Market shows continued signs of improvement amid strong sublease absorption

20.4%	56,764	189,440	0	$30.07
Vacancy Rate	SF Net Absorption	SF Under Construction	SF Deliveries	Full-Service / Lease Rate

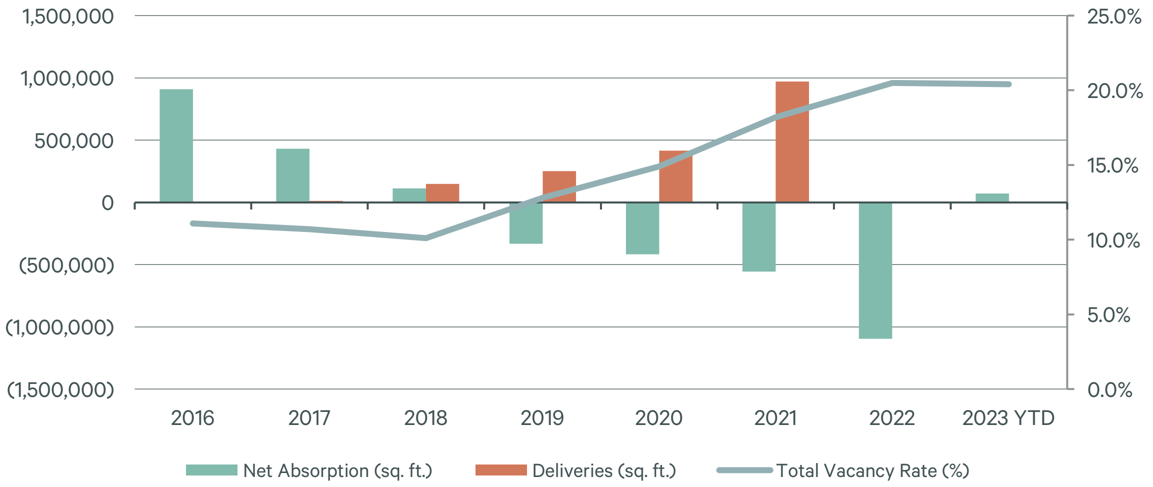
Note: Arrows indicate change from previous year.

OVERVIEW

- New office projects from Tampa's latest construction cycle welcomed another round of major move-in's. These assets posted strong absorption for the second consecutive quarter and contributed 291,000 square feet to year to date absorption for the market.
- A reversion in the trend of sublease additions has aided the health of the overall office market as 116,000 square feet of sublease space were absorbed over the course of Q2 2023.
- Average asking rates remained stable this quarter, rising a mere 1.2% year over year. Natural rent growth across the market has continued to be met with downward pressure from availability within new construction diminishing to just a few spaces.

As the first half of 2023 ends, fundamentals in the office market continue to show greater stability over levels observed throughout 2022. The trend towards normalization in the sublease market, which began taking shape in the final quarter of last year, played a pivotal role over the last 90 days. 116,000 square feet of positive sublease absorption came as firms including Mad Mobile, Elite Insurance Partners and Abacode took occupancy of class A sublet opportunities. This fueled overall absorption levels and marked the first instance of two consecutive quarters of positive total absorption since early 2018.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

Demand was spurred in Westshore over the past three months after a quiet start to the year. Across the submarket 225,000 square feet of space were absorbed, split evenly between sublease and direct opportunities. The figure represents the first time since Q1 2016 that any submarket has topped 200,000 square feet of absorption in a single quarter. Another notable figure is the Tampa CBD's lackluster absorption number which forayed into negative territory after a potent first quarter. The dip comes as a result of a couple of isolated vacant sublease availabilities and Mad Mobile's relocation to Westshore. Pending move-in's and leasing activity within the legal industry should help revert this trend in the coming quarters.

VACANCY

Headline vacancy saw marginal improvement since the first quarter - dropping 10bps. As previously mentioned, it was the sublease market that aided this minor improvement and helped offset the largest vacancy of the quarter as Coca-Cola brought their property in East Tampa to market and downsized into a single floor at Highwoods Preserve I. As a result of this move-out, direct vacancy increased by 20bps quarter over quarter and remained within the range it has been hovering at for the better part of the last year. A slowdown in the pace of sublease additions and nearly 200,000 square feet of move-in's slated to take place in the second half of the year should alleviate pressure and drive down both direct and headline vacancy levels.

PRICING

Overall average asking rents continued to stabilize during Q2 2023, growing just 1.2% year over year, as top of market space continued to diminish at projects delivered since 2020. However, the trajectory continues to remain positive as average asking rates increased in 9 of the 12 tracked submarkets this quarter.

