

MARKET REPORT

OFFICE

Tampa-St. Petersburg Metro Area

IPA

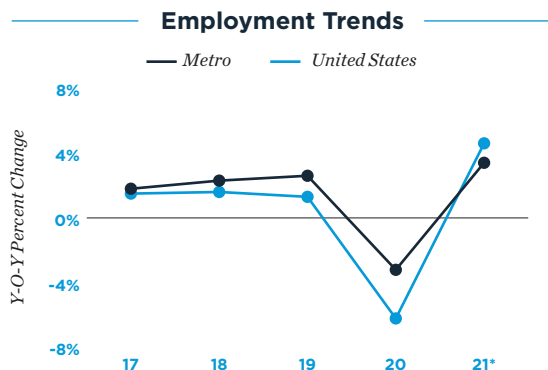
INSTITUTIONAL
PROPERTY
ADVISORS

2Q/21

Company Relocations Boost Office Demand; Speculative Construction Weighs on Performance

Tampa Bay's economy is quickly shifting to growth phase. The local economy has held up better than most U.S. markets through the pandemic. The metro is consistently maintaining population gains well above the national level. Even through the pandemic, net migration reached 26,400 people in 2020. In addition, at 4 percent, the region had one of the lowest unemployment rates among the nation's major markets in March. The expanding and skilled labor force are factors that draw numerous corporations to the metro, bringing well-paying jobs with them. So far this year, Pfizer announced plans to open a global capability hub in Tampa and the metro will soon be the headquarters for cybersecurity firm OPSWAT as well as Suzuki Marine. Business relocations and expansions will generate demand for space in the quarters ahead, supporting absorption.

Elevated deliveries pose headwinds. Despite the positive demand drivers, large speculative office towers, especially in the downtown and Westshore sections of Tampa, will challenge overall market fundamentals in 2021. The biggest tower due for completion is 1001 Water Street. The 20-story building in the Water Street Development in the city's core will offer 384,000 square feet this summer. In the Westshore neighborhood, the 136,200-square-foot Midtown One West Tower will debut soon; both buildings have sizable space available. Companies moving out of leased floor plates into the new buildings will also have an impact, pushing up metrowide vacancy this year.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook



**45,500
JOBS**

will be created

EMPLOYMENT:

Following the loss of 44,600 jobs last year that drove the unemployment rate to 4.4 percent, employment expands 3.4 percent in 2021. Positions in traditionally office-using sectors increase at an even faster pace of 4.4 percent as roughly 18,000 workers are added.



**1,620,000
SQ. FT.**

will be completed

CONSTRUCTION:

Inventory expands 1.4 percent in 2021 as deliveries rise to the highest level since 2008. The Westshore neighborhood in Tampa is scheduled to receive the largest portion of this year's completions at nearly 500,000 square feet.



**80
BASIS POINT**

increase in vacancy

VACANCY:

After a 170-basis-point jump last year, vacancy will continue to rise in 2021 as deliveries outpace net absorption. The vacancy rate reaches 12.8 percent by year end, the highest rate registered since early 2016.



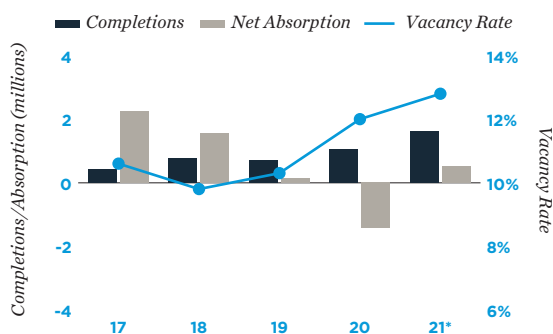
**0.6%
INCREASE**

in asking rent

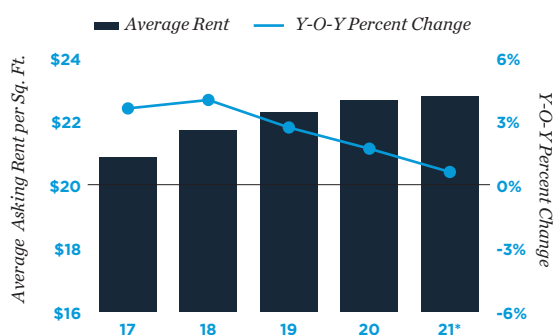
RENT:

Rising vacancy and more sublease space being marketed at lower rates will suppress rent growth this year. The average asking rent inches up to \$22.78 per square foot, building on last year's 1.7 percent climb.

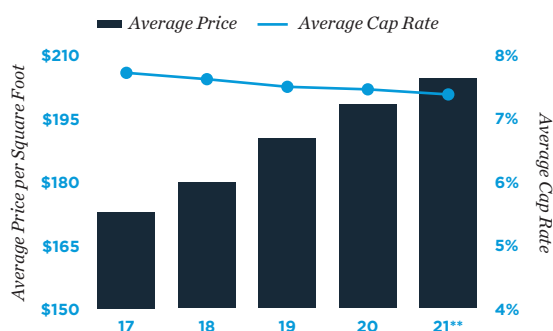
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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1Q21–12-Month Period



CONSTRUCTION

1,099,000 square feet completed

- Deliveries rose from the prior year's 866,000 square feet expanding inventory by roughly 1 percent. Builders have another 1.5 million square feet underway with deliveries extending into 2022.
- The Central Tampa submarket received the largest portion of completions over the past 12 months as 330,000 square feet was finalized.



VACANCY

230 basis point increase in vacancy Y-O-Y

- The increase in deliveries coupled with a decline in leasing activity during the health crisis pushed marketwide vacancy to 12.5 percent. In the previous year the rate fell 40 basis points.
- Vacancy in Class A properties soared 530 basis points to 16.8 percent, while the Class B/C rate rose 80 basis points to 10.4 percent.



RENT

2.5% increase in the average asking rent Y-O-Y

- Available space in the more expensive submarkets assisted in driving the average asking rent to a new high of \$22.93 per square foot.
- Class A rent posted a hike of 3.6 percent to \$29.17 per square foot, as the rate in Class B/C properties climbed 1.5 percent to \$19.86 per square foot on average.

Investment Highlights

- Trading activity picked up after a lean second quarter in 2020, though the challenges to deal flow following the onset of the health crisis dictated an 11 percent decline year over year. During this time, a wide variety of buyers focused on assets under \$10 million, nearly cutting trading volume in half to \$546 million.
- Over the past four quarters, competition for quality properties in desired locations assisted in driving the average price up 6 percent to a new high of \$204 per square foot. During this time, the mean cap rate dipped 10 basis points to 7.3 percent, the lowest level in 15 years.
- Investors searching for lower price points found opportunities in Pinellas County, particularly in the Bayside neighborhood as well as the southern portion of the county. Buildings throughout the county typically traded below the metro average.
- Medical offices were targeted by mainly local buyers in the trailing 12 months ending in March, boosting transactions 43 percent. Suburban, multi-tenant assets, with tenants that remained open during the shutdown were sought. Premium assets changed hands above \$300 per square foot with cap rates typically in the 6 percent span.

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. Note: 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: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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