

4Q24

Tampa Office Market Overview



NEWMARK

Market Observations

Economy

- The market’s unemployment rate increased by 41 basis points year over year to 3.6% but remained well below the five-year average of 4.2%.
- Job growth pace has slowed compared with recent highs to 1.1% year over year while employment growth continues to remain well below pre-pandemic levels, with November 2019 recording annual growth at 2.6%.
- All sectors reported employment growth, with the mining and construction industry leading job gains at 3.5% over the past 12 months.
- Office-using jobs in the market declined by 0.1% from the all-time historical high to 470,160 employees in November 2024, but still reflected a 17.4% growth since 2019.

Major Transactions

- The largest lease of the quarter was a new lease signed by MetLife for 217,370 SF at MetWest Two in the East Tampa submarket following a sale-leaseback deal.
- Large leases signed tend to be concentrated in the East Tampa and Tampa CBD submarkets, with each home to two of the five largest deals signed.
- New leases dominated four of the top five largest deals signed. Having large new leases signed indicate there is appetite for office space in the market.

Leasing Market Fundamentals

- Annual full-service asking rental rates reached a new high at \$29.72/SF, reflecting a 2.6% increase year over year at the end of the fourth quarter of 2024.
- Vacancy rates remained relatively flat, reporting a 20 basis points decrease quarter over quarter but 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 1.1 MSF, significantly lagging the 16-year third-quarter quarterly average of 1.4 MSF and reflecting a decrease of 29.1% year over year.

Outlook

- Interest rate reductions in the latter half of 2024 are starting to generate some activity, although it will take time before this directly translates into completed deals. As a result, the Tampa office market growth is expected to remain subdued in the near term during the lag time before deals are finalized.
- 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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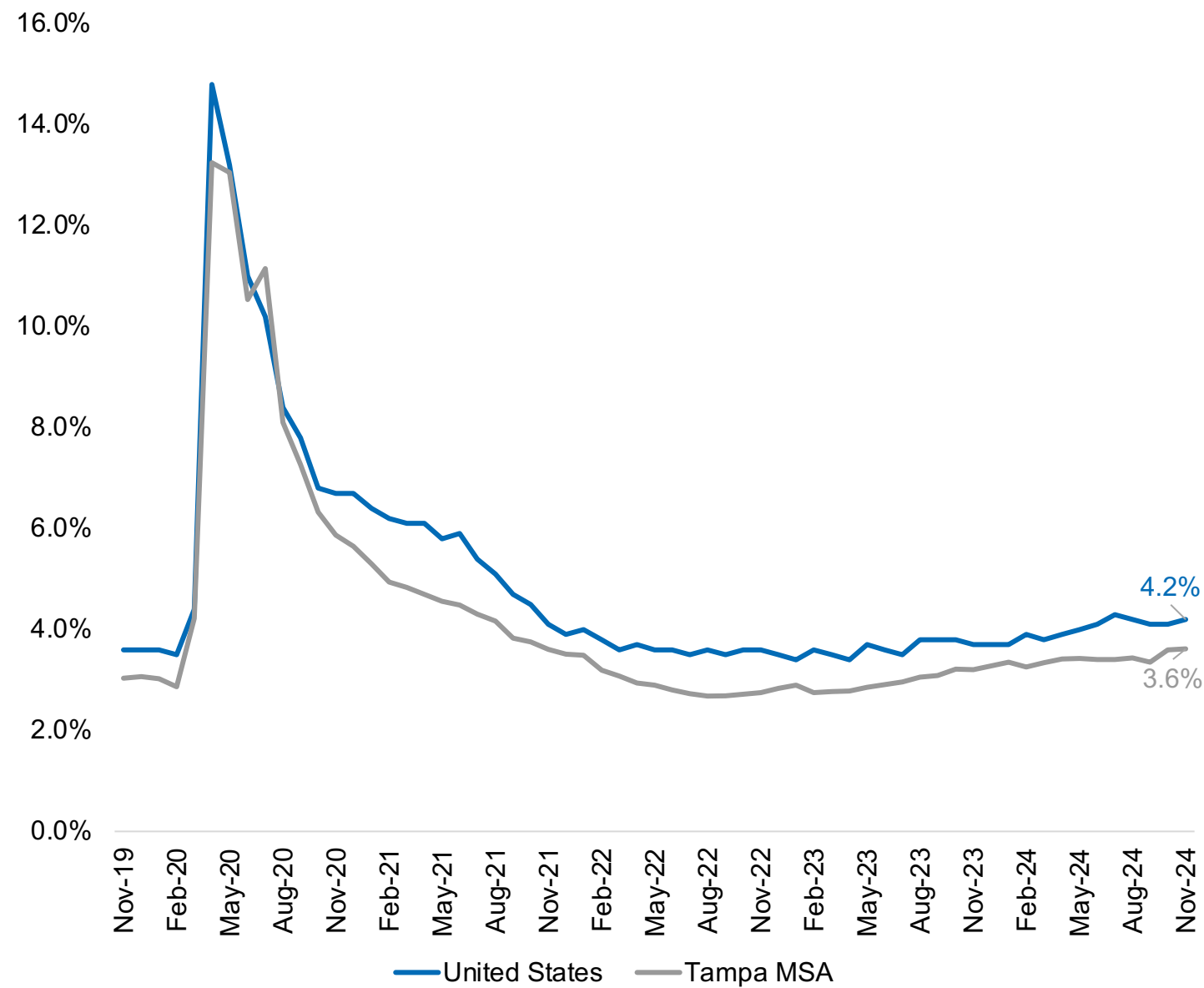
Economy



