

Tampa Office, Q4 2018

# Leasing activity spikes as vacancy continues to tighten

 Total Vacancy  
10.2%

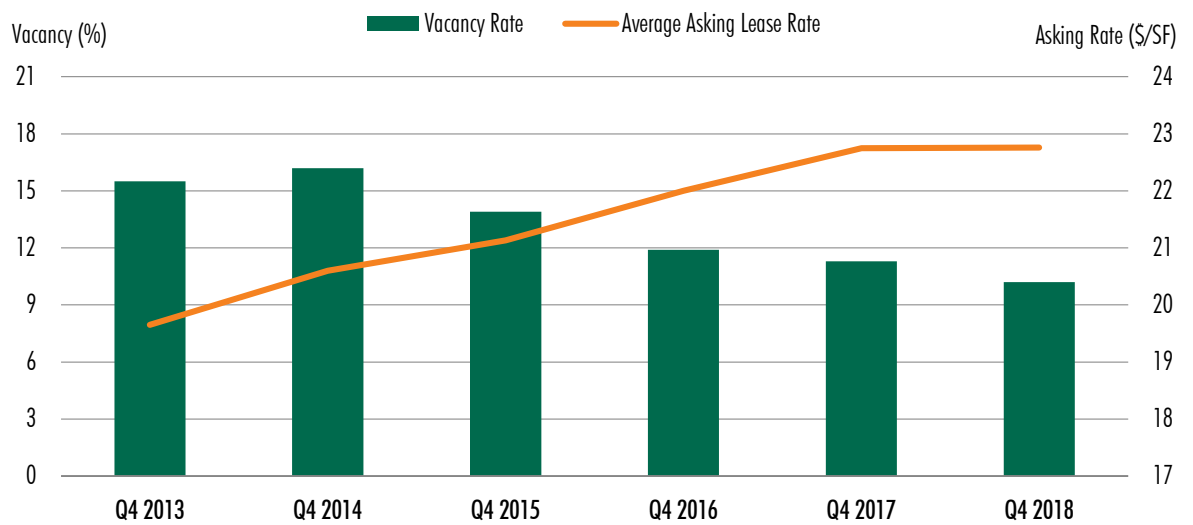
 Lease Rate  
\$22.76 PSF

 Net Absorption  
439,000 SF

 Completions  
0 SF

\*Arrows indicate change from previous year.

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



Source: CBRE Research, Q4 2018.

- The average asking lease rate in Q4 2018 was \$22.76 per sq. ft.
- Total vacancy slightly decreased year-over-year, reflecting 10.2% in Q4 2018.
- Q4 2018 saw the highest net absorption since Q2 2013, reflecting 439,289 sq. ft.
- Throughout 2018, the suburbs saw \$532 million in transaction volume, while the CBD saw \$153 million.
- The Tampa MSA's unemployment remains lower than the state and national rate.

## LEASING ACTIVITY

In Q4 2018, leasing activity was strong, which is exhibited in the vacancy rate and absorption. Total vacancy in Q4 2018 was 10.2%, a decrease of 110 basis points (bps) year-over-year. The submarkets with the lowest vacancy are Southwest Tampa at 3.6%, St. Pete CBD at 7.0% and Tampa CBD at 7.4%. Submarkets with the greatest year-over-year decrease in vacancy are the Tampa CBD with a 450 bps decrease, and St. Pete CBD reflecting a 180 bps decrease, respectively.

Submarkets reflecting the highest net absorption in Q4 2018 were Tampa CBD (125,720), Mid-Pinellas (87,955), and Westshore (80,165).

