# An atypical quarter but market fundamentals remain solid

| | | | | |
|---|---|---|---|---|
| ▲ 5.5% | ▼ 14,207 | ▼ 3,646,899 | ▼ 333,970 | ▲ $10.89 |
| Vacancy Rate | SF Net Absorption | SF Under Construction | SF Deliveries | Triple Net / Lease Rate |

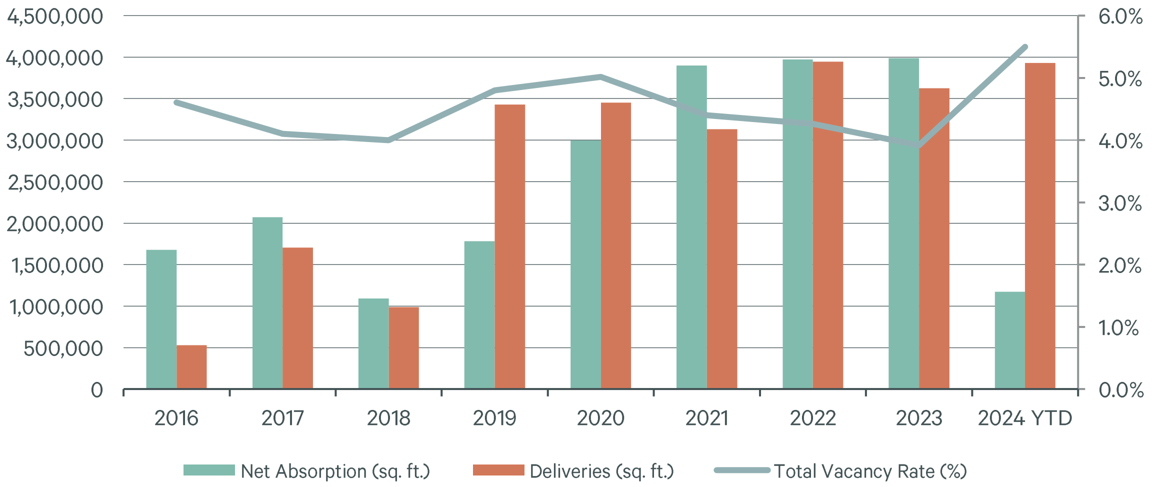
Note: Arrows indicate change from previous year.

## OVERVIEW

- Overall vacancy increased by just 20 bps as light deliveries and negligible absorption held supply steady.
- The construction pipeline remains shallower than a year ago but grew to 3.6 million square feet with groundbreakings in East Tampa and Plant City this quarter.
- Average asking rents grew by 4.5% over the quarter, driven by a "perfect storm" of new construction pricing and a lack of existing class B/C product for lease.

An out of character quarter that brought minimal positive net absorption hasn't had much impact on the core market fundamentals. Most submarkets are still experiencing vacancy rates well below 5% with functional, infill product yet challenging to find for some size segments. However at large, deliveries so far this year outweigh absorption 3 to 1 as we are seeing the first year of supply outpacing demand since 2019/2020. By the end of the year, we could see an annual total of nearly 7 million square feet worth of product come online, a historical high. These remain much needed options for firms looking for modern industrial space in Tampa, and they should continue to see strong interest.

FIGURE 1: Historical Absorption, Deliveries and Vacancy




Source: CBRE Research

## DEMAND

Net absorption was a negligible 14,000 square feet this quarter and atypical for Tampa in the post-Covid era. It was also the first time we have seen negative net absorption in East Tampa in two years as moveouts by Wesflo (-130K) and Breatkthru Beverage (-125K) offset occupancy gains. Year-to-date absorption has still already surpassed 1.1 million square feet, but this pace is falling short of the 3.9 million square feet we have averaged between 2021-2023. Leasing activity remains strong in quantity, but a vast majority of leases signed so far this year have been in the 15,000 – 60,000 square foot range. Most of what is currently under development also caters to these sized users, as 9 of the 11 buildings under construction are single-load facilities under 250,000 square feet.

## VACANCY

Low absorption paired with just 334,000 square feet of deliveries this quarter held vacancy rather steady, up just 20 bps. Construction starts, while slower than what we have historically seen, totaled nearly 750,000 square feet this quarter as Robinson Weeks started on a 535,000 square foot cross dock in Plant City and Arrow Capital and EastGroup began work on the 3-building East portion of Crossroads Logistics Park at the I-75/I-4 Interchange. These groundbreakings brought the under construction total to 3.6 million square feet, but nearly 40% of that space is already accounted for ahead of delivery.

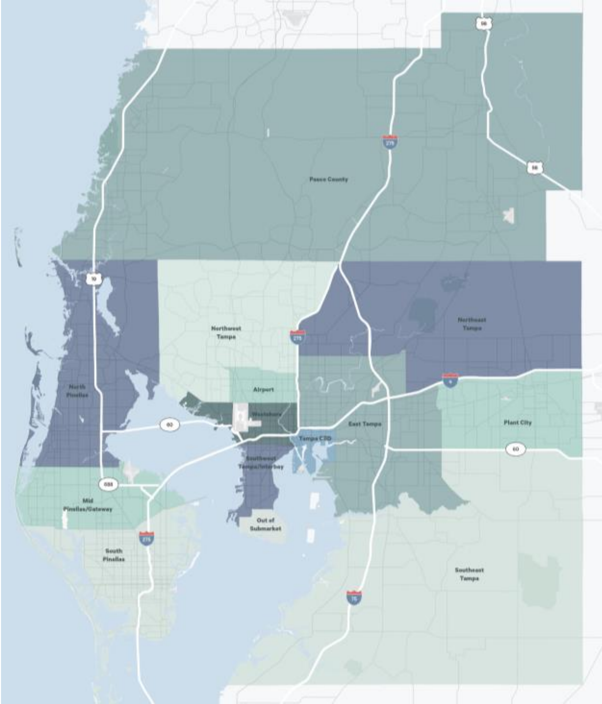
## PRICING

While the market consensus is that the explosive asking rent growth seen in 2021/2022 has slowed considerably, the added effect from extremely tight class B/C vacancies has resulted in market asking rents largely being driven by new construction. In fact, class A product accounts for just 20% of the market inventory but 60% of all available space. This has meant that the average tenant looking for space is still experiencing average rents that feel over 20% higher than they did just one year ago.

