

1Q24

# Tampa Office Market Overview



**NEWMARK**



# Market Observations

## Economy

- The market’s unemployment rate increased by 70 basis points year over year to 3.2% but remained well below the five-year average of 4.1%.
- Although job growth pace has slowed compared with recent highs to 1.8% year over year, employment growth now lags pre-pandemic levels, with 2019 growth averaging 2.5%.
- All sectors, except business and professional, reported employment growth, with education and health leading job gains at 4.9% over the past 12 months.
- Office-using jobs in the market declined by 0.6% since the all-time historical high of 468,520 employees, but still reflecting a 16.2% growth since 2019.

## Major Transactions

- The largest lease of the quarter was a new lease signed by Masonite for 128,000 SF at West End Place. The lease consolidates two of the company’s locations while expanding its current headquarters.
- Large leases signed tend to be concentrated in the Westshore submarket, home to three of the five largest leases signed in the quarter.
- The bulk of the larger leases signed were a mix of all types of leases, indicating there is appetite for office space in the market. This is also supported by leasing activity being inline and outpacing the average first-quarter leasing activity by 6.6% over the past 16 years.

## Leasing Market Fundamentals

- Annual full-service asking rental rates reached a new high at \$28.73/SF, a 3.6% increase year over year at the end of the first quarter of 2024.
- Vacancy rates remained relatively flat, increasing by 30 basis points quarter over quarter and decreasing by 40 basis points year over year.
- The under-construction pipeline continues to remain muted in the market, with 428,929 SF under construction, accounting for just 0.7% of the market’s inventory.
- Leasing activity ended the quarter at 1.3 MSF, outpacing the 16-year first-quarter quarterly average of 1.2 MSF and reflecting an increase of 19.5% year over year.

## Outlook

- The Tampa office market growth will likely be slow and subdued in 2024 due to economic headwinds. Office investment activity will remain slower in the near term due to elevated inflation and a steeper cost of debt.
- The closing 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.
- In the near term, vacancy rates are projected to stay flat, as demand is expected to remain relatively in balance with supply.