**Figure 2: Market Statistics**

Submarket	Total Inventory (SF)	Direct Vacancy (%)	Total Vacancy (%)	Q4 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	7.0	7.4	125,720	308,799	0	28.04
Westshore	12,669,738	6.9	8.3	80,165	(57,539)	250,000	28.33
SW Tampa	931,836	3.6	3.6	3,228	(6,835)	0	20.97
NW Tampa	5,176,370	9.2	9.6	44,068	158,326	0	18.46
NE Tampa	4,015,145	10.4	11.1	9,407	12,369	0	20.50
E Tampa	3,141,812	14.4	14.4	25,806	1,002	0	18.11
SE Tampa	423,788	12.6	12.6	0	(925)	0	25.65
<b>Total I-75 Corridor</b>	<b>7,580,745</b>	<b>12.2</b>	<b>12.5</b>	<b>35,213</b>	<b>12,446</b>	<b>0</b>	<b>19.42</b>
<b>Overall Hillsborough</b>	<b>33,256,411</b>	<b>8.4</b>	<b>9.1</b>	<b>288,394</b>	<b>415,197</b>	<b>250,000</b>	<b>24.11</b>
St Pete CBD	2,026,935	6.4	7.0	21,910	37,089	0	29.37
SE St Pete	1,394,971	16.2	16.3	21,242	2,133	0	17.35
SW St Pete	564,807	15.5	15.6	(6,394)	3,873	0	14.63
Mid-Pinellas	3,941,239	8.9	8.9	87,955	125,632	0	19.79
N Pinellas	5,076,623	16.5	17.0	26,182	13,696	0	18.49
<b>Overall Pinellas</b>	<b>13,004,575</b>	<b>12.5</b>	<b>12.9</b>	<b>150,895</b>	<b>182,696</b>	<b>0</b>	<b>19.89</b>
<b>Total Suburban</b>	<b>39,363,264</b>	<b>10.0</b>	<b>10.7</b>	<b>313,569</b>	<b>289,094</b>	<b>250,000</b>	<b>21.99</b>
<b>Overall Tampa</b>	<b>46,260,986</b>	<b>9.6</b>	<b>10.2</b>	<b>439,289</b>	<b>597,893</b>	<b>250,000</b>	<b>22.76</b>
Class A	19,955,833	6.1	7.1	185,524	347,982	250,000	28.55
Class B	19,227,943	12.6	13.1	226,402	271,176	0	20.63
Class C	7,077,210	11.0	11.0	27,363	(21,265)	0	16.02

Source: CBRE Research, Q4 2018.

**Figure 3: Significant Q4 2018 Lease Transactions**

Submarket	Property	Tenant	Transaction (SF)
Westshore	Corporate Center II	Baldwin Krystyn Sherman Partners	61,598
Westshore	Pavilion at Tampa Bay Park	AT&T	54,988
Tampa CBD	SunTrust Financial Centre	Baker McKenzie	35,139

Source: CBRE Research, Q4 2018.

**Figure 4: Significant Q4 2018 Sale Transactions**

Submarket	Property	Buyer	Seller	Building (SF)	Sale Price (\$)
Tampa CBD	Tampa City Center	Banyan Street Capital	The Shidler Group	757,425	110,000,000
St Pete CBD	Tampa Bay Times	Lincoln Property Company	Denholtz Associates	239,585	39,350,000
NE Tampa	Highwoods Preserve I	Strategic Office Partners	Highwoods Properties	198,750	37,500,000

Source: CBRE Research, Q4 2018.

Rental rates have remained steady over the two previous quarters, as availability tightened. The average asking lease rate in Q4 2018 was \$22.76 per sq. ft., slightly up from \$22.75 per sq. ft. in Q4 2017. Submarkets with the highest average rents were St Pete CBD at \$29.37 per sq. ft., Westshore at \$28.33 per sq. ft. and Tampa CBD at \$28.04 per sq. ft.

**DEVELOPMENT**

Throughout 2018, there was one building completion in the Northwest submarket. Renaissance VI added 150,000 sq. ft. of Class A office space during Q2 2018. During Q4 2018, there weren't any developments that broke ground, however, MetWest III continues to show progress on the 250,000 sq. ft. Class A building that broke ground in the Westshore submarket during the previous quarter. There are currently 24 planned office developments that could 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 completed 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 Q4 2018, there were 9 transactions totaling \$257 million which averages \$178.25 per sq. ft. The largest transaction of the quarter was the sale of Tamp City Center, with a total consideration of \$110 million, or \$145.23 per sq. ft.

According to Real Capital Analytics (RCA) institutional investors accounted for the largest composition of investment sales year-to-date, representing 53% of investor activity. Private buyers represented 43% of investor activity while Public Listed/REIT buyers accounted for 4%.

