

3Q24

Tampa Office Market Overview



NEWMARK

Market Observations

Economy

- The market's unemployment rate increased by 38 basis points year over year to 3.4% but remained well below the five-year average of 4.2%.
- Job growth pace has slowed compared with recent highs to 1.7% year over year while employment growth continues to remain well below pre-pandemic levels, with August 2019 recording annual growth at 2.3%.
- All sectors reported employment growth, with the mining and construction industry leading job gains at 4.3% over the past 12 months.
- Office-using jobs in the market declined by 0.1% from the all-time historical high to 469,770 employees in August 2024, but still reflected a 17.3% growth since 2019.

Major Transactions

- The largest lease of the quarter was a renewal signed by PwC for 248,280 SF at MetWest Two in the Westshore submarket.
- Large leases signed tend to be concentrated in the Westshore and Tampa CBD submarkets, with each home to two of the four largest deals signed.
- Renewals and new leases each comprised two of the top four largest deals signed. The mixture of new leases and renewals indicate there is appetite for office space in the market.

Leasing Market Fundamentals

- Annual full-service asking rental rates reached a new high at \$29.47/SF, reflecting a 5.8% increase year over year at the end of the third quarter of 2024.
- Vacancy rates remained relatively flat, reporting no change quarter over quarter and a 20 basis points increase year over year.
- The under-construction pipeline continues to remain muted in the market, with 518,929 SF under construction, accounting for just 0.8% of the market's inventory.
- Leasing activity ended the quarter at 826,679 MSF, significantly lagging the 16-year third-quarter quarterly average of 1.4 MSF and reflecting a decrease of 53.1% year over year.

Outlook

- The Tampa office market growth will continue to remain slow and subdued through the remainder of the year due to economic headwinds. Office investment activity will remain low in the near term due to elevated inflation and a steeper cost of debt. However, the recent 50 basis point reduction in interest rates is starting to generate some activity, although it will take time before this directly translates into completed deals.
- Tenants are likely to continue to shed unused or underutilized space in lower-quality assets and lease smaller footprints in higher-quality assets.
- In the near term, vacancy rates are projected to stay flat, as new deliveries remain muted in the market.

1. Economy
2. Leasing Market Fundamentals

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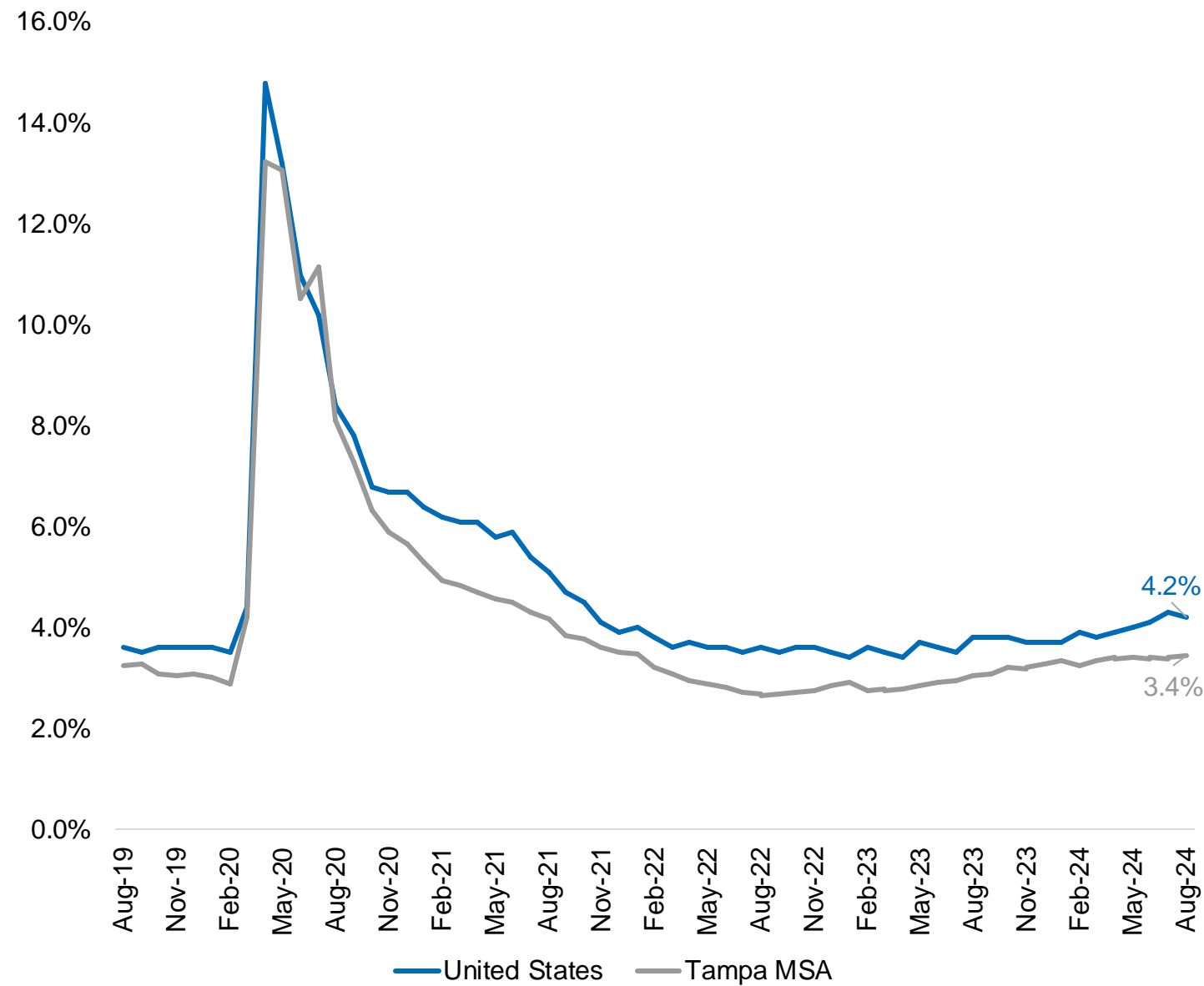
Economy



