

A photograph of the Tampa skyline, featuring several prominent skyscrapers under a blue sky with scattered white clouds. In the foreground, there are palm trees and a multi-level highway interchange.

**AVISON
YOUNG**

Tampa Office Insight Report

Q2 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Rising vaccination rates, improving consumer confidence and a strong local business base have allowed Tampa's unemployment rate to rebound from a high of 13.9% to **4.7%**.
- Tampa MSA job losses have declined by 2.3% since the start of the pandemic, though office-using jobs are down by just **0.3%**. On the other hand, construction employment reached an all-time high of 85,400 in March.



Recovery rate

- Florida was ranked **#4** in a WalletHub study of the top U.S. states for their rates of recovery, with industries gaining the most jobs over the year including leisure and hospitality, professional and business services, and trade, transportation and utilities.
- While the pandemic has had a considerable effect on Florida's population, its effect on the business economy was lessened (compared to markets like New York and California) as the state has been largely open for the last few quarters, enabling the business base to return to work and begin to move deals forward.



Office demand

- Leasing activity is at **40.5%** of the total recorded in 2020, however leasing interest remains strong and losses in office-using jobs are down only 0.3%.
- Five-year lease deals are once again on the table, and occupiers requiring 20,000 sf and over are more likely to sign **10-year** deals. Tenants are increasingly willing to extend deal terms in order to secure additional free rent.
- A significant amount of sublease space placed on the market during the pandemic has either already been leased or taken back by the occupier.

Key takeaways



Office supply

- Total vacancy is at a seven-year high, totaling **15.9%** after hovering in the 12% range pre-pandemic from 2017 through 2019 even as well over 600,000 sf of office space was delivered.
- The impact of sublease space is slowly lessening but it still totals **just over 1 million sf** and comprises **14.6%** of total vacant space. Some blocks placed on the market early in the pandemic by proactive landlords were opportunistic in nature and have either been leased or taken back by occupiers.



Pricing trends

- Base rents have increased by **8.1%** peak to trough since the onset of the pandemic, growing to a current average of \$28.39 per sf. The opposite trend occurred in the last recession, when rents declined by 4.8%, underpinning yet another of the key differences between the two periods.
- Demand is increasing as the economy reopens and tenants that postponed their long-term occupancy strategies re-enter the market.



Capital markets

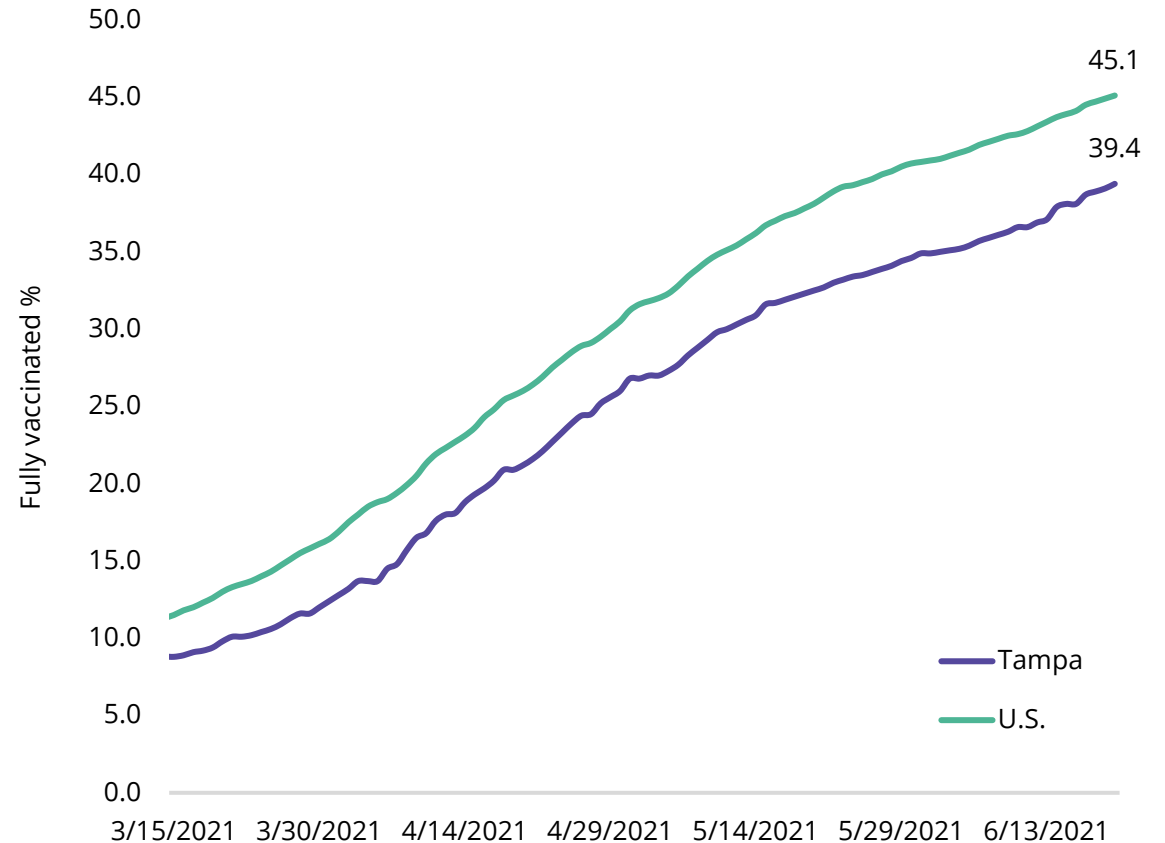
- Office investment activity has been steady in Tampa, with total transaction volume of **\$452.2 million** for the period from Jan 2020 through Jun 2021. The largest sale YTD was the **\$24 million** acquisition of Kforce's headquarters at 1001 E Palm Ave in Ybor by Alliant Partners Realty.
- There has been an increase in both the number of deals being brought to market and the corresponding investment interest, however a considerable delta remains between the two as too many investors are chasing too few deals.

Vaccination rates

39.4%

Share of total Tampa population that is fully vaccinated

Vaccination rates in the Tampa MSA are trending behind U.S. rates, however it has not inhibited business expansion with pandemic-era employment gains recorded in the professional and business services sector.



