

Tampa Bay

Leasing velocity picked up during the third quarter with shorter-term renewals outpacing new deals

Tampa's economy is fairly diversified and as a result is somewhat more insulated than other Florida metros like Orlando and Miami to the significant economic shock being felt within the leisure and hospitality sector. The market continues to recover from the damage inflicted by COVID-19 beginning this past spring, and while the shadow of sublease space looms, it is now clear that the overall picture is not as bleak as previously feared. Unemployment rose to 13.2% in April of this year, the highest in over 30 years, but fell considerably to 6.8% by the end of August according to the Bureau of Labor Statistics (well below the state average of 7.3% for the same period).

Leasing velocity has begun to accelerate following a temporary interruption in demand due to the pandemic, although many deals were shorter-term renewals. Several large lease transactions were concluded during the third quarter, most notably Heritage Insurance's lease of an 88,643-sf building in Westshore City Center. An in-market move, the Clearwater-based company will be relocating its headquarters in the spring of 2021. Single-story office leasing may be a bright spot in the coming months as it allows companies to not only implement cost savings measures but also offer safer, more controlled physical environments.

The calm before the sublease storm

The overall vacancy rate rose slightly by 19 basis points to 11.64% during the third quarter, and the impact of sublease

space will continue to effect the market well into 2021 as companies evaluate their future needs and the effectiveness of their work-from-home strategies.

COVID-19 is acting as an accelerant for companies already seeking to downsize and consolidate their existing floor plates. While sublease space only accounts for 14.2% of all vacant space as of now, that number is expected to rise well into the spring and could put pressure on direct asking rents and concessions.

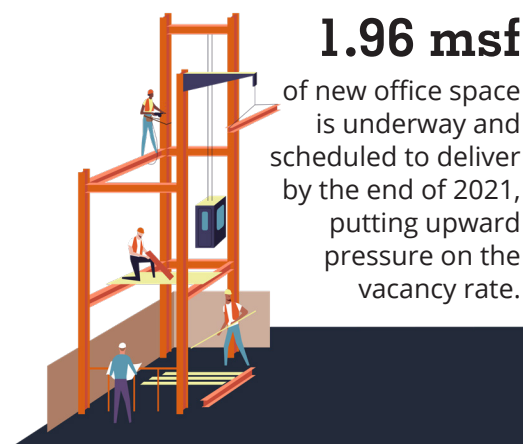
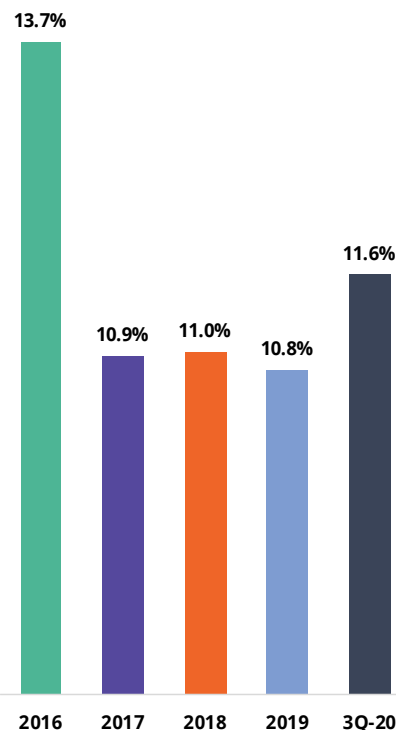
Investment activity remains muted

Total investment volume for the trailing 12-month period ending September 2020 was -45.0% at \$479.6 million. The debt market is opening back up but interest in industrial investment is crowding out potential debt and equity investment for office product and capital for value-add suburban office product remains harder to find.

Looking ahead toward 2021

Some of the fear that personified the beginning of the current pandemic is fading and is being replaced by a sense of optimism that this will in fact be a short, V-shaped recovery with a quicker return to strong fundamentals. Deals are getting done and business continues to forge ahead, even though tomorrow's workplace needs are not fully evident today. That said, headwinds are expected to persist into 2021 and may remain until a full-scale vaccine is readily available, further allaying corporate and investor concerns.