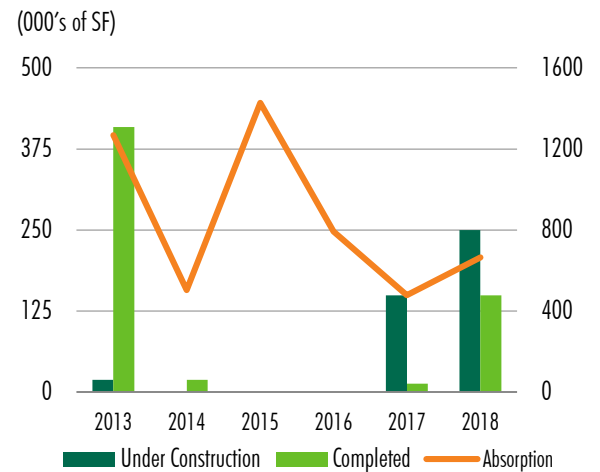
Throughout 2018, private sellers accounted for the largest composition of sales, representing 51% of investor activity. Institutional sellers represented 37% of seller activity while users accounted for 5%, respectively.

**OUTLOOK**

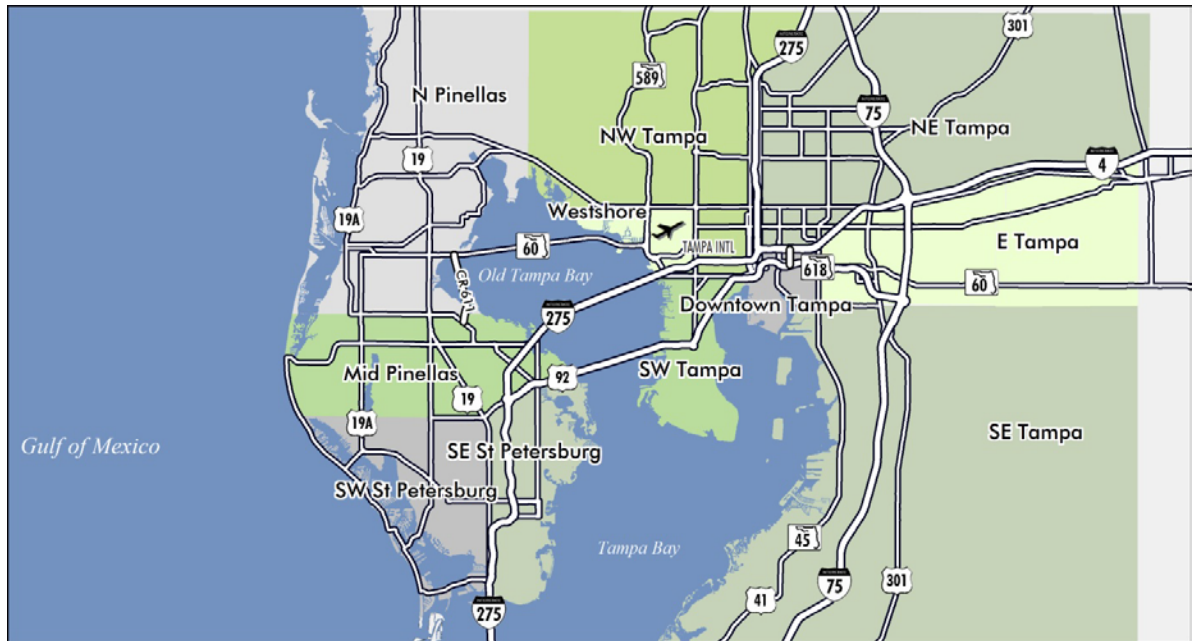
Tampa is beginning to prove that it is a profitable market for new construction due to the needs of growing companies and steadily growing rents. It is currently in the expansion phase of the market cycle, seeing new supply additions underway and on the horizon.

The Tampa MSA had the highest annual job growth compared to all other metro areas in the state in financial activities and other services. Continued absorption of office space in Tampa bodes well for existing landlords and new investors, particularly because sale prices remain well below replacement costs.

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



Source: CBRE Research, Q4 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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