

MARKET REPORT

Office

Tampa-St. Petersburg Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

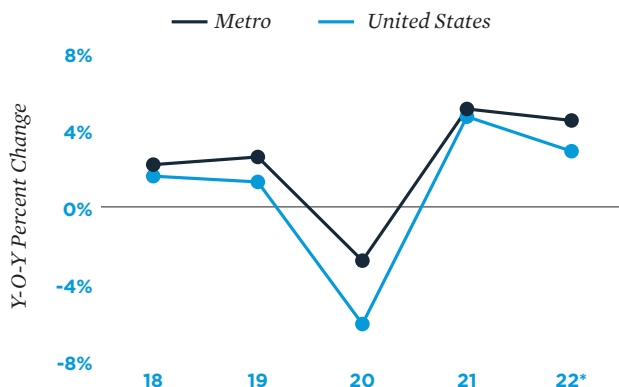
2Q/22

Tampa's Skilled Labor Force and Business-Friendly Environment Attract Growing Firms

Sublet vacancy offsets leasing. Despite sublet availability increasing nearly 50 percent over the past year ending in March, vacancy growth has been limited to only 10 basis points. Leasing activity has been strong as of late, with more than 60 total lease deals of at least 20,000 square feet taking place during this span. OPSWAT and ReliaQuest are firms that recently decided to relocate their headquarters to the metro, and Tampa's population growth and business-friendly tax rates will likely induce even more relocations or expansions moving forward. Additionally, startup firms like Rapid7 and NuMedTechs have also moved to the market. For now, these firms are utilizing coworking space, but plan to find permanent locations within the metro in the near future. With deliveries expected to taper by nearly 1 million square feet compared to 2021, vacancy will likely hold steady this year.

Flight-to-quality is evident. Large blocks of Class A availability stimulated a leasing surge in Central Tampa. More than 700,000 square feet was absorbed here on a net basis over the past year ending in March. In contrast, the I-75 Corridor and Pinellas submarkets experienced significant move-outs as firms decided to seek higher-quality space options in other locales, with local vacancies rising by at least 50 basis points in the first quarter alone. Recent momentum in Westshore and Downtown has encouraged new large-scale projects like Midtown East and Heights Tower, totaling 680,000 square feet, which are expected to break ground later in the year.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



**65,000
JOBS**

will be created

EMPLOYMENT:

Roughly 6,000 traditional office-using jobs were added through April, with total employment within the sector expected to increase by 5.1 percent this year. Entering May, unemployment was at 2.9 percent, the second lowest among major Florida metros.



**650,000
SQ. FT.**

will be completed

CONSTRUCTION:

Supply additions fall to the lowest level since 2017, as inventory is projected to expand by 0.6 percent. This year's pipeline is headlined by a fully-leased, 127,000-square-foot building slated to deliver in Nokomis on Mission Valley Boulevard.



**0
BASIS POINT**

change in vacancy

VACANCY:

Robust demand from expansion-minded tenants, coupled with a strong level of pre-leasing, holds metrowide vacancy relatively steady in 2022. At 12.8 percent, availability will remain at least 300 basis points below the national average.



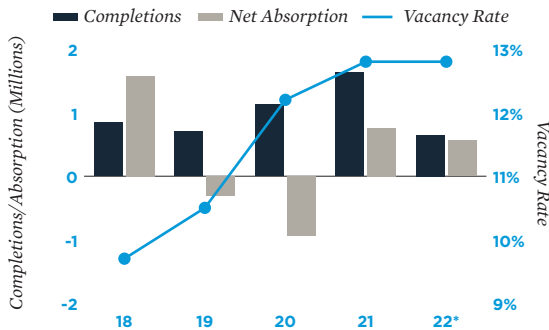
**3.8%
INCREASE**

in asking rent

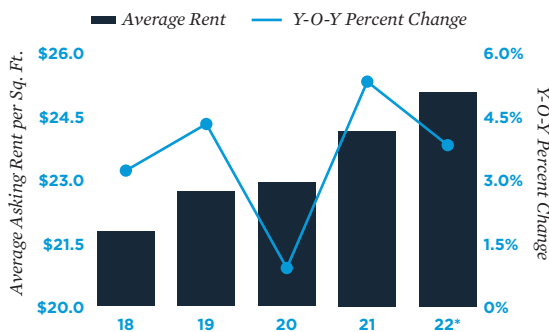
RENT:

Rent growth slows from last year's clip, when the pace exceeded 5 percent. Still, the average asking rate will reach \$25.06 per square foot, and rent growth in Tampa will outpace other Sun Belt metros like Atlanta, Dallas and Nashville in 2022.

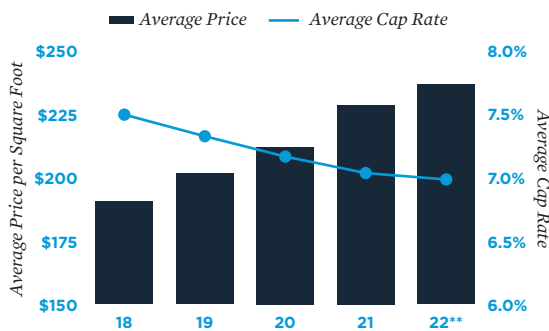
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

994,000 sq. ft. completed

- Developers expanded office inventory by 0.9 percent over the past 12 months ending in March, with Central Tampa receiving roughly 75 percent of deliveries during this span.
- The bulk of remaining 2022 completions are slated for the Sarasota-Bradenton submarket, with nearly 500,000 square feet in the pipeline.



VACANCY

10 basis point increase in vacancy Y-O-Y

- Robust demand in Downtown Tampa and Westshore aided in a 30-basis-point decline in CBD vacancy over the past four quarters. In contrast, suburban submarkets noted a 30-basis-point increase during this time frame.
- Strong medical office demand stimulated a 120-basis-point vacancy decrease in Sarasota-Bradenton to 6.8 percent.



RENT

3.7% increase in the average asking rent Y-O-Y

- Rent growth remained positive throughout the pandemic, and the average asking rate reached \$24.29 per square foot in April. Sarasota-Bradenton recorded the largest rent gain over the past year at 7.5 percent.
- Class A asking rent increased by 4.6 percent, while the mean market rate for Class B/C space rose by 2.8 percent.

Investment Highlights

- Regionally discounted entry costs and strong interest from expanding firms is heightening buyer interest for office properties in Tampa-St.Petersburg. Transaction velocity surged in recent quarters, with deal flow reaching a two-decade high over the past year ending in March. Competition for available listings is heating up as well, lifting the average sale price nearly 10 percent to \$236 per square foot, while compressing the mean cap rate to the low-7 percent span.
- Strong projections for future household formation have significantly elevated interest in medical office properties, with deal flow for these assets reaching a 20-year high over the past year. Sarasota-Bradenton has been the most liquid medical office submarket, due to its sizable 55 and older cohort. Pricing here often exceeds \$250 per square foot, with yields that average in the mid-6 percent range.
- Buyers seeking higher upside potential are targeting assets in North Hillsborough, Pinellas and Hernando counties. Entry costs here generally fall below the metro average, with yields that can rise above 8 percent. Investors seeking trophy assets are most active in Downtown Tampa and Westshore, where pricing often exceeds \$450 per square foot.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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