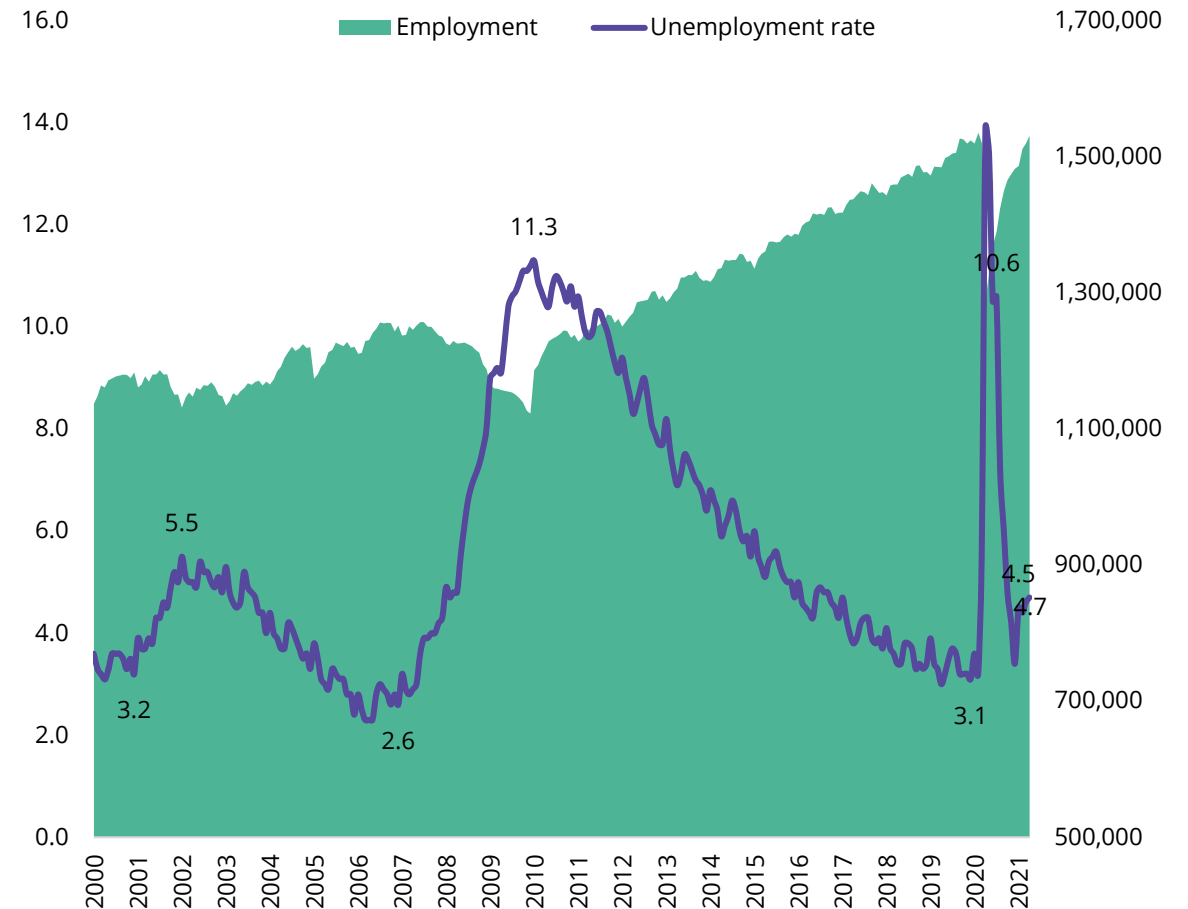
Source: CDC

Employment and unemployment rate

4.7%

Tampa Bay's unemployment rate as of April 2021, 920 bps below the height of the pandemic

Historically tightened labor market conditions were halted by the pandemic with nearly 247,000 million job losses between February and April 2020, although steady vaccinations and business reopening efforts have added back nearly 242,000 jobs in the months since.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

-0.3%

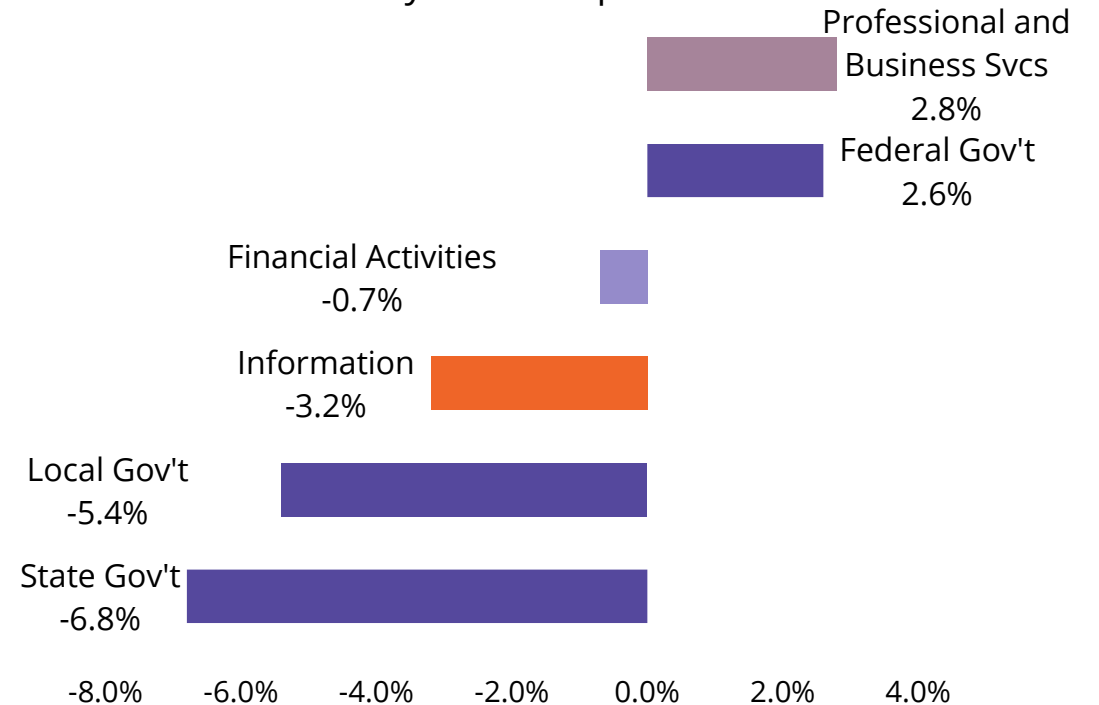
Change in office-using employment during the pandemic

Tampa MSA job losses have declined by 2.3% since the start of the pandemic, though office-using jobs are down by just 0.3%. This recession's impact on the office-using labor market has been considerably less severe than the global financial crisis, when total job losses totaled 9.2%.