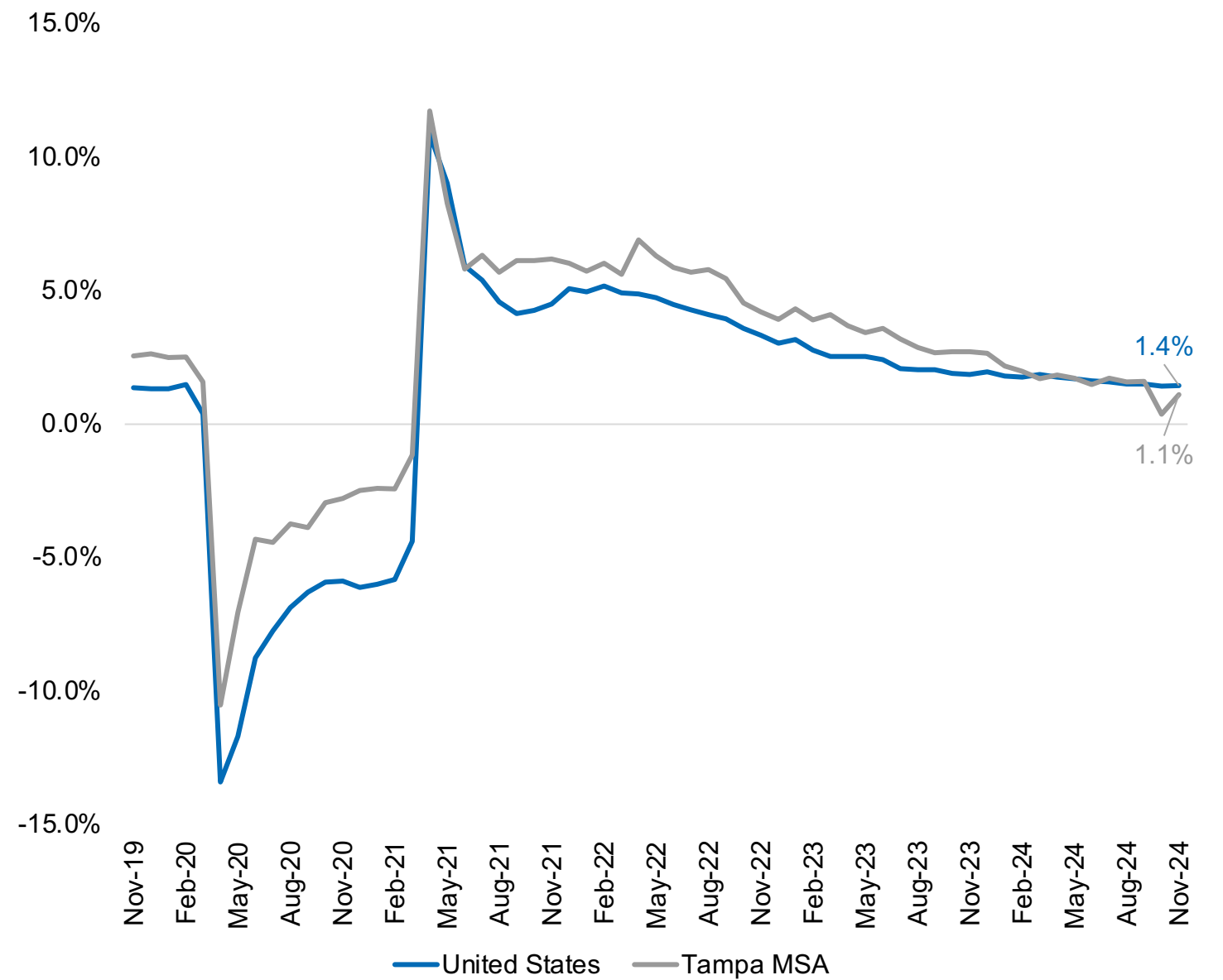
Metro Employment Growth Begins to Trail the Nation

