

Tampa Office, Q3 2018

Tightening vacancy and rising lease rates drive new development

 Total Vacancy
11.3%

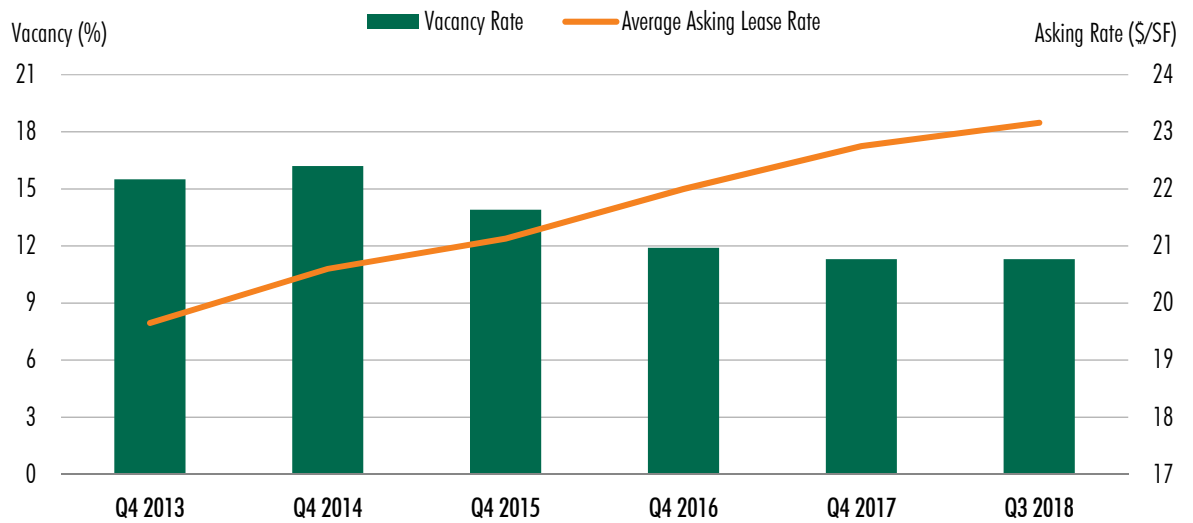
 Lease Rate
\$23.16 PSF

 Net Absorption
83,000 SF

 Completions
0 SF

*Arrows indicate change from previous year.

Figure 1: Total Vacancy -vs- Average Direct Asking Lease Rate (FSG)



Source: CBRE Research, Q3 2018.

- The average asking lease rate in Q3 2018 was \$23.16 per sq. ft.
- Total vacancy slightly decreased year-over-year, reflecting 11.3% in Q3 2018.
- MetWest Three began construction and is expected to deliver 250,000 sq. ft. in the second half of 2019.
- The Heights, a proposed 150,000 sq. ft. office building, has secured AxoGen as its anchor tenant, preleasing 75,000 sq. ft.
- The Tampa MSA's unemployment remains lower than the state and national rate.

LEASING ACTIVITY

Throughout Q3 2018, leasing activity remained healthy. Rental rates have remained steady over the two previous quarters. The average asking lease rate in the third quarter was \$23.16 per sq. ft., slightly increasing from \$23.05 per sq. ft. in Q2 2018. Submarkets with the highest average rents were Tampa CBD at \$30.09 per sq. ft., Westshore at \$28.33 per sq. ft. and St. Pete CBD at \$27.55 per sq. ft.

Submarkets reflecting the highest net absorption in Q3 2018 were Northeast Tampa (25,347), Tampa CBD (23,859), and Mid-Pinellas (23,585).

