

# Savills Studley Report Tampa Bay office sector

Q2 2017



## SUMMARY

### Market Highlights

#### LEASING INCREASES

Deal volume jumped by more than 20%, totaling just over 900,000 sf. Suburban submarkets captured some of the largest leases, including AAA's 148,800-sf deal at 8733 Henderson Road in Northwest Tampa.

#### AVAILABILITY APPROACHING 10-YEAR LOW

Tampa Bay's overall availability rate decreased for the seventh consecutive quarter, falling by 50 basis points to 14.8%. The region's Class A availability rate dropped by 70 basis points to 12.3%

and is nearing the low-mark of 12.5% in early 2007.

#### RENT INCREASES AGAIN

The overall average rent in the region rose by 0.9% to \$22.45 in the second quarter. Class A asking rent registered a 1.2% quarter-on-quarter jump to \$26.85 – with a 2.4% jump in Westshore to \$29.28.

#### FEWER SALES YTD

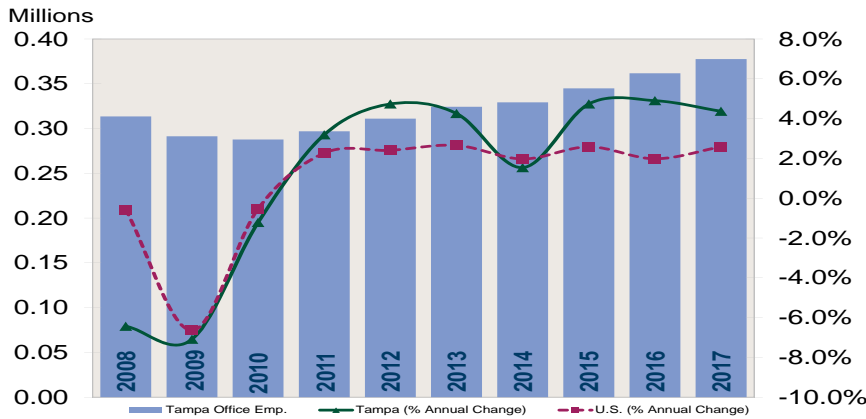
Year-to-date office property sales totaled \$148 million – falling by 44.2% compared to the \$266 million sold during the same period in 2016.

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*"As excitement builds regarding Water Street Tampa and other projects, tenants eagerly anticipate the delivery of new product. The current marketplace continues to see further reductions in quality space options - particularly bigger blocks within Class A buildings."*

Cheri M. O'Neil,  
Senior Vice President

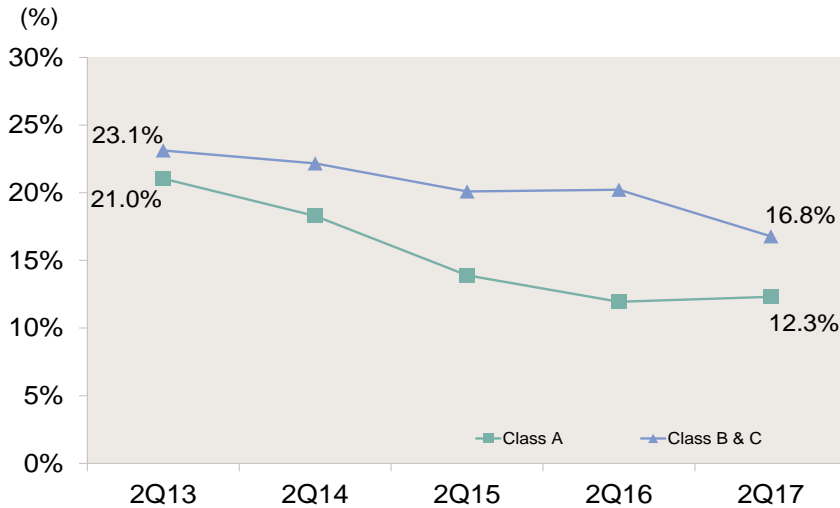
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## Office-Using Employment Trends