1. Economy
2. Leasing Market Fundamentals



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# Economy

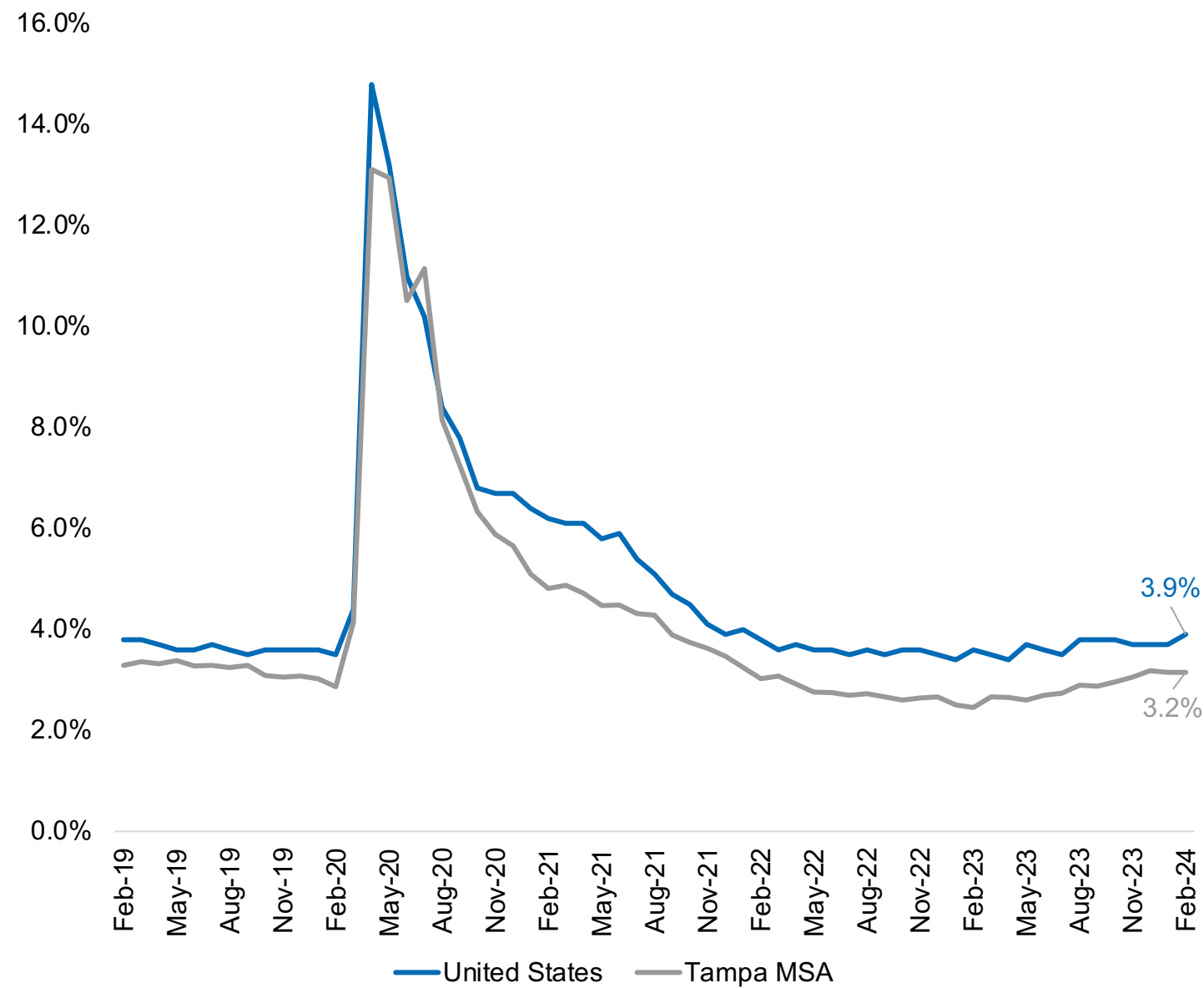




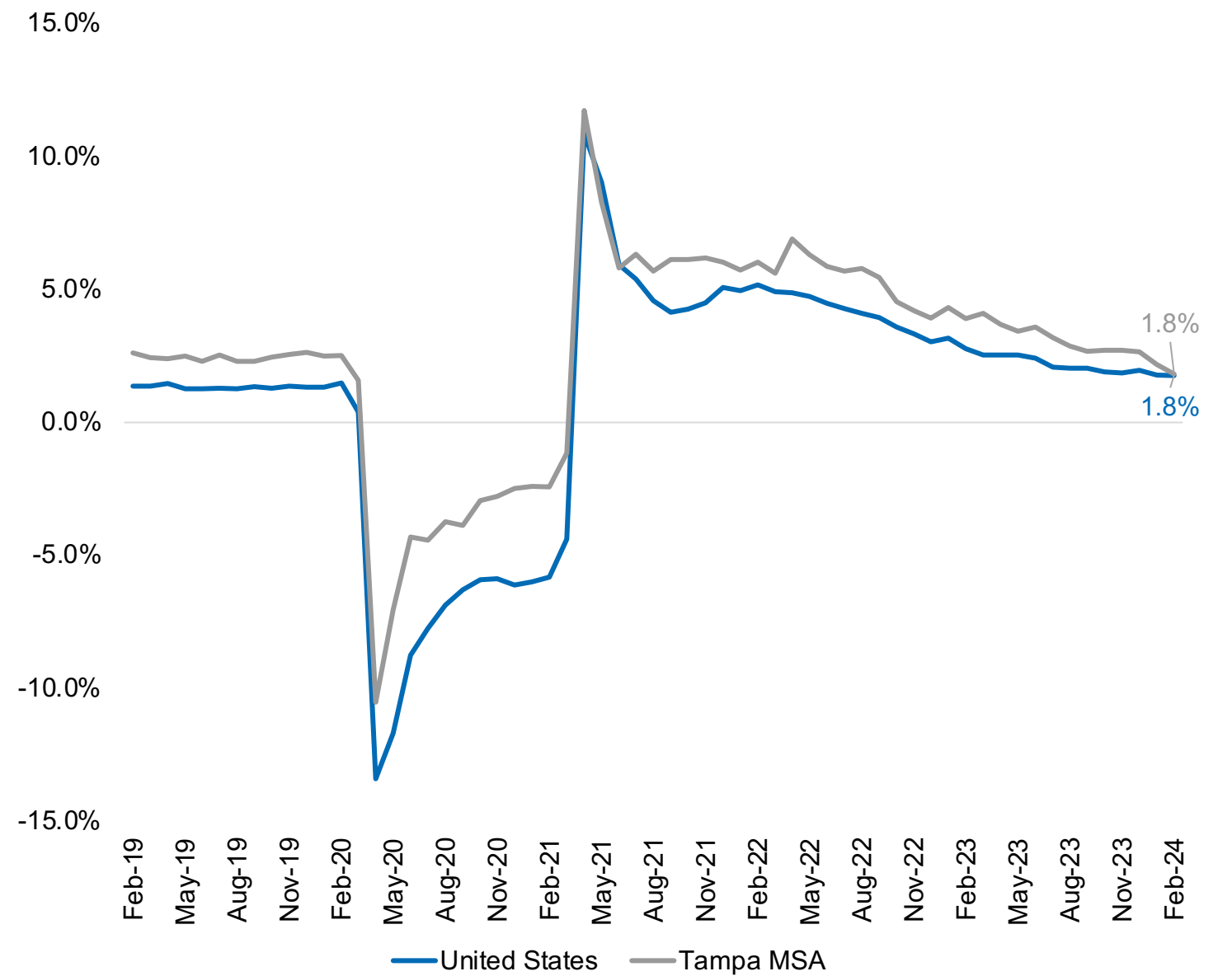
# Metro Employment Trends Continue Signaling a Slowing Economy

The Tampa market 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 70 basis points year over year, with employment growth slowing by 209 basis points compared with the previous year. The difference in employment growth in the market and nation are the closest they have been, by one basis point, since June 2021 post pandemic.

