Suburban consolidation overshadows strong fundamentals seen elsewhere

▲ 20.0%
Vacancy Rate

▼ -653,652
SF Net Absorption

▼ 57,060
SF Under Construction

▼ 0
SF Deliveries

▼ $30.09
Full-Service / Lease Rate

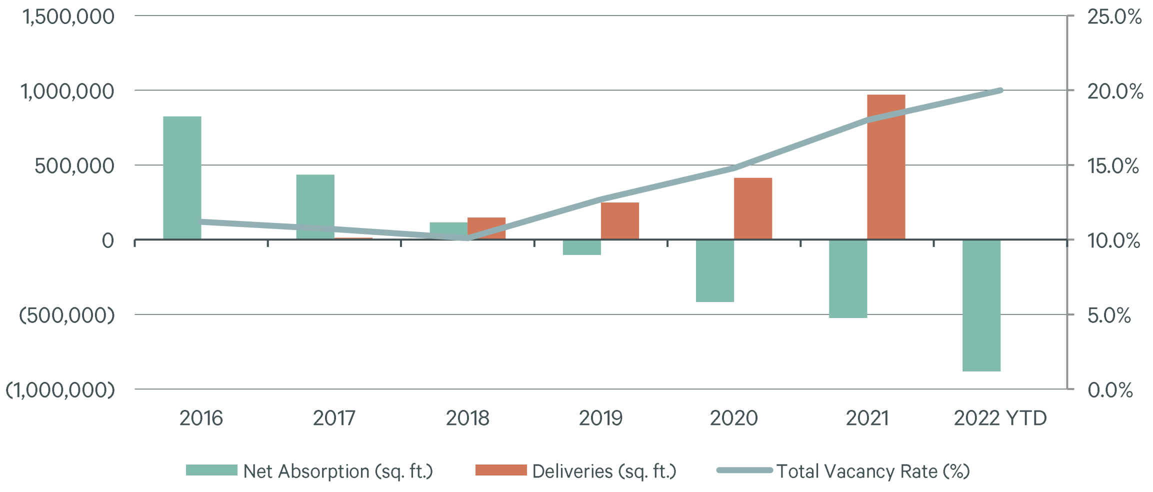
Note: Arrows indicate change from previous year.

OVERVIEW

- National headwinds have the next round of office construction facing delays, putting the earliest deliveries into late 2024 or 2025 for Tampa. Just 160,000 square feet remain within product delivered to CBD and Westshore submarkets this cycle.
- Significant negative net absorption of 653,652 square feet this quarter was driven by a single, but very active, vertical – the suburban sublease market.
- Strong lease up within new construction is eroding asking rent benchmarks leveraged by existing landlords. Still, average rents are up over 11% from pre-pandemic highs.

Current office trends continue to validate Tampa as an evolving market. Historic back-office, suburban demand has largely given way to a desire for well amenitized, class A space as firms look to entice employees back to the office. Local implications include some suburban submarkets seeing vacancy rates pushing past 30% as a result of recent corporate consolidation or contraction. Of equal significance is the impact of an active sublease market on overall fundamentals, as 690,000 square feet of negative sublet absorption this quarter wiped out the positive *direct* absorption that was recorded. There is still a path for additional absorption within new construction this year—as delayed move-ins, mostly tied to extended tenant build-out timelines, have newly delivered buildings over 85% leased but just 55% occupied thus far.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

To no surprise Westshore and the Tampa CBD continue to lead the pack as growth submarkets, recording 160,000 square feet of positive net absorption this quarter and over 285,000 square feet so far this year. While suburban Hillsborough County saw very large blocks of sublease space vacated by a handful of firms, the sublease story for Tampa isn't all bad, but it is unequal. Large sublet leasing activity by Mad Mobile, Banyan Health Systems, Gale Healthcare, Spot Freight and others totaled over 400,000 square feet over the past three months—much of it class A space.

VACANCY

Even though *direct* vacancy has stabilized around 15% for the past five quarters, *total* headline vacancy increased another 150 basis points this quarter to a 10 year high of 20%. Now, over 1/4th of all vacant space is stemming from the sublease market, which was amplified this quarter by a handful of larger, back-office users making a big splash as they put multiple floors or buildings up for sublease. These record additions by Centene, Metlife, DTCC, AAA and others are overshadowing a lot of the momentum seen in other parts of the office market.

PRICING

With the success of new construction quickly taking top-of-market opportunities offline, landlords of "the next best product" are losing benchmarks that have allowed for aggressive rental rate growth recently. Going forward, growth may instead be driven by a lack of new construction alternatives rather than a push to "narrow the gap" between existing and newly delivered assets. The result remains - class A, *urban* office buildings are commanding an average premium of 41% over *suburban* class A assets.

