Upcoming economic clarity will only boost Tampa's office market

▲ 20.1%	▼ 48,818	▼ 176,389	▶ 0	▲ $31.21
Vacancy Rate	SF Q3 Net Absorption	SF Under Construction	SF Q3 Deliveries	Full-Service / Lease Rate

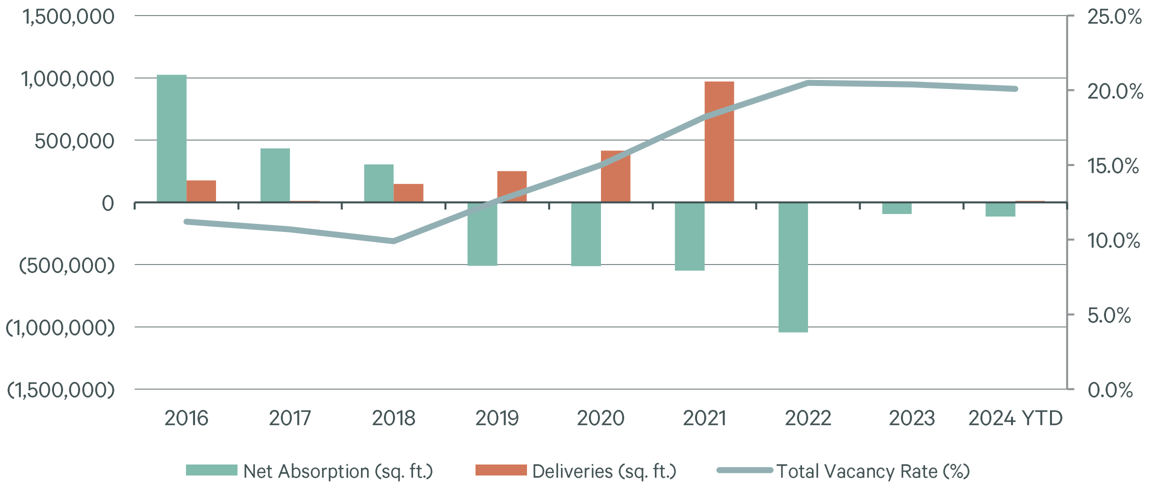
Note: Arrows indicate change from previous year.

OVERVIEW

- Total vacancy dropped for the first time this year, down 10 bps to 20.1%. Direct vacancy increased to 15.7% as multiple sublease listings expired and converted to direct listings.
- Midtown East remains the only significant office project under construction but clarity around the timing of St Pete CBD's "Halcyon at The Central" now puts the start of that vertical construction around mid-2025.
- Average asking rents have seen little movement so far this year, putting the 12 month increase at just 1.6%.

National headlines have been dominated by the challenges that office markets have faced across the U.S. while Tampa has shown strong resiliency. Direct vacancy rates are up just 60 basis points over the past three years, leasing velocity has met or beaten pre-pandemic averages for all but one quarter since 2021, and our latest round of new construction is 95% leased. Both interest rate and presidential election clarity will come before the end of the year and could put Tampa on excellent footing to see additional momentum in 2025. We won't have the same level of 1st generation availabilities as we saw in 2021/2022, but existing landlords are positioned to benefit from both in-market and new-to-market tenant requirements.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

Modest positive absorption of 48,818 square feet this quarter was primarily driven by sublease absorption, although natural lease expirations converted some of these spaces into direct vacancies. This brings the year-to-date total to -115,124 square feet. Class A product has been the major driver of the positive momentum, recording 131,962 square feet of occupancy gains so far this year and 181,740 square feet last year.

VACANCY

Vacancy has remained relatively steady at 20.1%. Despite minimal absorption, the vacancy rate has also been helped by the removal of 985,000 square feet of office space from inventory since Q4 2022 as buildings were sold to owner-users, acquired by the Department of Transportation for infrastructure projects, or slated for redevelopment into multifamily or industrial uses.

Additions to inventory will come via the planned 2025 delivery of Midtown East, but Tampa's construction pipeline remains one of the thinnest of U.S. markets. Other potential projects on the horizon include Gasworx in Ybor, which aims to break ground by the end of 2024, and The Halcyon in Downtown St. Pete, with vertical development expected to begin in mid-2025—likely aligning with the completion of the first phase of the new Hines-Rays development in the same corridor.

ASKING RENTS

Average asking rents have risen just 1.6% year over year, a sharp contrast to the 7 - 10% growth seen in 2021, when new construction pushed market rents higher. With timelines for the "most likely to be built" office projects now pushed out into late 2026 and beyond, there won't be much in the way of new construction asking rents for existing landlords to point to beyond Midtown East in Westshore.