Unemployment Rate, Seasonally Adjusted



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

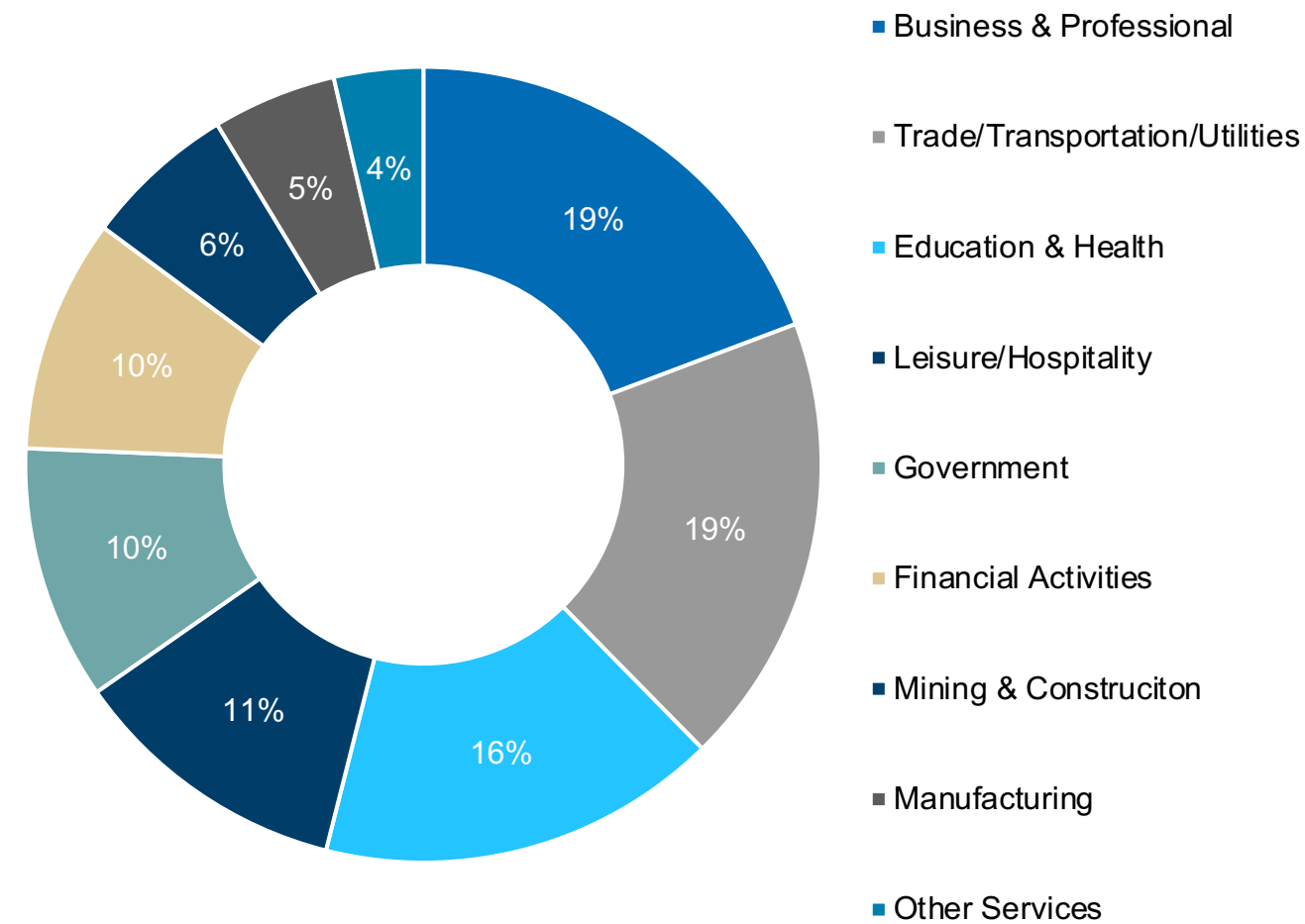


Source: U.S. Bureau of Labor Statistics, Tampa MSA

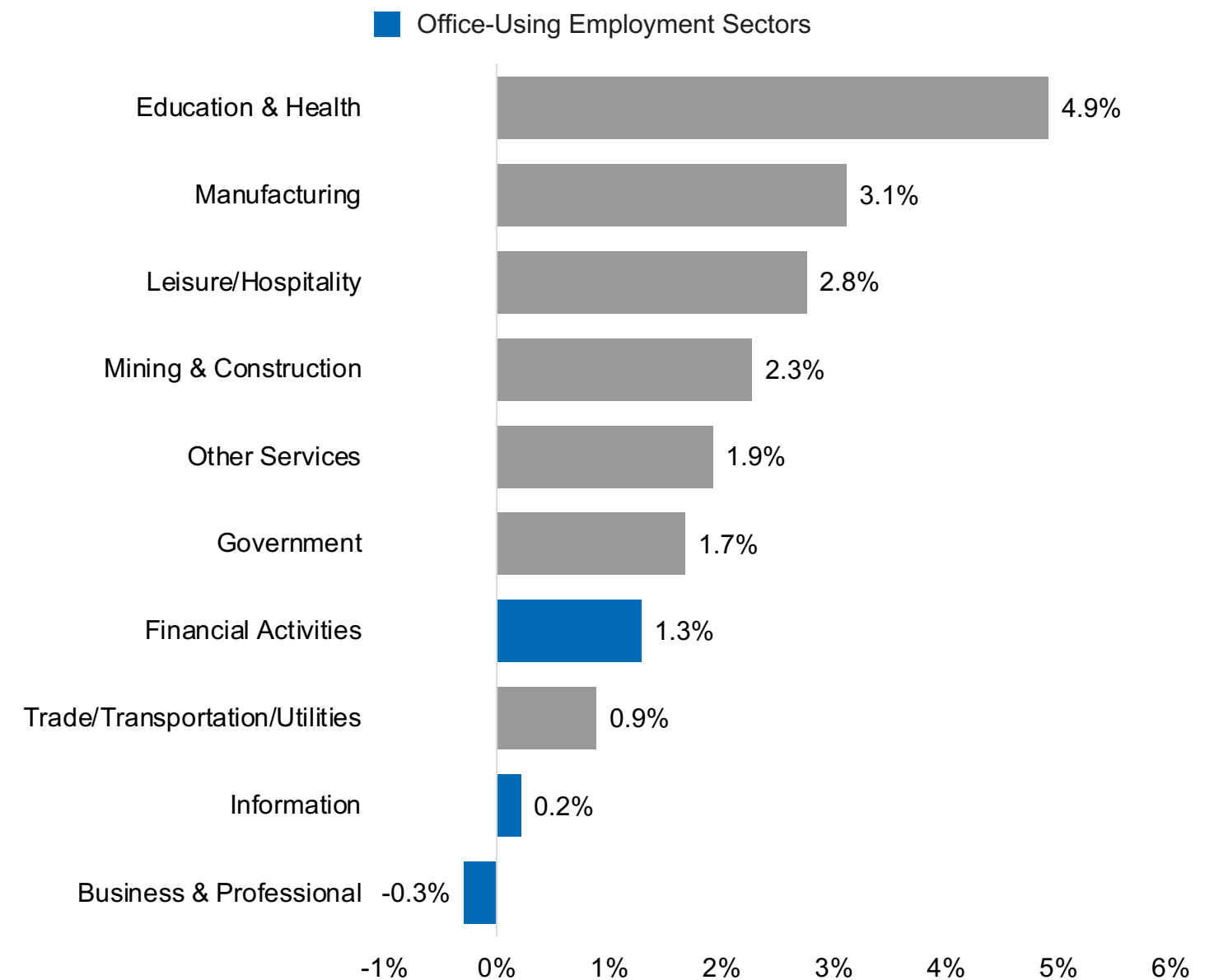
# Employment Growth Continues in Two of the Largest Office Industry Sectors

The Tampa market's top two employment industries account for 36.9% of market share. The office-using employment's business and professional sector is the largest industry sector in the metroplex at 18.9%. Two of the largest office-using employment sectors, financial activities and information, reported year-over-year growth at 1.3% and 0.2%, respectively. Meanwhile, the business and professional sector reflected a minimal year-over-year decline of 0.3%.