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 41 basis points year over year, with employment growth slowing by 162 basis points compared with the previous year. For the first time since the post-pandemic era, Tampa employment growth began to lag national growth starting in October 2024, likely impacted by the employment decline in the leisure/hospitality sector.

Unemployment Rate, Seasonally Adjusted



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

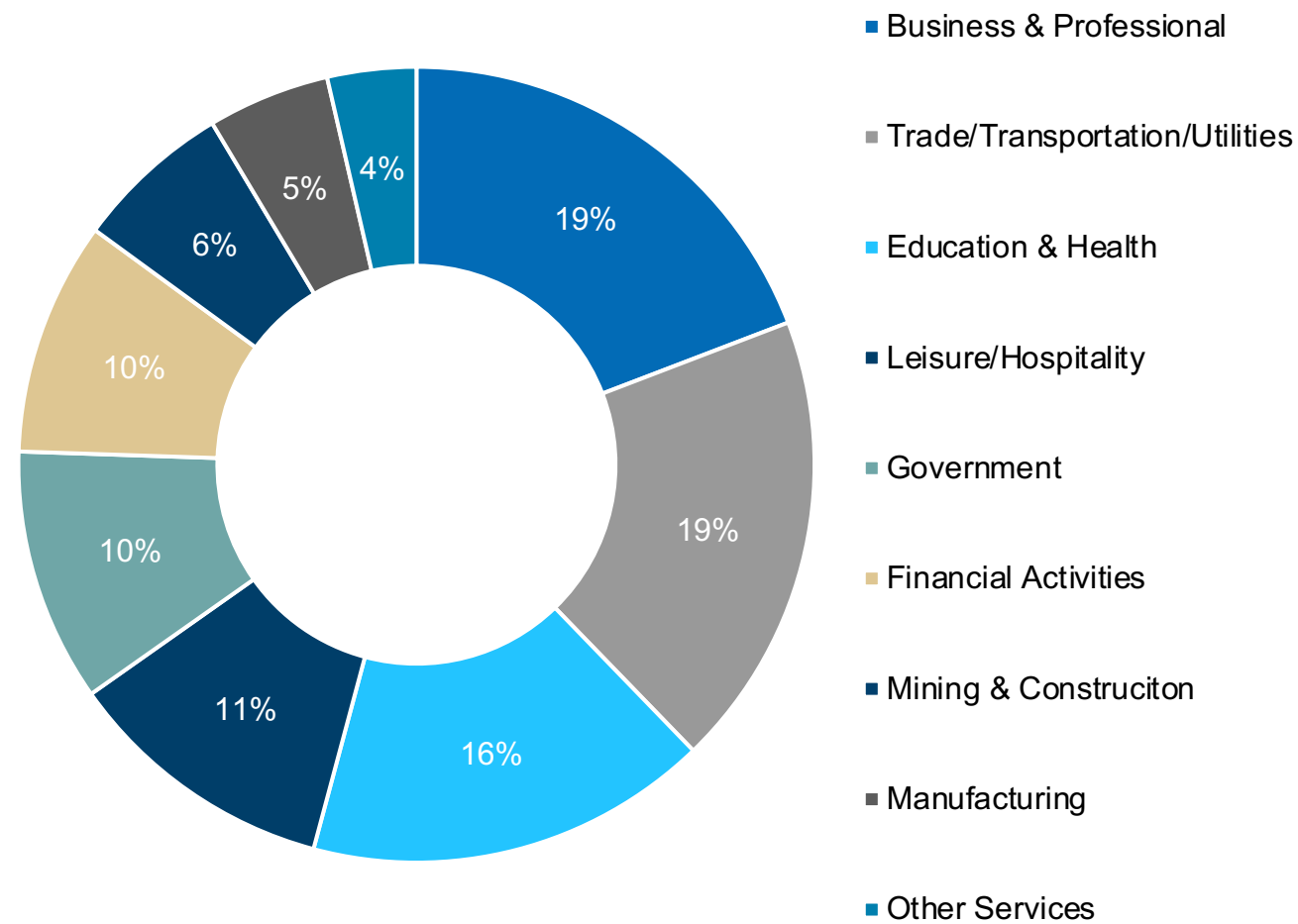


Source: U.S. Bureau of Labor Statistics, Tampa MSA

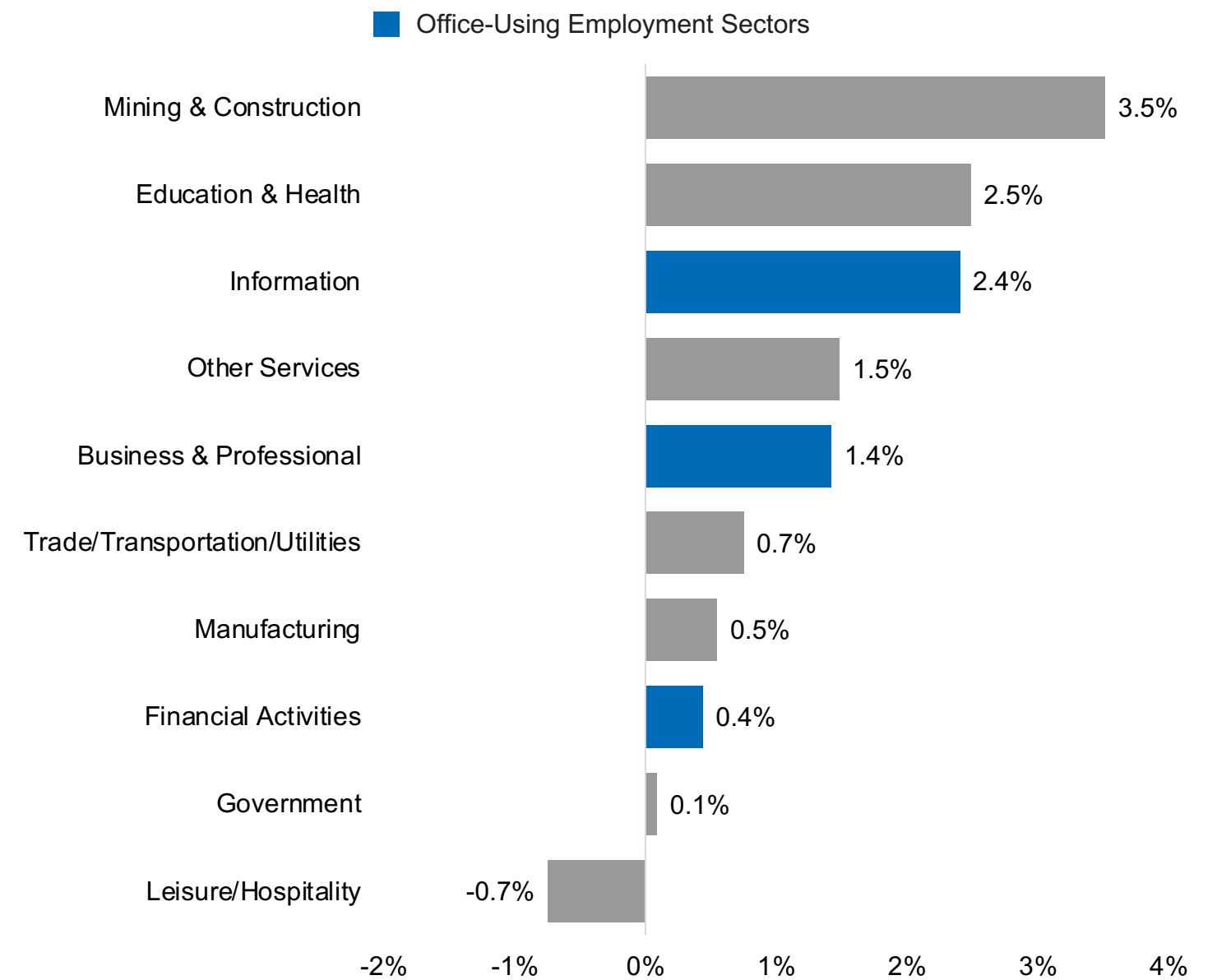
Employment Growth Continues for All Office Sectors

