

Diverse Economy Provides Resiliency for Tampa Bay Office Market

Executive Summary

Despite the pressure of the global pandemic, the overall Tampa Bay office market remained resilient during the third quarter. The total number of transactions that were completed inched closer to the typical quarterly average of 279 deals being signed. Nearly 240 transactions were signed, representing just shy of 800,000 square feet of new or renewed leases being completed.

During the quarter, landlords remained steadfast in their position regarding lease rates, concessions, and other allowances. Any discounts being provided by landlords are in the form of shorter lease terms, or an additional month of free rent, with a little adjustment to face rate. However, as more sublease space hits the market, more pressure will be put on landlords that are competing not only with direct space but also an increased amount of sublease space at discounted rates that have yet to be seen.

Investment activity remains relatively low; however, some signature assets hit the market or were put under contract during the quarter. Much of the activity was driven by private equity firms as institutional investors have paused on seeking office buildings as a safe bet during the pandemic. Single-tenant office buildings remained favorable by all investor types, as well as an increased focus on flex/office buildings.

The third quarter also gave light to a recovering local economy for Tampa Bay. While the state of Florida's unemployment rate dropped from 10.5% at the start of the quarter to 7.7%, the Tampa Bay market recovered far greater, from 9.0% to 6.1% at the close of the third quarter. This recovery coupled with the recent removal of COVID 19 related restrictions and positive population growth predictions, provides great optimism for the future of Tampa

Market Highlights

- › Leasing activity has increased, with shorter term deals increasing in popularity to hedge against the short- and long-term impacts of COVID-19.
- › Available sublease space has now surpassed 15% of the overall space available in the market, representing a 200-basis point increase from this period one year ago.
- › Distressed assets remain non-existent, for now. The upcoming quarters will provide a clearer picture of the potential implications brought on by the global pandemic.

Summary Statistics

Q3 2020 Office Market	Tampa Bay, FL
Vacancy Rate	11.1%
Change from Q3 2019 (Percent)	0.4%
Absorption (Square Feet)	-107,146
New Completions (Square Feet)	0
Under Construction (Square Feet)	887,000

Asking Rents

Per Square Foot Per Year

Downtown Tampa Class A	\$39.99
Suburban Class A	\$28.47

Note: Colliers tracks all office buildings $\geq 10,000$ square feet, except for medical and government-owned-and-occupied buildings.

*Number includes total square footage of some mixed-use buildings that contain office space.

Market Indicators

Relative to Prior Period	Q3 2020	Q4 2020*
VACANCY	↑	↑
NET ABSORPTION	—	—
CONSTRUCTION	↑	↔
OVERALL RENTAL RATE	↑	↔
CLASS A RENTAL RATE	↓	↔

Note: Construction is the change in Under Construction.
*Projected.

Leasing Activity, Vacancy & Absorption

At the end of the third quarter, vacancy averaged 11.1%, representing only a marginal increase from the previous quarter average of 10.9%. Tampa Bay's diverse economy has allowed the local market to withstand the implications of the pandemic better than many other markets across Florida, resulting in little major impacts to be seen seven months into the pandemic.

Net absorption turned negative for only the fourth time in the past two years, posting a negative 107,146 square feet during the third quarter. The suburban markets have fared better than other submarkets, with the I-75 Corridor posting the only positive absorption during the quarter. Over 123,000 square feet of space was occupied.

Even with the pressure experienced by the pandemic, landlords remained unchanged with their asking lease rates, and in many cases, unchanged on final negotiated rates with tenants as well. Class A rates continue to hover around \$33.00 per square foot full service, with overall rates (inclusive of A, B & C Product) averaging \$27.89 per square foot full service. Rates have remained nearly flat for the past four consecutive quarters.

Construction Activity

In the coming quarters, over 537,000 square feet of office space is expected to be delivered, as Water Street and Midtown projects in Downtown Tampa are both expected to be completed.

Water Street Tampa will add over 384,000 square feet of newly built office space, with Midtown Tampa adding over 150,000 square feet to Downtown. Multiple other projects remain under construction, marching forward with their original plans regardless of the pressure felt by the pandemic.