Employment by Industry, February 2024



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

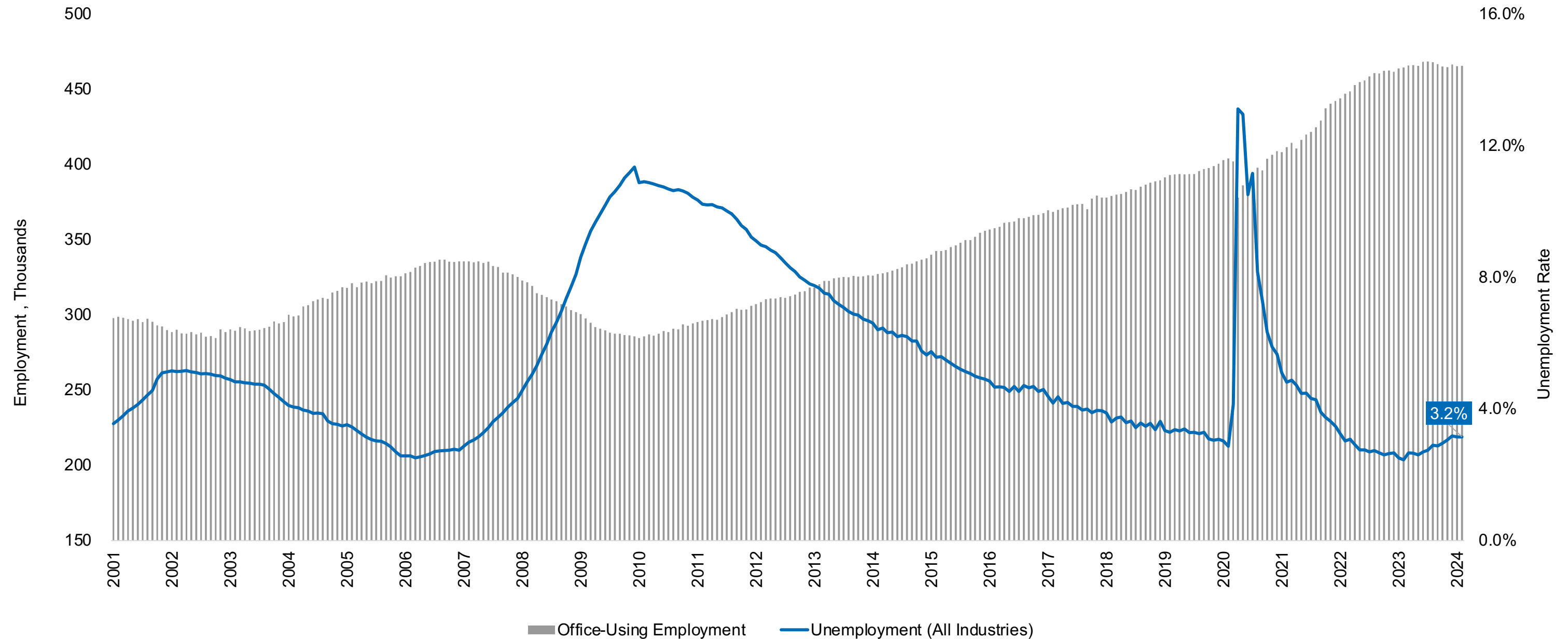


Source: U.S. Bureau of Labor Statistics, Tampa MSA

# Overall Office-Using Employment Eases from Historical High

Office-using employment in the Tampa market declined by 0.6% since reaching the all-time high of 468,520 employees in July 2023. Currently, the unemployment rate is at 3.2%, below the 3.3% average levels reported in 2019, indicating that office-using industries are part of the contributing factor in lowering the unemployment rate in the market.

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

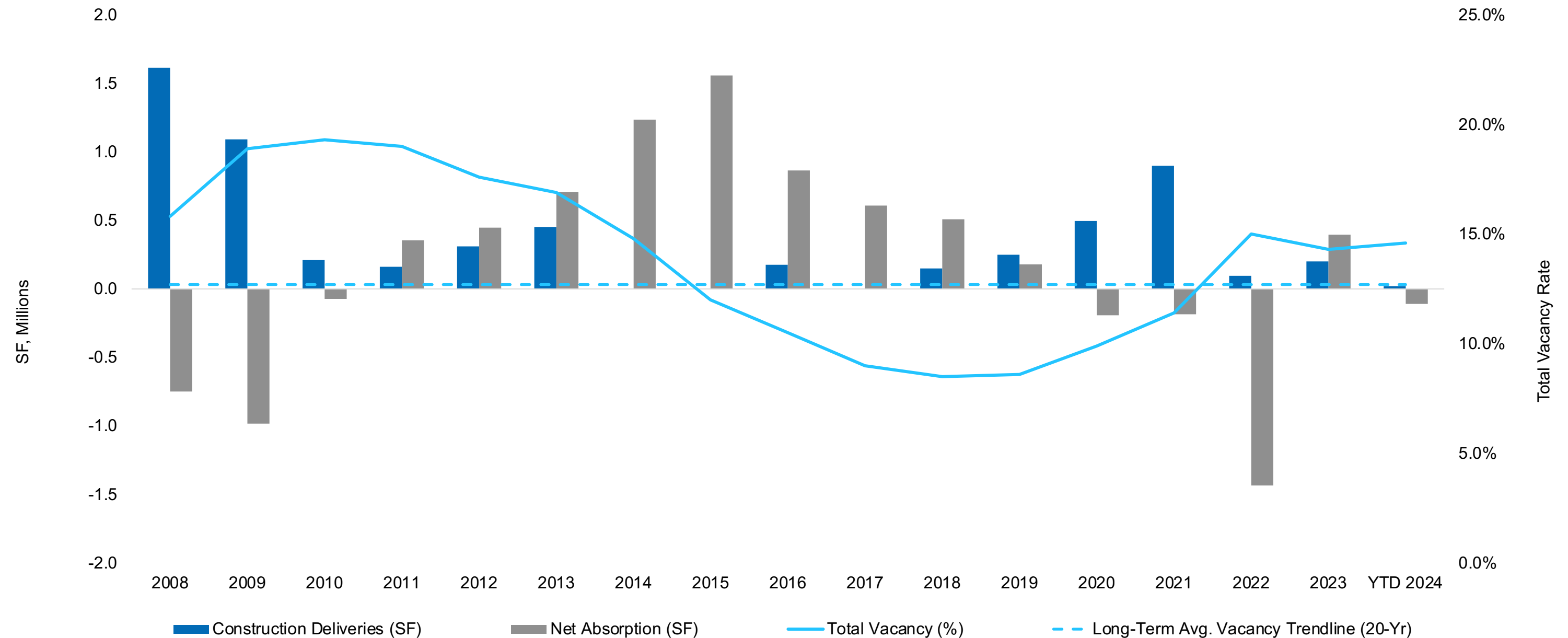




# Quarterly Demand Dips Negative to Begin the Year

The Tampa office vacancy rate decreased by 40 basis points year over year, to 14.6% in the first quarter of 2024. Since the pandemic, occupancies have slowed in the market, with minimal deliveries occurring once the market worked through its pre-pandemic pipeline. As a result, vacancy rates have remained elevated but steady after 2021. The muted pipeline following the pandemic has helped the market to recalibrate and prevent vacancy from spiking to the highs reported from 2010 to 2011 following the financial crisis.