Figure 2: Market Statistics

Submarket	Total Inventory (SF)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2018 Net Absorption (SF)	2018 YTD Net Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/FSG/G/MG)
Tampa CBD	6,897,722	8.9	9.2	23,859	183,079	0	30.09
Westshore	12,669,738	7.6	9.5	(3,638)	(137,704)	250,000	28.33
SW Tampa	931,836	4.0	4.0	(8,854)	(10,063)	0	21.29
NW Tampa	5,176,370	10.1	10.4	16,943	114,258	0	18.05
NE Tampa	4,015,145	10.7	11.4	25,347	2,962	0	20.63
E Tampa	3,141,812	15.2	15.2	(1,178)	(24,804)	0	18.05
SE Tampa	423,788	12.6	12.6	2,517	(925)	0	25.65
Total I-75 Corridor	7,580,745	12.6	13.0	26,686	(22,767)	0	19.42
Overall Hillsborough	33,256,411	9.3	10.2	54,996	126,803	250,000	24.75
St Pete CBD	2,026,935	7.5	8.1	13,434	15,179	0	27.55
SE St Pete	1,394,971	17.3	17.8	(6,446)	(19,109)	0	17.33
SW St Pete	564,807	14.4	14.5	960	10,267	0	13.91
Mid-Pinellas	3,941,239	11.1	11.2	23,585	37,677	0	20.20
N Pinellas	5,076,623	17.0	17.5	(3,572)	(12,213)	0	18.32
Overall Pinellas	13,004,575	13.7	14.0	27,961	31,801	0	19.77
Total Suburban	39,363,264	10.8	11.7	50,098	(24,475)	250,000	22.03
Overall Tampa	46,260,986	10.5	11.3	82,957	158,604	250,000	23.16
Class A	19,955,833	6.9	8.0	56,261	162,458	250,000	29.28
Class B	19,227,943	14.0	14.6	27,932	44,774	0	20.61
Class C	7,077,210	11.4	11.4	(1,236)	(48,628)	0	16.12

Source: CBRE Research, Q3 2018.

Figure 3: Significant Q3 2018 Lease Transactions

Submarket	Property	Tenant	Transaction (SF)
Tampa CBD	The Heights*	AxoGen	75,000
Lakeland	Lake Parker Plaza	The Results Companies, LLC	50,654
Northeast Tampa	Netpark	Confidential	40,000

Source: CBRE Research, Q3 2018.

* Proposed building.

Figure 4: Significant Q3 2018 Sale Transactions

Submarket	Property	Buyer	Seller	Building (SF)	Sale Price (\$)
East Tampa	Sabal Business Center	Priam Capital	Fir Tree Partners	515,097	52,787,000
Northwest Tampa	Citrus Park Crossings	Empire Square Group	Ryan Companies US, Inc	75,845	18,500,000
Mid-Pinellas	Cardinal Point at Gateway	The Feil Organization	Cardinal Point Real Estate, LLC	94,000	17,150,000

Source: CBRE Research, Q3 2018.

Total vacancy in Q3 2018 was 11.3%, showing a slight increase of 20 basis points (bps) quarter-over-quarter. The submarkets with the lowest vacancy are Southwest Tampa at 4.0%, St. Pete CBD at 8.1% and Tampa CBD at 9.2%. Submarkets with the greatest year-over-year decrease in vacancy are the Tampa CBD with a 360 bps decrease, and St. Pete CBD reflecting a 120 bps decrease, respectively.

DEVELOPMENT

Q3 2018 saw MetWest III break ground on the 250,000 sq. ft. Class A building in the Westshore submarket. Prior to the third quarter, the completion of Renaissance VI added 150,000 sq. ft. of Class A office in the Northwest submarket during Q2 2018. There are currently 24 planned office developments that will add an estimated 5.5 million sq. ft. of office space to the existing 46 million sq. ft., potentially increasing the market inventory over 10%.

One of Tampa’s largest developments, Midtown Tampa has begun demolition to make way for the \$500 million, 1.8 million sq. ft. hotel-retail-office-housing development, 750,000 sq. ft. of the proposed project will be Class A office space. Combined with the much anticipated Water Street development, the total investment will approach \$3.5 billion within the City of Tampa.

INVESTMENT ACTIVITY

The Tampa office market continues to pique investors interest as they seek higher yield from secondary markets where quality office product is still available relative to top tier metros. During Q3 2018, there were 12 transactions totaling \$125.3 million or \$112.40 per sq. ft. The largest transaction of the quarter was the sale of Sabal Business Center, with a total consideration of just under \$53 million, or \$102.48 per sq. ft.