FIGURE 2: Statistical Snapshot Q3 2022

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2022 Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/SF/FSG)
CBD	8,899,359	12.2%	13.4%	(11,506)	88,843	57,060	$38.34
Tampa CBD	6,964,452	14.1%	15.3%	11,415	94,228	12,060	$39.09
St Pete CBD	1,934,907	5.3%	6.4%	(22,921)	(5,385)	45,000	$34.21
Hillsborough Suburbs	26,806,762	15.5%	22.5%	(614,436)	(679,716)	0	$29.72
Westshore	13,313,025	14.1%	17.8%	147,792	189,244	0	$34.47
Northwest Tampa	4,366,203	11.4%	34.0%	(541,347)	(541,199)	0	$23.67
Southwest Tampa	603,971	1.9%	1.9%	290	14,884	0	$22.21
Northeast Tampa	4,685,942	18.3%	24.0%	(77,616)	(65,966)	0	$26.55
East Tampa	3,469,568	26.1%	30.1%	(143,555)	(267,146)	0	$24.49
Southeast Tampa	368,053	2.9%	2.9%	0	(9,533)	0	$22.00
Pinellas Suburbs	8,444,692	17.2%	19.1%	(27,710)	(289,697)	0	$24.05
North Pinellas	3,348,039	14.0%	14.0%	21,931	(10,785)	0	$22.98
Mid-Pinellas/Gateway	4,844,694	20.1%	23.3%	(51,437)	(275,853)	0	$24.78
Southwest St Pete	172,857	4.9%	4.9%	1,796	(3,059)	0	$20.21
Southeast St Pete	79,102	1.7%	1.7%	0	0	0	N/A
Suburban Total	35,251,454	15.9%	21.7%	(642,146)	(969,413)	0	$28.26
Tampa Total	44,150,813	15.2%	20.0%	(653,652)	(880,570)	57,060	$30.09
Class A	23,554,042	16.1%	22.1%	(502,319)	(519,630)	45,000	$33.89
Class B	20,596,771	14.1%	17.7%	(151,333)	(360,940)	12,060	$24.25

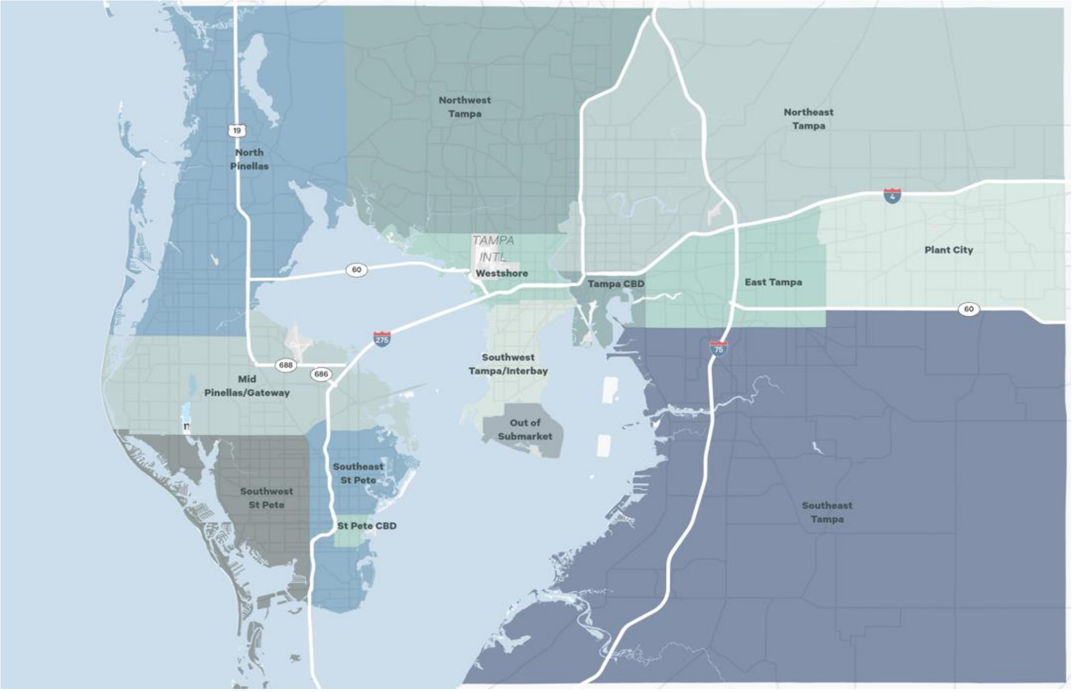
FIGURE 3: Class A Statistical Snapshot Q3 2022