[VIEW DASHBOARD](#)

Total change in Tampa* job gains/(losses)

February 2020 to April 2021



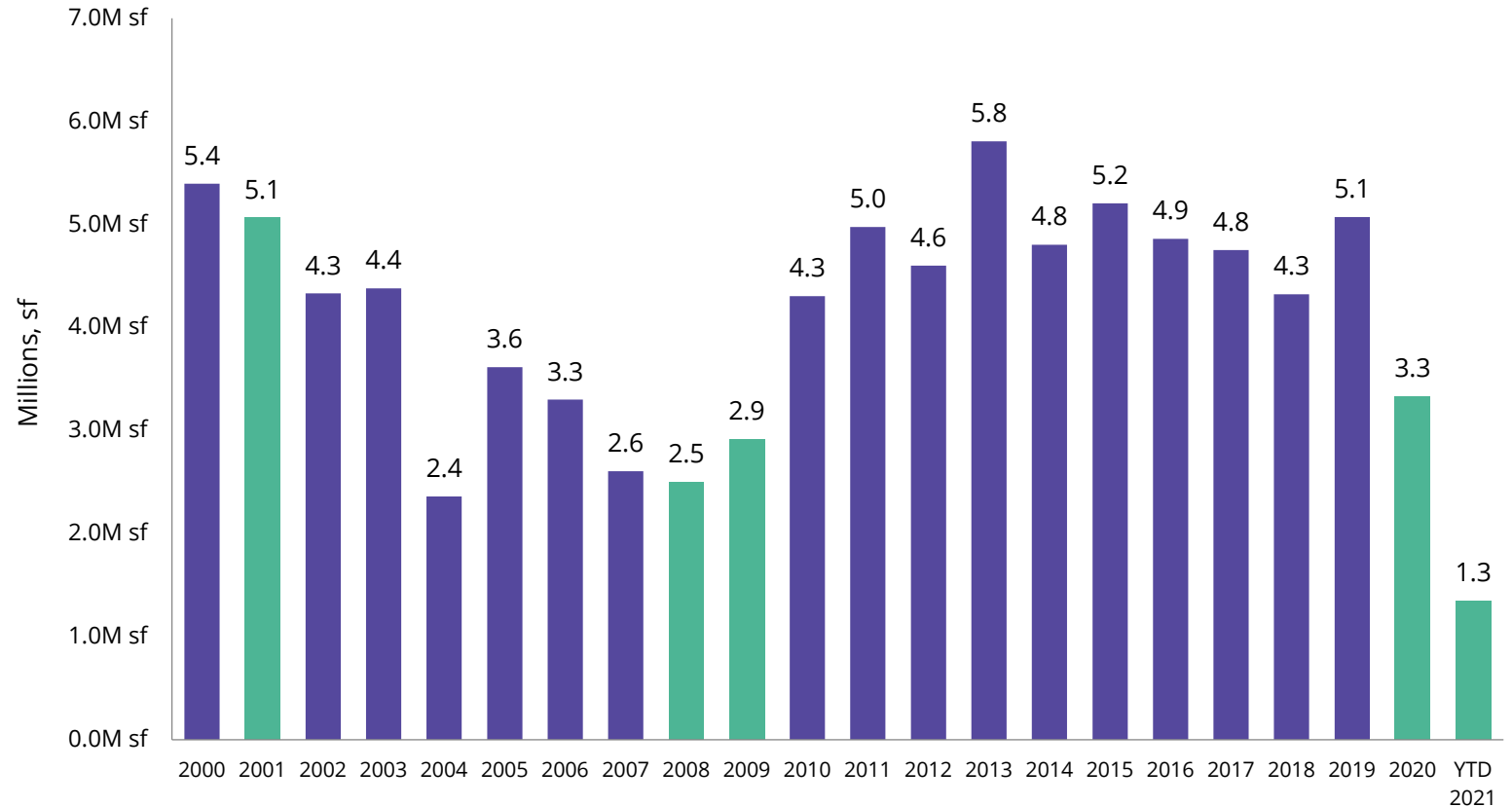
Note: Not seasonally adjusted data. *Metropolitan statistical area.
Source: Bureau of Labor Statistics

Office leasing activity

40.5%

**Year-to-date 2021
leasing activity
compared to YE-2020**

While leasing activity at the midway point of the year has fallen short of being half of the prior year's activity, leasing interest remains strong and should pick up through the remainder of the year.