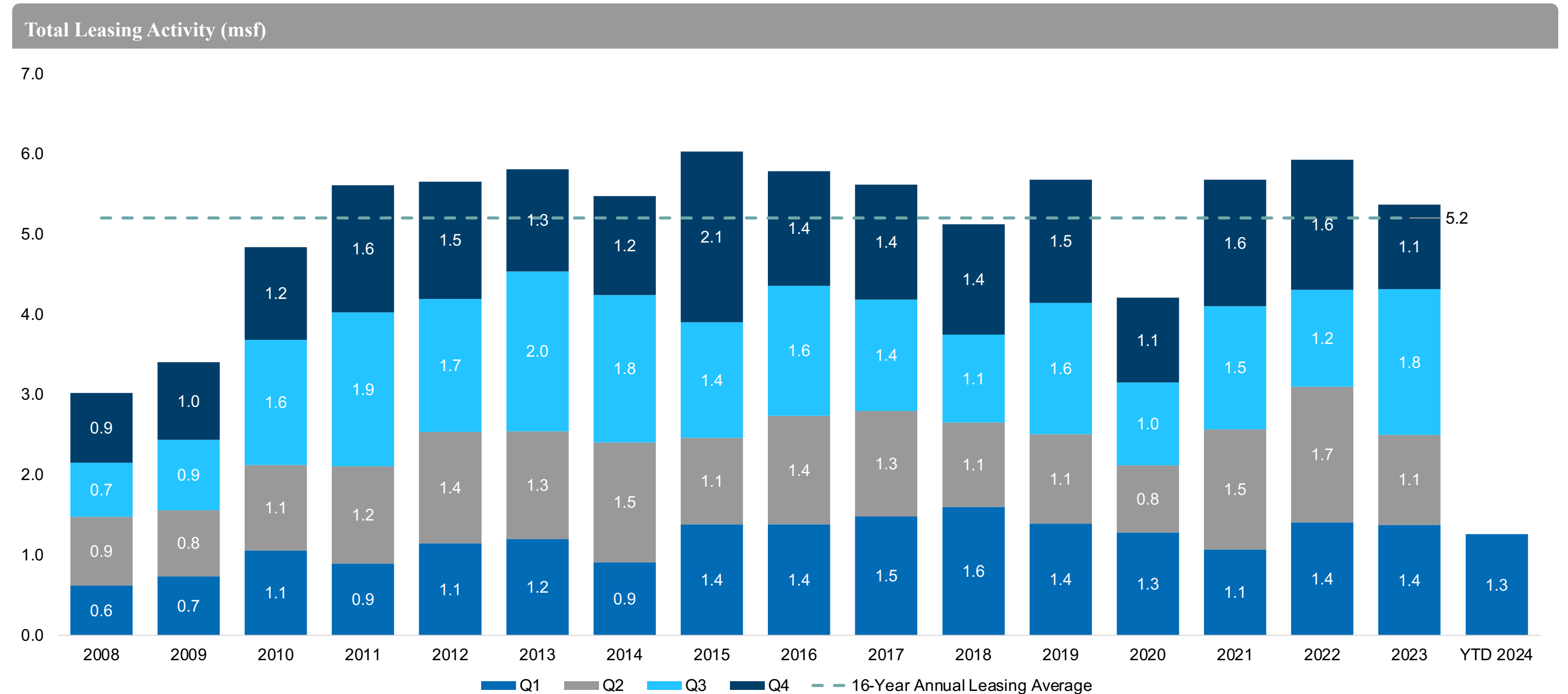
## Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

# Quarterly Leasing Activity Slightly Outpaces Historical Average

Leasing activity in the market in the first quarter of 2024 remained close to the 16-year first-quarter leasing average of 1.2 MSF, outpacing the quarterly average by 6.6%. Deal size averaged 4,681 SF in the first quarter of 2024, an average of 971 SF and 894 SF more than the previous quarter and year, respectively. Leasing activity has largely kept pace with historical performance, indicating healthy office leasing in the market, despite national economic headwinds causing hesitancy in deals done in most other major markets in the nation.



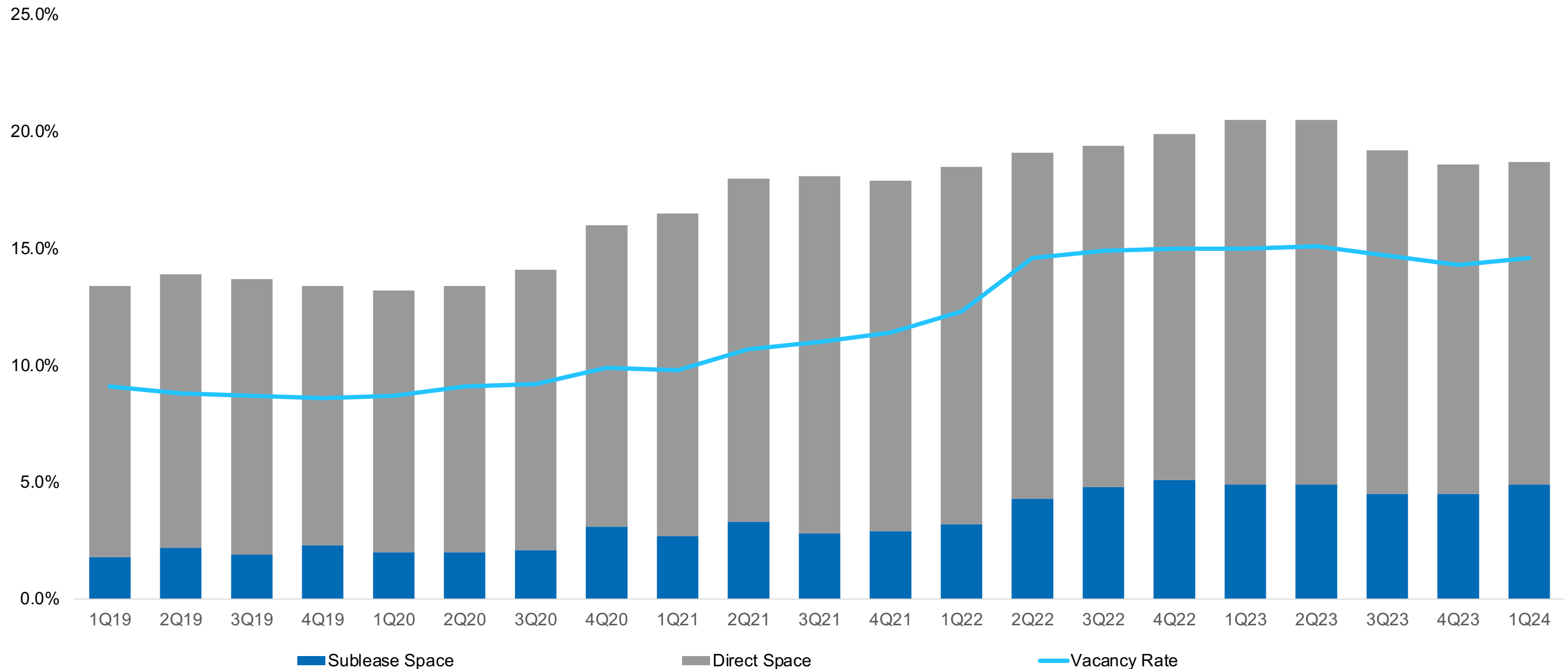
Source: Newmark Research, CoStar



# Overall Availability Rises Marginally

Sublease availability in the market continues to remain elevated at 4.9% in the first quarter of 2024, increasing for the first time since the beginning of 2023 by 40 basis points quarter over quarter and remaining unchanged year over year. Direct availability continued to decline from 2023 levels to 13.8% in the first quarter of 2024, reflecting a 30-basis-point decrease quarter over quarter. As a result, vacancies increased by 30 basis points to 14.6% following an uptick in sublease space.

