancy rate at 4.3 percent, followed closely by the Airport/Southeast and Orlando Central Park submarkets who were both at 4.8 percent. Only two of the ten submarkets we track have a vacancy rate over 10 percent and they include the Northwest submarket at 11.9 percent and the Longwood/Lake Mary/Sanford submarket with 10.2 percent.

The total average asking rental rate increased by \$.41 this quarter and was reflected in six of the ten submarkets that showed a slight increase this quarter.

Building sales hit \$74 million this quarter with 20 in Orange County and 7 in Seminole County. A total of 1.13 million square feet sold at an average price per square foot of \$65.16. The largest sale this quarter was of 1264 La Quinta Drive, a 181,394 square foot building that sold for \$11 million.

There is currently 1,180,932 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
- Whitley Capital's building on Gills Drive totaling 54,000 square feet
- McCraney's flex building on Emma Oaks Trail totaling 45,340 square feet
- DCT's Airport Commerce 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

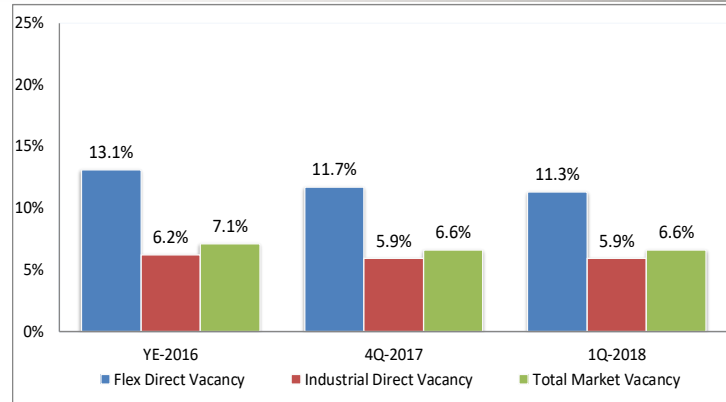
There is currently 1,027,898 square feet of build to suit space under construction. These buildings include:

- 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)

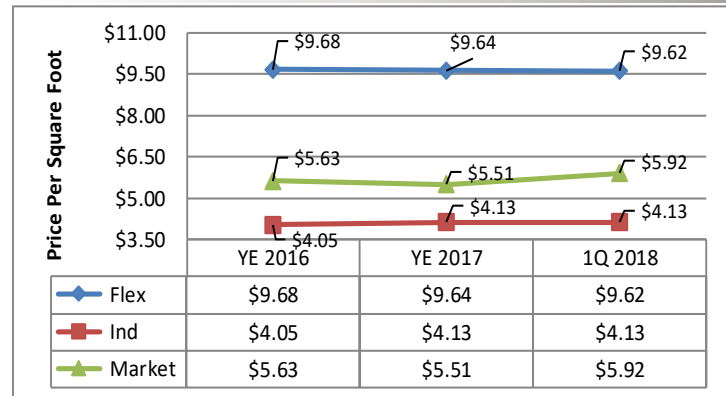
A total of 873,155 square feet was delivered this quarter:

- BlueScope's two Park 29 buildings totaling 441,175 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