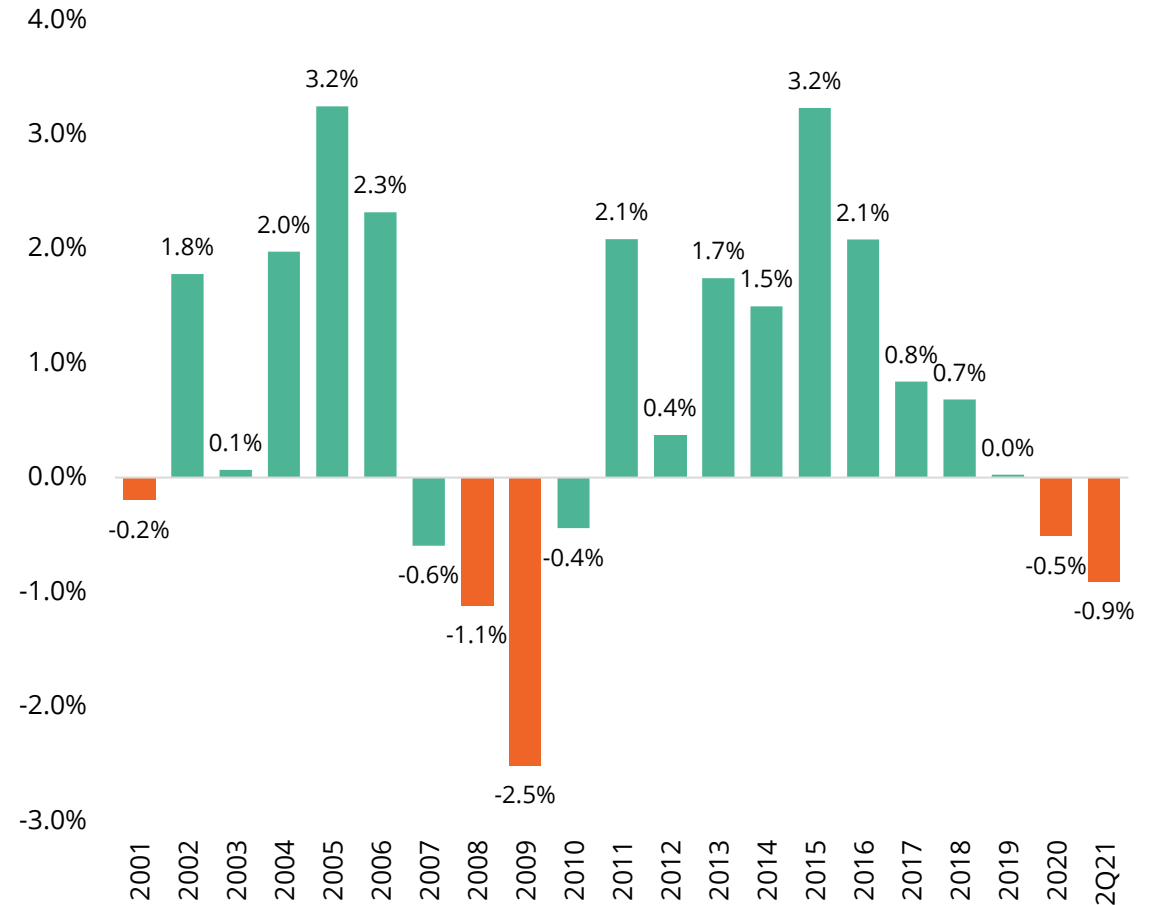
Source: AVANT by Avison Young

Absorption

-1.4%

Net absorption as a percentage of inventory, 2020 through Q1 2021

Negative absorption from 2020 to 2Q21 has totaled 647,528 sf, totaling -1.4% of the existing stock. This negative absorption has not yet reached the low of the global financial crisis (-2.5%) but has surpassed the level seen in the early 2000's recession (-0.2%).



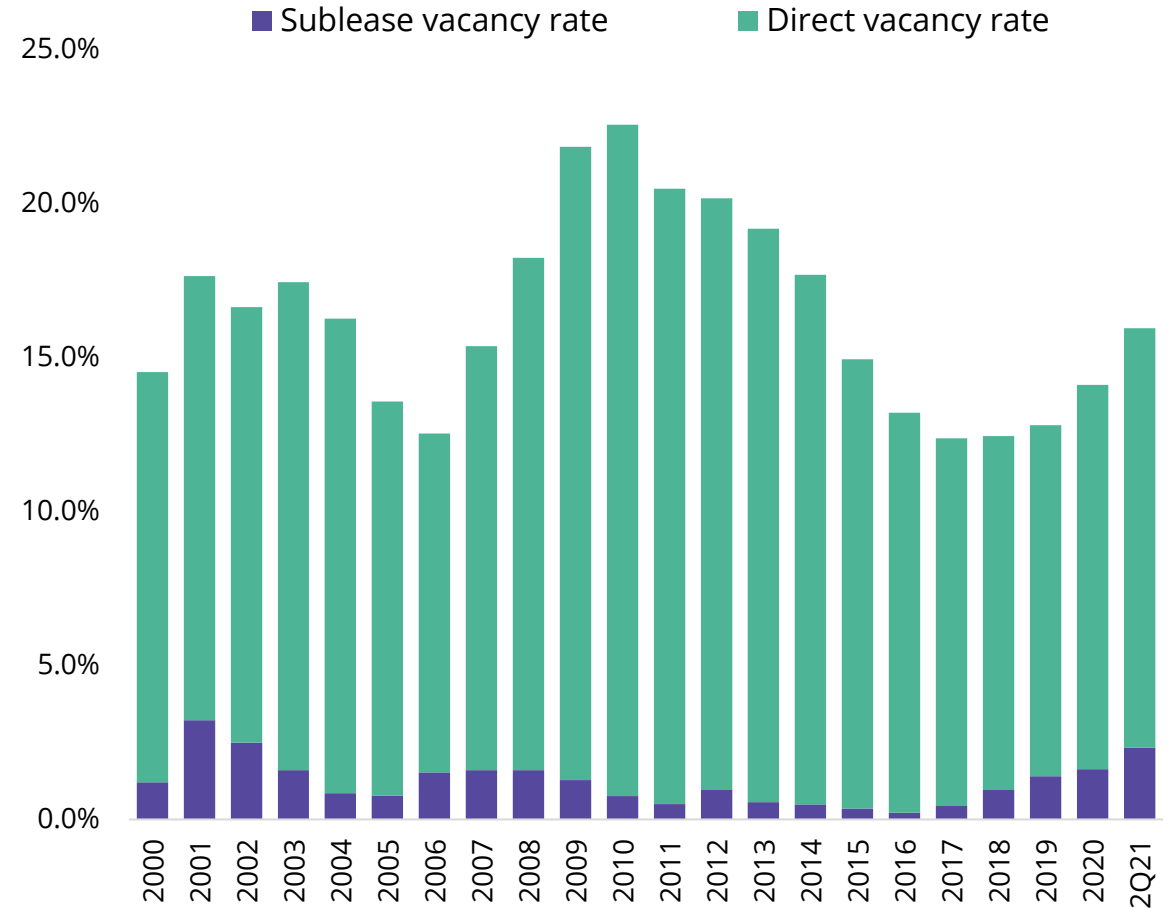
Source: AVANT by Avison Young

Vacancy rate

15.9%

Total vacancy in Tampa is at its highest point since 2014

The Q2 2021 vacancy rate is at its highest point in 8 years but remains well below the 22.6 recorded in 2010, which was the highest rate in the previous 20-yr period. Overall rents for the current quarter have increased by 2.3 percent Y-o-Y.



