

MARKET REPORT

Office

Tampa-St. Petersburg Metro Area

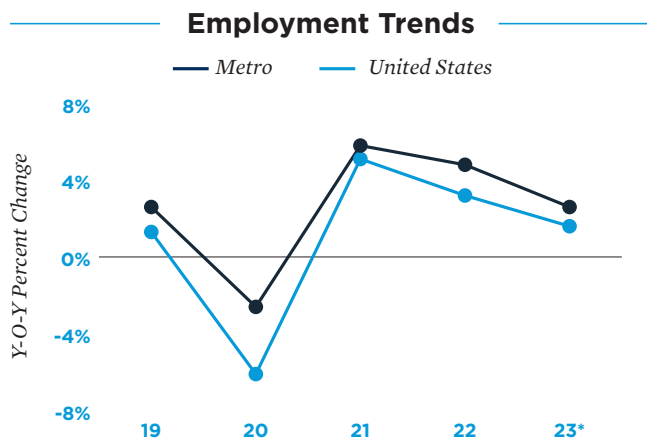
IPA INSTITUTIONAL
PROPERTY
ADVISORS

4Q/23

Tampa's Office Sector is Showcasing Stability, Underpinned by Demand for Higher-Quality Space

Vacancy holding much steadier than last year. Office demand in Tampa got off to a strong start in 2023, recording two consecutive quarters of positive net absorption after the figure totaled negative 647,000 square feet last year. As a result, metrowide vacancy was unchanged at 13.1 percent from January through June 2023, an optimistic sign of stability after the rate had surged by 110 basis points over the prior 15 months. Helping drive this momentum, newly-built space is frequently delivering with a tenant already signed on, and existing higher-quality offices are generating leasing activity. In fact, the amount of vacant Class A stock shrunk by more than 150,000 square feet marketwide during the first half. Conversely, lower-quality office space is facing more headwinds to ink lease renewals and attract new tenants. Vacant supply in the Class B/C segment rose by 236,000 square feet across the opening two quarters of 2023.

Central Tampa outperforming many other urban cores. Downtown office space has been among the most impacted segments nationwide since the onset of the global health crisis; however, this stress has been less evident in Tampa. Vacancy in the metro's core fell by 130 basis points year-over-year to 13.7 percent in June 2023. By contrast, the aggregate urban core vacancy rate spanning all major U.S. markets increased by 130 basis points during the past year. Similar to the market trend, Class A is headlining momentum here, with local vacancy in that segment plunging by 250 basis points.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2023 Outlook



**39,000
JOBS**

will be created

EMPLOYMENT:

More than two-thirds of the jobs added in Tampa year-to-date through August were in the education and health services fields. Traditional office-using industries also grew, buoying a 2.6 percent overall expansion in 2023.



**810,000
SQ. FT.**

will be completed

CONSTRUCTION:

New supply more than doubles 2022's volume, but will stand as the second-smallest annual total in four years. The greatest share of space scheduled to deliver without a tenant in tow is located in Pasco County.



**30
BASIS POINT**

increase in vacancy

VACANCY:

Tampa's vacancy rate holds much steadier, following a 90-basis-point climb in 2022. Nonetheless, after holding unchanged through the first half, the rate will rise in the latter portion of the year to 13.4 percent.



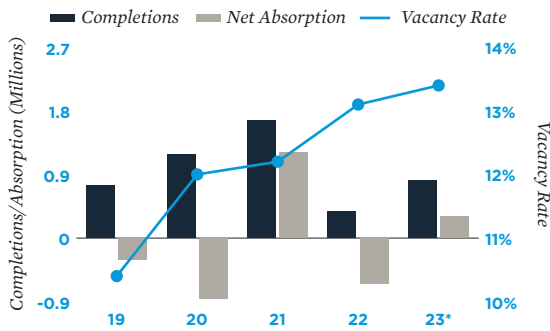
**0.9%
DECREASE**

in asking rent

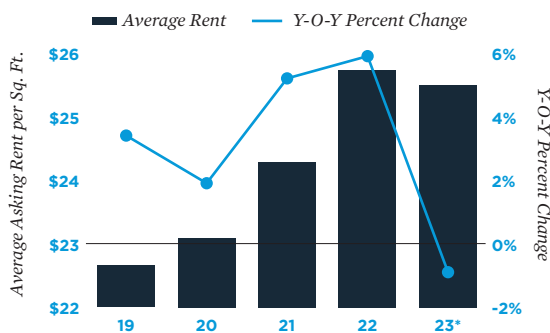
RENT:

The average asking rent plunged to a three-quarter low in March, a setback that will result in an annual decline, despite renewed momentum since that point. At year-end, the metric will settle to \$25.50 per square foot.

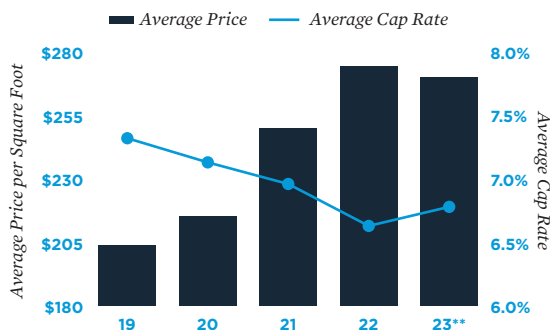
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Office

Al Pontius

Senior Vice President, Director

Tel: (415) 963-3000 | apontius@ipausa.com

For information on national office trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

429,000 sq. ft. completed

- Tampa's 0.4 percent rate of inventory growth during the 12 months ending in June was below the prior period's 0.7 percent expansion. The second half 2023 pipeline is nevertheless twice the size of the opening half slate.
- CAE Inc. is moving into 290,000 square feet of downtown space finalizing in October, taking the largest project in the 2023 pipeline off the market.



VACANCY

70 basis point increase in vacancy Y-O-Y

- The net absorption of 284,000 square feet of Class A space during this year's first half counterbalanced a 96,000-square-foot net relinquishment of Class B/C offices. This mixed activity put vacancy at 13.1 percent in June.
- Among the four largest submarkets by inventory, Central Tampa posted the lone vacancy decline, while Sarasota-Bradenton held the lowest rate.



RENT

0.9% increase in the average asking rent Y-O-Y

- Pasco and Hernando counties led market rent growth during the past year, with local average asking rates soaring 16-plus percent. Meanwhile, North Hillsborough, Pinellas and Sarasota-Bradenton logged annual declines.
- Tampa's average asking rent fell by 2.5 percent in the first quarter alone. From April through June, the figure re-elevated to \$25.17 per square foot.

Investment Highlights

- Financing hurdles amid higher interest rates and conservative underwriting continue to plague the U.S. investment market, but Tampa has remained a relatively active metro for office trading. Local deal flow during the first half of this year was down just 10 percent compared to the same six months of 2022, contrasting the equivalent 41 percent reduction nationally. The number of metrowide office transactions during the opening two quarters also eclipsed any first half tally spanning 2000-2021. Resilient buyer demand and performance metrics are keeping valuations afloat. The average sale price on trades completed during the year ending in June was \$270 per square foot, up more than 30 percent since 2019.
- Class B and C assets of an older vintage are garnering attention. Preliminary May through August 2023 data reflects that the average office traded was built prior to 1990. These types of deals are most frequent in Central Tampa and Pinellas, with cap rates in the 7 percent zone common.
- Investors searching for higher-quality assets built within the past 20 years are focused on North Hillsborough and the I-75 Corridor. The latter submarket, along with Pinellas, are popular targets for medical offices as well.

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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