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These are the silver linings in the uncertain Central Florida office market

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Kenneth Naim is bullish on the real estate outlook for some office types and settings — just not all of them.

The real estate investor heads up Lake Worth-based Beacon Offices LLC, which on Feb. 14 bought a 36,000-square-foot, Class A office building at 1540 International Parkway in Lake Mary for \$7.5 million from Orlando Dreams International Parkway Ltd., controlled by Gurbux Saini of British Columbia, Canada. Brad Kuskin of Compass Commercial represented both sides in the transaction.



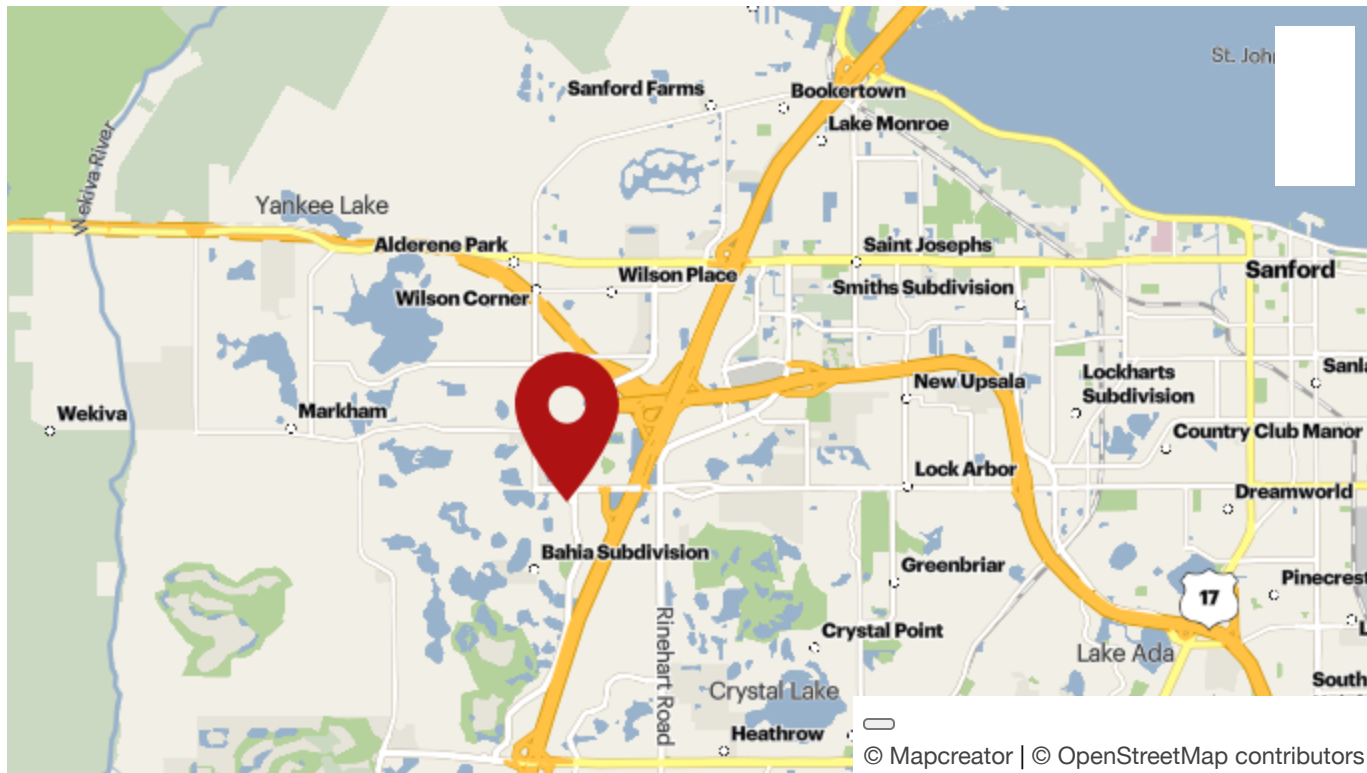
COURTESY COMPASS FLORIDA LLC

This building in Lake Mary recently sold for \$7.5 million. Its buyer believes suburban office

The deal is emblematic of how an uncertain office market will bounce back, Naim told *Orlando Business Journal*. His new building is suburban, it's Class A and at three stories tall, it's big enough without being huge, he said.

space like it will have a strong bounce back fueled by return-to-work trends.

"I'm bullish on small offices and I like the Lake Mary market a lot. I believe the suburban office is the office of the future. ... I believe people are realizing they don't want to spend an hour commuting each day."



Naim is just one voice in a divided market, as Central Florida's fourth-quarter 2021 office market data is contradictory, said Rick Solik, executive managing director of office services for Colliers in Orlando. The region's average office vacancy rate was 9.8%, relatively unchanged from third-quarter 2021's 9.9%, but slightly up year over year from 9.2%.

And more office space is coming on the sublet market: More than 2.1 million square feet of office space was available for sublease in the market in 2021, up from 1.3 million in 2020 and 850,000 in 2019. Many of the companies that shifted their workforces to work-

from-home early in the pandemic have determined they don't need as much office space as before, so they want to sublease that additional space.

At the same time, office rents are up — a silver lining for investors amid high vacancy rates, Solik said. The average asking rent for office space has risen 9.9% since 2019, per Colliers. The region's fourth quarter average asking lease rate of \$25.25 per square foot was up from \$24.75 in the previous quarter, and up by \$1.47 per square foot compared to the year-ago period.

“Specifically in office real estate, people were expecting to get the ‘Covid discount’ — [which] never really materialized,” Solik said. “The price per-square-foot of what sold increased. That would be one component that validates the confidence; people still are buying and paying top dollar for office buildings.”

Meanwhile, net absorption remained positive in the market — 3,376 square feet of vacated office space was backfilled in last year's fourth quarter. Central Florida may be benefiting from new businesses moving here from out of state, even as existing local companies downsize and shed space.

Even with the high vacancy rates, interest may be rebounding. For instance, Naim said his Lake Mary building had an 83% occupancy at the time of the sale, but will be fully leased by this summer. Existing tenants include a home lender, a title company and a wealth management firm.

Demand for suburban office space is strong coming out of the pandemic, said Compass Commercial's Kuskin, who is based out of South Florida but often works in Central Florida. “People like the nicer buildings and they like to stay in the suburbs. I have a laundry list of buyers anxious to grab buildings like this.”

Additionally, Central Florida's Class A space — like the building Naim bought in Lake Mary — is primed for increasing demand, Solik said. Despite a class-specific vacancy rate of 11% in the fourth quarter, the region's Class A office properties had an average asking lease rate of \$29 per square foot.

“I believe you are going to see flight to quality,” Solik said. “You are going to see people recognizing that the office has to have a purpose, and has to be a desirable place people

want to come. The newer buildings provide potentially greater comfort levels, and the higher tech and touchless requirements of today's post-pandemic expectations.”

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