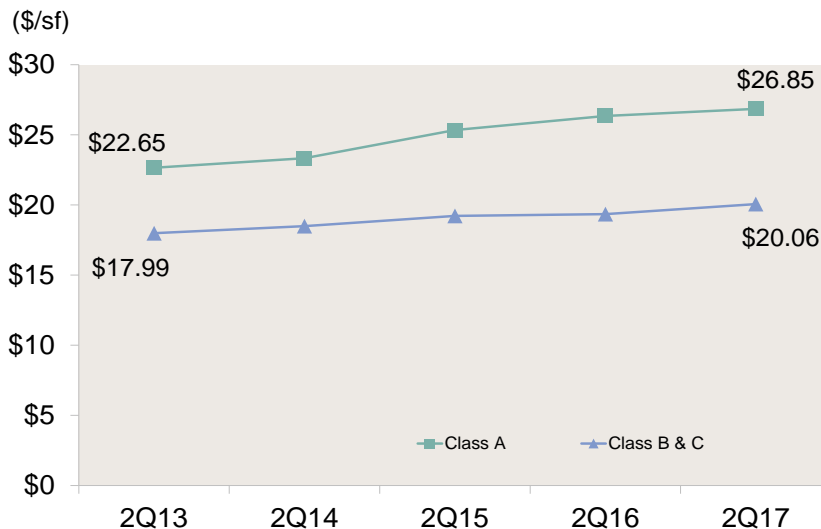


Source: Bureau of Labor Statistics

## Availability Rate Trends



## Asking Rent Trends



## Exciting Growth Ahead

The much-discussed and eagerly anticipated Jeff Vinik/Cascade Investment project in the Channelside area of Downtown Tampa has an official name – Water Street Tampa. With that, Tampa Bay is bracing for increases in construction costs and more acute labor shortages in the skilled trades as the project starts to ramp up. The initial phase of Water Street Tampa is slated to get underway in early 2018 and will include 18 buildings and 4 million square feet of commercial office and retail space. Construction firms across the region are expected to face challenges in terms of finding enough skilled workers, forcing them to make additional increases to wages and benefits. In addition to Water Street Tampa, other major projects underway will heighten the competition for labor including the second phase of renovations at Tampa International Airport and Larry Feldman’s 52-story Riverwalk Tower.

In spite of the challenges these projects may encounter, the excitement is palpable and rings through many sectors beyond just the office market. Later this summer, for example, the first building at the project Tampa, the University of South Florida’s Morsani College of Medicine, will commence construction.

Tampa’s hospitality sector will also be getting some major additions. The initial phase calls for a five-star, 157-room hotel with 30 condo units, a four-star 500-key convention hotel and a \$40 million renovation at Tampa Marriott Waterside. Assuming all of the proposed properties come to fruition, this will be a truly transformative development.

Water Street Tampa will help the region land major employers in the coming years. The new retail, hospitality and residential additions along the riverfront will be essential to redefining Downtown Tampa’s core identity. Traffic from hotel guests, residents who live nearby and workers in office buildings will ideally make this a retail destination. The City recently went through a formal bidding process to select tenants for retail and restaurant along Riverwalk and received tremendous response.

Neighborhoods in Westshore will remain a viable competitor to Downtown. A subsidiary of homebuilding giant Lennar announced its purchase of over 2 acres in the Westshore Marina District along Gandy Boulevard. They plan to build luxury townhomes. The Marina District’s master developer, BTI Partners, has a vision that the site will eventually encompass over 1,750 residential units, hotel, retail, office and marina space.

## Careful Planning

All major developments, particularly long-term projects such as Water Street Tampa, have to deal with the potential problem of being mistimed in terms of the business cycle. There is no sign of an imminent contraction and most economists expect the next recession to be mild. That said, there are some signs that the recovery is slowing nationally. Office-using sectors added 319,000 jobs nationally in the last six months, a decrease from the 420,000 added in the prior six months. Similarly in Tampa Bay, office-using employment rose by less than 3,000 in the last six months, less than a third of the 9,660 gained in the prior six months.