Available Space as Percent of Overall Market

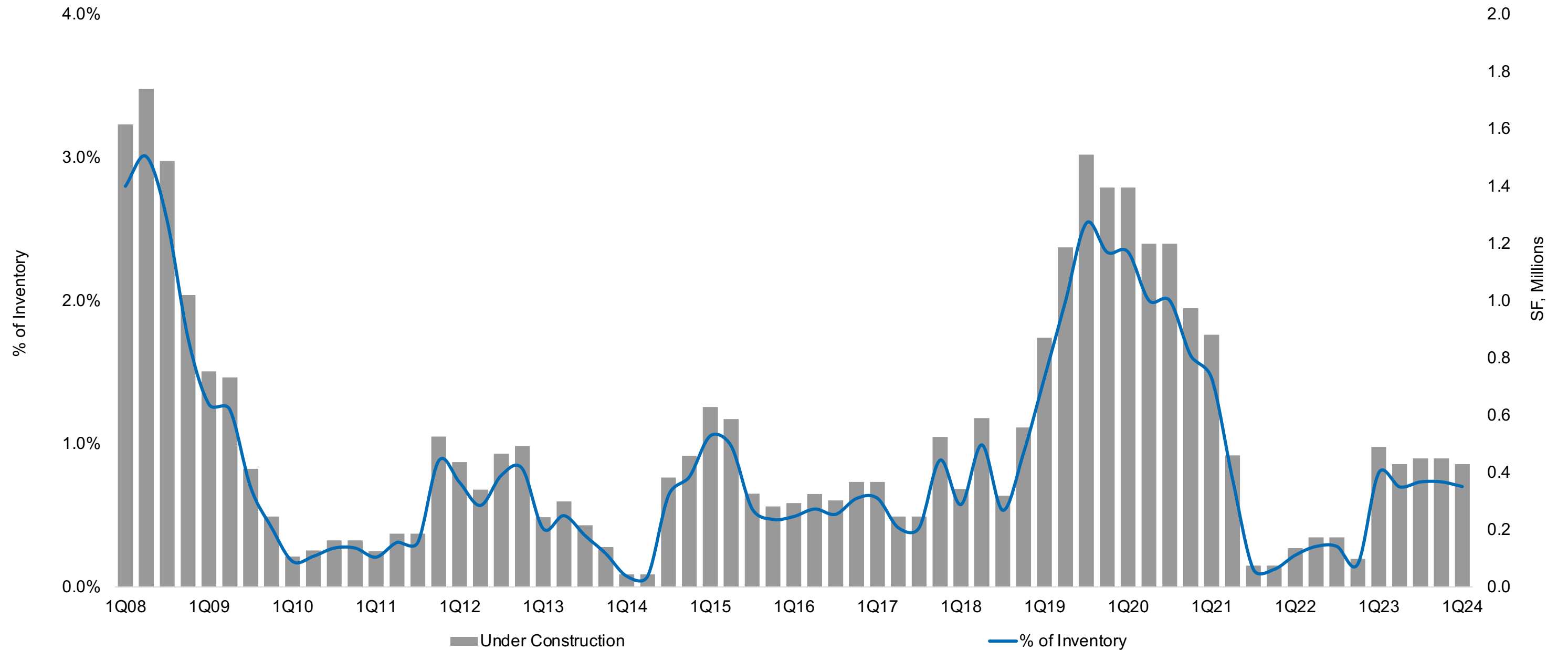


Source: Newmark Research, CoStar

# Construction Activity Remains Muted

Construction activity has remained relatively muted following the pandemic. As of the first quarter of 2024, the market had 428,929 SF under construction, accounting for 0.7% of the market's inventory, indicating there is less risk of overbuilding.