The Tampa market's top two employment industries account for 37.0% 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 0.4% to 2.4% year over year.

Employment by Industry, November 2024



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

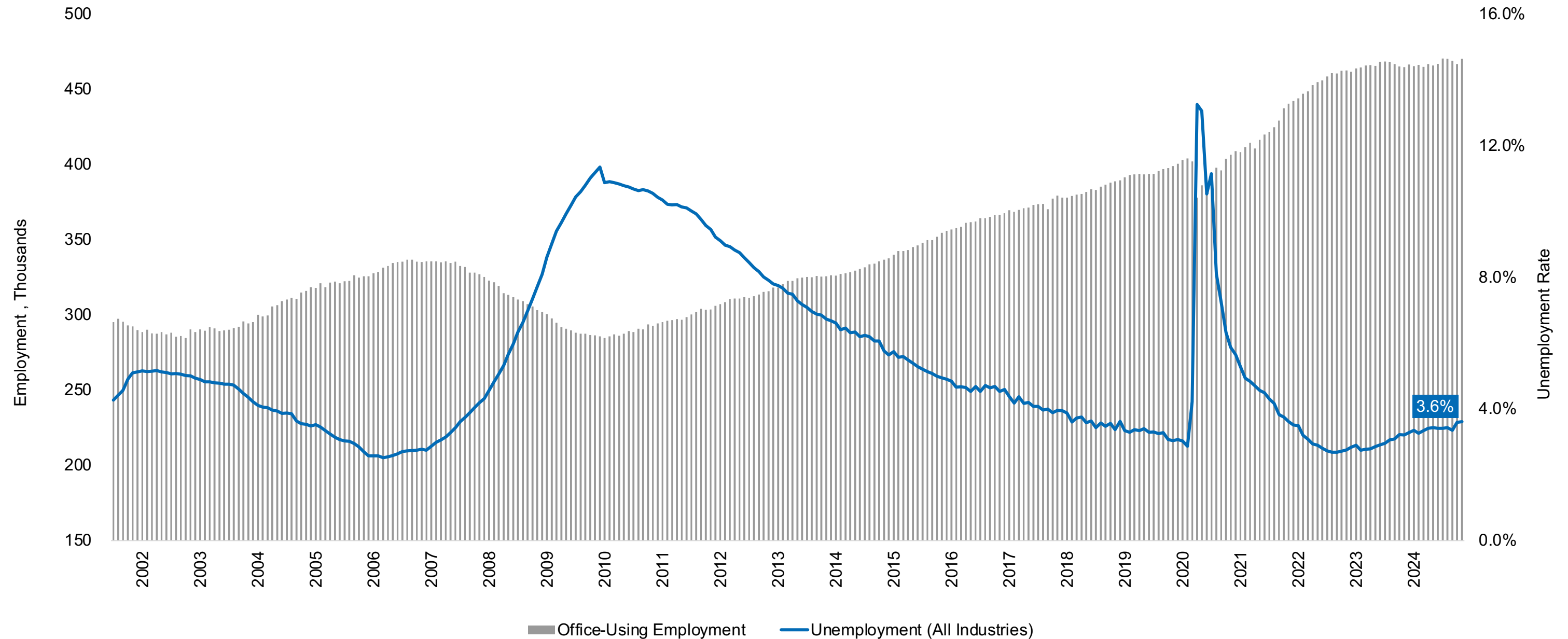


Source: U.S. Bureau of Labor Statistics, Tampa MSA

Overall Office-Using Employment Ends Just Shy of Record High

Office-using employment in the Tampa market increased by 1.2% year over year to 470,160 employees, remaining just 0.1% shy of the