Performance of Tampa CBD and Westshore highlights appetite for premium office space

▲ 18.0%	▲ -75,346	▼ 0	▼ 0	▲ $31.01
Vacancy Rate	SF Net Absorption	SF Under Construction	SF Deliveries	Full-Service / Lease Rate

Note: Arrows indicate change from previous year.

OVERVIEW

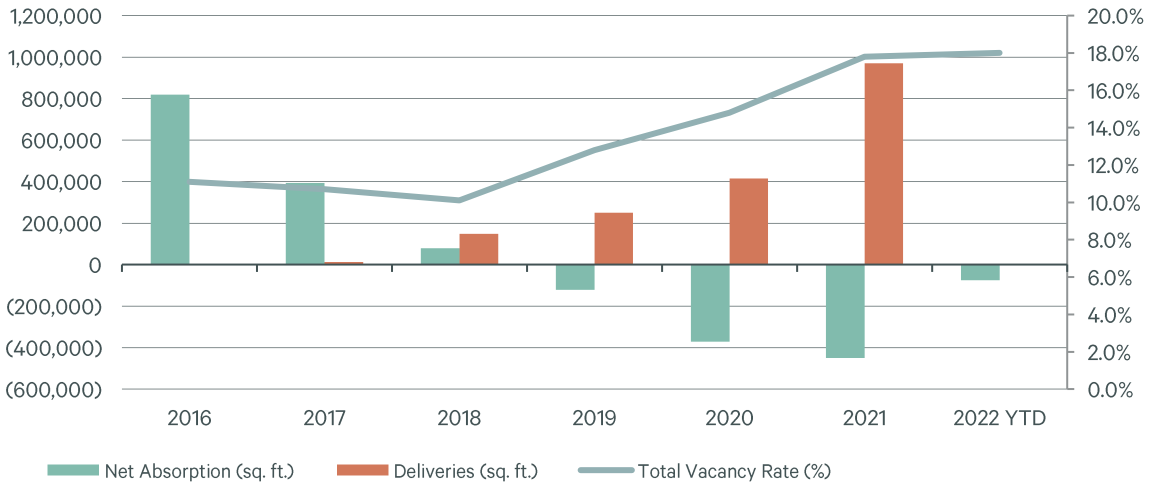
– Strong performance of newly delivered product in Tampa CBD and Westshore submarkets has affirmed consumer demand for Class A office space as developers weigh the next phases of development.

– The top five largest sublease additions in the first quarter may have accounted for 219,000 square feet of negative sublease absorption but *direct* absorption came in at a positive 40,519 square feet.

– The significant rent growth observed in 2021 continued its upward trajectory through the first three months of the year, posting a 10.5% year-over-year growth rate.

As firms re-align their real estate strategies and begin or continue return to work initiatives, class A development continues to pique the interest of both new to market and existing firms. The robust demand for top of market space in Tampa's more urban submarkets was exemplified by the 215,000 square feet of total class A net absorption that was recorded between Tampa CBD, St. Pete CBD and Westshore this quarter. Imminent new construction in these same areas would bring another 1 – 1.5 million square feet to the market, but it will likely be 18-36 months before they could open their doors.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

As the first quarter of the year closes, appetite for office space in Tampa remains palpable. Another round of strong leasing activity materialized with firms like Wipro, Maxim Healthcare, and OPSWAT committing to a combined 212,000 square feet of space. Active tenant requirements totaling 2.25 million square feet also demonstrate that the pipeline is far from dry, with 60% of those requirements concentrated on Tampa CBD and Westshore submarkets. A trifecta of robust demand, dwindling 1st generation space and an emptied construction pipeline might create a competitive environment in which firms with immediate needs turn their attention to other options in the market – including high quality sublease space or availability inside more vintage product.

VACANCY

Rising vacancy over the past two years, mostly driven by the sublease market, received some much-needed relief this quarter, with direct vacancy falling for the first time since Q2 2020. Total vacancy, on the other hand, increased by 20 basis points in the first three months of the new year as runaway sublease additions continued. These additions disproportionately impacted the Mid Pinellas and Northeast Tampa submarkets, pushing vacancy rates beyond 20%.