FIGURE 2: Statistical Snapshot Q2 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q2 2023 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/SF/FSG)
CBD	8,890,050	12.4%	14.3%	(54,721)	94,479	57,485	$38.04
Tampa CBD	6,955,143	13.8%	15.3%	(63,479)	74,460	12,485	$38.72
St Pete CBD	1,934,907	7.1%	10.6%	8,758	20,019	45,000	$34.80
Hillsborough Suburbs	26,941,762	15.9%	23.0%	163,143	3,826	131,955	$29.74
Westshore	13,313,025	13.9%	17.1%	225,458	205,089	131,955	$34.27
Northwest Tampa	4,366,203	13.0%	34.6%	(6,501)	11,881	0	$23.86
Southwest Tampa	603,971	1.1%	1.1%	(580)	4,960	0	$26.10
Northeast Tampa	4,820,942	21.0%	27.3%	(55,535)	(76,192)	0	$26.38
East Tampa	3,469,568	24.3%	30.8%	301	(141,912)	0	$25.26
Southeast Tampa	368,053	2.9%	2.9%	0	0	0	$26.00
Pinellas Suburbs	8,734,093	17.8%	18.8%	(51,658)	(27,093)	0	$24.71
North Pinellas	3,247,462	14.6%	14.6%	(23,099)	6,700	0	$23.59
Mid-Pinellas/Gateway	5,234,672	20.2%	21.8%	(32,662)	(41,184)	0	$25.34
Southwest St Pete	172,857	4.1%	4.1%	4,103	7,391	0	$22.08
Southeast St Pete	79,102	23.4%	23.4%	0	0	0	$30.00
Suburban Total	35,675,855	16.4%	21.9%	111,485	(23,267)	131,955	$28.43
Tampa Total	44,565,905	15.6%	20.4%	56,764	71,212	189,440	$30.07
Class A	23,942,089	15.8%	21.7%	210,456	136,867	176,955	$33.65
Class B	20,623,816	15.4%	18.9%	(153,692)	(65,655)	12,485	$25.33

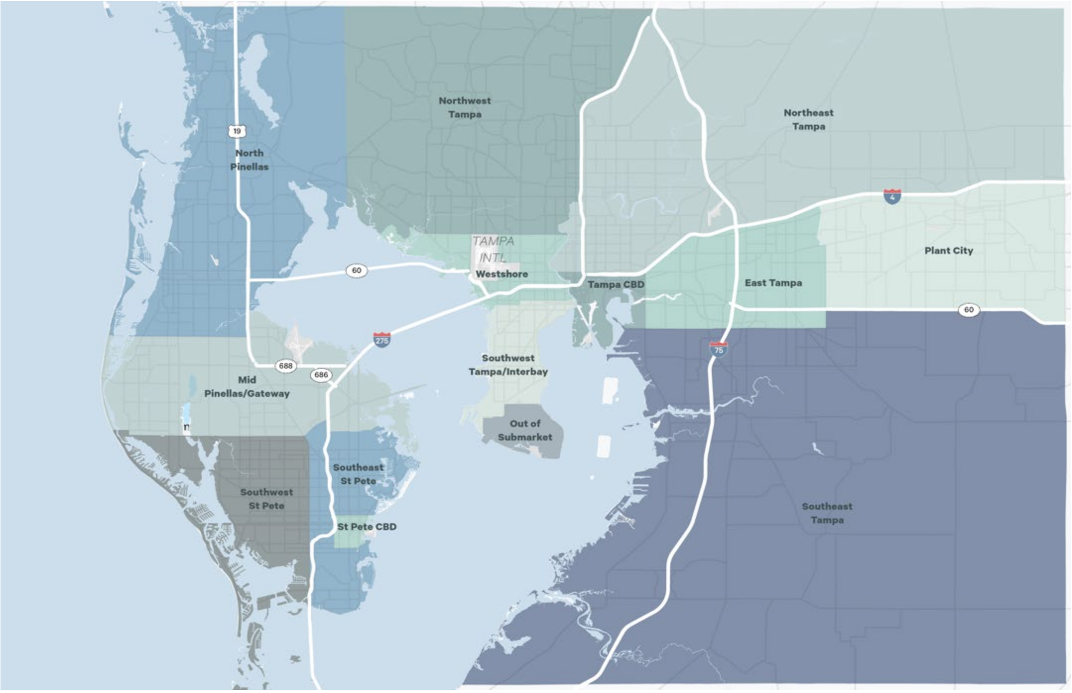
FIGURE 3: Class A Statistical Snapshot Q2 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q2 2023 Direct Net Absorption (Sq. Ft.)	Q2 2023 Sublet Net Absorption (Sq. Ft.)	Q2 2023 Total Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Avg. Asking Rate ($/SF/FSG)
Tampa CBD	5,118,630	15.5%	17.4%	(12,496)	(21,426)	(33,922)	99,732	$40.82
St Pete CBD	1,235,047	8.7%	14.1%	14,139	558	14,697	33,503	$35.93
Westshore	7,936,122	14.2%	17.5%	120,510	84,853	205,363	175,327	$38.09
Northwest Tampa	1,274,614	5.9%	43.1%	(1,475)	46,675	45,200	43,502	$28.24
Southwest Tampa	83,511	0.0%	0.0%	0	0	0	0	N/A
Northeast Tampa	2,142,532	20.5%	34.2%	50,312	(13,150)	37,162	16,498	$29.79
East Tampa	1,782,360	24.2%	36.9%	(13,029)	0	(13,029)	(163,311)	$26.38
Southeast Tampa	119,729	0.0%	0.0%	0	0	0	0	N/A
North Pinellas	1,397,129	13.6%	13.6%	(23,305)	0	(23,305)	(15,857)	$24.42
Mid-Pin./Gateway	2,852,415	21.3%	21.3%	(21,710)	0	(21,170)	(52,527)	$26.80
Southwest St Pete	-	-	-	-	-	-	-	-
Southeast St Pete	-	-	-	-	-	-	-	-
Class A Total	23,942,089	15.8%	21.7%	112,946	97,510	210,456	136,867	$33.65