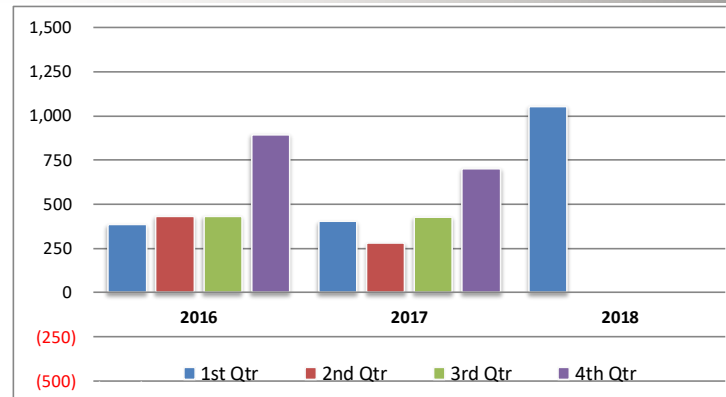
VACANCY



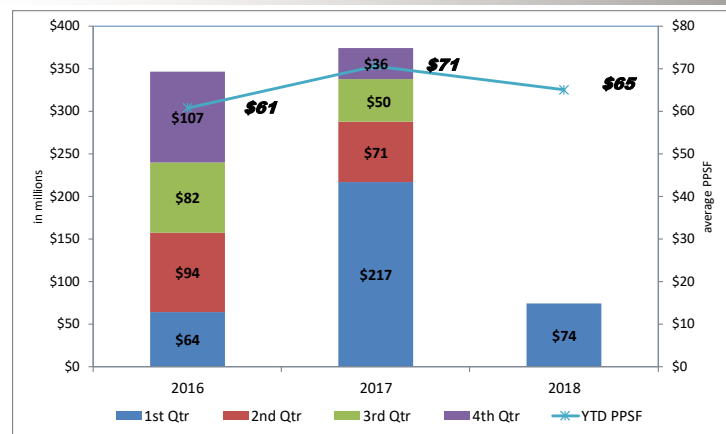
RENTAL RATES



ABSORPTION






SALES & AVERAGE PRICE PSF



QUARTER IN REVIEW

Q1 2018

TOP FIRST QUARTER LEASE TRANSACTIONS (RANKED BY SQUARE FEET)

Building Name	Tenant	Total SF	Submarket	Type
Park 429, Bldg. #300 631 East Crown Point Road	City Furniture	246,031	NW	New
3200 Mercy Drive	Veritiv	146,566	SilverStar	Renewal
Horizon X, 8058 Horizon Park Drive  LEE & ASSOCIATES COMMERCIAL REAL ESTATE SERVICES	Oceaneering	103,722	SE	New
Bent Oak #500, 9652 Oak Crossing Road	4Wall Entertainment	94,336	SE	New
Park 429, Bldg. #200 631 East Crown Point Road	Maintenance Supply HQ	88,590	NW	New
International Corporate Park, 8650 Transport Drive	Electrolux	85,100	SE	Expansion
3785 Bryn Mawr Road  LEE & ASSOCIATES COMMERCIAL REAL ESTATE SERVICES	PCA	81,200	SilverStar	Renewal
601 Gills Drive	Star Pipe	67,339	SE	Renewal
4500 Seaboard Road  LEE & ASSOCIATES COMMERCIAL REAL ESTATE SERVICES	Signature Nail	54,400	SilverStar	Renewal/Expansion

TOP FIRST QUARTER SALE TRANSACTIONS (RANKED BY SQUARE FEET)