Historical 5-Year Vacancy Trend


41.2 MSF

Total office inventory in the Tampa Bay office market

(12,547) SF

Direct Y-T-D net absorption as of 3Q-2020

11.64%

Overall vacancy

\$30.86/SF/FS






Average rental rate for class A space

Market by the numbers

Tampa Bay MSA										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Direct Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	22,480,657	1,846,333	351,296	\$30.86	91.79%	8.21%	1.56%	9.78%	1,196,845	(120,955)
Class B	18,744,337	2,269,976	330,169	\$22.50	87.89%	12.11%	1.76%	13.87%	0	108,408
Total	41,224,994	4,116,309	681,465	\$26.25	90.02%	9.98%	1.65%	11.64%	1,196,845	(12,547)
HILLSBOROUGH COUNTY										
I-75 Corridor										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Direct Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	2,744,201	341,818	35,150	\$26.33	87.54%	12.46%	1.28%	13.74%	0	76,154
Class B	3,992,708	395,858	202,480	\$20.89	90.09%	9.91%	5.07%	14.99%	0	217,711
Total	6,736,909	737,676	237,630	\$23.41	89.05%	10.95%	3.53%	14.48%	0	293,865
Northwest Tampa										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Direct Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	1,482,804	48,348	0	\$25.17	96.74%	3.26%	0.00%	3.26%	0	138,032
Class B	2,934,774	451,809	78,581	\$23.03	84.60%	15.40%	2.68%	18.07%	0	(124,565)
Total	4,417,578	500,157	78,581	\$23.24	88.68%	11.32%	1.78%	13.10%	0	13,467
South Tampa										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Direct Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	48,050	0	0	\$0.00	100.00%	0.00%	0.00%	0.00%	0	0
Class B	279,023	35,963	0	\$21.81	87.11%	12.89%	0.00%	12.89%	0	(19,349)
Total	327,073	35,963	0	\$21.81	89.00%	11.00%	0.00%	11.00%	0	(19,349)
Tampa CBD										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Direct Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	5,306,173	413,050	98,070	\$32.69	92.22%	7.78%	1.85%	9.63%	405,000	(62,353)
Class B	1,064,056	63,750	10,210	\$25.22	94.01%	5.99%	0.96%	6.95%	0	(35,861)
Total	6,370,229	476,800	108,280	\$31.69	92.52%	7.48%	1.70%	9.18%	405,000	(98,214)
Westshore										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Direct Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	7,772,003	620,958	174,922	\$36.04	92.01%	7.99%	2.25%	10.24%	791,845	(175,379)
Class B	4,674,536	479,725	34,587	\$27.08	89.74%	10.26%	0.74%	11.00%	0	122,854
Total	12,446,539	1,100,683	209,509	\$32.14	91.16%	8.84%	1.68%	10.53%	791,845	(52,525)
PINELLAS COUNTY										
Bayside										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Direct Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	785,760	102,112	4,368	\$24.65	87.00%	13.00%	0.56%	13.55%	0	(42,633)
Class B	979,079	169,665	0	\$22.18	82.67%	17.33%	0.00%	17.33%	0	49,978
Total	1,764,839	271,777	4,368	\$23.11	84.60%	15.40%	0.25%	15.65%	0	7,345
Gateway										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Direct Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	1,726,806	143,218	25,544	\$26.25	91.71%	8.29%	1.48%	9.77%	0	(52,819)
Class B	1,822,154	285,185	3,411	\$19.99	84.35%	15.65%	0.19%	15.84%	0	(6,990)
Total	3,548,960	428,403	28,955	\$22.08	87.93%	12.07%	0.82%	12.89%	0	(59,809)
Mid Pinellas										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Direct Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	94,470	7,738	0	\$24.00	91.81%	8.19%	0.00%	8.19%	0	5,642
Class B	849,223	132,054	0	\$16.32	84.45%	15.55%	0.00%	15.55%	0	38,490
Total	943,693	139,792	0	\$16.74	85.19%	14.81%	0.00%	14.81%	0	44,132
North Pinellas										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Direct Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	970,075	97,974	2,653	\$20.74	89.90%	10.10%	0.27%	10.37%	0	(18,447)
Class B	925,717	136,073	900	\$20.97	85.30%	14.70%	0.10%	14.80%	0	(88,887)
Total	1,895,792	234,047	3,553	\$20.87	87.65%	12.35%	0.19%	12.53%	0	(107,334)
South Pinellas										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Direct Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	648,792	74,023	0	\$19.91	88.59%	11.41%	0.00%	11.41%	0	(16,554)
Total	648,792	74,023	0	\$19.91	88.59%	11.41%	0.00%	11.41%	0	(16,554)
St Petersburg CBD										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Direct Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	1,550,315	71,117	10,589	\$33.50	95.41%	4.59%	0.68%	5.27%	0	10,848
Class B	574,275	45,871	0	\$23.35	92.01%	7.99%	0.00%	7.99%	0	(28,419)
Total	2,124,590	116,988	10,589	\$29.52	94.49%	5.51%	0.50%	6.00%	0	(17,571)
CBD										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	6,856,488	484,167	108,659	\$32.81	92.94%	7.06%	1.58%	8.65%	405,000	(51,505)
Class B	1,638,331	109,621	10,210	\$24.44	93.31%	6.69%	0.62%	7.31%	0	(64,280)
Total	8,494,819	593,788	118,869	\$31.26	93.01%	6.99%	1.40%	8.39%	405,000	(115,785)
Non-CBD / Suburban										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	15,624,169	1,362,166	242,637	\$30.17	91.28%	8.72%	1.55%	10.27%	791,845	(69,450)
Class B	17,106,006	2,160,355	319,959	\$22.40	87.37%	12.63%	1.87%	14.50%	0	172,688
Total	32,730,175	3,522,521	562,596	\$25.41	89.24%	10.76%	1.72%	12.48%	791,845	103,238