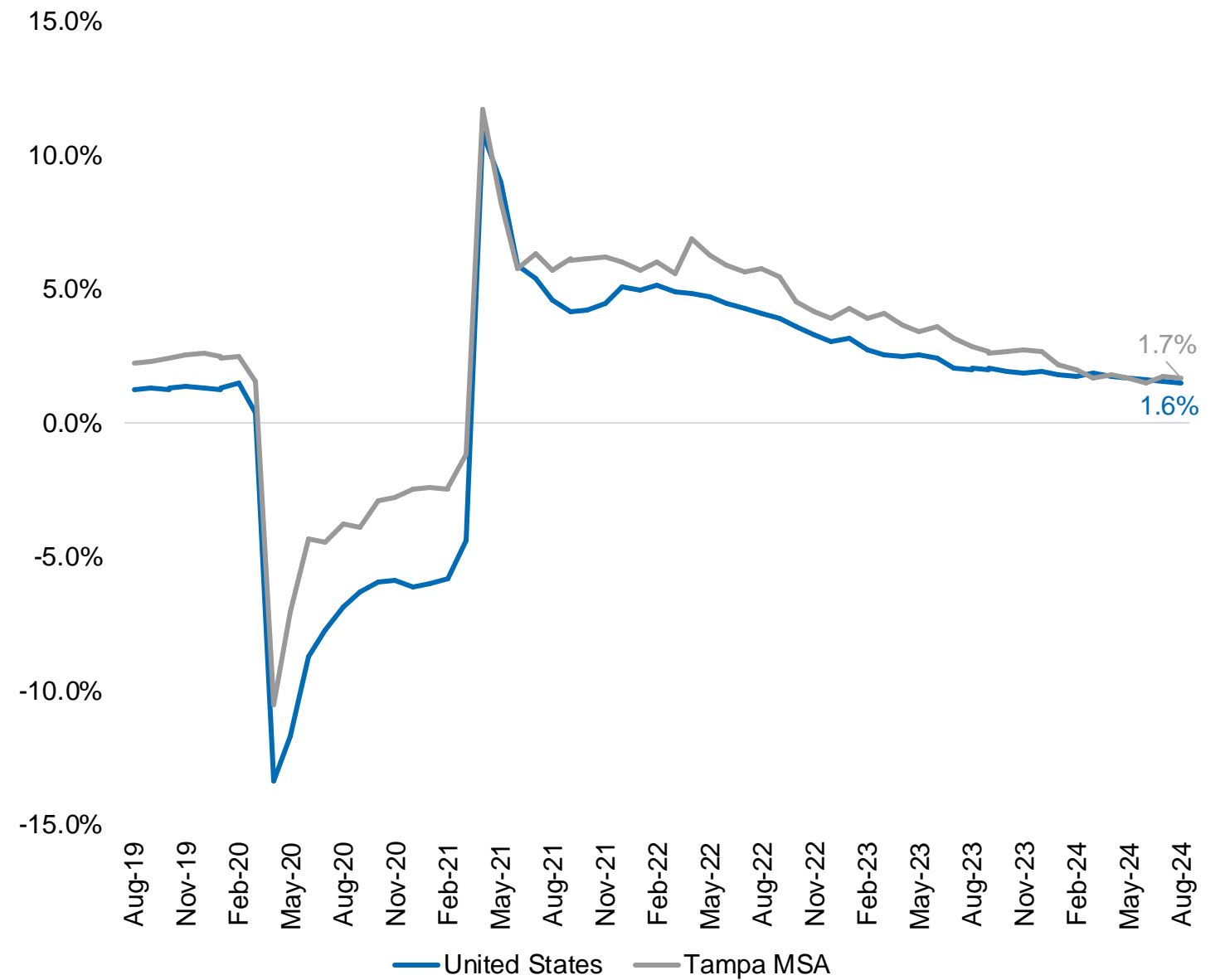
Metro Employment Growth Trends Remain Flat

Tampa has generally reported lower unemployment rates compared with the national average, while being an outperformer in employment growth. Recent national economic headwinds have pushed the region's unemployment rate to increase by 38 basis points year over year, with employment growth slowing by 117 basis points compared with the previous year. The difference in employment growth in the market and nation remain close by 10 basis point.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

