Outsized move-outs thwart an otherwise productive year

▲ 20.4%	▼ (199,308)	▲ 189,440	▶ 0	▲ $30.71
Vacancy Rate	SF Net Absorption	SF Under Construction	SF Deliveries	Full-Service / Lease Rate

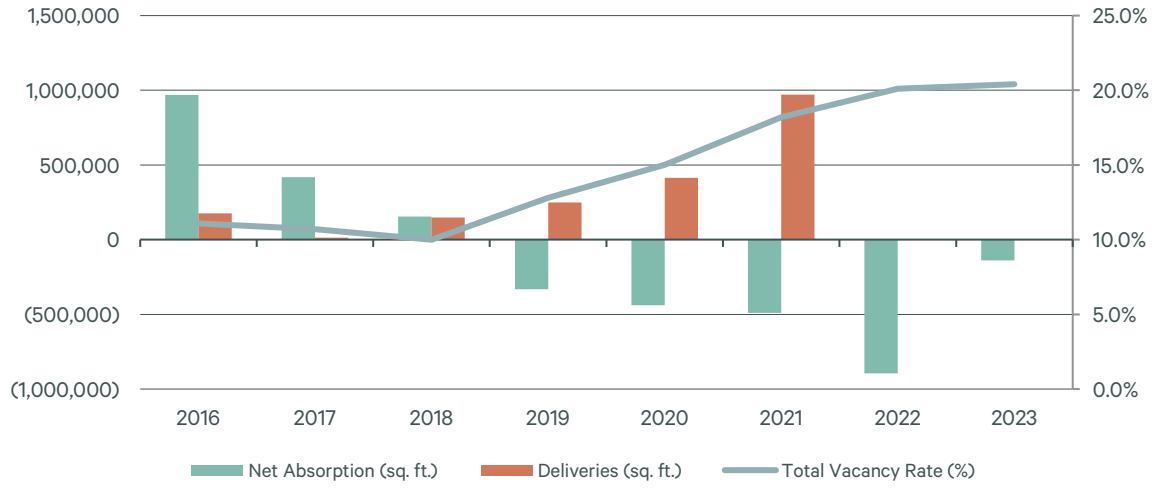
Note: Arrows indicate change from previous year.

OVERVIEW

- Improvement earned over the course of the year was undermined by outsized move-outs within the Northeast Tampa and Mid-Pinellas/Gateway submarkets, increasing total vacancy by 40 basis points on the quarter.
- Midtown East remains the only active office project within the market, on-target for a 2025 delivery. Despite murmurs of activity, Gas Worx and The Heights 201 developments are yet to break ground.
- A lack of new product and dwindling top of market space continue to limit asking rent growth, resulting in a modest 2.0% increase since Q4 2022.

Leading up to the fourth quarter Tampa's office market seemed poised to register its first year of positive absorption since 2018. Continued leasing momentum in the direct market along with sustained improvement of the sublease market fostered sentiments of optimism. However, as the final three months of the year transpired a notable bankruptcy filing led to a large block move-out that coincided with Humana's consolidation efforts and ultimately thwarted the positive momentum achieved during 2023. All things considered, the year still closed out with the lowest level of negative absorption in the last 5 years, demonstrating the slowing pace of large corporate consolidations and the new to market and expansionary activity that has worked to counteract it.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

A handful of sizeable move-out's over the final 90 days of 2023 pushed absorption for the quarter and year into negative territory. However, it is worth mentioning that the level of negative absorption in 2023 pales in comparison to what has been captured in previous years, falling well below the -538,000 square foot annual average observed between 2019 and 2022 and decreasing by 84.6% year-over-year.

Future demand remains at healthy levels as 2.2 million square feet of tenant in the market requirements lie in the pipeline. Additionally, there is positive activity that will materialize during the 1st quarter of 2024 as tentative move-ins within currently vacant space total nearly 700,000 square feet.

VACANCY

Headline vacancy experienced an increase of 40 basis points as limited move-ins were heavily outweighed by a handful of outsized move-outs. Most of this activity followed the established trend of corporate consolidation from the suburbs into urban submarkets as evidenced by the continued rise in vacancy within the I-75 corridor and Mid Pinellas/Gateway areas. By contrast urban regions like the Tampa CBD and Westshore continued to see the positive effects of consistent leasing activity in the direct and sublease markets, registering year-over-year decreases in total vacancy of 200 and 150 basis points, respectively.

PRICING

Average asking rates continued the flat growth trend that began in the second quarter of 2022, increasing by a mere 1.8% over the past 12 months. Until new construction is delivered, or vacancy levels are further tightened, this subdued growth could persist in the near term.