Reporting Methodology: This report includes all office buildings and parks 20,000 SF and greater in the Tampa Bay MSA that are not government owned. All rents are reported on a full-service gross basis and are direct weighted averages calculated on total available space. The information in this report has been collected by the Avison Young research team via sources that are deemed reliable but not guaranteed.

Leading Indicators (Y-O-Y Q3-2019 to Q3-2020)

Market Inventory  41,224,994 SF	Vacancy Rate  11.64%	Net Absorption  -12,547 SF	Construction Pipeline  1,196,845 SF	Average Asking Rate  \$26.25 SF
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Significant Third Quarter 2020 Lease Transactions - Sorted by SF

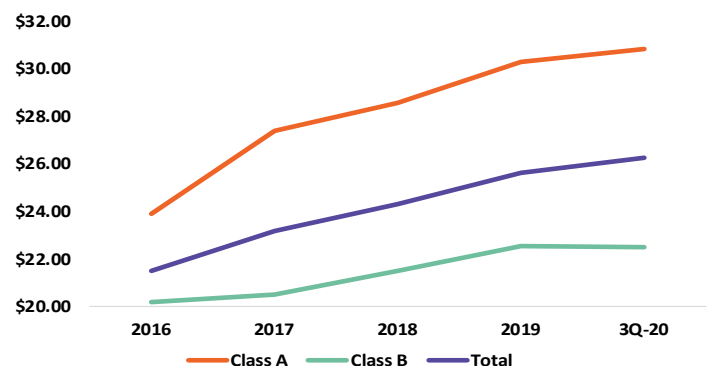
Tenant	Property	Type	SF	Submarket
Heritage Insurance	Westshore City Center	New	88,643	Westshore
Tampa Microwave	Bay Vista Commons	New	60,963	Bayside
White & Case LLP	Heights Union - West Building	New	37,400	Tampa CBD
Liberty Mutual	Tampa Oaks	Renewal	20,774	I-75 Corridor
Regus	Lakeview at Hidden River	Renewal	20,430	I-75 Corridor
Old Republic	Towers at Westshore	Renewal	20,394	Westshore
Wicker, Smith, O'Hara, McCoy & Ford, P.A.	Wells Fargo Center	New	15,000	Tampa CBD
Leidos	First Central Tower	Renewal	12,096	St Petersburg CBD
Carollo Engineers	Bank of America Plaza	New	11,148	Tampa CBD
Burg Simpson Law Firm	Wells Fargo Center	New	10,296	Tampa CBD