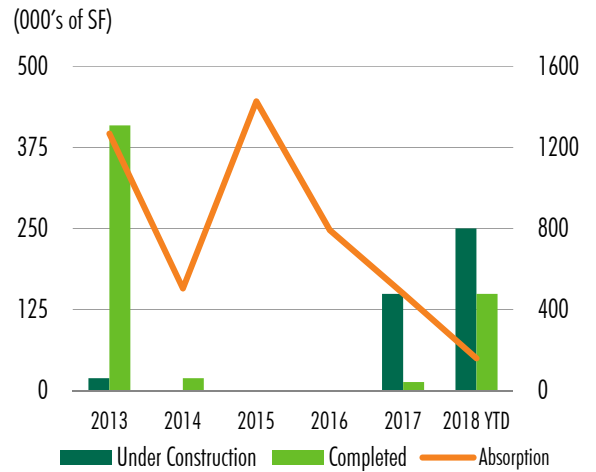
According to Real Capital Analytics (RCA) institutional investors accounted for the largest composition of investment sales year-to-date, representing 51% of investor activity. Private buyers represented 43% of investor activity while Public Listed/REIT buyers accounted for 6%, respectively.

OUTLOOK

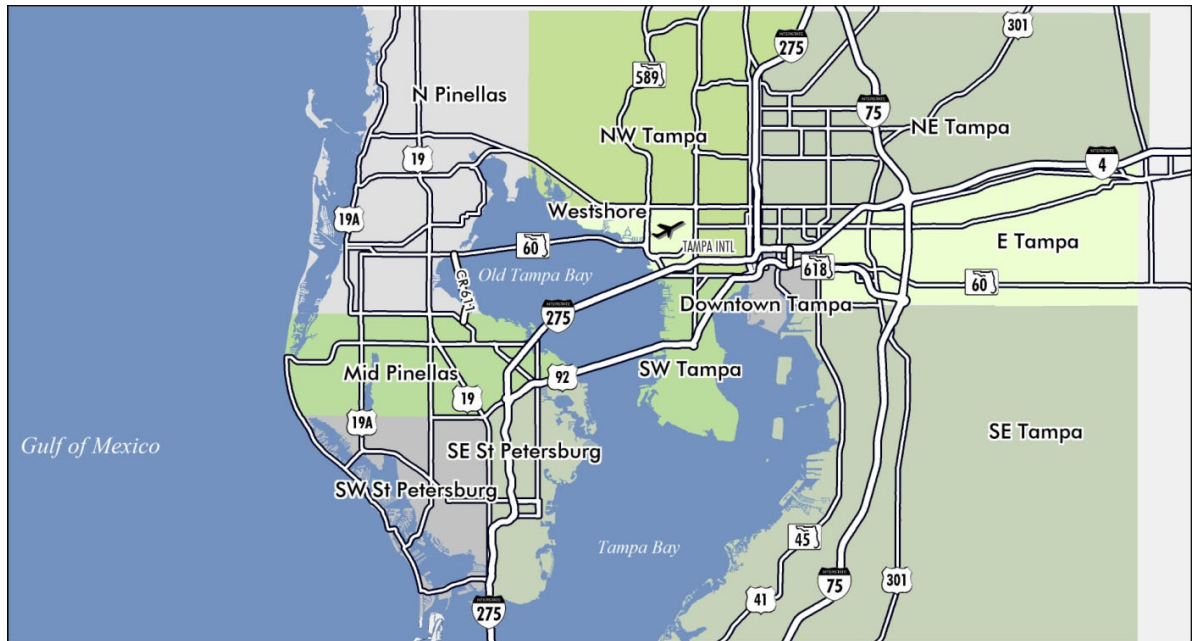
Tampa is beginning to prove that it is a profitable market for new construction due to the needs of growing companies and steadily growing rents. It is currently in the expansion phase of the market cycle, seeing new supply additions underway and on the horizon.

The Tampa MSA had the highest annual job growth compared to all other metro areas in the state in financial activities and other services. The Tampa Bay region also includes strong demographic trends, including a robust net migration, a talented labor force, and low tax burdens and office rents.

Figure 5: Under Construction and Completions -vs- Net Absorption



Source: CBRE Research, Q3 2018.



Market Coverage: Includes all competitive office buildings 10,000 sq. ft. and greater in size in Hillsborough and Pinellas counties.

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