FIGURE 2: Statistical Snapshot Q4 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q4 2023 Net Absorption (Sq. Ft.)	2023 Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/SF/FSG)
CBD	8,870,050	11.8%	14.0%	5,746	136,833	57,485	$40.71
Tampa CBD	6,955,143	12.7%	14.5%	20,275	148,393	12,485	$41.80
St Pete CBD	1,914,907	8.6%	12.4%	(14,529)	(11,560)	45,000	$36.87
Hillsborough Suburbs	26,516,305	16.7%	23.1%	(187,172)	(196,337)	131,955	$30.22
Westshore	13,075,068	14.1%	17.0%	67,988	200,001	131,955	$34.95
Northwest Tampa	4,366,203	11.8%	32.4%	15,323	58,197	0	$25.17
Southwest Tampa	603,971	3.4%	3.9%	(2,050)	(11,622)	0	$26.90
Northeast Tampa	4,820,942	25.9%	32.4%	(259,238)	(338,710)	0	$25.96
East Tampa	3,282,068	24.0%	27.5%	(9,195)	(110,179)	0	$25.76
Southeast Tampa	368,053	1.3%	1.3%	0	5,976	0	$26.00
Pinellas Suburbs	8,683,162	17.6%	18.8%	(17,882)	(77,970)	0	$25.01
North Pinellas	3,247,462	14.4%	14.9%	31,046	(4,316)	0	$23.54
Mid-Pinellas/Gateway	5,183,741	20.0%	21.7%	(54,227)	(84,241)	0	$25.77
Southwest St Pete	172,857	2.3%	2.3%	5,299	10,587	0	$18.98
Southeast St Pete	79,102	23.4%	23.4%	0	0	0	$30.00
Suburban Total	35,199,467	16.9%	22.0%	(205,054)	(274,307)	131,955	$28.84
Tampa Total	44,069,517	15.9%	20.4%	(199,308)	(137,474)	189,440	$30.71
Class A	23,754,589	16.3%	21.6%	(66,406)	35,745	176,955	$34.48
Class B	20,314,928	15.4%	19.1%	(132,902)	(173,219)	12,485	$25.62

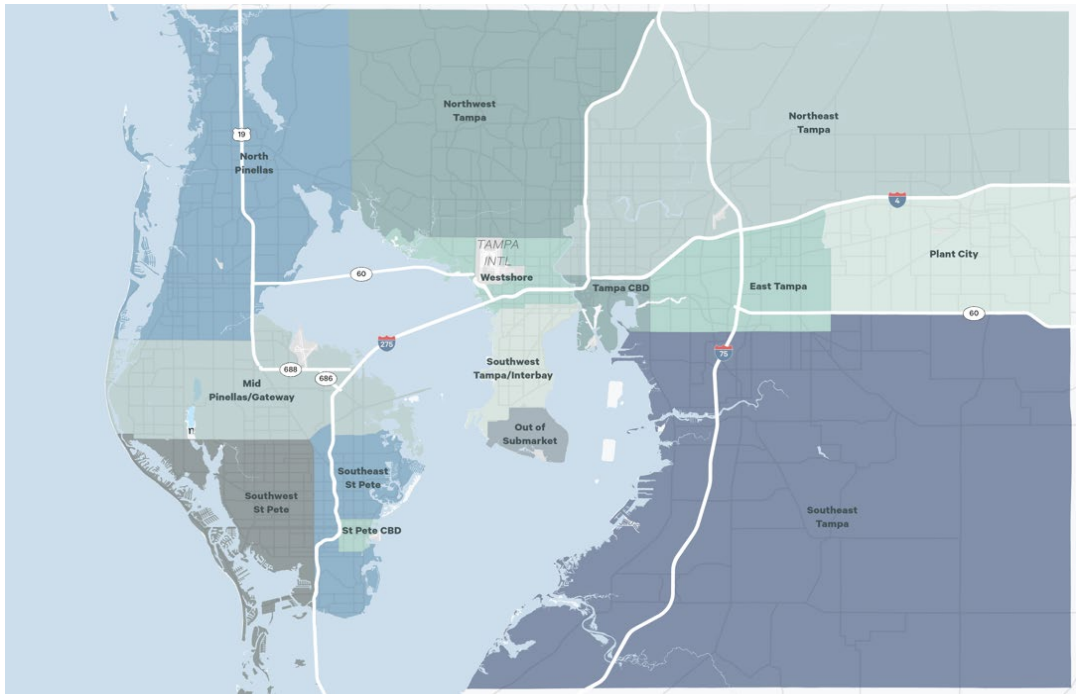
FIGURE 3: Class A Statistical Snapshot Q4 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q4 2023 Direct Net Absorption (Sq. Ft.)	Q4 2023 Sublet Net Absorption (Sq. Ft.)	Q4 2023 Total Net Absorption (Sq. Ft.)	2023 Net Absorption (Sq. Ft.)	Avg. Asking Rate ($/SF/FSG)
Tampa CBD	5,118,630	14.6%	17.0%	13,232	169	13,401	153,959	$43.90
St Pete CBD	1,235,047	11.2%	16.9%	(23,747)	10,809	(12,938)	(943)	$37.48
Westshore	7,936,122	14.7%	17.2%	13,688	63,235	76,923	198,688	$38.63
Northwest Tampa	1,274,614	5.5%	40.0%	(3,176)	(2,623)	(5,799)	45,512	$28.09
Southwest Tampa	83,511	0.0%	0.0%	0	0	0	0	N/A
Northeast Tampa	2,142,532	23.9%	37.9%	(92,374)	(7,382)	(99,756)	(79,071)	$29.67
East Tampa	1,594,860	23.9%	30.8%	7,488	0	7,488	(135,111)	$27.42
Southeast Tampa	119,729	0.0%	0.0%	0	0	0	0	N/A
North Pinellas	1,397,129	14.8%	14.8%	16,898	0	16,898	(32,276)	$24.55
Mid-Pin./Gateway	2,852,415	23.0%	23.2%	(57,759)	(4,864)	(62,623)	(115,013)	$27.10
Southwest St Pete	-	-	-	-	-	-	-	-
Southeast St Pete	-	-	-	-	-	-	-	-
Class A Total	23,754,589	16.3%	21.6%	(125,750)	59,344	(66,406)	35,745	$34.48