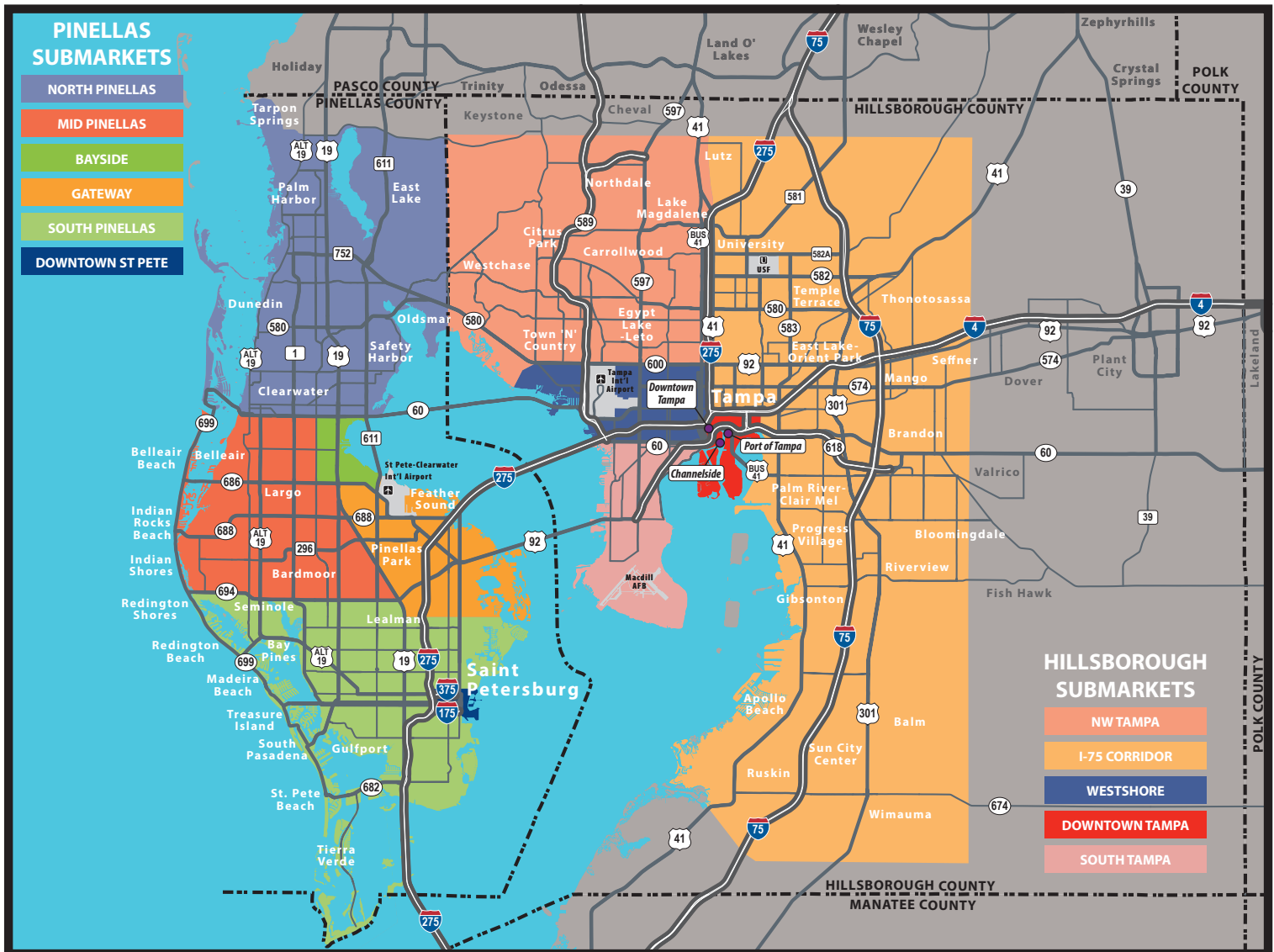
Significant Third Quarter 2020 Sales Transactions - Sorted by SF

Property	SF	Sale Price	Price/SF	Cap Rate	Buyer	Submarket
Sabal Pavilion 1	120,500	\$26,900,000	\$223	8.40%	CTO Realty Growth Inc.	I-75 Corridor
11200 Dr Martin Luther King St N	56,141	\$5,265,000	\$94	NA	Mid-Atlantic at Gateway, LLC	Gateway
3804 Coconut Palm Dr	40,688	\$3,500,000	\$86	NA	Glass House Tampa, LLC	I-75 Corridor
Clearwater Pointe	23,454	\$3,300,000	\$141	NA	Broker Insurance Marketing	North Pinellas

Asking rents largely holding steady and the glut of expected sublease space has yet to appear.

There was a slight increase in rents over the preceding quarter of 0.4%, which is notable given a slight decline was feared. There could be some downward movement in rents in the next 1-2 quarters as additional sublease space hits the market, and a flight to quality class A space is possible should rental rates decline.





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