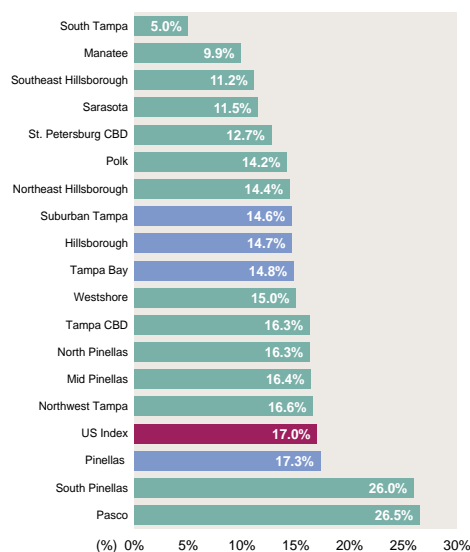
Following two quarters with subpar leasing volume, tenants leased just over 900,000 sf in the second quarter, exceeding the long-term quarterly average by more than 5.0%. Some significant deals boosted activity. In a massive lease for the Tampa Bay market, AAA took nearly 150,000 sf at Renaissance Center and General Dynamics renewed just under 100,000 sf at 3020 US Highway 301 South. Further, Cognizant, one of the world's leading professional services companies, grew its Tampa Bay presence with three separate leases over the quarter, totaling 104,790 sf.

### If They Build It, Tenants Will Come

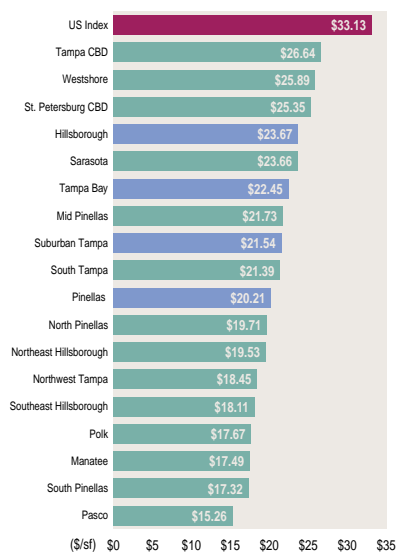
As it stands currently, tenants are facing the tightest market for Class A space in quite some time. Tampa's CBD and the Westshore have a combined total of just over 1.5 msf available Class A space for lease, which, based on recent quarterly leasing trends, is slightly less than four quarter's worth of space. The addition of 2.0 msf of new office space at Water Street seems like a big increase – it will increase the region's Class A building stock by nearly 10%. That said the region's employment base seems well equipped to absorb this amount of space. Even if the region averages a very conservative annual gain of 5,000 jobs per year, that equates to demand for 500,000 square feet per year using a ratio of 100 sf per employee.

Interest among tenants for new product has been very positive. Tenants want the latest building technology and amenities in new properties. They are also drawn to the building efficiencies of these properties, which enables them to shed space as they shift from older buildings to new ones. The building owner of the aforementioned AAA lease, Vision Properties, broke ground on the AAA building last December on a speculative basis, and now that the first is fully leased, they are seeking more development entitlements for the park. If approved, the New Jersey-based

## Availability Rate Comparison



## Rental Rate Comparison



## Major Transactions

Tenant	Sq Feet	Address	Market Area
AAA	148,800	8733 Henderson Rd	Northwest Tampa
General Dynamics Information Technology	99,039	3020 US Highway 301 S	Southeast Hillsborough
Cognizant Technology Solutions	48,993	4041 Park Oaks Blvd	Northeast Hillsborough
Cognizant Technology Solutions	42,615	7725 Woodland Corporate Blvd	Northwest Tampa
Phelps Dunbar	30,311	100 S Ashley Dr	Tampa CBD
Terminix	25,861	5701 E Hillsborough Ave	Northeast Hillsborough
TransferWise	21,500	2205 N 20th St	Southeast Hillsborough
Spoor Bunch Franz	17,944	877 Executive Center Dr W	Mid Pinellas
Carlton Fields Jordan Burt	14,510	100 S Ashley Dr	Tampa CBD
PS Executive Centers	13,760	10150 Highland Manor Dr	Southeast Hillsborough
<b>Sum of Leases</b>	<b>463,333</b>	<b>Sum of 2nd Quarter Leasing</b>	<b>900,466 SF</b>

developer could add another 575,000 sf of office space and a 200-key hotel.