FIGURE 4: Class B Statistical Snapshot Q4 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q4 2023 Direct Net Absorption (Sq. Ft.)	Q4 2023 Sublet Net Absorption (Sq. Ft.)	Q4 2023 Total Net Absorption (Sq. Ft.)	2023 Net Absorption (Sq. Ft.)	Avg. Asking Rate ($/SF/FSG)
Tampa CBD	1,836,513	7.2%	7.4%	6,874	0	6,874	(5,566)	$32.09
St Pete CBD	679,860	4.1%	4.1%	(1,591)	0	(1,591)	(10,617)	$31.71
Westshore	5,138,946	13.2%	16.7%	(7,729)	(1,206)	(8,935)	1,313	$29.48
Northwest Tampa	3,091,589	14.5%	29.3%	19,761	1,361	21,122	12,685	$24.53
Southwest Tampa	520,460	3.9%	4.5%	(4,988)	2,938	(2,050)	(11,622)	$26.90
Northeast Tampa	2,678,410	27.4%	27.9%	(159,482)	0	(159,482)	(259,639)	$22.83
East Tampa	1,687,208	24.2%	24.3%	(16,683)	0	(16,683)	24,932	$23.33
Southeast Tampa	248,324	1.9%	1.9%	0	0	0	5,976	$26.00
North Pinellas	1,850,333	14.2%	15.0%	14,148	0	14,148	27,960	$22.71
Mid-Pin./Gateway	2,331,326	16.4%	19.9%	11,596	(3,200)	8,396	30,772	$23.31
Southwest St Pete	172,857	2.3%	2.3%	5,299	0	5,299	10,587	$18.98
Southeast St Pete	79,102	23.4%	23.4%	0	0	0	0	$30.00
Class B Total	20,314,928	15.4%	19.1%	(132,795)	(107)	(132,902)	(173,219)	$25.62

Market Area Overview



ECONOMIC OUTLOOK

The combination of continued economic momentum with a likelihood that the Fed's dramatic tightening cycle is now complete makes a 'soft landing' appear more likely for early 2024 but the pace of growth will be more modest than in recent quarters. Foremost, lower and middle-income households no longer have the luxury of excess savings and the pace of wage growth, whilst remaining elevated, is slowing. This nuance with wage growth is important. Higher wages are helping to maintain higher, albeit decelerating, core inflation.

This backdrop will likely translate into the Fed only slowly lower its target rate in 2024. (CBRE expects 75 – 100 basis points worth of rate cuts in 2024.) This outlook may deter some spending, but it does help illuminate a pathway forward for real estate capital markets. Indeed, the combination of healthy fundamentals for many sectors and thawing credit markets could provide some welcome upside surprises for real estate performance in 2024.

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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