all-time high reached in July 2024. Currently, the unemployment rate is at 3.6%, 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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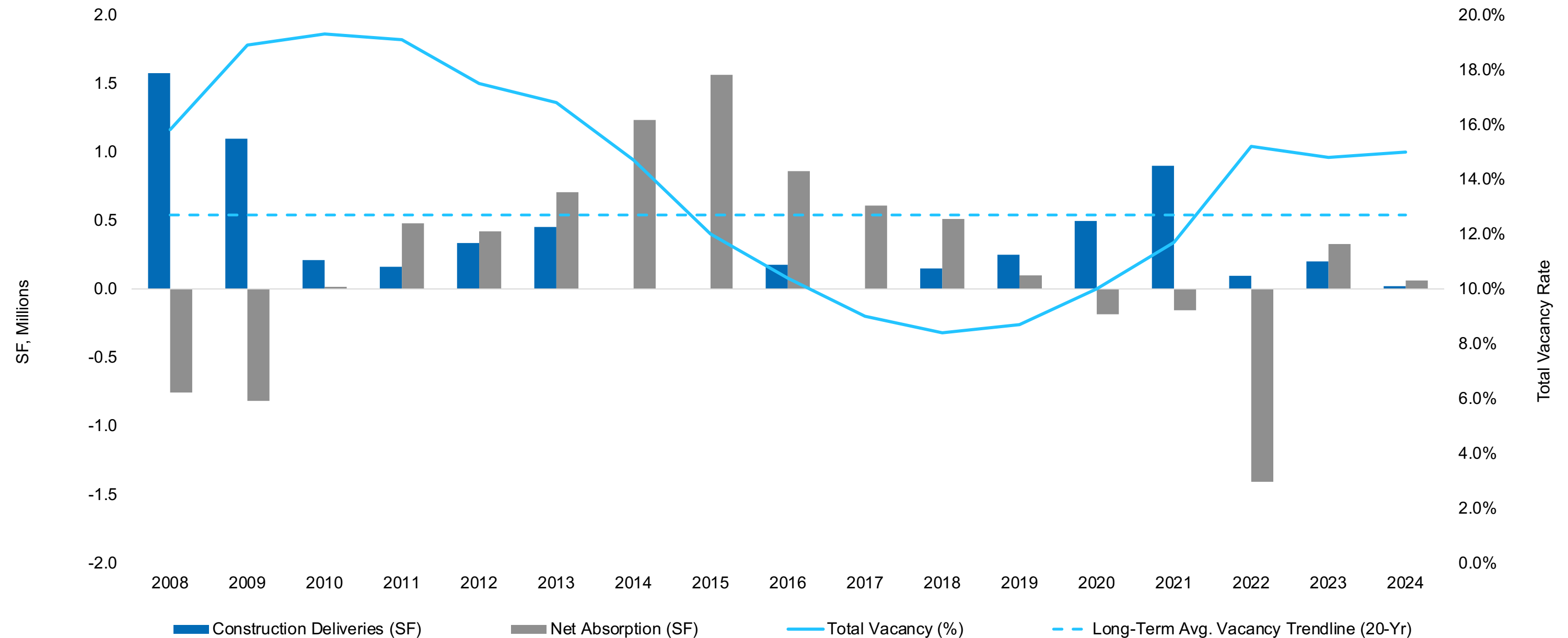
Leasing Market Fundamentals



Vacancy Remains Flat while Quarterly and Yearly Demand Turn Positive

The Tampa office vacancy rate decreased by 20 basis points quarter over quarter but increased by 20 basis points year over year to 15.0% in the fourth 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.