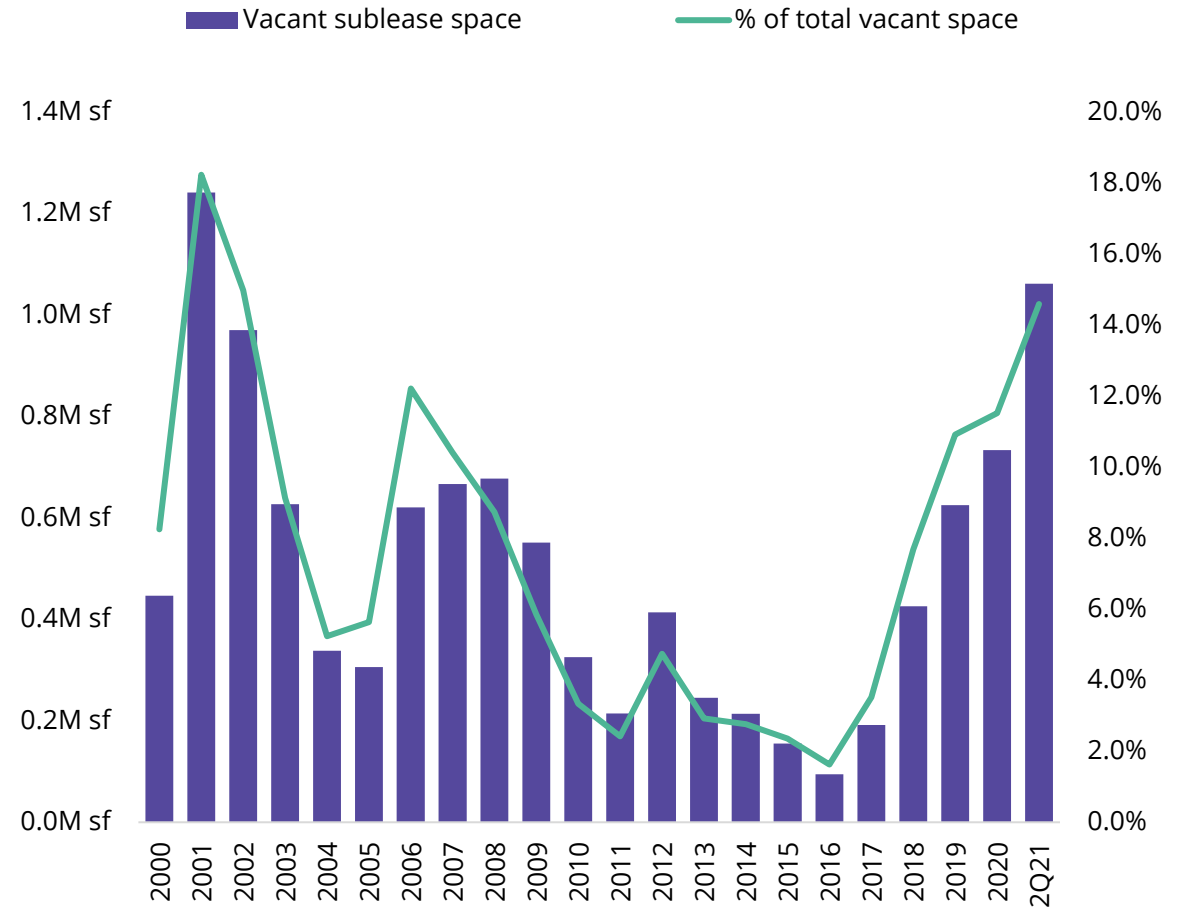
Source: AVANT by Avison Young

Vacant sublease space

1.1 msf

Record levels of sublease vacant space

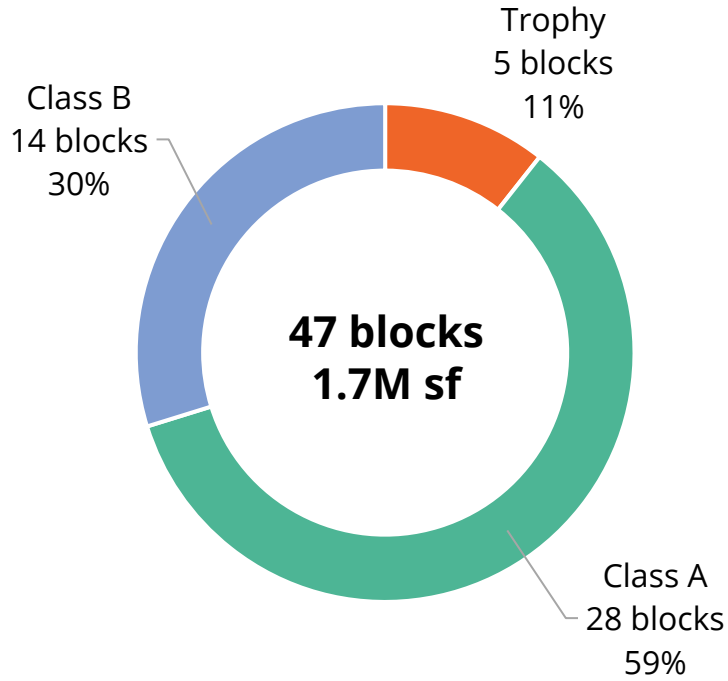
The share of sublease-to-total vacant space of 14.6% has surpassed the peak of 12.2% from the global financial crisis levels, though there is a precedent from 2001 due to the Dot-com Recession when the rate reached 18.2%.