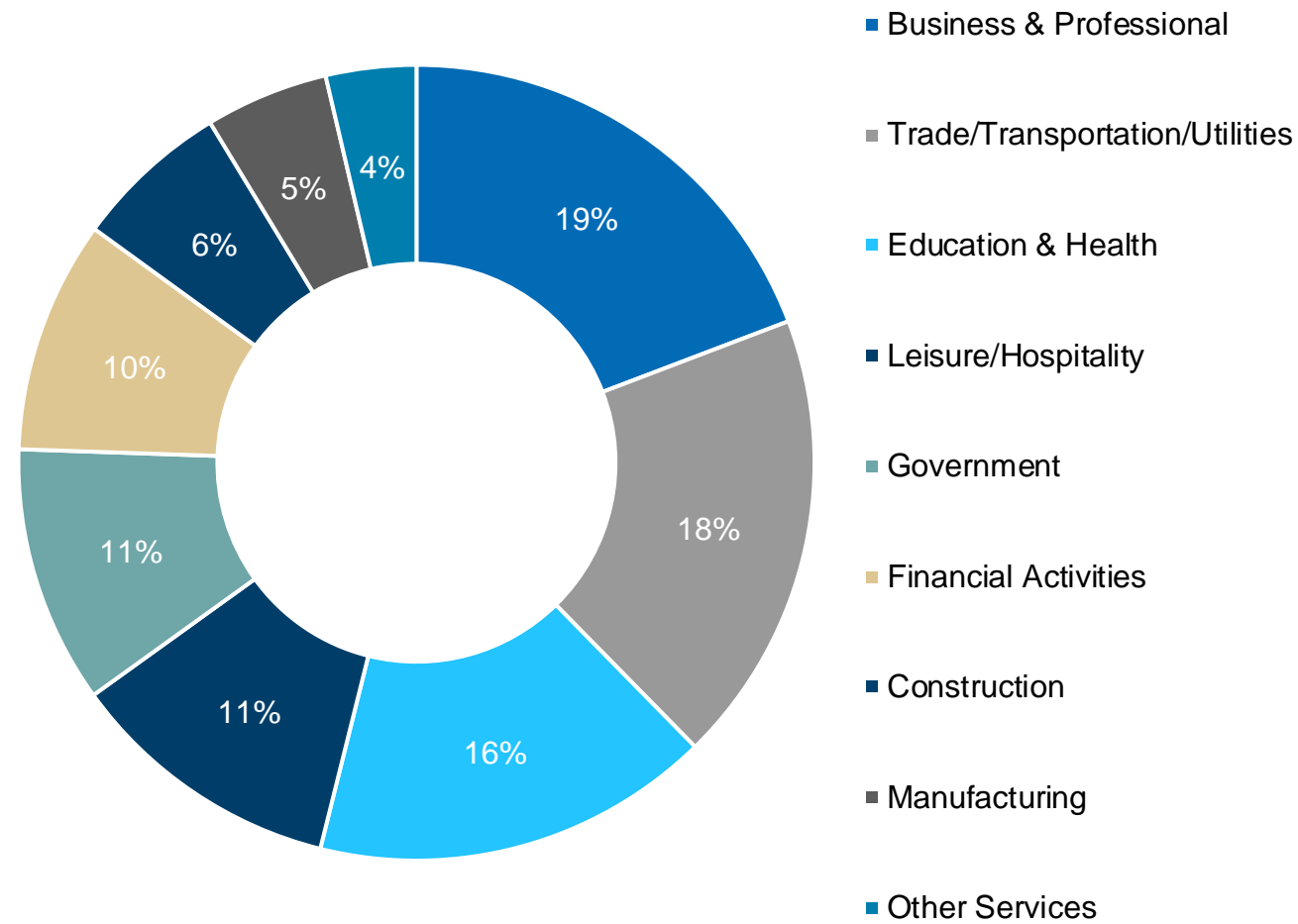


Source: U.S. Bureau of Labor Statistics, Tampa MSA

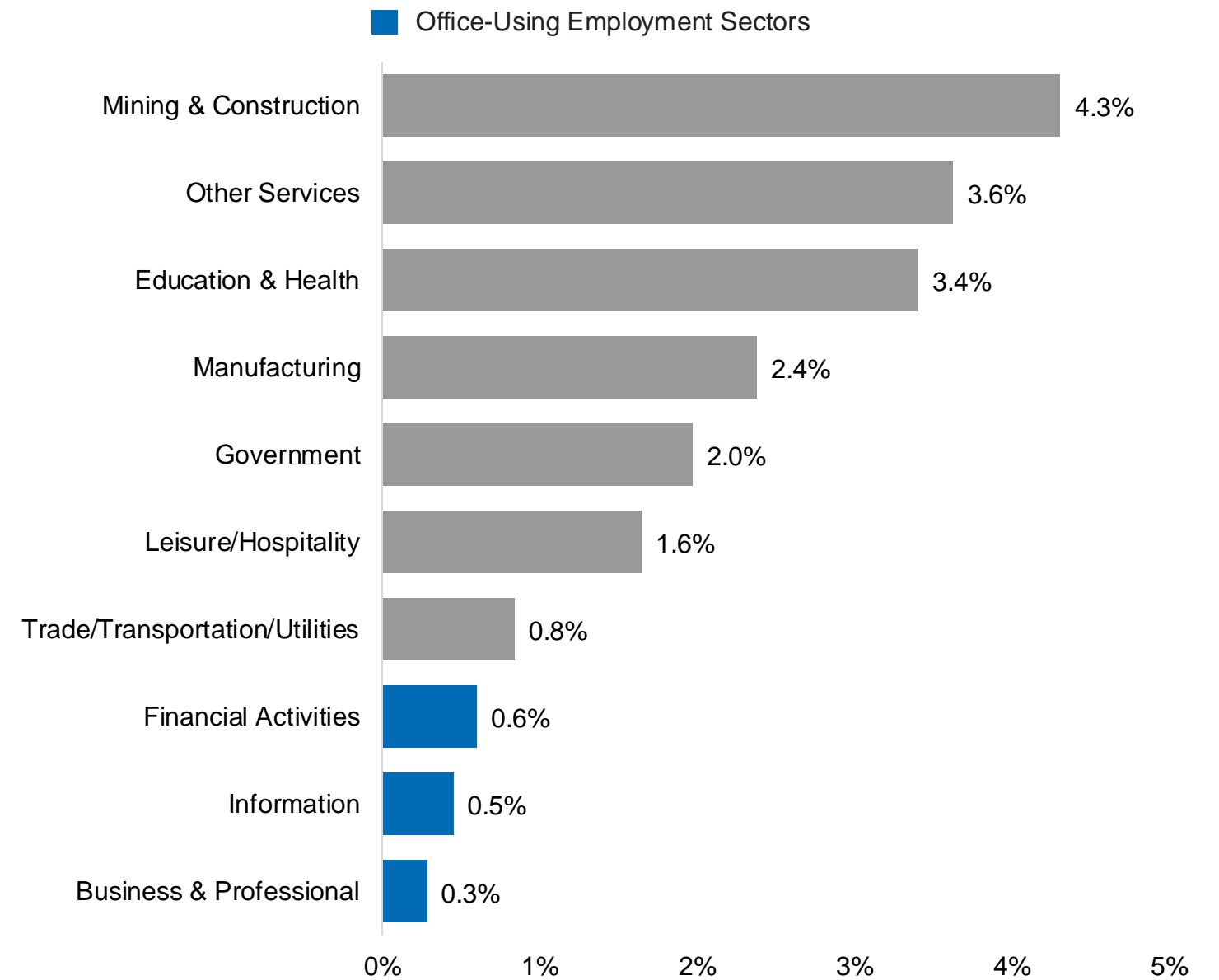
Employment Growth Continues for All Sectors

The Tampa market's top two employment industries account for 36.9% of market share. The office-using employment's business and professional services sector is the largest industry sector in the metroplex at 18.8%. All office-using employment sectors reflected growth over the past 12 months, ranging from 0.3% to 0.6% year over year.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