FIGURE 2: Statistical Snapshot Q2 2024

| Submarket | Total Inventory (Sq. Ft.) | Direct Vacancy (%) | Total Vacancy (%) | Q2 2024 Net Absorption (Sq. Ft.) | 2024 Net Absorption (Sq. Ft.) | Under Construction (Sq. Ft.) | Avg. Asking Lease Rate ($/SF/NNN) |
|---|---|---|---|---|---|---|---|
| East Hillsborough | 83,227,114 | 4.9% | 5.1% | 50,501 | 547,701 | 3,421,840 | $10.51 |
| Tampa CBD | 8,782,663 | 3.7% | 3.7% | (73,224) | 70,376 | 0 | $12.25 |
| Northeast Tampa | 2,245,043 | 0.1% | 0.1% | 5,885 | (3,000) | 465,388 | $12.12 |
| East Tampa | 49,708,396 | 4.0% | 4.1% | (240,588) | (173,030) | 1,089,865 | $11.85 |
| Plant City | 18,581,145 | 6.7% | 6.7% | 358,428 | 595,665 | 1,568,207 | $6.92 |
| Southeast Tampa | 3,909,867 | 13.7% | 16.6% | 0 | 57,690 | 298,380 | $9.65 |
| West Hillsborough | 20,866,439 | 3.4% | 3.8% | 105,784 | 54,071 | 0 | $12.96 |
| Westshore | 3,566,463 | 1.1% | 1.1% | (20,872) | (16,350) | 0 | $16.86 |
| Airport | 13,425,190 | 4.7% | 4.9% | 153,443 | 101,828 | 0 | $12.81 |
| Southwest Tampa | 1,855,684 | 1.3% | 4.6% | (23,787) | (23,787) | 0 | N/A |
| Northwest Tampa | 2,019,102 | 0.9% | 1.0% | (3,000) | (7,620) | 0 | $18.00 |
| Hillsborough County | 104,093,553 | 4.6% | 4.9% | 156,285 | 601,772 | 3,421,840 | $10.97 |
| South Pinellas | 8,547,872 | 7.2% | 8.5% | (97,944) | (92,425) | 0 | $9.74 |
| Mid Pinellas/Gateway | 29,976,750 | 2.6% | 2.9% | 930 | (106,075) | 225,059 | $10.85 |
| North Pinellas | 6,539,261 | 0.7% | 2.2% | (13,512) | (102,781) | 0 | $10.57 |
| Pinellas County | 45,063,883 | 3.2% | 3.9% | (110,526) | (301,281) | 225,059 | $10.42 |
| Pasco County | 13,533,848 | 16.2% | 16.2% | (31,552) | 872,288 | 0 | $11.52 |
| Tampa Total | 162,691,284 | 5.2% | 5.5% | 14,207 | 1,172,779 | 3,646,899 | $10.89 |
| Manufacturing | 31,990,366 | 1.5% | 1.5% | (93,137) | (168,505) | 0 | $10.44 |
| R&D/Flex | 12,833,974 | 4.6% | 5.6% | 63,318 | (102,911) | 0 | $13.79 |
| Warehouse/Distribution | 117,866,944 | 6.2% | 6.6% | 44,026 | 1,444,195 | 3,646,899 | $10.68 |

## Market Area Overview




### ECONOMIC OUTLOOK

Following a year of expectation-busting growth, which has given us interest rates higher for much longer, it seems we will get a "soft landing" in 2024. Last year's expansion was almost certainly driven by fiscal stimulus that far exceeded other western countries. Today, stimulus effects are fading, and higher interest rates continue to bite. There is evidence of this on the consumer front, wherein delinquency rates are trending upward, and credit growth is quickly slowing. The latter signals that consumption—a key driver of GDP growth in recent quarters—is poised to slow further. This partly explains why we believe growth will settle at the mid-1% range this year.

A more severe contraction in consumption would require the labor market to contract. Presently, conditions are merely softening. Both job openings and hours worked are falling. Also, most of the job growth is clustered in sectors that are immune to higher interest rates and receive at least some public funding, such as education, healthcare and government jobs. Leisure & hospitality has been a growth sector, but these cooling trends are evident here too.

A soft landing in consumption and hiring point to further disinflation. Labor-intensive service costs are poised to soften and falling rents across the Sun Belt suggest weaker housing inflation is on the horizon. Fed rate cuts are downstream of disinflation, and a most welcome outcome within the commercial real estate space where higher financing costs and devaluations are triggering distress. The prospect of a rate cut this fall will at least help ease rate volatility, put cap rates on a slight downward trajectory, and generate more common ground between buyers and sellers in coming quarters.

Survey Criteria: Includes all competitive industrial buildings 10,000 sq. ft. and greater in size in Hillsborough, Pinellas and Pasco counties.

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