Building Name/Address	Submarket	Total SF	Buyer	Seller	Sale Price	PPSF
1264 La Quinta Drive	SW	181,394	Civf V-F11W01 LLC	Colfin Cobalt III Owner LLC	\$ 11,000,000	\$60.64
6325, 6375, 6637 N Orange Blossom Trail	NW	158,293	HH Northpark Commerce LLC	G and I IX Orange Blossom LLC	\$ 9,000,000	\$56.86
2216 Directors Row	OCP	115,180	Westgate Resolrts Ltd	JRB Orlando LLC	\$ 5,500,000	\$47.75
3800 & 3830 Enterprise Way	Sanford	117,600	Blackstone Real Estate Income Trust, inc.	Cabot IV FL	\$ 10,400,000	\$88.44
4401 Shader Road	SilverStar	93,608	FR 4401 Shader Road LLC	Orlando Center of Commerce LLC	\$ 5,135,978	\$54.87
2450 Silver Star Road	SilverStar	62,815	Skywater-Orlando FL LLC	Silver Star Warehouse LLC	\$ 3,500,000	\$55.72
2705 & 2799 Eunice Avenue	SilverStar	60,851	Jaskot Enterprises LLC	Skywater-Orlando LLC	\$ 1,905,000	\$31.31
1207 E Story Road	Winter Garden	39,005	Rimas Holdings Inc	Meunier Enterprises LLC	\$ 2,100,000	\$53.84
3600 Parkway Center Court	NW	32,000	Orange Ave Gas Station, LLC	Kuda Properties LLC	\$ 2,500,000	\$78.13
3923 Forrestal Avenue  LEE & ASSOCIATES COMMERCIAL REAL ESTATE SERVICES	Central	26,513	Wydra International Properties LLC	Genesis-Bradford Investments LLC	\$ 1,800,600	\$67.91
1101 Cornwall Road	Sanford	25,300	Madland Properties LLC	WT Corp Trust	\$ 1,500,000	\$59.29
301 Northstar Court	Sanford	20,434	2KS Inv LLC	CRC Enterprises Inc.	\$ 2,475,000	\$121.12
3815 Silver Star Road  LEE & ASSOCIATES COMMERCIAL REAL ESTATE SERVICES	SilverStar	15,944	Ozer Bros Orlando LLC	Stetson Capital LLC	\$ 1,530,000	\$95.96