### Sales Remain Steady

Investment sales remained steady. A huge number of Class A properties across the region have already traded this cycle and now some are on the market a second time. One significant recent Class A trade was Priatek Plaza in Downtown St. Petersburg. The 27-story tower sold for \$65.7 million at the end of the quarter, equating to a strong \$223 psf. At 76% vacant, Third Lake Capital, the Tampa-based investment fund for Ashley Furniture, Inc.'s Wanek family, has the opportunity for significant increase in value with several large blocks of space in a very tight submarket.

At this point, Class B value-add properties are becoming the prevalent available property type. In the largest transaction this quarter, Dilweg Companies paid \$101 million for a seven-building, Class-B, suburban portfolio that totaled just under

700,000 sf, or approximately \$145 psf. The portfolio included several buildings in Northeast Hillsborough on Hidden River Parkway that were nearly 75.0% leased at time of sale.

### Looking Forward

Beyond the real estate sector, companies in Tampa Bay continue to attract interest and investment from outside the region. Two major local employers were acquired during the quarter. HSN, which has nearly 3,000 employees nationally was bought by competitor QVC. Tribridge, an IT service provider with 740 employees, was snapped up by DTX Technology Company, a Fortune 500 firm based in Tysons, Virginia. While time will tell, the hope is certainly that such companies will be able to maintain and even grow their Tampa Bay presence. Major acquisitions such as these are another positive sign of the region's health.