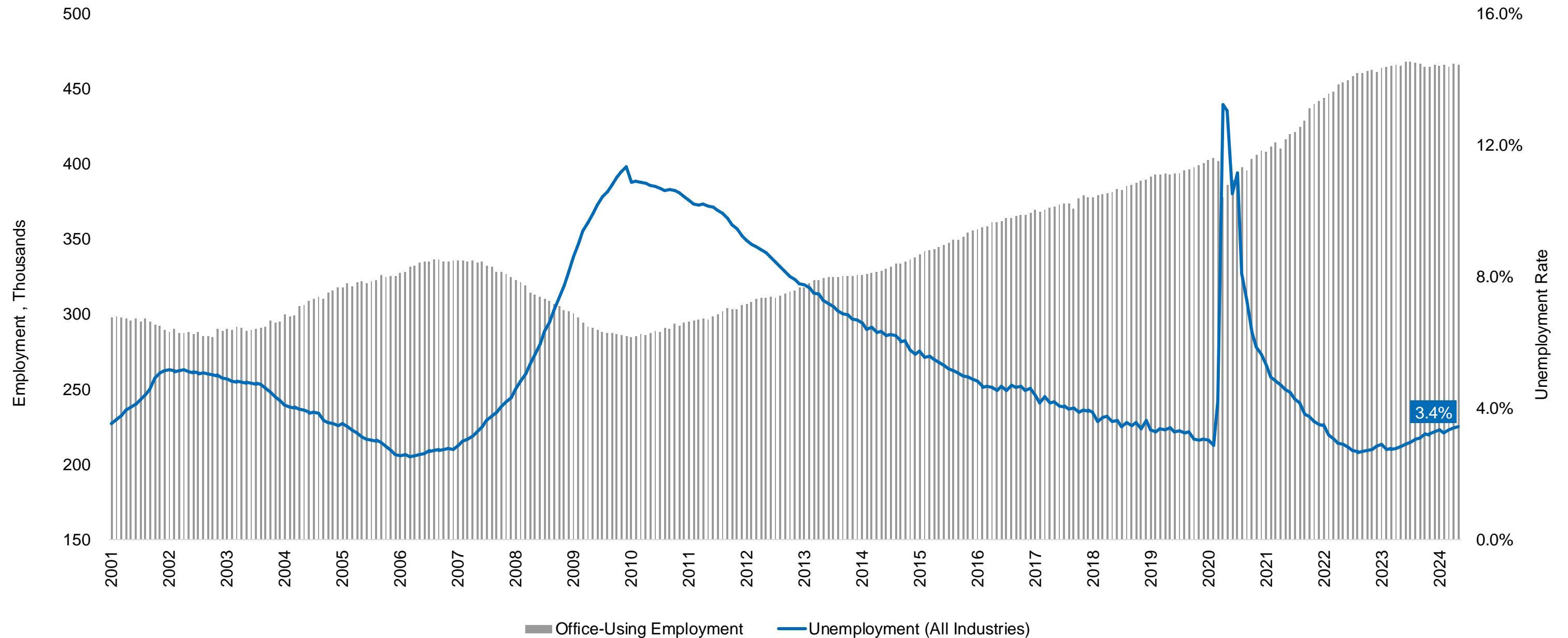


Source: U.S. Bureau of Labor Statistics, Tampa MSA

Overall Office-Using Employment Ends Just Shy of Record High

Office-using employment in the Tampa market increased by 0.4% year over year to 469,770 employees, remaining just 0.1% shy of the all-time high reached a month ago. Currently, the unemployment rate is at 3.4%, above the 3.3% average levels reported in 2019. The strong performance of Tampa's office-using industries have helped maintain the recent unemployment rate near pre-pandemic levels.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Tampa MSA

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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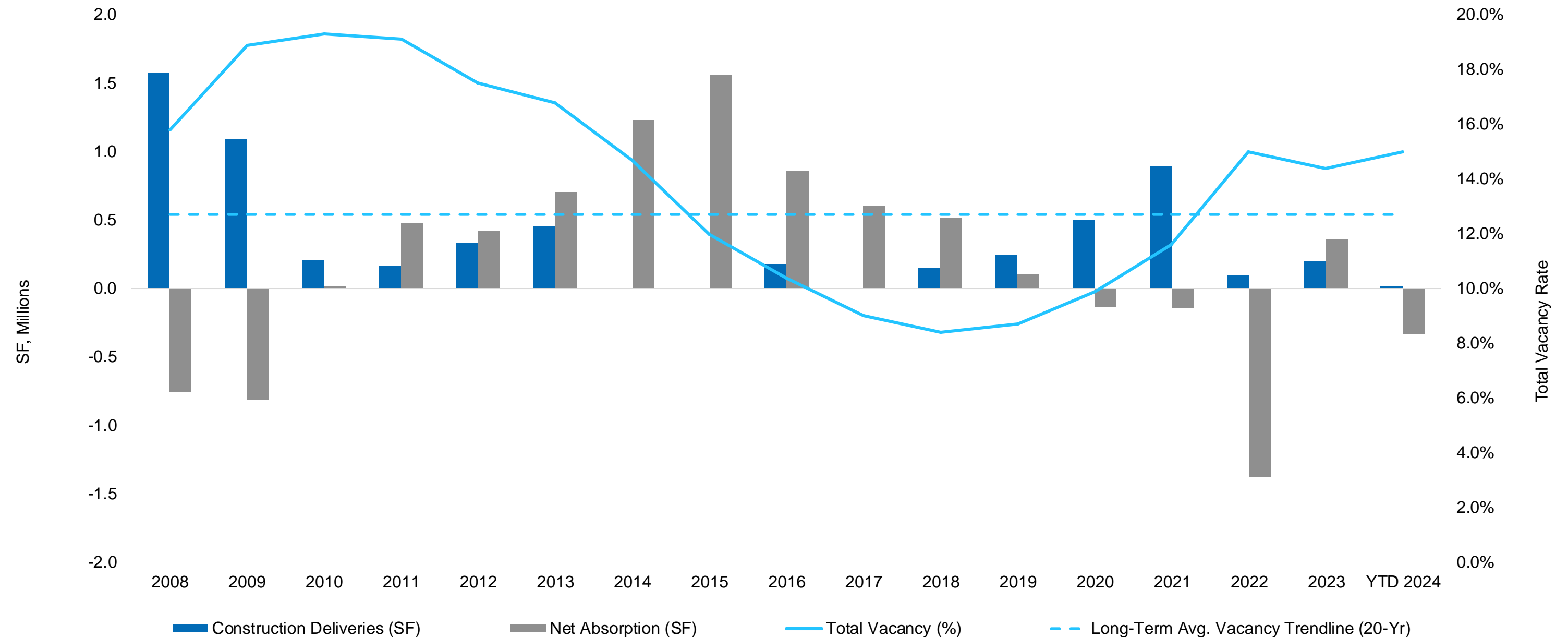
Leasing Market Fundamentals



Vacancy Unchanged while Quarterly Demand Turns Positive

The Tampa office vacancy rate increased by 20 basis points year over year to 15.0% in the third quarter of 2024. Since the pandemic, occupancies have slowed, with minimal new deliveries occurring after the market worked through its pre-pandemic pipeline. As a result, vacancy rates have remained elevated but stable since mid-2022. The subdued construction pipeline post-pandemic has helped the market recalibrate and avoid vacancy spiking to the 2010 to 2011 highs reported following the financial crisis.

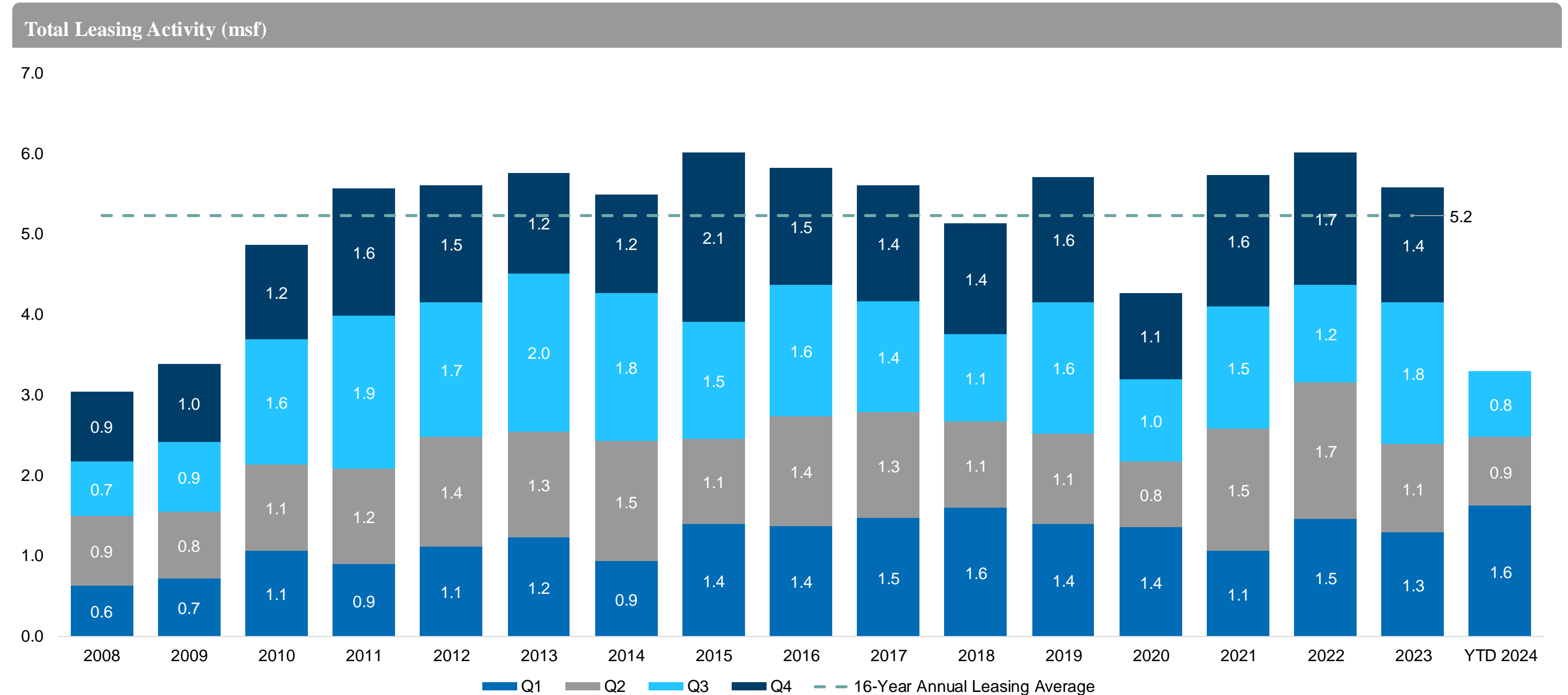
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Quarterly Leasing Activity Continues to Significantly Lag Historical Quarterly Trends