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	227,214	30.8%	0	3.7%	34.5%	274,563	274,563	\$ -
Flex	17	581,323	19,029	3.3%	7,500	1.3%	4.6%	5,025	5,025	\$ 7.11
Manufacturing	14	664,500	7,700	1.2%	0	0.0%	1.2%	1,225	1,225	\$ 5.99
Office/Warehouse	64	3,983,736	456,925	11.5%	0	0.0%	11.5%	(36,626)	(36,626)	\$ 3.11
Submarket Total	105	6,679,324	710,868	10.9%	7,500	1.0%	11.9%	244,187	244,187	\$ 3.99
SILVER STAR										
Bulk/Distribution	16	3,363,912	79,455	2.4%	19,200	0.6%	2.9%	(43,800)	(43,800)	\$ 5.84
Flex	29	1,313,618	122,524	9.3%	0	0.0%	9.3%	(20,220)	(20,220)	\$ 8.58
Manufacturing	17	1,809,590	32,072	1.8%	0	0.0%	1.8%	0	0	\$ 6.25
Office/Warehouse	179	9,773,226	441,830	4.5%	2,000	0.0%	4.5%	7,353	7,353	\$ 4.32
Submarket Total	241	16,260,346	675,881	4.2%	21,200	0.1%	4.3%	(56,667)	(56,667)	\$ 5.11
33RD STREET										
Bulk/Distribution	3	213,000	0	0.0%	0	0.0%	0.0%	0	0	\$ -
Flex	31	878,557	76,469	8.7%	0	0.0%	8.7%	5,927	5,927	\$ 11.42
Office/Warehouse	82	3,813,456	269,435	7.1%	15,716	0.4%	7.5%	41,742	41,742	\$ 8.13
Submarket Total	116	4,905,013	345,904	7.1%	15,716	0.3%	7.4%	47,669	47,669	\$ 8.85
NORTH CENTRAL										
Flex	39	1,122,511	118,454	10.6%	0	0.0%	10.6%	(16,318)	(16,318)	\$ 10.00
Manufacturing	10	490,567	94,322	19.2%	0	0.0%	19.2%	(15,000)	(15,000)	\$ 6.95
Office/Warehouse	49	1,910,707	125,030	6.5%	0	0.0%	6.5%	1,900	1,900	\$ 6.71
Submarket Total	98	3,523,785	337,806	9.6%	0	0.0%	9.6%	(29,418)	(29,418)	\$ 7.93
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	335,752	15.1%	14,908	0.7%	15.8%	19,404	19,404	\$ 8.97
Manufacturing	42	2,552,158	344,277	13.5%	0	0.0%	13.5%	8,000	8,000	\$ 4.60
Office/Warehouse	145	6,452,902	287,205	4.5%	0	0.0%	4.5%	(49,366)	(49,366)	\$ 5.84
Submarket Total	252	12,765,045	1,286,129	10.1%	14,908	0.1%	10.2%	(21,962)	(21,962)	\$ 6.24
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	244,928	6.5%	21,004	0.6%	7.0%	(30,303)	(30,303)	\$ 7.02
Submarket Total	108	5,223,862	347,780	6.7%	21,004	0.4%	7.1%	(30,303)	(30,303)	\$ 7.32
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	223,740	16.1%	67,363	4.8%	20.9%	26,884	26,884	\$ 11.11
Manufacturing	8	352,806	0	0.0%	0	0.0%	0.0%	1,125	1,125	\$ 6.25
Office/Warehouse	53	2,499,148	71,043	2.8%	0	0.0%	2.8%	6,152	6,152	\$ 7.37
Submarket Total	91	4,592,633	294,783	6.4%	67,363	1.5%	7.9%	34,161	34,161	\$ 10.21
AIRPORT / SOUTHEAST										
Bulk/Distribution	96	17,084,431	795,917	4.7%	0	0.0%	4.7%	209,766	209,766	\$ 3.32
Flex	69	3,121,235	377,965	12.1%	18,699	0.6%	12.7%	63,823	63,823	\$ 8.40
Office/Warehouse	236	16,431,274	544,879	3.3%	19,445	0.1%	3.4%	298,869	298,869	\$ 2.43
Submarket Total	401	36,636,940	1,718,761	4.7%	38,144	0.1%	4.8%	572,458	572,458	\$ 4.15
ORLANDO CENTRAL PARK										
Bulk/Distribution	55	8,644,697	539,339	6.2%	0	0.0%	6.2%	79,134	79,134	\$ 5.38
Flex	37	1,765,457	120,062	6.8%	9,819	0.6%	7.4%	28,943	28,943	\$ 8.85
Office/Warehouse	79	4,907,885	65,500	1.3%	3,959	0.1%	1.4%	173,715	173,715	\$ 5.63
Submarket Total	171	15,318,039	724,901	4.7%	13,778	0.1%	4.8%	281,792	281,792	\$ 5.98
SOUTHWEST										
Bulk/Distribution	16	2,529,405	0	0.0%	164,077	6.5%	6.5%	0	0	\$ 4.25
Flex	13	871,325	90,798	10.4%	25,204	2.9%	13.3%	6,655	6,655	\$ 13.98
Office/Warehouse	34	2,501,695	70,636	2.8%	0	0.0%	2.8%	5,175	5,175	\$ 6.50
Submarket Total	63	5,902,425	161,434	2.7%	189,281	3.2%	5.9%	11,830	11,830	\$ 12.39
TOTAL FLEX	332	13,776,437	1,562,310	11.3%	143,493	1.0%	12.4%	120,123	120,123	\$ 9.62
TOTAL BULK/DISTRIBUTION	206	35,255,070	1,960,820	7.4%	183,277	0.2%	7.6%	519,663	519,663	\$ 3.96
TOTAL MANUFACTURING	102	6,793,610	503,706	7.4%	0	0.0%	7.4%	(4,650)	(4,650)	\$ 4.94
TOTAL OFFICE/WAREHOUSE	1006	56,062,814	2,577,411	4.6%	62,124	0.1%	4.7%	418,611	418,611	\$ 4.82
TOTAL INDUSTRIAL SPACE	1314	97,768,768	5,041,937	5.9%	245,401	0.2%	6.0%	933,624	933,624	\$ 4.13
TOTAL MARKET	1,646	111,498,537	6,604,247	6.6%	388,894	0.3%	6.9%	1,053,747	1,053,747	\$ 5.53

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

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