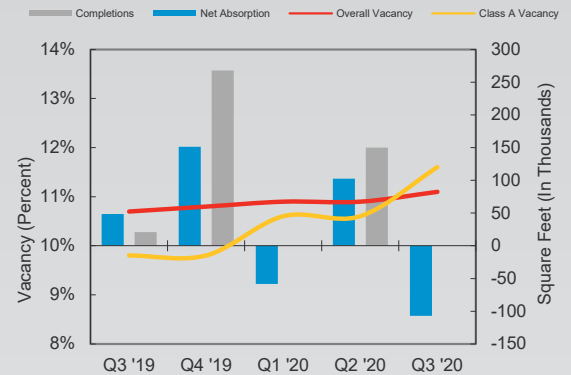
Investment Activity

Investment activity continues to remain low during the third quarter as a direct result of the impacts of the pandemic. Overall, investors have pulled back from office investments primarily due to the lack of occupancy by employees of tenants, putting pressure on underwriting and future utilization of office space by tenants.

Private equity firms were the primary drivers of any activity that occurred during the quarter. During the quarter, only 20 transactions occurred of buildings over 10,000 square feet throughout the entire Tampa Bay market. Sales volume remains nearly 70% down from the typical quarterly volume of \$261 million. However, the current quarter represented nearly a 100% increase from the previous quarter.

The largest transaction during the quarter was Sabal Pavilion I, a 120,500 square foot office building that was purchased for \$26.9 million (\$223.24/SF). The buyer was CTO Realty Growth, and seller was Pacer Partners.

Completions, Absorption and Vacancy Rates

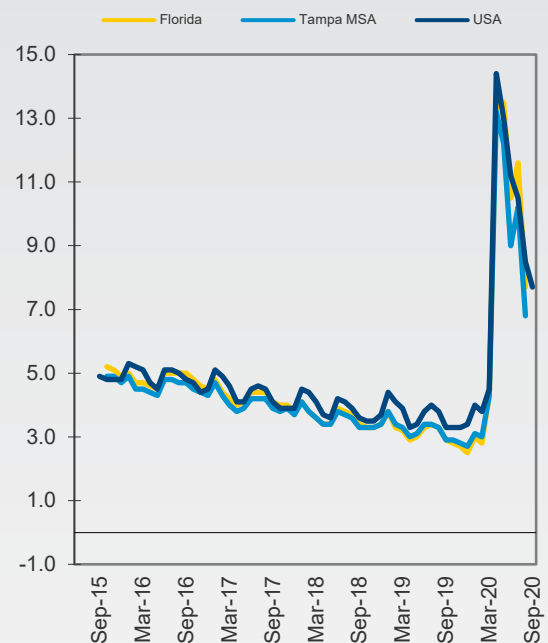


Vacancy Rate Shows a Marginal Increase

Tampa Bay's total vacancy increased to 11.1% from 10.9% in the previous quarter.

Source: Colliers International, CoStar

Unemployment Trends



The Tampa Bay MSA unemployment rate posted 6.8% in August 2020. The State of Florida posted 7.7% ahead of the national US average of 8.5%.

