

# MARKET REPORT

OFFICE

Tampa-St.Petersburg Metro Area

IPA INSTITUTIONAL  
PROPERTY  
ADVISORS

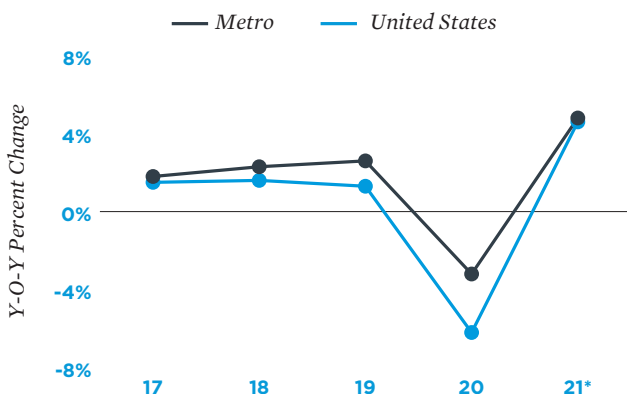
4Q/21

## Tampa's Favorable Business Climate Provides Office Sector Optimism

**Sarasota-Bradenton area sidesteps market challenges.** The combination of supply additions and tenant consolidations took its toll on Tampa's office fundamentals over the past 12 months. Since July of last year 1.2 million square feet of office space was delivered, marking the largest supply wave in a decade. Concerns over the health crisis prompted employers to reduce their office footprint, causing record levels of sublet space to enter the market. Combined, these actions increased vacant stock by over 3.1 million square feet, elevating availability to 13.1 percent. One submarket in particular defied this trend, however. Office demand in Sarasota-Bradenton received a significant boost from the medical office sector, due to the submarket's aging population. Vacancy remained relatively steady at 7.9 percent while asking rents grew 5.2 percent over the past four quarters.

**Long-term outlook is promising.** Florida recently passed legislation further reducing the sales tax on commercial leases, making Tampa an attractive option for out-of state employers. Furthermore, population growth projections over the next year will continue to outpace the national average. The resulting increase in the metro's talent pool will provide an additional incentive for business relocations, a boon for future office demand. Supply pressure will also begin to ease up. As of August, only 560,000 square feet of office space was underway, which should minimize competition for existing properties seeking tenants.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Office 2021 Outlook



65,000

**JOBS**

*will be created*

### EMPLOYMENT:

Employers will expand headcounts by 4.8 percent in 2021, allowing Tampa to recover all of the 44,600 jobs lost last year. Employment in the metro's traditionally office-using sectors will grow at a similar pace, with the addition of 17,500 positions by year-end.



1,050,000

**SQ. FT.**

*will be completed*

### CONSTRUCTION:

Development activity remains elevated in the metro, with completions exceeding 1 million square feet for the second consecutive year. Supply additions will expand Tampa's office inventory by 0.9 percent in 2021.



120

**BASIS POINT**

*increase in vacancy*

### VACANCY:

The metro's construction pipeline and some tenants reducing their office footprints will place upward pressure on availability, resulting in negative net absorption for the third consecutive year. Vacancy will elevate to 13.4 percent in 2021.



2.6%

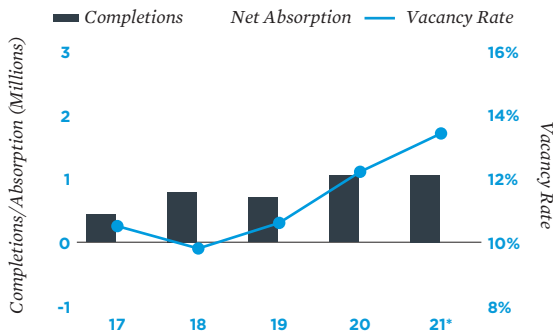
**INCREASE**

*in asking rent*

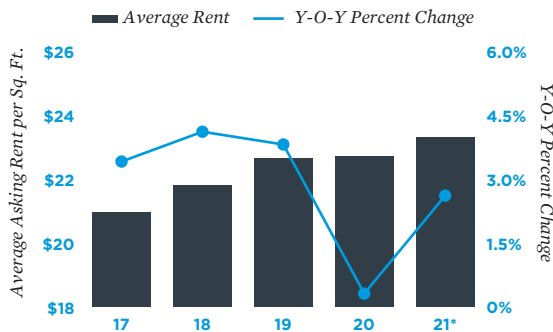
### RENT:

An increase in Class A office space marketed for lease will extend a stretch of positive annual rent growth that began in 2013. The metro's average asking rent will reach \$23.30 per square foot this year.

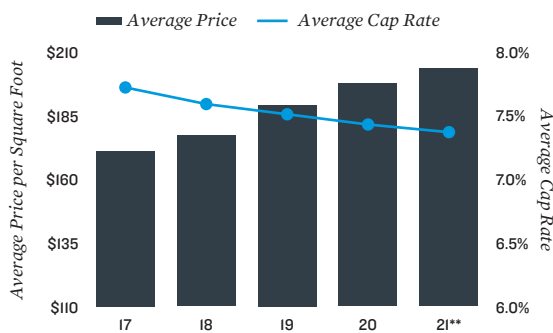
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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## 2Q21 – 12-Month Period



### CONSTRUCTION

**1,199,000 sq. ft. completed**

- Developers expanded the metro's office inventory by 1 percent over the past four quarters, with the bulk of new supply delivered in the Downtown Tampa submarket.
- As of August, development was underway on over 560,000 square feet of office space, with completions extending into 2023.



### VACANCY

**260 basis point increase in vacancy Y-O-Y**

- Four consecutive quarters of negative net absorption contributed to Tampa's vacancy rising to 13.1 percent as of June.
- The rise in availability was more significant in Class A assets, where the rate jumped 640 basis points to 19.0 percent. Class B/C vacancy advanced 60 basis points to 10.1 percent.



### RENT

**2.7% increase in the average asking rent Y-O-Y**

- Influenced by a 4.1 percent hike in Class B/C rates, the metro's average asking rent increased by 2.7 percent over the past year.
- Year over year ending in June, suburban asking rents advanced 5.3 percent to \$20.69 per square foot. In the same span, asking rents in the CBD declined 2.0 percent to a mean of \$30.19 per square foot.

## Investment Highlights

- Office investors were more active in Tampa-St. Petersburg than any other major Florida market due to low entry costs and appealing first-year returns. Deal flow accelerated over the first half of 2021, which supported a 34 percent increase in transaction velocity over the past year ending in June relative to the previous 12-month span.
- Attractive yields relative to other coastal and gateway markets elevated buyer competition for office assets in the Tampa metro. Over the past four quarters, the average sale price grew 5 percent to \$203 per square foot. The mean cap rate remained in the mid-7 percent range.
- The number of transactions involving medical office buildings doubled over the past 12 months relative to the previous yearlong period. Properties traded at an average price of \$189 per square foot, with cap rates averaging in the low-8 percent band.
- Local buyers were particularly active in the Pinellas submarket, targeting multi-tenant Class B/C assets under 100,000 square feet.