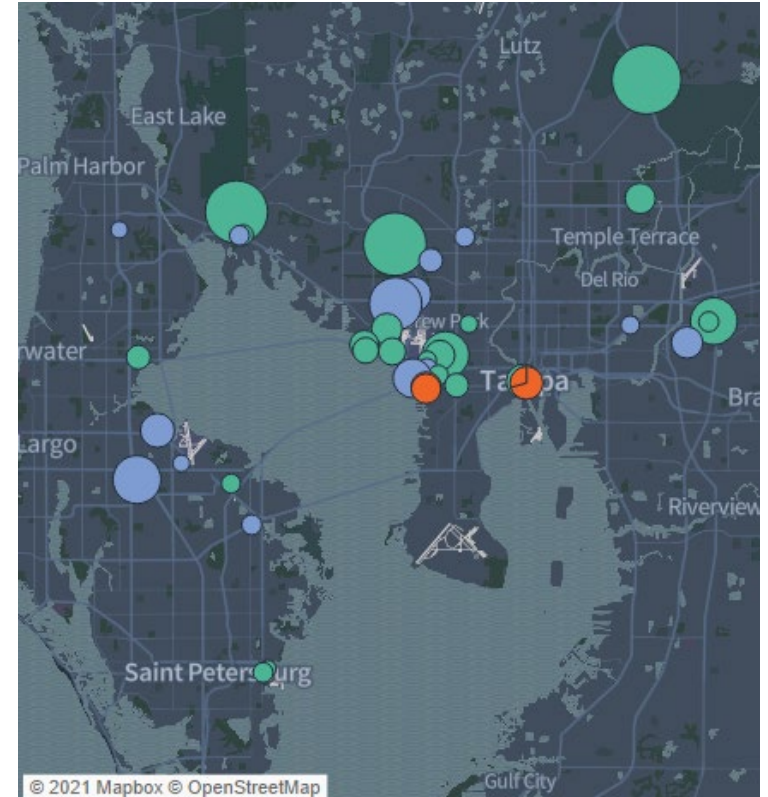
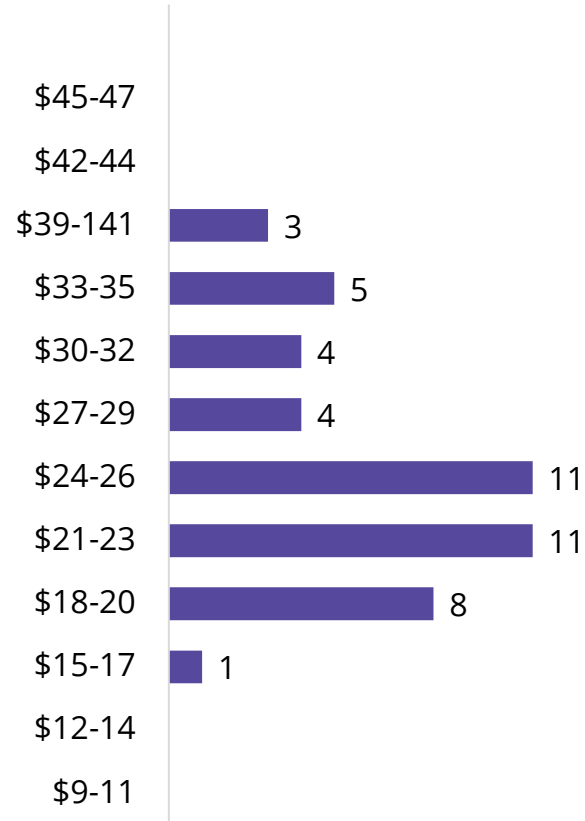
Source: AVANT by Avison Young

Sublease supply pipeline

Building classification



Asking rent per square foot



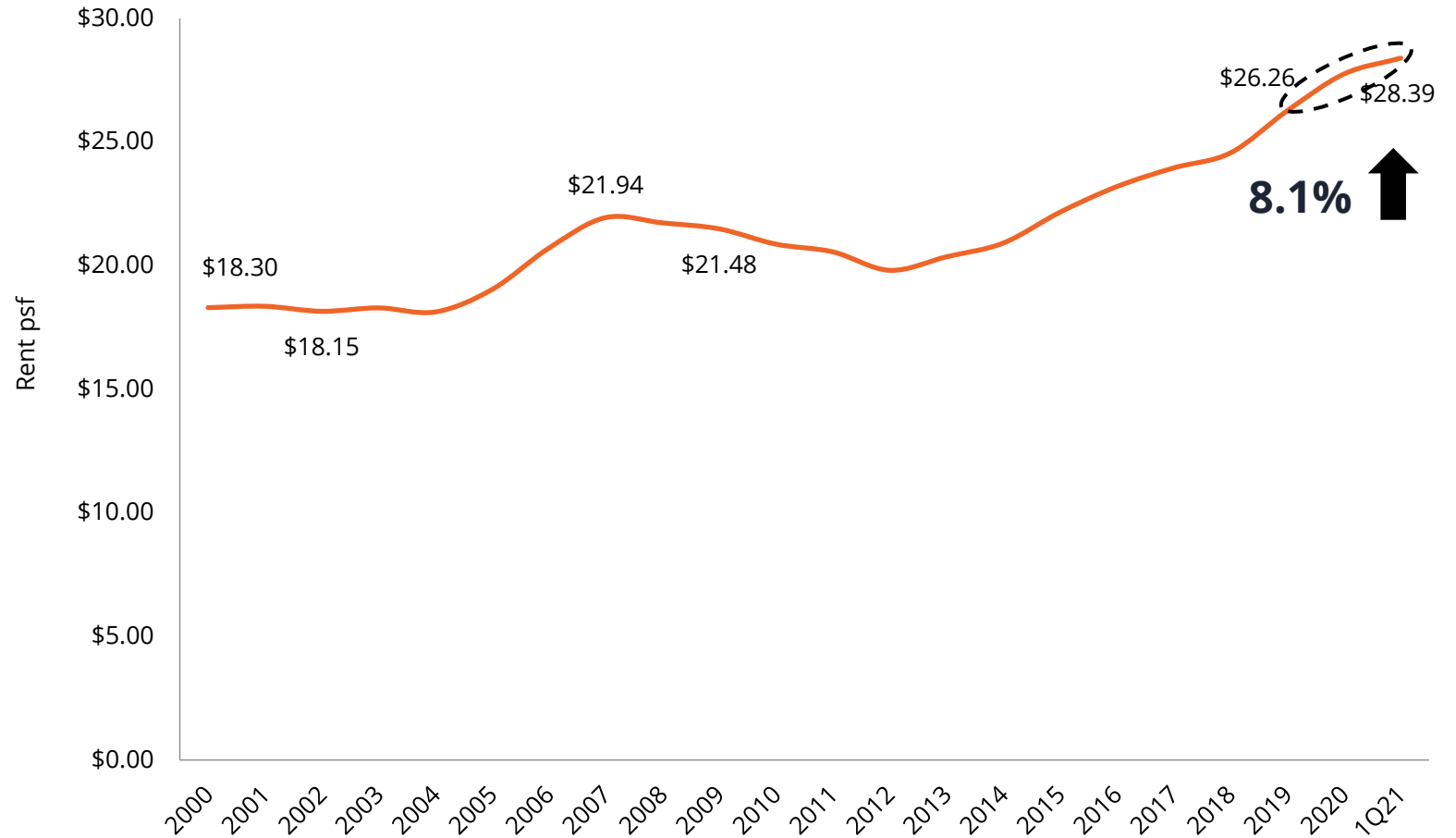
Source: AVANT by Avison Young

Base rents

8.1%

Peak-to-trough change in rents since the onset of the pandemic

Base rents have increased notably since the onset of the pandemic and the resulting recession, which is the opposite of what occurred in the prior two recessions.



