

INVESTMENT FORECAST

OFFICE

Tampa-St. Petersburg Metro Area

IPA

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2020


Tight Vacancy Prompts Construction Pipeline Expansion; New Inventory Draws Additional Buyers


Skilled labor force, favorable tax rate and quality of life luring businesses. Employers moving to and expanding in Tampa Bay have created a healthy demand for office space amid a restrained delivery schedule over the past 10 years. As a result, vacancy is resting near the cyclical low, encouraging a boost in construction. During 2020, inventory additions will maintain last year's heightened pace and approximately 70 percent of the space is already pre-leased, lessening the impact on vacancy. Nonetheless, multiple buildings entering lease-up at once may temporarily nudge vacancy up and suppress rent growth in some submarkets. Heights Union is the largest development due in 2020. The project in downtown Tampa encompasses two buildings, each at 150,000 square feet with AxoGen and WeWork as major tenants. Speculative construction is also on the rise with nearly 900,000 square feet underway. The majority of space is in the prominent downtown Tampa and Westshore neighborhoods and is expected to be delivered in 2021.


Robust economy and elevated yield potential attract Tampa-St. Petersburg investors. Higher cap rates at lower entry costs than larger Florida markets are keeping a wide range of buyers focused on the metro. A surge in transactions over the past 24 months have dwindled the supply of available properties, which may slow buying activity in 2020. Institutional investors are especially active in the Westshore and downtown Tampa neighborhoods, as well as near the Carillon office park in St. Petersburg. Many are targeting Class A buildings at cap rates that typically start in the 5 percent range. Buyers searching for higher returns can find average first-year yields above 7 percent for older multi-tenant Class B/C buildings with less than 40,000 square feet throughout the metro. Vacancy for these classes rests in the single digits in the majority of submarkets and over the past 12 months these assets traded at an average of \$110 per square foot.


2020 Market Forecast

- Employment**  Employment growth climbs from last year's 2.2 percent gain as 32,100 workers are added to payrolls in 2020.

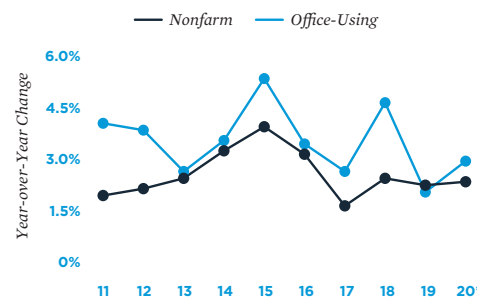
up 2.3%
- Construction**  Matching the finalization of 900,000 square feet last year, completions maintain the highest level since 2009. The city of Tampa will receive nearly 500,000 square feet.

900,000 sq. ft.
- Vacancy**  Absorption outpaces deliveries in 2020, tightening vacancy to 10.2 percent, the lowest level of the cycle.

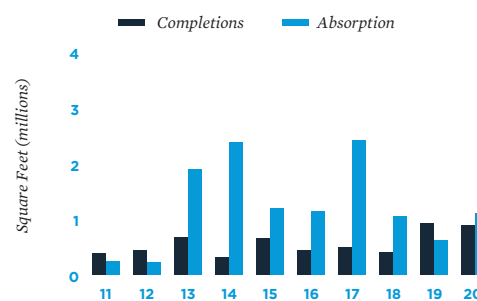
down 30 bps
- Rent**  A lack of existing available space and new speculative buildings will drive the average asking rent to \$25.26 per square foot at year end, building on last year's 4.8 percent climb.

up 4.6%
- Investment**  Medical office assets will remain the focus of many investors. During the past 12 months, buyers in the \$1 million to \$10 million price tranche paid an average of \$218 per square foot.

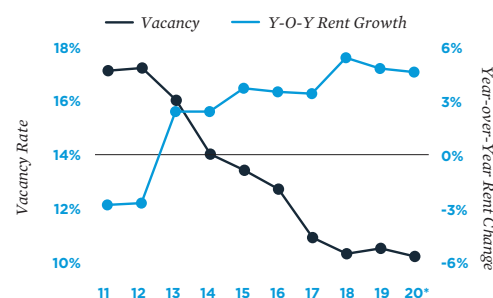
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



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

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.