Leasing activity in the market in the third quarter of 2024 underperformed the 16-year third-quarter leasing average of 1.4 MSF, closing the quarter at 826,679 SF. Deal size averaged 3,307 SF in the third quarter of 2024, an average of 297 SF and 1,727 SF smaller than the previous quarter and year, respectively. Leasing activity in recent quarters has significantly lagged historical performance, indicating slowing office leasing in the market amid economic headwinds resulting in both smaller leases signed and fewer deals done.

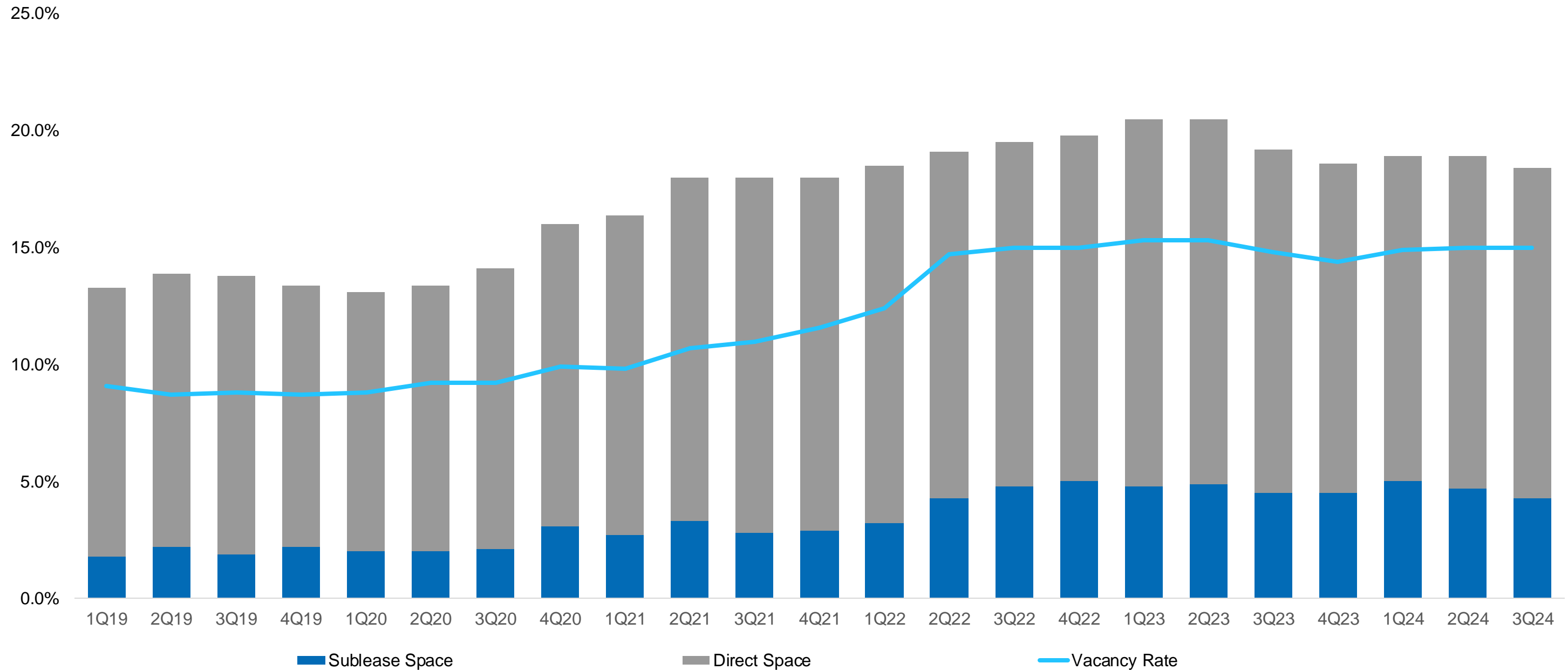


Source: Newmark Research, CoStar

Availability Decreases but Remains Elevated

Sublease availability in the market remains elevated at 4.3% in the third quarter of 2024 but has declined by 70 basis points from the recent peak observed during the first quarter of 2024. Direct availability decreased by 10 basis points quarter over quarter. While availabilities decreased and continued to remain elevated, vacancies held steady and remained unchanged from the previous quarter.