Source: AVANT by Avison Young

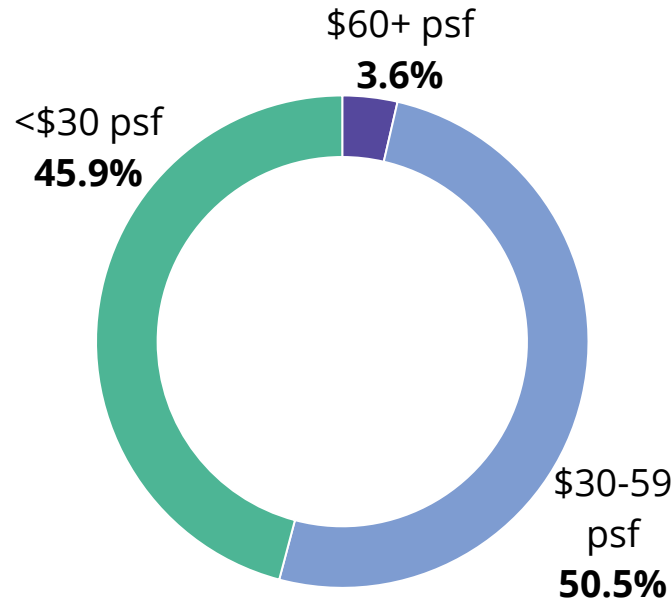
Concession trends pre-COVID vs. post-COVID

9.1%

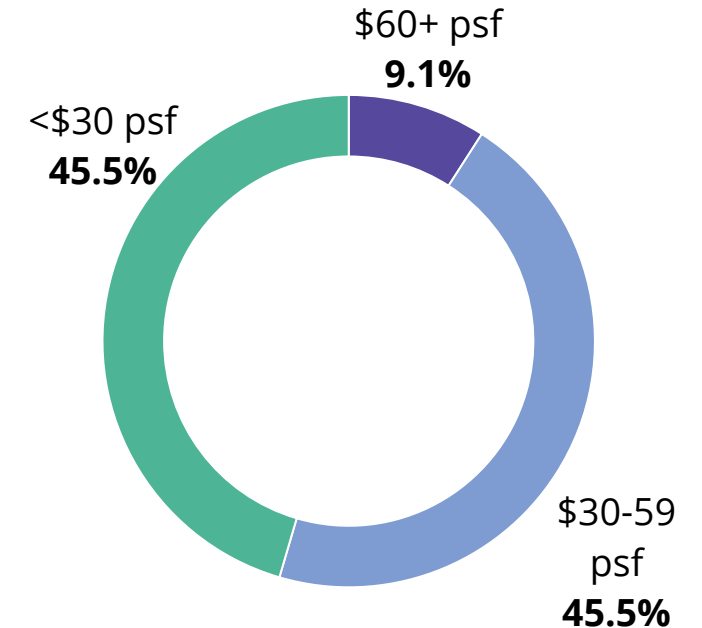
Number of all class A deals since March 2020 with TI allowances above \$60 per sf

While renewals are common and allow tenants time to evaluate their future floor plate needs, tenants have been willing to extend deal terms in order to secure higher TI allowances on new deals.

2018-3/2020



Post-COVID



Source: AVANT by Avison Young

Tampa's construction pipeline

21 properties

proposed or under construction

3.9 msf

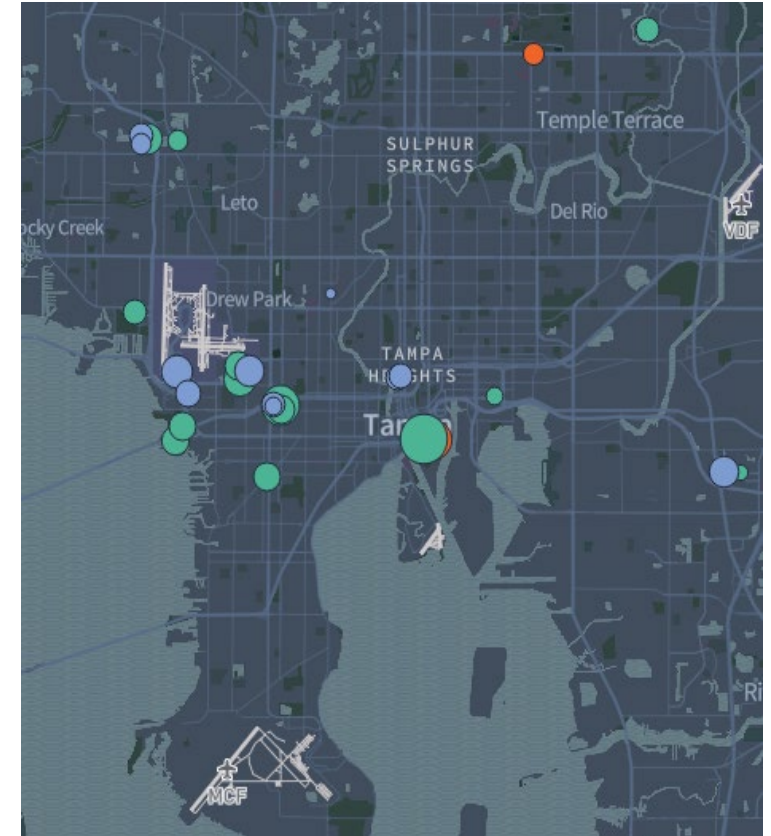
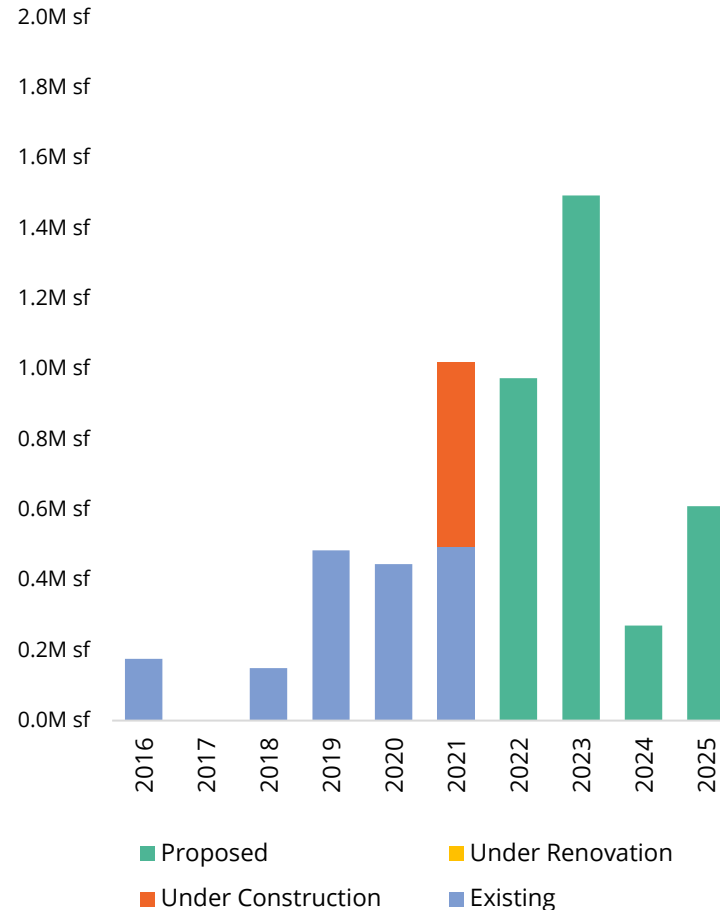
proposed or under construction