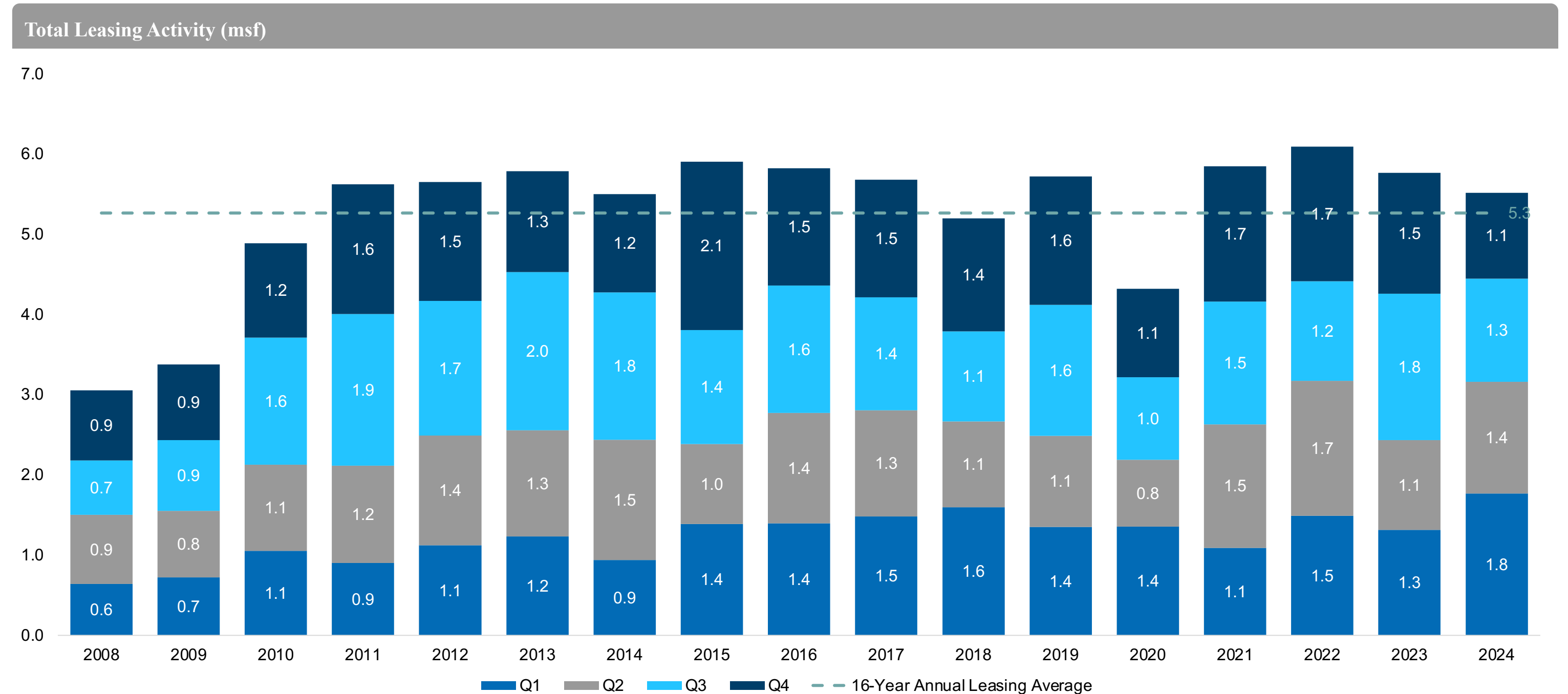
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Quarterly Leasing Activity Continues to Significantly Lag Historical Quarterly Trends

Leasing activity in the market in the fourth quarter of 2024 underperformed the 16-year fourth-quarter leasing average of 1.4 MSF, closing the quarter at 1.1 MSF. Deal size averaged 4,487 SF in the fourth quarter of 2024, an average of 213 SF smaller than the previous quarter but 231 SF larger than the year. 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.