FIGURE 4: Class B Statistical Snapshot Q2 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q2 2023 Direct Net Absorption (Sq. Ft.)	Q2 2023 Sublet Net Absorption (Sq. Ft.)	Q2 2023 Total Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Avg. Asking Rate ($/SF/FSG)
Tampa CBD	1,836,513	9.1%	9.6%	(29,557)	0	(29,557)	(25,272)	$29.96
St Pete CBD	699,860	4.4%	4.4%	(5,939)	0	(5,939)	(13,484)	$28.55
Westshore	5,376,903	13.4%	16.5%	(2,209)	22,304	20,095	29,762	$28.98
Northwest Tampa	3,091,589	15.9%	31.0%	(50,827)	(874)	(51,701)	(31,621)	$23.15
Southwest Tampa	520,460	1.3%	1.3%	(580)	0	(580)	4,960	$26.10
Northeast Tampa	2,678,410	21.3%	21.8%	(92,697)	0	(92,697)	(92,690)	$22.91
East Tampa	1,687,208	24.3%	24.4%	14,794	(1,464)	13,330	21,399	$22.83
Southeast Tampa	248,324	4.3%	4.3%	0	0	0	0	$26.00
North Pinellas	1,850,333	15.3%	15.3%	206	0	206	22,557	$22.80
Mid-Pin./Gateway	2,382,257	18.9%	22.5%	(9,401)	(1,551)	(10,952)	11,343	$23.42
Southwest St Pete	172,857	4.1%	4.1%	4,103	0	4,103	7,391	$22.08
Southeast St Pete	79,102	23.4%	23.4%	0	0	0	0	$30.00
Class B Total	20,623,816	15.4%	18.9%	(172,107)	18,415	(153,692)	(65,655)	$25.33

Market Area Overview



ECONOMIC OUTLOOK

For the last six months the consensus amongst economists has been that H2 would bring the United States to the brink of recession and possibly push it over the edge. Recently, this narrative has been challenged by a surprisingly resilient consumer and labor market. Indeed, GDP growth in Q2 2023 is poised to hit the mid-2% range (p.a.). Beneath this veneer of health lies a fragile economy, which will probably lapse into recession, albeit a little later than previously expected.

The chief concern is credit conditions tightening at a magnitude that typically precedes a recession. The consequences are already manifest in the housing market, and particularly across the Western U.S. where valuations are most disconnected from local incomes. Other rate sensitive sectors, such as manufacturing, are also under pressure—both domestic and abroad—exemplified by cooling capital goods orders and PMI data. And while the labor market is objectively tight, it is softer than one year ago when we saw higher quit rates and stronger wage growth. Tighter credit conditions are also likely to catch up with Americas small and medium sized industries (restaurants, cafes) in the service sector in the next two quarters.

Perhaps the key question is: Will the inflation slow fast enough to avert further rate hikes? CBRE's baseline view is that there is no need for further rate hikes because inflation is coming under control, but because of strong recent data the Fed will make one more rate hike, just to make sure the job is done. This will slightly exacerbate the coming slowdown and lead the Fed to begin cutting rates at the end of the year. The long expected slowdown in the U.S. economy is still on track, but will start in earnest at the end of Q3 a last through to the end of Q1 2024 by which time, inflation will have slowed up, and rates will be falling.

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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