Available Space as Percent of Overall Market

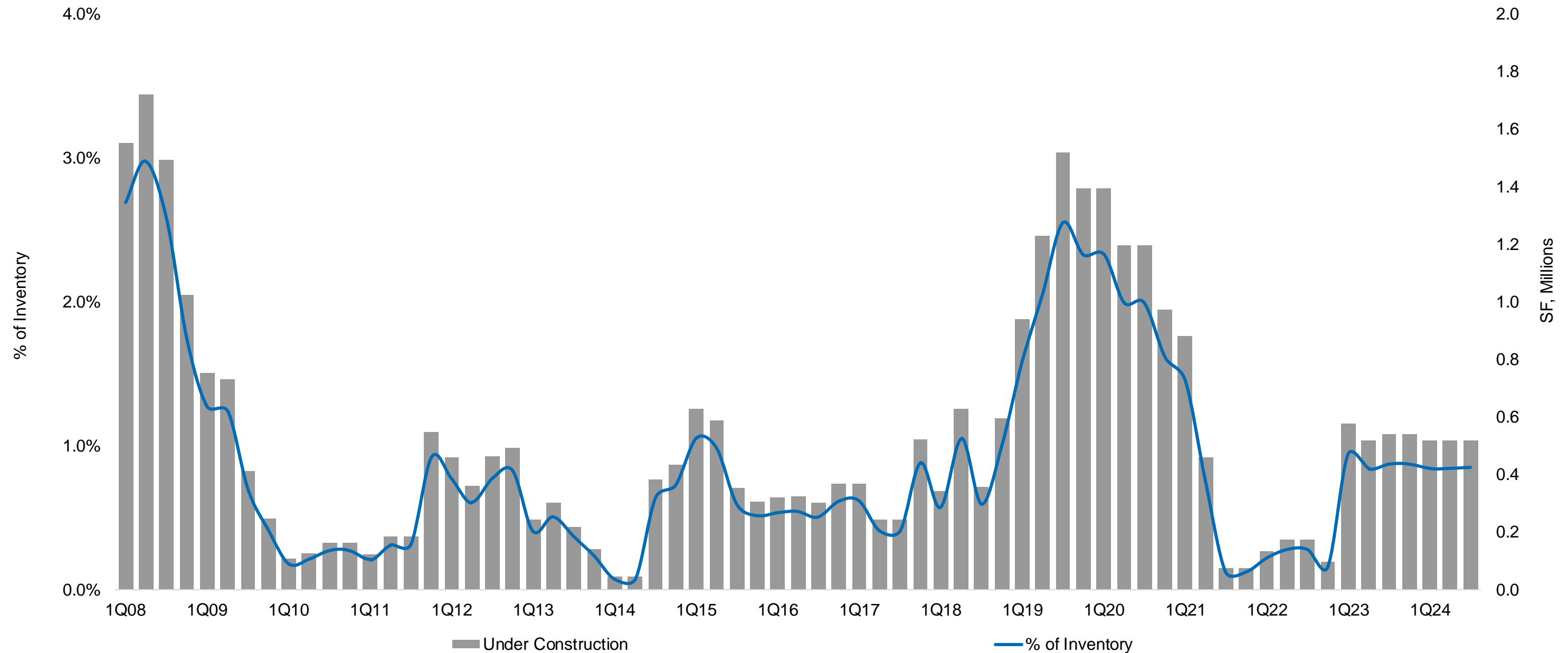


Source: Newmark Research, CoStar

Construction Activity Remains Muted

Construction activity ramped up in the first quarter of 2023 and has remained stable in each subsequent quarter. As of the third quarter of 2024, the market had 518,929 SF under construction, accounting for 0.8% of the market's inventory, indicating there is less risk of overbuilding.