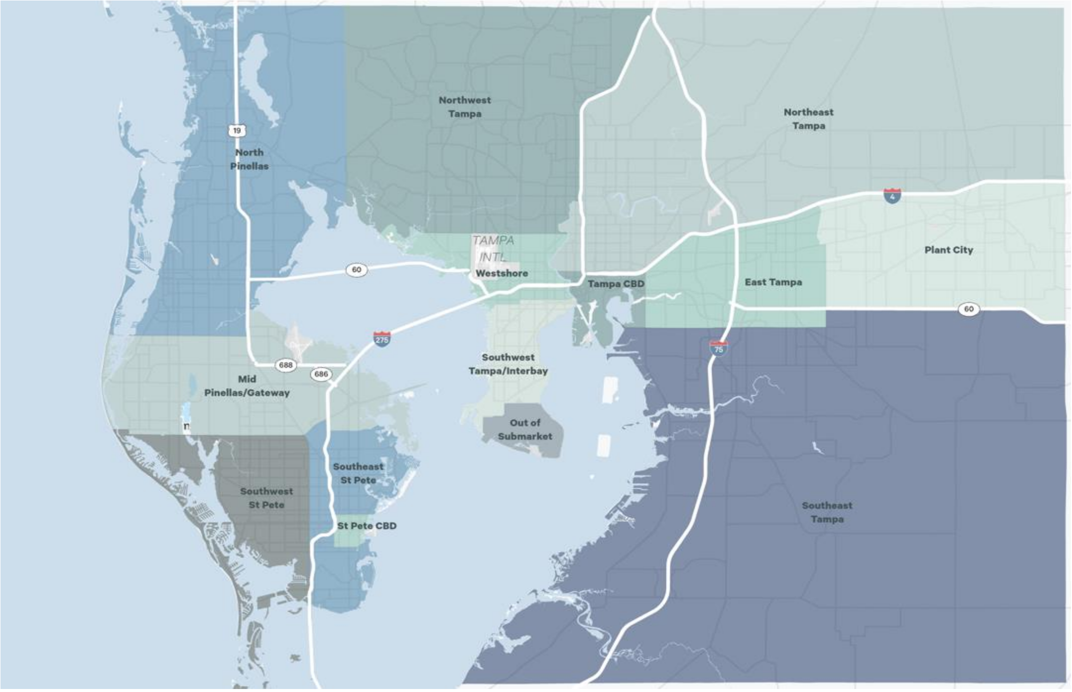
PRICING

The upswing in average asking rents puts them up 10.5% year-over-year, but perhaps more impactful is that over 50 buildings across the market increased rates over the last 90 days. That represents 10% of the entire market pushing rents in a single quarter. In Westshore, top of market class A assets are now asking rates that rival what pricing on new construction was less than a year ago, which will only bolster the rents that will be assigned to the next round of development.

FIGURE 2: Statistical Snapshot Q1 2022

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q1 2022 Net Absorption (Sq. Ft.)	2022 Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/SF/FSG/G/MG)
CBD	8,899,359	11.9%	13.2%	112,862	112,862	0	$40.05
Tampa CBD	6,964,452	14.2%	15.5%	88,350	88,350	0	$41.32
St Pete CBD	1,934,907	3.5%	4.8%	24,512	24,512	0	$32.76
Hillsborough Suburbs	26,784,309	15.1%	19.4%	66,120	66,120	0	$30.51
Westshore	13,313,025	14.5%	18.7%	71,610	71,610	0	$35.43
Northwest Tampa	4,343,750	12.0%	21.6%	4,763	4,763	0	$23.66
Southwest Tampa	603,971	3.4%	3.8%	8,512	8,512	0	$22.79
Northeast Tampa	4,685,942	17.5%	20.6%	14,147	14,147	0	$25.98
East Tampa	3,469,568	21.8%	22.3%	(32,912)	(32,912)	0	$24.51
Southeast Tampa	368,053	0.3%	0.3%	0	0	0	$24.00
Pinellas Suburbs	8,444,692	17.0%	18.7%	(254,328)	(254,328)	0	$23.72
North Pinellas	3,348,039	12.5%	12.8%	(738)	(738)	0	$22.52
Mid-Pinellas/Gateway	4,844,694	20.4%	23.2%	(251,560)	(251,560)	0	$24.56
Southwest St Pete	172,857	4.3%	4.3%	(2,030)	(2,030)	0	$16.82
Southeast St Pete	79,102	1.7%	1.7%	0	0	0	N/A
Suburban Total	35,229,001	15.6%	19.2%	(188,208)	(188,208)	0	$28.81
Tampa Total	44,128,360	14.8%	18.0%	(75,346)	(75,346)	0	$31.01
Class A	23,551,420	15.7%	19.4%	95,035	95,035	0	$35.21
Class B	20,576,940	13.9%	16.4%	(170,381)	(170,381)	0	$24.09

Market Area Overview



ECONOMIC OUTLOOK

Sentiment has taken a turn for the worse during the first quarter with Russia's invasion of Ukraine magnifying existing economic concerns. Specifically, the exclusion of Russian oil & gas from global markets is pushing up gasoline prices for U.S. consumers already rattled by inflation. American consumers are more sensitive to energy prices shifts than those in other OECD countries. Energy prices will likely remain heightened throughout this year, which will increase our inflation forecast to over 6% for 2022.

The prospects of weaker global growth—especially in Germany and China—and rising interest rates are causing some alarm. Bond markets are pricing in rate hikes through 2023 with a terminal Fed Funds Rate of 3% to 3.5%. On the upside, consumer demand should remain heightened this year driven by excess savings, especially among more affluent households, and a very strong labor market. This should translate into another year of above-trend annual growth, at 2.4%. It is possible that these tailwinds will fade quicker than the downside risks and weaker economic growth should be expected next year. The beginnings of an inverted yield curve are hinting at a recession in 2023. This is not our base case, and there is plenty of momentum left in the U.S. economy, but medium-term risks are rising, with an increasingly hawkish Fed. being the main cause for concern.

Survey Criteria: Includes all competitive Class A and B office buildings 10,000 sq. ft. and greater in size in Hillsborough and Pinellas Counties. Excludes: owner-occupied, government and medical buildings.

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