Office Under Construction and % of Inventory



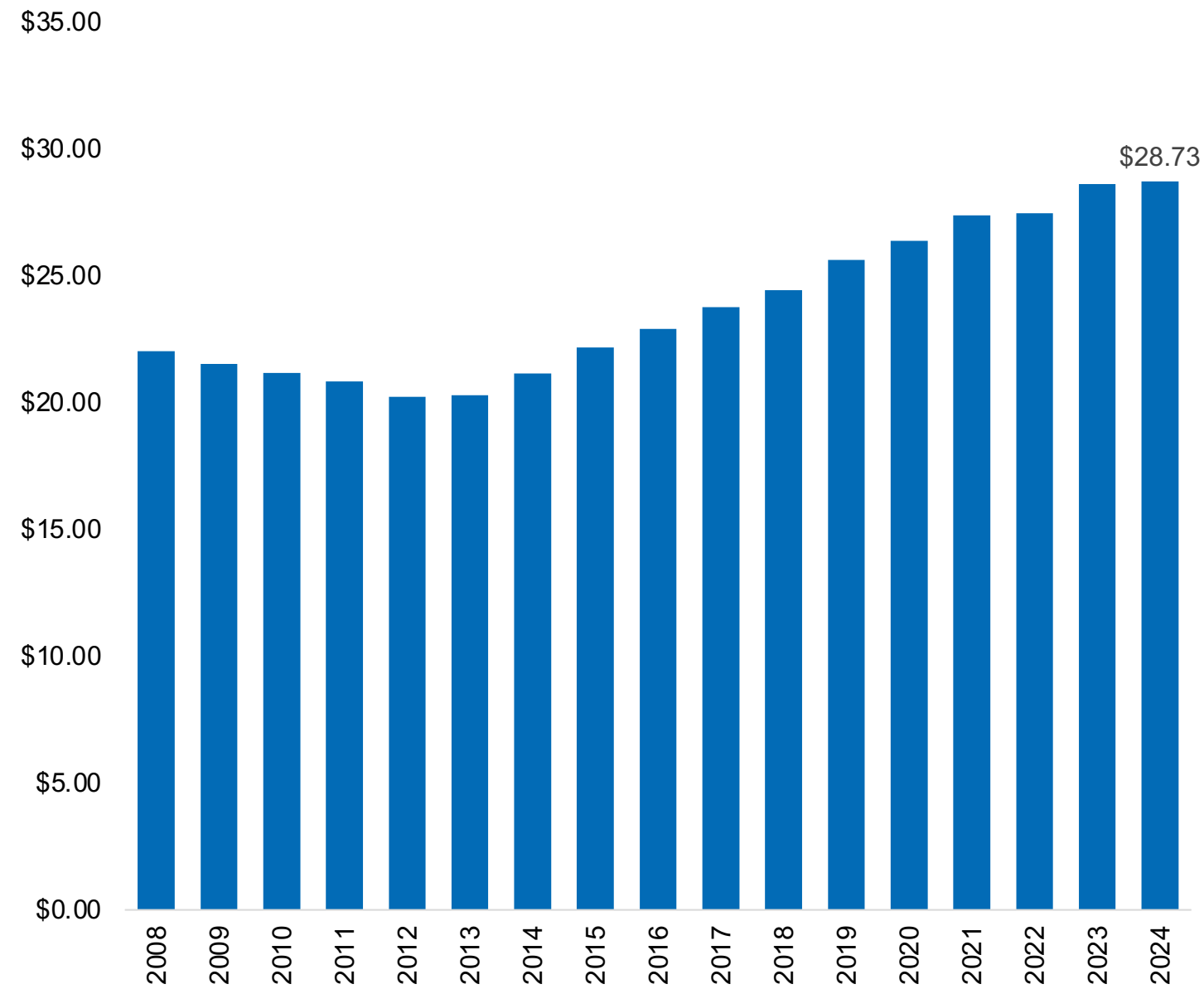
Source: Newmark Research, CoStar



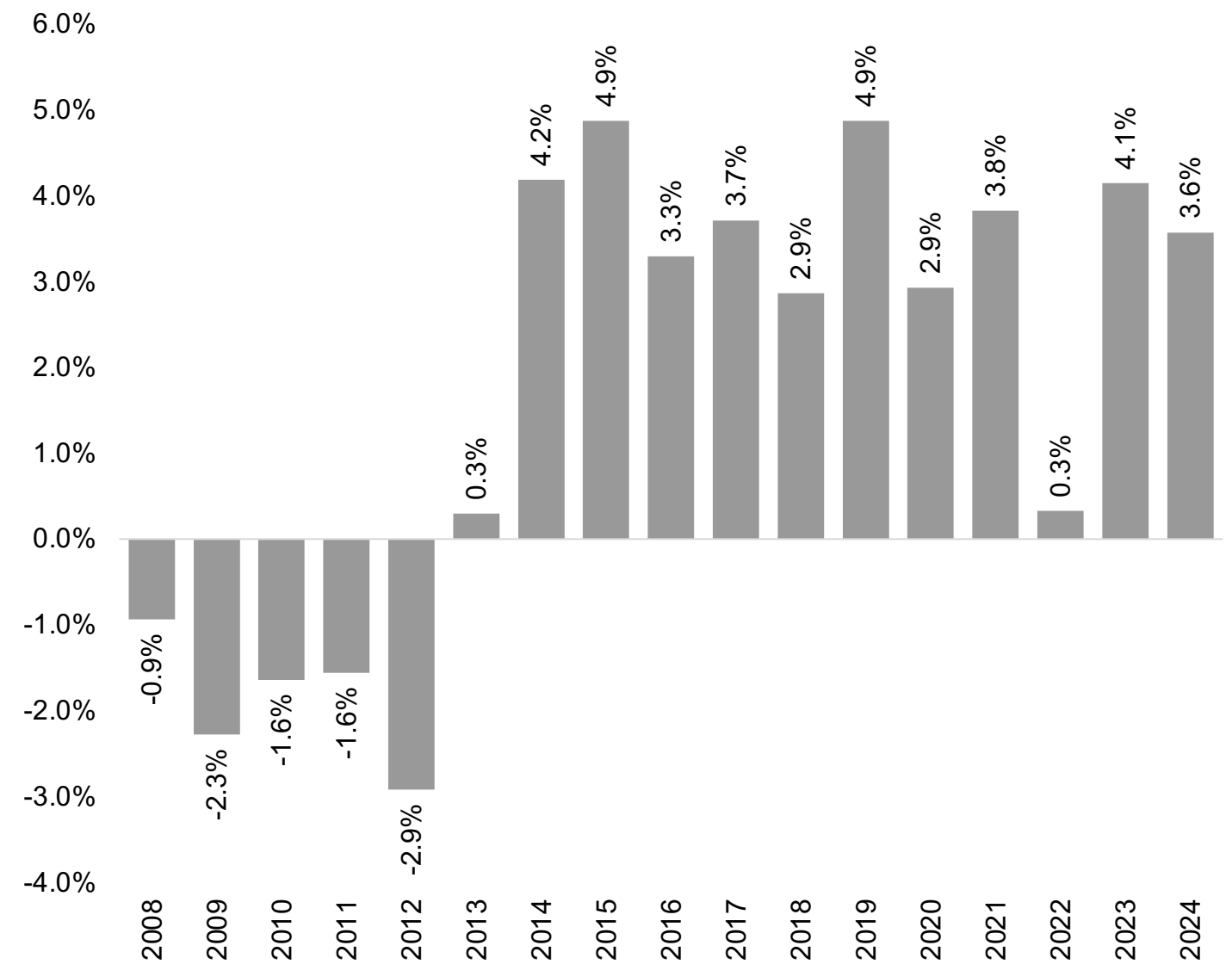
# Rents Reach New High

Rents reached an all-time historical high in the first quarter of 2024 at \$28.73/SF, increasing by 3.6% year over year. Rental rates continue trending upwards due to rising operating expenses and inflation.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