Office Under Construction and % of Inventory

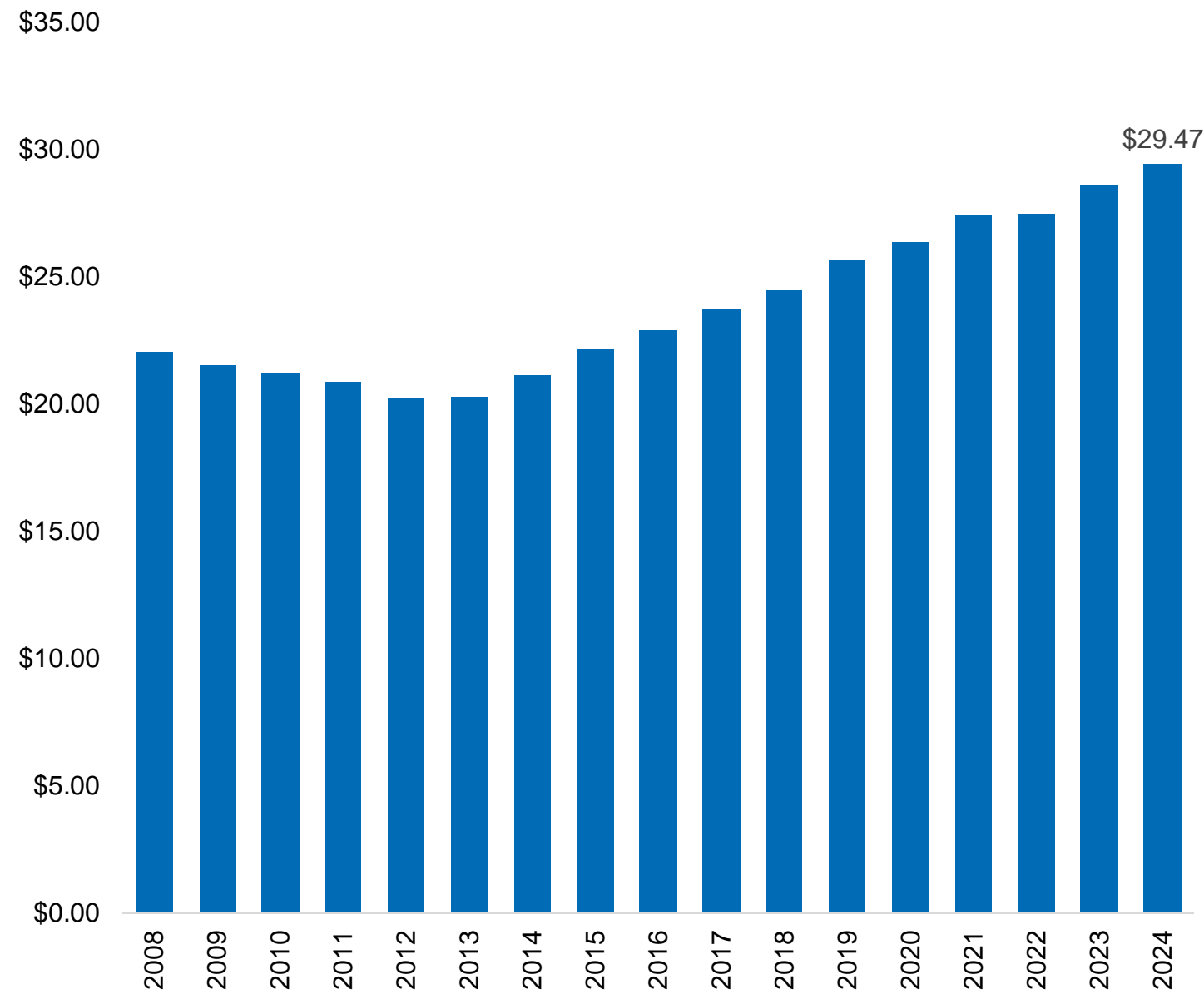


Source: Newmark Research, CoStar

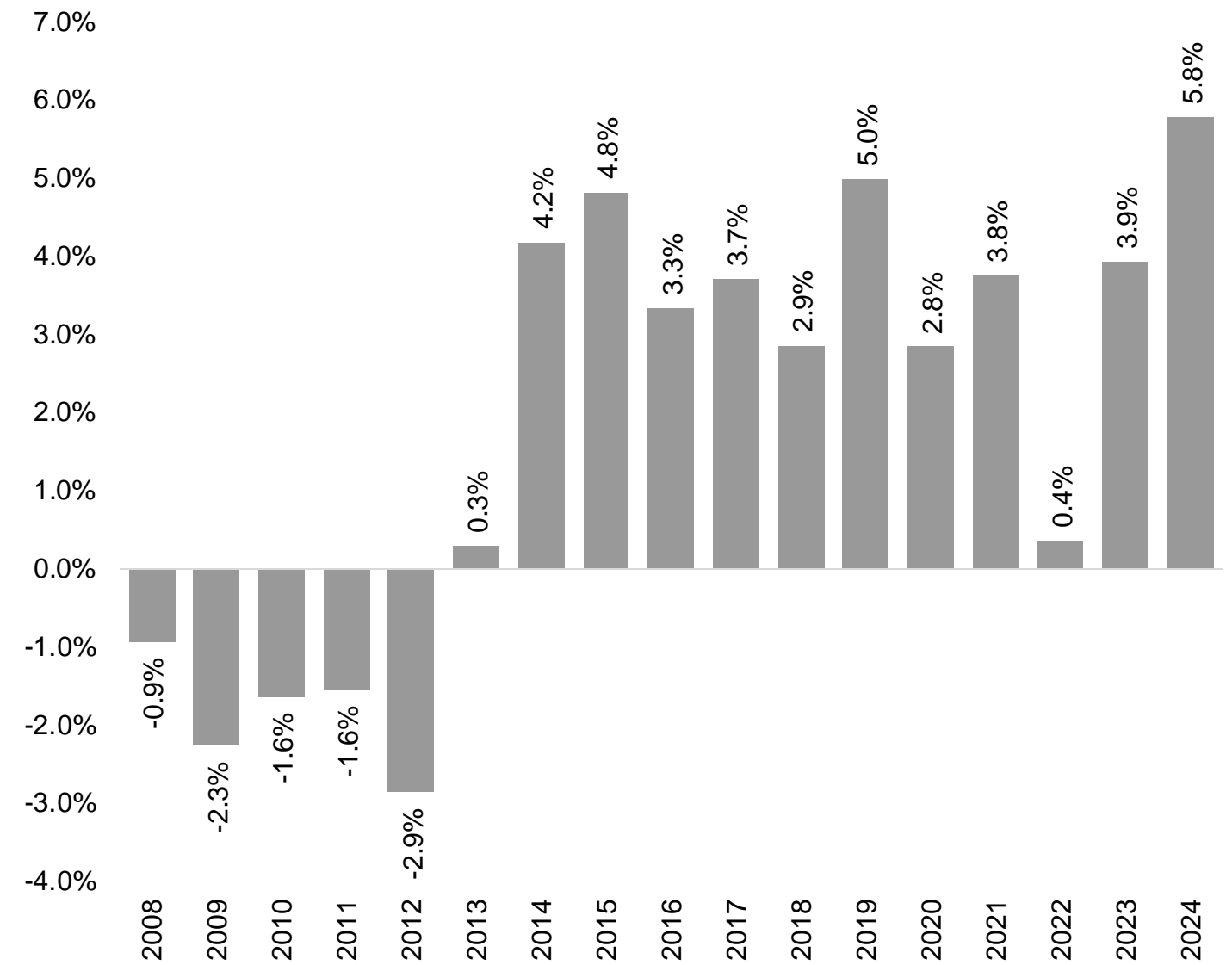
Rents Reach New High

Rents reached an all-time historical high in the third quarter of 2024 at \$29.47/SF, increasing by 5.8% year over year. Landlords will likely uphold high rents but offer attractive concessions during negotiations to mitigate softer market demand.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