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2022 Direct Net Absorption (Sq. Ft.)	Q3 2022 Sublet Net Absorption (Sq. Ft.)	Q3 2022 Total Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Avg. Asking Rate ($/SF/FSG)
Tampa CBD	5,118,630	16.5%	17.9%	(15,030)	18,299	3,269	100,113	$41.21
St Pete CBD	1,235,047	6.2%	8.0%	(25,881)	(3,936)	(29,817)	(24,198)	$34.93
Westshore	7,936,122	14.8%	19.2%	73,927	(63,970)	9,957	119,248	$37.46
Northwest Tampa	1,274,614	5.5%	46.4%	0	(263,789)	(263,789)	(247,068)	$29.23
Southwest Tampa	83,511	0.0%	0.0%	0	0	0	0	N/A
Northeast Tampa	2,142,532	23.0%	34.9%	20,226	(118,043)	(97,817)	(86,993)	$31.05
East Tampa	1,782,360	27.4%	35.2%	(108,528)	(18,894)	(127,422)	(271,114)	$26.33
Southeast Tampa	119,729	0.0%	0.0%	0	0	0	0	N/A
North Pinellas	1,397,129	11.3%	11.3%	8,610	0	8,610	(4,010)	$24.34
Mid-Pin./Gateway	2,464,368	19.8%	21.7%	(5,310)	0	(5,310)	(105,608)	$25.53
Southwest St Pete	-	-	-	-	-	-	-	-
Southeast St Pete	-	-	-	-	-	-	-	-
Class A Total	23,554,042	16.1%	22.1%	(51,986)	(450,333)	(502,319)	(519,630)	$33.89

FIGURE 4: Class B Statistical Snapshot Q3 2022

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2022 Direct Net Absorption (Sq. Ft.)	Q3 2022 Sublet Net Absorption (Sq. Ft.)	Q3 2022 Total Net Absorption (Sq. Ft.)	YTD Net Absorption (Sq. Ft.)	Avg. Asking Rate ($/SF/FSG)
Tampa CBD	1,845,822	7.6%	8.2%	10,927	(2,781)	8,146	(5,885)	$28.53
St Pete CBD	699,860	3.5%	3.5%	6,896	0	6,896	18,813	$27.68
Westshore	5,376,903	12.9%	15.7%	59,407	78,428	137,835	69,996	$28.85
Northwest Tampa	3,091,589	13.9%	28.8%	22,648	(300,206)	(277,558)	(294,131)	$22.70
Southwest Tampa	520,460	2.2%	2.2%	290	0	290	14,884	$22.21
Northeast Tampa	2,543,410	14.3%	14.8%	20,201	0	20,201	21,027	$19.24
East Tampa	1,687,208	24.7%	24.7%	(16,133)	0	(16,133)	3,968	$21.08
Southeast Tampa	248,324	4.3%	4.3%	0	0	0	(9,533)	$22.00
North Pinellas	1,950,910	15.9%	15.9%	13,321	0	13,321	(6,775)	$22.08
Mid-Pin./Gateway	2,380,326	20.5%	25.0%	(32,368)	(13,759)	(46,127)	(170,245)	$23.69
Southwest St Pete	172,857	4.9%	4.9%	1,796	0	1,796	(3,059)	$20.21
Southeast St Pete	79,102	1.7%	1.7%	0	0	0	0	N/A
Class B Total	20,596,771	14.1%	17.7%	86,985	(238,318)	(151,333)	(360,940)	$24.25

Market Area Overview



ECONOMIC OUTLOOK

The problems associated with inflation continue to run their course. Although the pace of inflation may have started to plateau, the Federal Reserve's hawkish response has been unequivocal in a way that caught markets by surprise. Aggressive rate hikes and Fed balance sheet reductions have successfully resulted in a strong dollar and higher mortgage rates, and the beginning of a slowdown in the U.S. economy.

Higher rates are not just impeding household decisions; a higher corporate cost of capital is forcing firms to rethink hiring plans. So far resilient consumers have driven further economic growth but now the realities of lower savings rates and chronically poor sentiment suggest excess spending is coming to an end. Consequently, we expect the economy to contract early next year, and unemployment to rise. This should push inflation down toward 3% by year-end 2023. It is possible the Fed may be able to reduce inflation and maintain the unemployment rate below 5%, but we should not bank on that. Once inflation is tamed, both capital and real estate markets will become more predictable again.

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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