FIGURE 2: Statistical Snapshot Q3 2024

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2024 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/SF/FSG)
CBD	8,843,535	12.2%	14.1%	(12,352)	5,138	44,434	$41.13
Tampa CBD	6,928,628	12.7%	14.5%	(7,003)	12,082	0	$42.29
St Pete CBD	1,914,907	10.5%	12.6%	(5,349)	(6,944)	44,434	$37.33
Hillsborough Suburbs	26,213,834	16.3%	22.3%	49,538	(8,809)	131,955	$30.89
Westshore	13,075,068	14.1%	17.6%	31,485	(52,038)	131,955	$35.83
Northwest Tampa	4,365,114	12.5%	28.4%	47,096	196,192	0	$27.64
Southwest Tampa	607,439	9.2%	9.2%	(11,059)	(18,368)	0	$42.61
Northeast Tampa	4,735,217	25.8%	31.9%	7,732	(57,887)	0	$24.84
East Tampa	3,062,943	19.2%	23.9%	(25,716)	(76,708)	0	$25.71
Southeast Tampa	368,053	1.3%	1.3%	0	0	0	N/A
Pinellas Suburbs	8,622,867	17.8%	19.8%	11,632	(111,453)	0	$25.33
North Pinellas	3,178,984	14.3%	18.5%	8,914	(145,741)	0	$23.69
Mid-Pinellas/Gateway	5,191,924	20.6%	21.3%	3,783	24,577	0	$26.29
Southwest St Pete	172,857	2.8%	2.8%	(1,065)	(793)	0	$15.41
Southeast St Pete	79,102	10.2%	10.2%	0	10,504	0	N/A
Suburban Total	34,836,701	16.6%	21.7%	61,170	(120,262)	131,955	$29.38
Tampa Total	43,680,236	15.7%	20.1%	48,818	(115,124)	176,389	$31.21
Class A	23,535,449	15.8%	20.5%	28,862	131,962	176,389	$34.83
Class B	20,144,787	15.7%	19.7%	19,956	(247,086)	0	$26.31

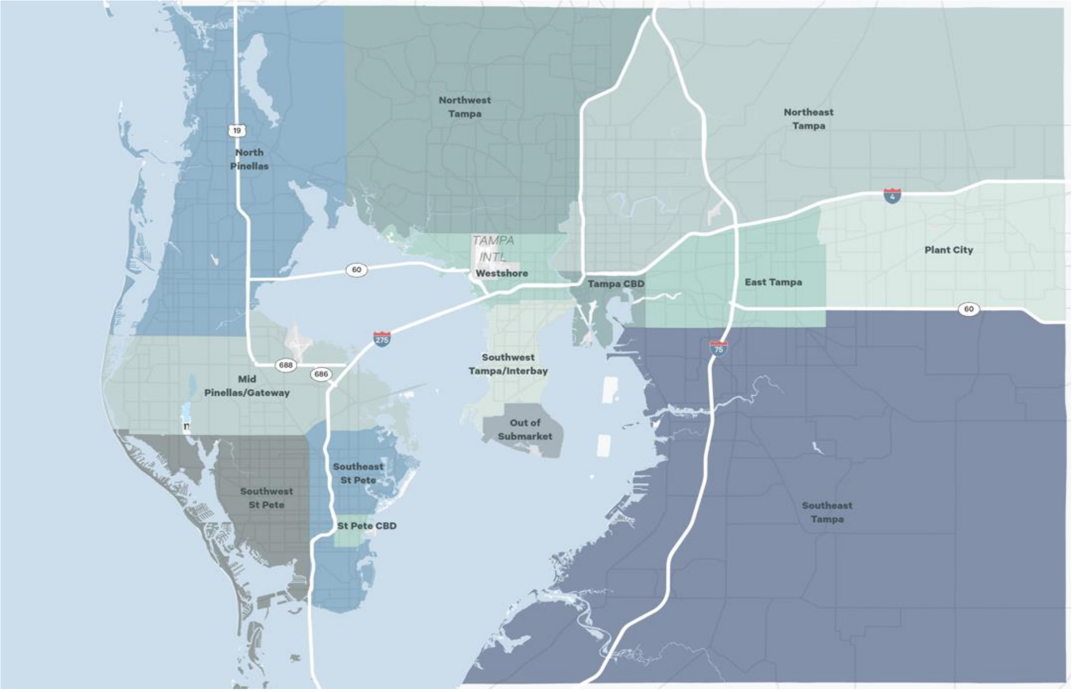
FIGURE 3: Class A Statistical Snapshot Q3 2024