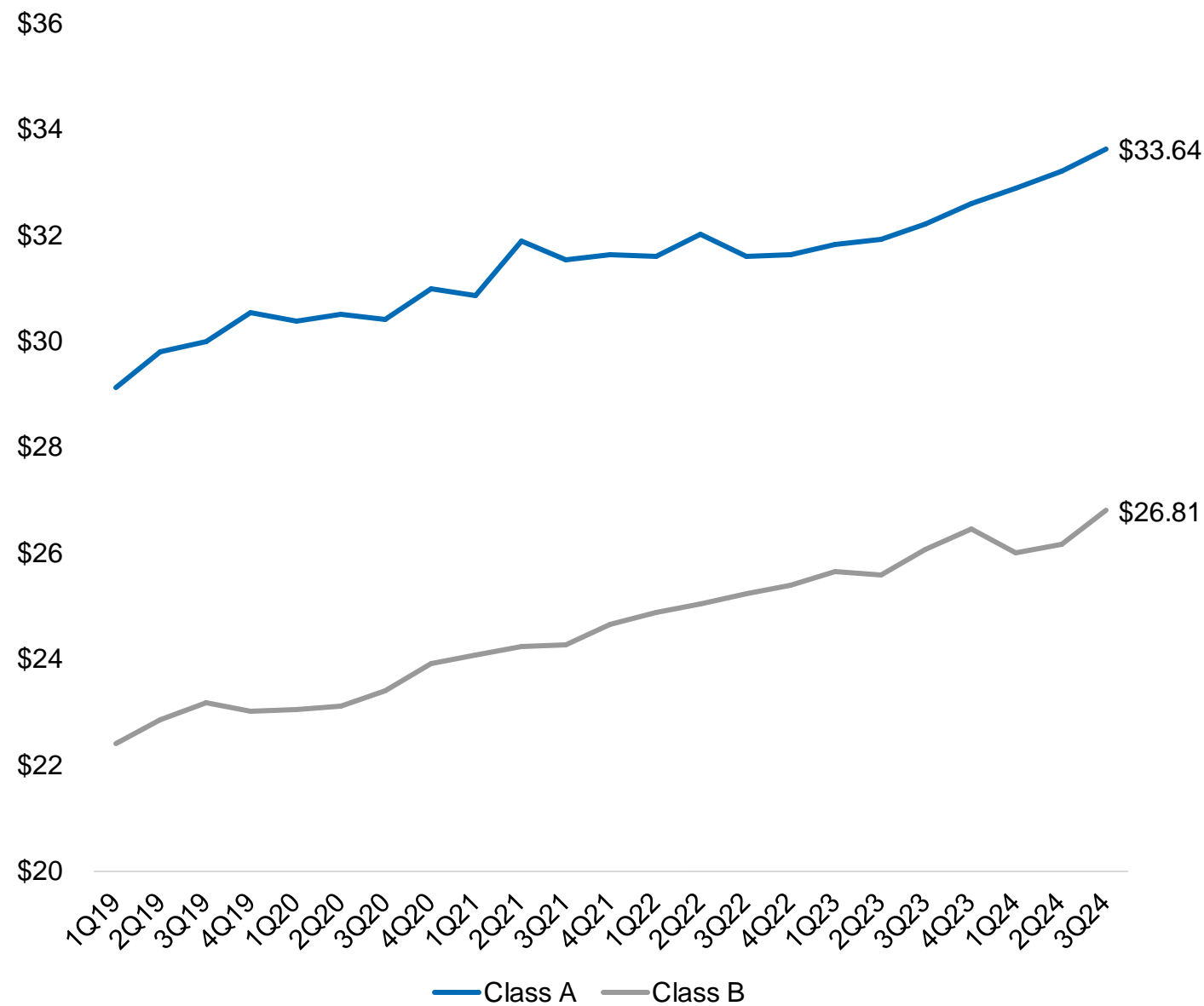


Source: Newmark Research, CoStar

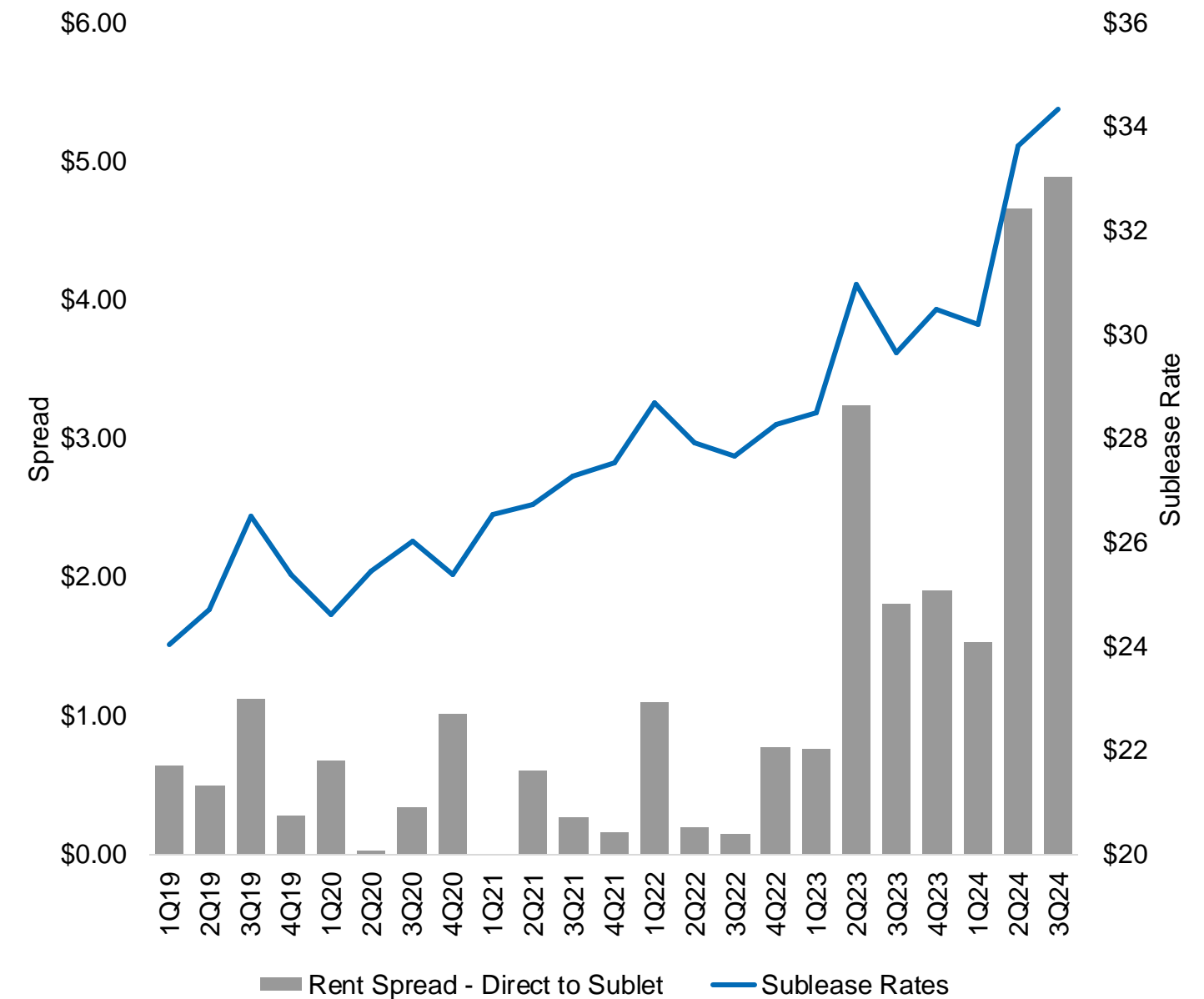
Rent Spread Increases Yearly, but Lower than Pandemic Levels

In the third quarter of 2024, Class A rents ended at \$33.64/SF, while Class B rents reported \$26.81/SF. Rent difference between the two assets is at \$6.83/SF, a 9.5% spread decrease since 2019 but an 11.2% spread increase year over year. The continuous rent spread between Class A and Class B assets will likely push more tenants to shed unused space and lease smaller footprints in higher-quality assets. Sublease rates spiked in the third quarter of 2024, increasing by 2.1% quarter over quarter and 15.8% year over year.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Flight-to-Quality Leasing Activity Continues

Flight to quality remains a trend in the market. As of the end of the third quarter of 2024, Class A space accounted for 61.3% of the market's leasing activity by SF but only 35.6% of the market's deal volume. Average leases signed in Class A space were 5,695 SF and continue to remain larger than the average market deal size of 3,307 SF.

Notable 3Q24 Lease Transactions

| Tenant | Building(s) | Submarket | Type | Square Feet |
|--|-------------------|-----------|------------|-------------|
| PwC | MetWest Two | Westshore | Renewal | 248,280 |
| <i>The Big Four assurance, tax, and advisory firm signed a lease renewal at MetWest Two.</i> | | | | |
| Bristol Myers Squibb | Meridian Three | Westshore | Direct New | 47,718 |
| <i>Pharmaceutical giant, Bristol Myers Squibb, signed a new lease to relocate to Meridian Three, downsizing from its original 130,000-SF space at Eisenhower I. The company opted to reduce its office space needs due to a hybrid work model, where employees split their time between home and office 50% of the time.</i> | | | | |
| Clifton Larson Allen | Tampa City Center | Tampa CBD | Direct New | 32,852 |
| <i>Accounting firm, Clifton Larson Allen, signed a new lease to expand the company's space in Tampa City Center.</i> | | | | |
| Ernst & Young | Tampa City Center | Tampa CBD | Renewal | 32,332 |
| <i>Accounting company, Ernst & Young, renewed their space at Tampa City Center.</i> | | | | |
| Department of Family & Children Services | Bayview Pavilion | Bayside | Direct New | 20,579 |
| <i>The public administration tenant signed a new lease at Bayview Pavilion to occupy part of the second floor.</i> | | | | |

Source: Newmark Research, CoStar



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