7.9%

share of office inventory

1.7 msf

New construction deliveries in Tampa since 2016



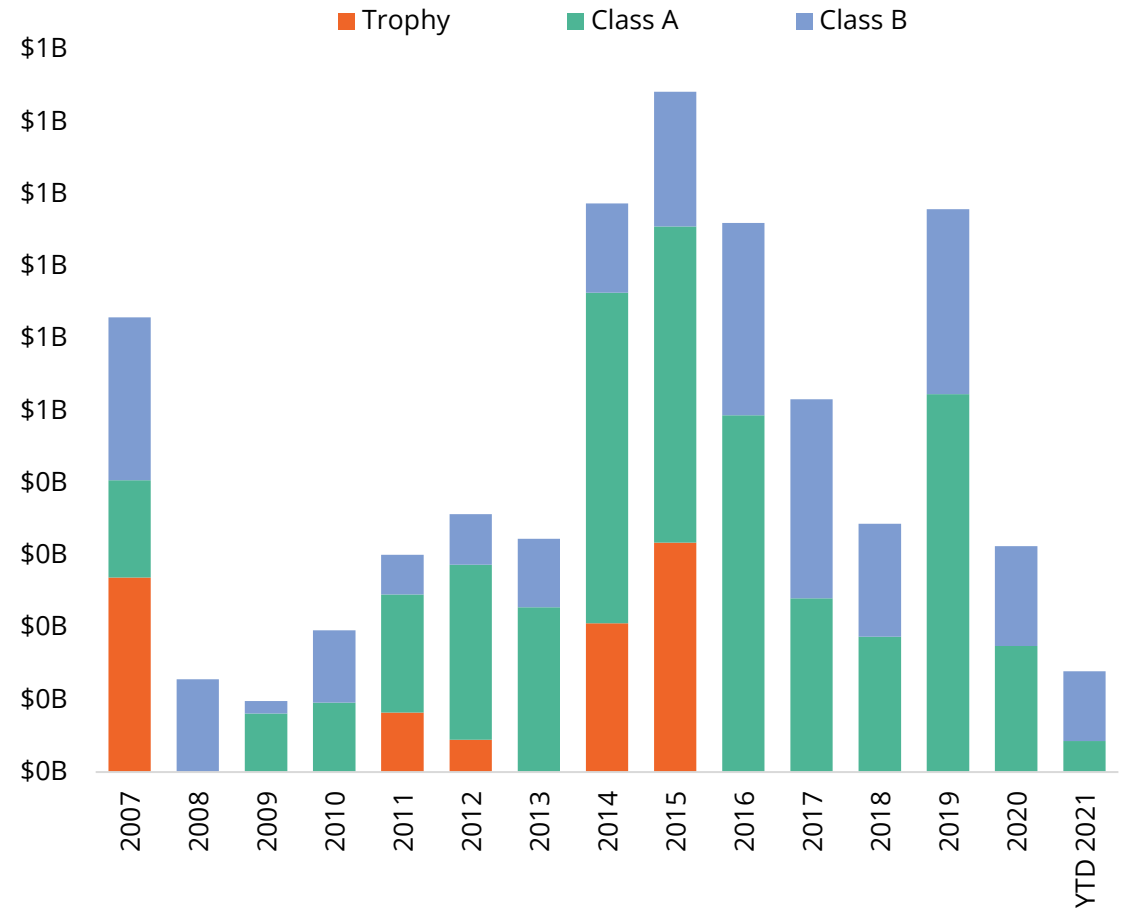
Source: AVANT by Avison Young

Office investment dollar volume

\$452.2M

Tampa office dollar volume 2020 to present

Office sales activity temporarily paused during the pandemic and, as a result, total sales volume from 2020 through year-to-date 2021 remains down 32.3% compared to the prior five-year average dollar volume.



Source: AVANT by Avison Young

Office asset pricing

-10.1%

Tampa office pricing from November 2019 to present

Pricing has softened during the pandemic as investors have adopted more conservative underwriting approaches, decreasing from \$156 psf in November 2019 to \$140 psf in June 2021.



Source: AVANT by Avison Young
New York City Department of Finance, RCA

Looking forward



Here's what we can expect

- The overall vacancy rate will continue to decline incrementally, although another **1 million sf** coming online this year in Westshore - half of which has already delivered - will provide additional pressure. Tenants will increasingly return to the negotiating table follows their internal audits of expected future footprint needs.
- Well-located **class A** office properties will remain sought after by both occupiers and investors, particularly in Westshore, and tenants will increasingly ponder the value proposition of locating downtown in the post-COVID environment.
- **Office leasing demand is incrementally rising** as indicated by increasing term lengths, and the availability of tech talent and labor will continue to impact business decisions.
- The passage of Florida Senate Bill 50 will have **positive implications for commercial real estate** as it will dramatically cut the state tax portion of the business rent tax from 5.5% to 2.0% once Florida's Unemployment Compensation Trust Fund is replenished to pre-pandemic levels. While every tenant will save on their overall business costs, considerable cost savings will be realized by larger occupiers in Florida.



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Let's talk

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