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2024 Direct Net Absorption (Sq. Ft.)	Q3 2024 Sublet Net Absorption (Sq. Ft.)	Q3 2024 Total Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Avg. Asking Rate ($/SF/FSG)
Tampa CBD	5,118,630	14.1%	16.5%	(1,027)	10,772	9,745	21,345	$44.49
St Pete CBD	1,235,047	14.3%	17.5%	7,198	(17,813)	(10,615)	(10,735)	$37.46
Westshore	7,936,122	12.3%	15.2%	103,621	(20,203)	83,418	157,232	$40.43
Northwest Tampa	1,274,614	16.9%	40.3%	(137,009)	142,881	5,872	34,571	$33.45
Southwest Tampa	83,511	0.0%	0.0%	0	0	0	0	$52.00
Northeast Tampa	2,142,532	27.4%	40.3%	(32,705)	(11,263)	(43,968)	(51,667)	$28.54
East Tampa	1,375,720	13.6%	21.6%	4,180	0	4,180	(4,516)	$27.30
Southeast Tampa	119,729	0.0%	0.0%	0	0	0	0	N/A
North Pinellas	1,397,129	17.5%	17.5%	4,917	0	4,917	(37,570)	$25.13
Mid-Pin./Gateway	2,852,415	21.3%	22.4%	(29,551)	4,864	(24,687)	23,302	$27.36
Southwest St Pete	-	-	-	-	-	-	-	-
Southeast St Pete	-	-	-	-	-	-	-	-
Class A Total	23,535,449	15.8%	20.5%	(80,376)	109,238	28,862	131,962	$34.83

FIGURE 4: Class B Statistical Snapshot Q3 2024

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2024 Direct Net Absorption (Sq. Ft.)	Q3 2024 Sublet Net Absorption (Sq. Ft.)	Q3 2024 Total Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Avg. Asking Rate ($/SF/FSG)
Tampa CBD	1,809,998	8.7%	8.8%	(14,963)	(1,785)	(16,748)	(9,263)	$34.98
St Pete CBD	679,860	3.7%	3.7%	5,266	0	5,266	3,791	$36.50
Westshore	5,138,946	17.0%	21.4%	(48,729)	(3,204)	(51,933)	(209,270)	$30.28
Northwest Tampa	3,090,500	10.7%	23.4%	42,411	(1,187)	41,224	161,621	$24.15
Southwest Tampa	523,928	10.7%	10.7%	(11,059)	0	(11,059)	(18,368)	$29.93
Northeast Tampa	2,592,685	24.4%	24.9%	49,083	2,617	51,700	(6,220)	$21.99
East Tampa	1,687,223	23.7%	25.7%	(42,891)	12,995	(29,896)	(72,192)	$24.11
Southeast Tampa	248,324	1.9%	1.9%	0	0	0	0	N/A
North Pinellas	1,781,855	11.8%	19.2%	13,769	(9,772)	3,997	(108,171)	$21.41
Mid-Pin./Gateway	2,339,509	19.6%	19.9%	(45,083)	73,553	28,470	1,275	$23.89
Southwest St Pete	172,857	2.8%	2.8%	(1,065)	0	(1,065)	(793)	$15.41
Southeast St Pete	79,102	10.2%	10.2%	0	0	0	10,504	N/A
Class B Total	20,144,787	15.7%	19.7%	(53,261)	73,217	19,956	(247,086)	$26.31

Market Area Overview



ECONOMIC OUTLOOK

Soft landings are rare, but recent data suggest that this outcome for the economy is increasingly likely. Business investment is holding its own and consumer distress is confined to a few vulnerable segments. Discretionary spending, such as travel, is generally on a par with last year although many signs indicate the post-pandemic spending boom is over. The key threat to consumption is a rollover in the labor market although the recent bump in unemployment appears benign, mainly driven by an increase in participation. A reason for concern is the decline in the share of private industries that are creating jobs. On the other hand companies are not shedding workers at a particularly high rate. The labor market has slowed, but it is not slumping.

While many are focused on November's election the most consequential policy lever has already been pulled via the FOMC's 50 bps September cut and signaling another 50 by year-end. This easing of financial conditions combined with continued economic growth should support modest hiring and consumption that precedes tighter commercial space market fundamentals. This backdrop will breathe fresh wind into real estate transactions markets and coincides with other signals that cap rates have peaked and may be starting to fall in some sectors.

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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