

INVESTMENT FORECAST

Office
Tampa-St. Petersburg

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2022

Improving Office Fundamentals and Robust Economic Growth Lure Investors to Tampa-St. Petersburg

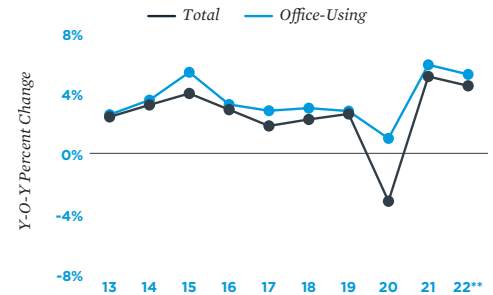
Strong employment growth underpins office demand. Large blocks of sublet availability coming on the market coupled with the biggest supply wave in 12 years resulted in a modest uptick in vacancy last year. However, leasing activity surged over the second half and that momentum will likely carry over into this year. Net absorption totaled nearly 1.1 million square feet during the third quarter of 2021, the largest three-month total since 2007. Robust job growth in traditional office-using sectors spearheaded demand and projections suggest a similar pace of job gains this year. Additionally, in-migration is expected to accelerate and Florida recently reduced the sales tax on commercial leases, making business costs even more affordable. This bodes well for future office demand as the metro's growing talent pool and affordability foster additional corporate relocations to the region. Furthermore, development activity will slow significantly this year, with less than 200,000 square feet of speculative space scheduled to deliver. Limited supply pressure and elevated demand for office space will allow for metrowide vacancy to contract on an annual basis for the first time since 2018.

Tampa leads Florida markets in office investment activity. The recent surge in transaction volume over the past year highlights the confidence investors have in Tampa's long-term office fundamentals. Low-entry costs and appealing first-year returns relative to other major coastal and gateway locales continue to captivate buyer interest. Sale prices are on the rise due to competition for available assets, which is compressing minimum first-year returns to the low-3 percent range. Investors targeting traditional office assets are active in Pinellas County and Central Tampa, where asking rents are the highest in the metro. Robust population growth in Tampa has also heightened buyer interest in medical office assets. These properties generally trade with an average price above \$250 per square foot, with cap rates averaging in the low-7 percent span.

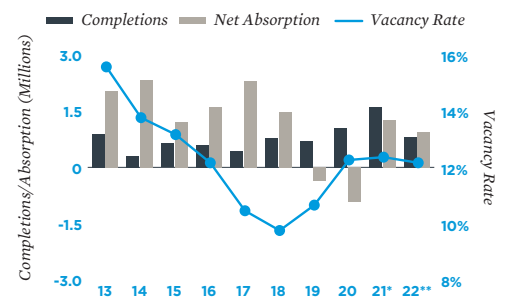
2022 Market Forecast

- Employment** up 4.5%
Employment growth will be similar to last year's rate, as 64,000 jobs are added, including 22,500 office-using positions.
- Construction** 800,000 sq. ft.
The pace of construction declines 50 percent this year following the addition of 1.6 million square feet of office space in 2021. The bulk of deliveries is concentrated in Sarasota-Bradenton.
- Vacancy** down 20 bps
Net absorption outpaces supply additions in 2022, contracting market vacancy to 12.2 percent. Last year, a 10-basis-point increase was recorded.
- Rent** up 3.6%
Tampa's average asking rent rises to \$24.75 per square foot in 2022, marking the 10th consecutive year of annual rent growth in the metro.
- Investment**
Robust local rent growth and a large inventory of medical office properties will likely draw additional buyers to Pasco County in the coming year.

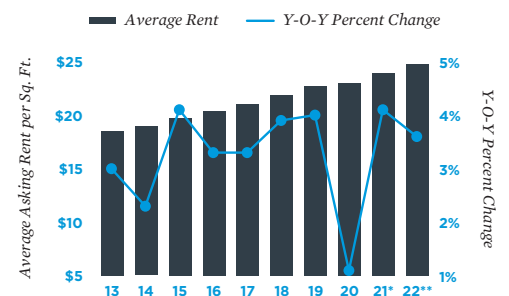
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

Al Pontius

Senior Vice President
Director IPA Office
Tel: (415) 963-3000 | apontius@ipausa.com

Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.