Source: US Bureau of Labor Statistics

SUBMARKET BREAKDOWN

Prop. Type	Bldgs.	Total Inventory SF	Direct Vac. %	Total Vac. %	Net Absorp. Current Qtr. SF	Net Absorp. YTD SF	New Completions SF	Under Construc. SF	Avg. Direct Asking Rate Full Service
TAMPA CBD									
A	17	5,798,094	11.9%	13.7%	-52,376	-233,091	0	537,000	\$39.99
B, C	55	2,158,905	4.4%	4.9%	6,586	-64,209	0	0	\$24.92
Overall	72	7,956,999	9.9%	11.3%	-45,790	-297,300	0	537,000	\$38.84
WESTSHORE									
A	42	8,174,828	10.5%	12.1%	-15,385	-92,475	0	200,000	\$35.82
B, C	172	7,503,798	11.2%	12.3%	-93,013	5,954	0	0	\$27.15
Overall	214	15,678,626	10.8%	12.1%	-108,398	-86,521	0	200,000	\$31.28
I-75 CORRIDOR									
A	36	4,484,648	11.2%	13.1%	-113,899	-125,844	0	0	\$26.57
B, C	249	8,382,027	9.5%	12.1%	237,244	414,494	0	0	\$20.89
Overall	285	12,866,675	10.1%	12.5%	123,345	288,650	0	0	\$23.49
NORTH PINELLAS									
A	18	1,001,950	6.9%	6.9%	-11,847	8,600	0	0	\$22.37
B, C	123	2,802,321	12.2%	12.8%	-59,530	-90,302	0	0	\$20.92
Overall	141	3,804,271	10.8%	11.2%	-71,377	-81,702	0	0	\$21.35
GATEWAY									
A	17	1,825,237	8.3%	9.7%	-25,342	-55,235	0	0	\$25.33
B, C	104	3,513,192	11.2%	11.3%	6,756	59,593	0	0	\$19.93
Overall	121	5,338,429	10.2%	10.7%	-18,586	4,358	0	0	\$22.97
ST. PETERSBURG CBD									
A	9	1,790,962	6.1%	6.9%	-24,235	18,430	0	0	\$32.26
B, C	43	1,594,642	5.8%	5.8%	10,962	-22,512	0	0	\$24.10
Overall	52	3,385,604	6.0%	6.4%	-13,273	-4,082	0	0	\$29.23

TAMPA BAY OVERALL OFFICE MARKET

Qtr. & Year	Bldgs.	Total Inventory S.F.	"Direct Vac. %"	"Total Vac. %"	"Net Absorp. Current Qtr. S.F."	"Net Absorp. YTD S.F."	New Completions S.F.	Under Construc. S.F.	Overall Avg. Direct Asking Rate F.S.	Class A Avg. Direct Asking Rate F.S.
2020 Q3	1,523	68,288,749	9.9%	11.1%	-107,146	-62,967	0	887,000	\$27.89	\$32.96
2020 Q2	1,523	68,288,749	9.5%	10.9%	102,452	44,179	150,000	687,000	\$27.80	\$33.18
2020 Q1	1,522	68,138,749	9.5%	10.9%	-58,273	-58,273	0	837,000	\$27.57	\$33.03
2019 Q4	1,522	68,138,749	9.6%	10.8%	151,074	227,075	267,691	837,000	\$27.43	\$33.31
2019 Q3	1,520	67,871,058	9.6%	10.7%	48,482	76,001	20,717	1,104,691	\$26.49	\$32.99

SALES ACTIVITY

PROPERTY ADDRESS	CLASS	BUYER NAME	SIZE (SF)	SALES PRICE	SUBMARKET
3620 Queen Palm Drive - Sabal Pavilion I	A	CTO Realty Growth Inc.	120,500±	\$26,900,000 (\$223.24/SF)	I-75 Corridor
17401 Commerce Park Boulevard	B	Truist	20,753±	\$6,275,800 (\$302.40/SF)	I-75 Corridor
11200 Dr. Martin Luther King Street	B	Mid-Atlantic at Gateway	56,151±	\$5,265,000 (\$93.77/SF)	Gateway

LEASING ACTIVITY

PROPERTY ADDRESS	CLASS	TENANT NAME	SIZE (SF)	LEASE TYPE	SUBMARKET
1401 North Westshore Boulevard	B	Heritage Insurance	86,687±	Direct	Westshore
*16255 Bay Vista Drive	C	Tampa Microwave	60,963±	Direct	Gateway
615 Channelside Drive	B	Industrious	45,533±	Direct	Tampa CBD

*Colliers Deal - Alan Feldshue



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Comprising
18,000
professionals



Revenue
\$3.5B
(US\$)



Managing
2.0B
(square feet)



Established in
413 offices
& **68** countries



Transaction value
\$129B
(US\$)

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