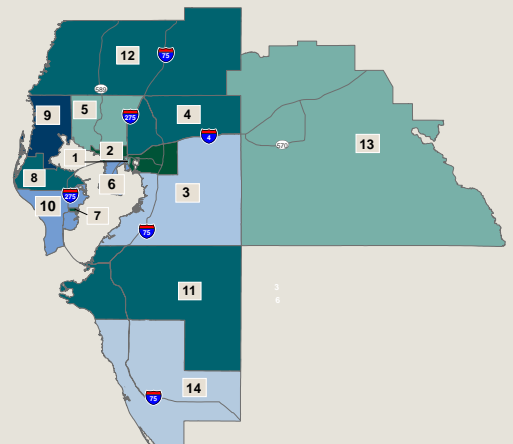
Map	Submarket	Total		Leasing Activity		Available SF			Availability Rate			Asking Rents Per SF		
		SF (1000's)	Last 12 Months	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. (1)	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago		
1	Tampa CBD	6,638	439	1,082	-1.5%	1,199	16.3%	-0.5%	17.9%	\$26.64	0.5%	\$25.00		
	Tampa CBD - Class A	3,893	330	570	-1.6%	664	14.6%	-1.5%	15.8%	\$29.63	0.8%	\$28.00		
2	Westshore	13,359	1,203	2,008	4.1%	2,022	15.0%	1.0%	15.8%	\$25.89	2.1%	\$25.41		
	Westshore - Class A	7,454	735	1,019	-6.5%	1,081	13.7%	-0.3%	14.3%	\$29.28	2.4%	\$28.97		
3	Southeast Hillsborough	3,808	287	425	-24.3%	941	11.2%	-4.7%	16.4%	\$18.11	-7.4%	\$17.80		
	Southeast Hillsborough- Class A	1,389	96	62	33.3%	595	4.5%	0.8%	10.8%	\$22.57	2.2%	\$20.78		
4	Northeast Hillsborough	5,061	358	731	16.0%	461	14.4%	1.0%	10.8%	\$19.53	-3.0%	\$19.24		
	Northeast Hillsborough - Class A	2,974	201	270	28.6%	555	9.1%	1.2%	6.2%	\$24.81	-0.4%	\$23.34		
5	Northwest Tampa	4,074	554	677	-19.8%	353	16.6%	-2.9%	22.8%	\$18.45	-4.6%	\$20.11		
	Northwest Tampa - Class A	1,573	225	79	-68.8%	951	5.0%	-9.5%	7.2%	\$21.96	-1.4%	\$23.70		
6	South Tampa	950	13	48	73.0%	700	5.0%	2.8%	3.7%	\$21.39	6.6%	\$21.29		
	South Tampa - Class A	112	0	0	N/A	24	0.0%	0.0%	0.0%	N/A	N/A	N/A		
7	St. Petersburg CBD	2,208	77	281	67.7%	24	12.7%	3.7%	9.4%	\$25.35	7.2%	\$24.62		
	St. Petersburg - Class A	1,041	59	219	76.8%	5,347	21.0%	6.6%	10.5%	\$27.12	4.5%	\$26.22		
8	Mid Pinellas	4,106	162	675	-0.4%	3,015	16.4%	-0.2%	19.0%	\$21.73	-0.5%	\$19.51		
	Mid Pinellas - Class A	1,468	21	207	3.7%	753	14.1%	-0.1%	7.1%	\$25.01	0.4%	\$23.97		
9	North Pinellas	4,875	136	795	-7.0%	632	16.3%	-4.3%	23.5%	\$19.71	-1.8%	\$19.58		
	North Pinellas - Class A	1,727	35	222	-14.1%	1,055	12.9%	-2.3%	13.6%	\$21.14	-1.5%	\$20.25		
10	South Pinellas	973	45	253	2.5%	829	26.0%	0.6%	27.8%	\$17.32	1.8%	\$16.02		
	South Pinellas - Class A	150	N/A	N/A	N/A	250	N/A	N/A	0.0%	N/A	N/A	N/A		
11	Manatee	1,287	22	128	-16.0%	250	9.9%	-3.5%	16.3%	\$17.49	2.6%	\$16.39		
	Manatee - Class A	132	0	0	N/A	2,060	0.0%	-5.4%	10.8%	N/A	N/A	N/A		
12	Pasco	791	23	210	-1.7%	1,711	26.5%	-1.5%	22.2%	\$15.26	1.3%	\$15.46		
	Pasco - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A		
13	Polk	1,458	15	207	4.6%	51	14.2%	3.1%	12.1%	\$17.67	14.8%	\$16.01		
	Polk - Class A	345	0	85	14.5%	194	24.7%	3.1%	20.7%	\$20.53	4.6%	\$18.45		
14	Sarasota	5,001	170	576	-6.5%	194	11.5%	-0.4%	13.3%	\$23.66	2.8%	\$21.87		
	Sarasota - Class A	1,567	91	201	-9.0%	166	12.8%	-1.4%	11.5%	\$25.90	1.2%	\$24.77		
1-6	Hillsborough Total	33,890	2,854	4,970	-2.3%	5,347	14.7%	-0.4%	16.0%	\$23.67	0.7%	\$23.12		
	Hillsborough Total - Class A	17,394	1,587	1,999	-8.2%	2,332	11.5%	-1.1%	12.2%	\$28.39	1.8%	\$27.52		
7-10	Pinellas Total	9,954	340	1,723	-3.2%	2,060	17.3%	-2.1%	22.1%	\$20.21	-0.8%	\$19.21		
	Pinellas Total - Class A	3,345	55	429	-6.4%	350	12.8%	-1.2%	10.1%	\$23.01	0.4%	\$21.57		
2-14	Suburban Tampa Total	47,951	306	7,013	-1.5%	7,533	14.6%	-0.5%	16.4%	\$21.54	0.7%	\$21.05		
	Suburban Tampa Total - Class A	19,932	151	2,364	-4.5%	2,362	11.9%	-0.6%	11.2%	\$25.92	1.2%	\$25.86		
1-14	Tampa Bay Region Total	54,590	3,503	8,095	-1.5%	8,732	14.8%	-0.5%	16.6%	\$22.45	0.9%	\$21.72		
	Tampa Bay Region Total - Class A	23,825	1,793	2,933	-4.0%	3,026	12.3%	-0.7%	11.9%	\$26.85	1.2%	\$26.35		

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(1) Percentage point change for availability rates.  
 Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.  
 Statistics are calculated using both direct and sublease information.  
 Short-term sublet spaces (terms under two years) were excluded.

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