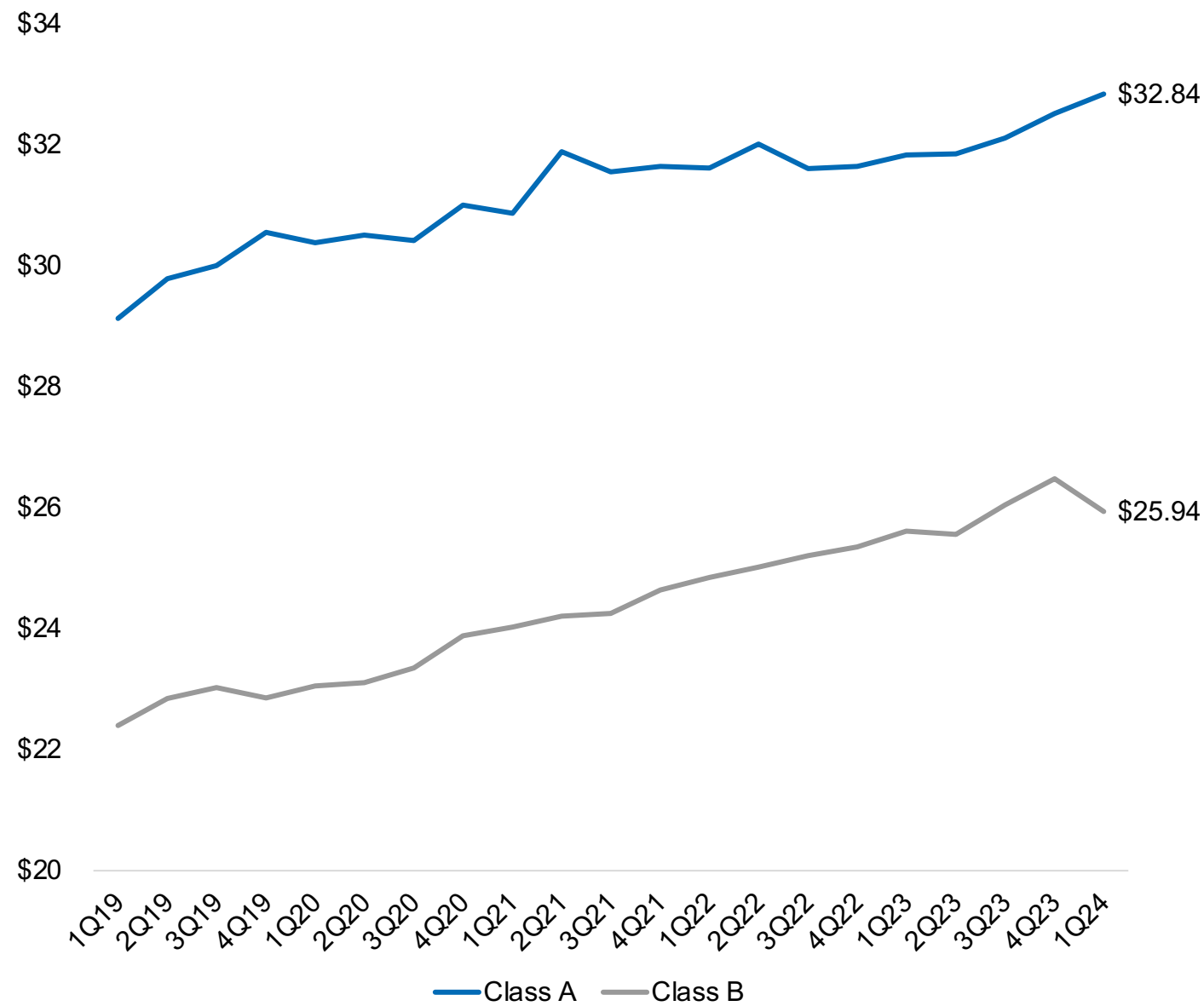


Source: Newmark Research, CoStar

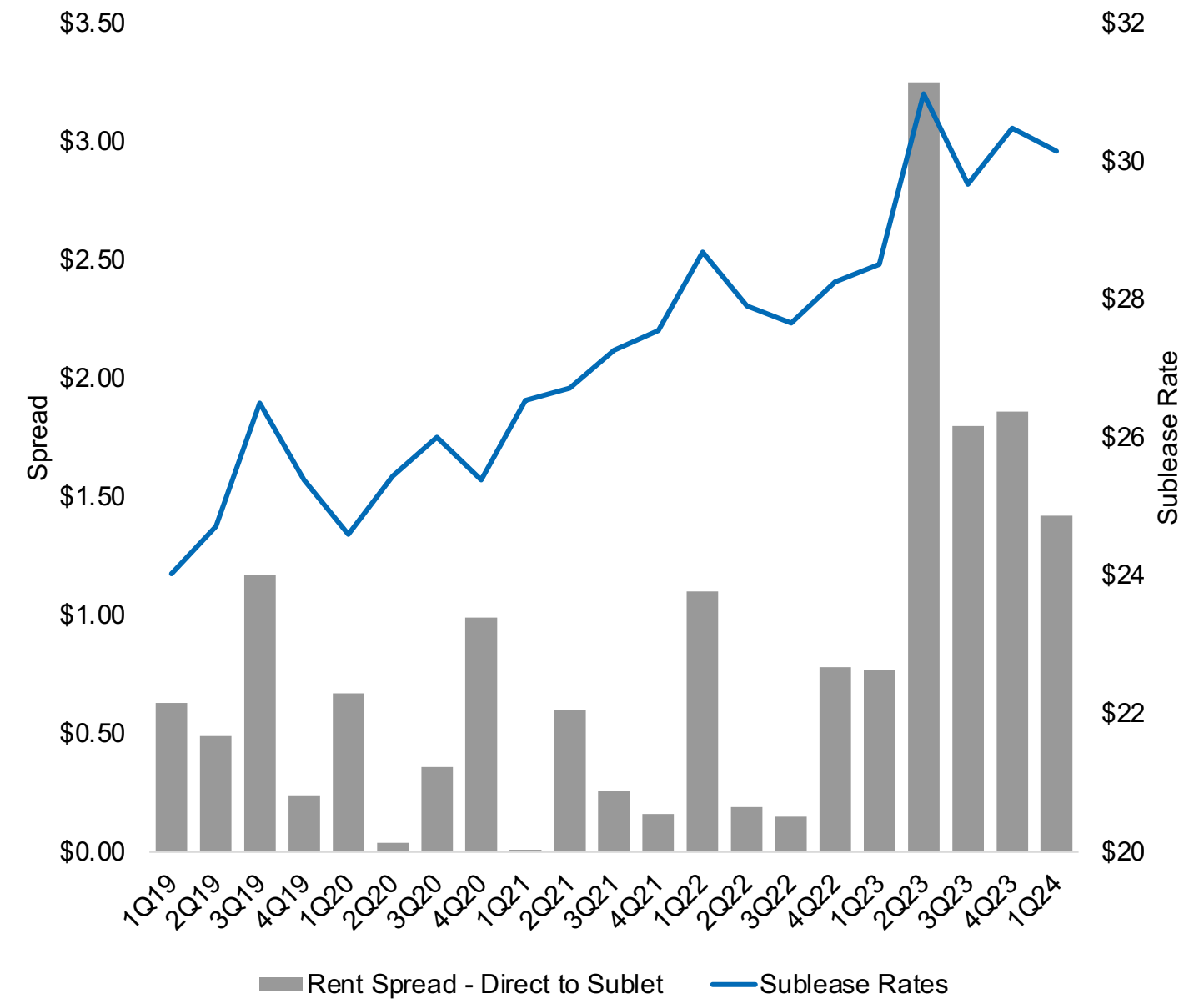
# Decreasing Rent Spread on Class A Assets

As of the end of the first quarter of 2024, Class A rents ended at \$32.84/SF, while Class B reported \$25.94/SF. Rent difference between the two assets are at \$6.90/SF, a 10.3% spread decrease since 2019. The closing 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 have increased in recent quarters, with asking sublease rents increasing by 5.8% 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 due to the closing spread in rental rates on Class A spaces. As of the end of the first quarter of 2024, Class A space accounted for 49.0% of the market's leasing activity by SF but only 31.9% of the market's deal volume. Average leases signed in Class A space were 7,203 SF and continue to remain larger than the average market deal size of 4,681 SF.

## Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Masonite	West End Place	East Tampa	Direct New	128,000
<i>Masonite signed a new lease in Ybor City to consolidate two locations (1205 &amp; 1242 E Fifth Ave.) and expand its current headquarters. The new lease represents a 47% increase in space while the company is in the process of being acquired by Owens Corning for \$3.9 billion.</i>				
Fisher Investments	LakePointe One	Westshore	Renewal / Expansion	105,785
<i>Texas-based Fisher Investments renewed and expanded its space at LakePointe One and will be occupying approximately half of the building.</i>				
Immunologix Laboratories	Memorial Center I	Westshore	Direct New	48,253
<i>Biotechnology research company Immunologix Laboratories signed a new lease at Memorial Center I.</i>				
Foley & Lardner	100 North Tampa	Tampa CBD	Renewal	43,768
<i>Law firm Foley &amp; Lardner renewed its space at 100 North Tampa. The building is occupied by other law firms like Holland &amp; Knight, Adams and Reese, and many others.</i>				
Northrop Grumman Corporation	Lincoln Center	Westshore	Renewal / Expansion	41,326
<i>Aerospace and defense company Northrop Grumman signed a renewal for 29,602 SF and a new lease expansion for 12,264 SF.</i>				

Source: Newmark Research, CoStar





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