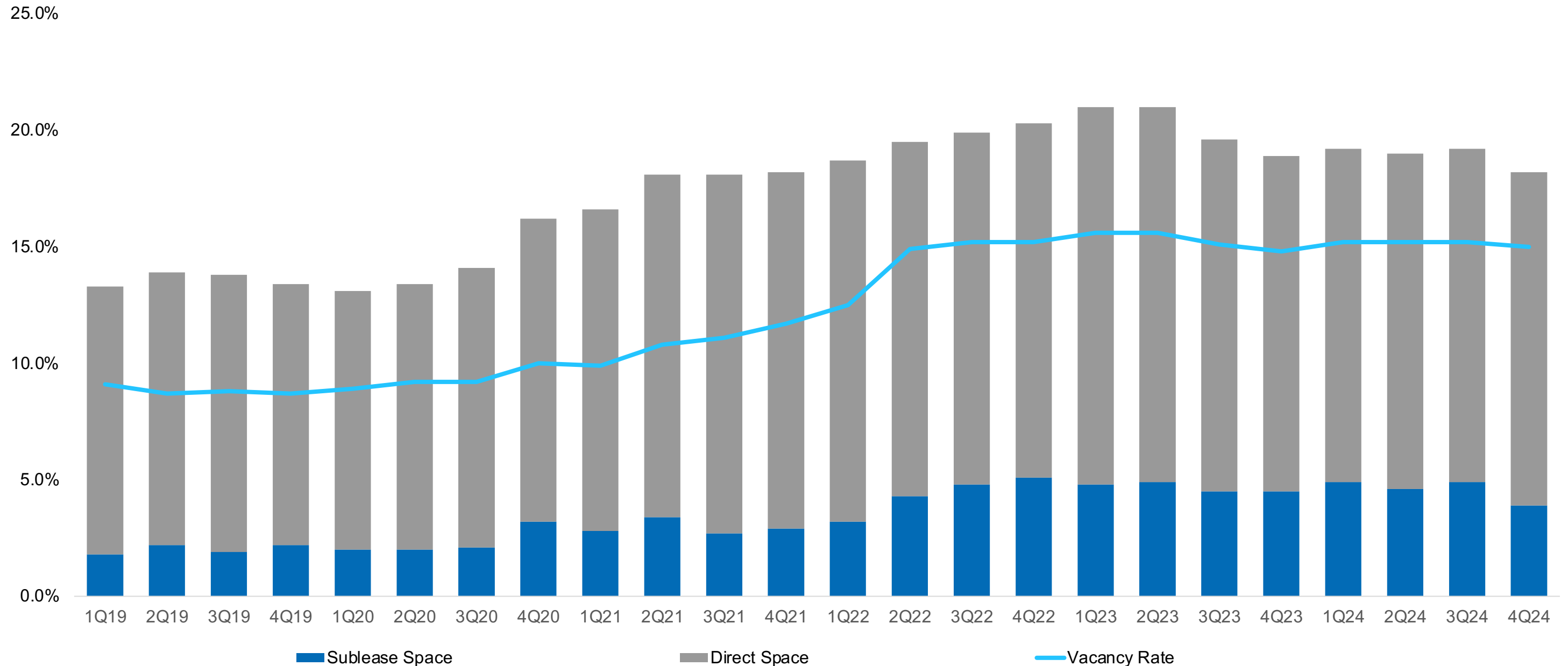


Source: Newmark Research, CoStar

Availability Decreases but Remains Elevated

Sublease availability in the market remains elevated at 3.9% in the fourth quarter of 2024 but has declined by 100 basis points from the recent peak observed in the previous quarter. Direct availability remained unchanged quarter over quarter. While availabilities decreased and continued to remain elevated, vacancies held steady and decreased by 20 basis points quarter over quarter but reflected an increase by 20 basis points compared to the previous year.

Available Space as Percent of Overall Market

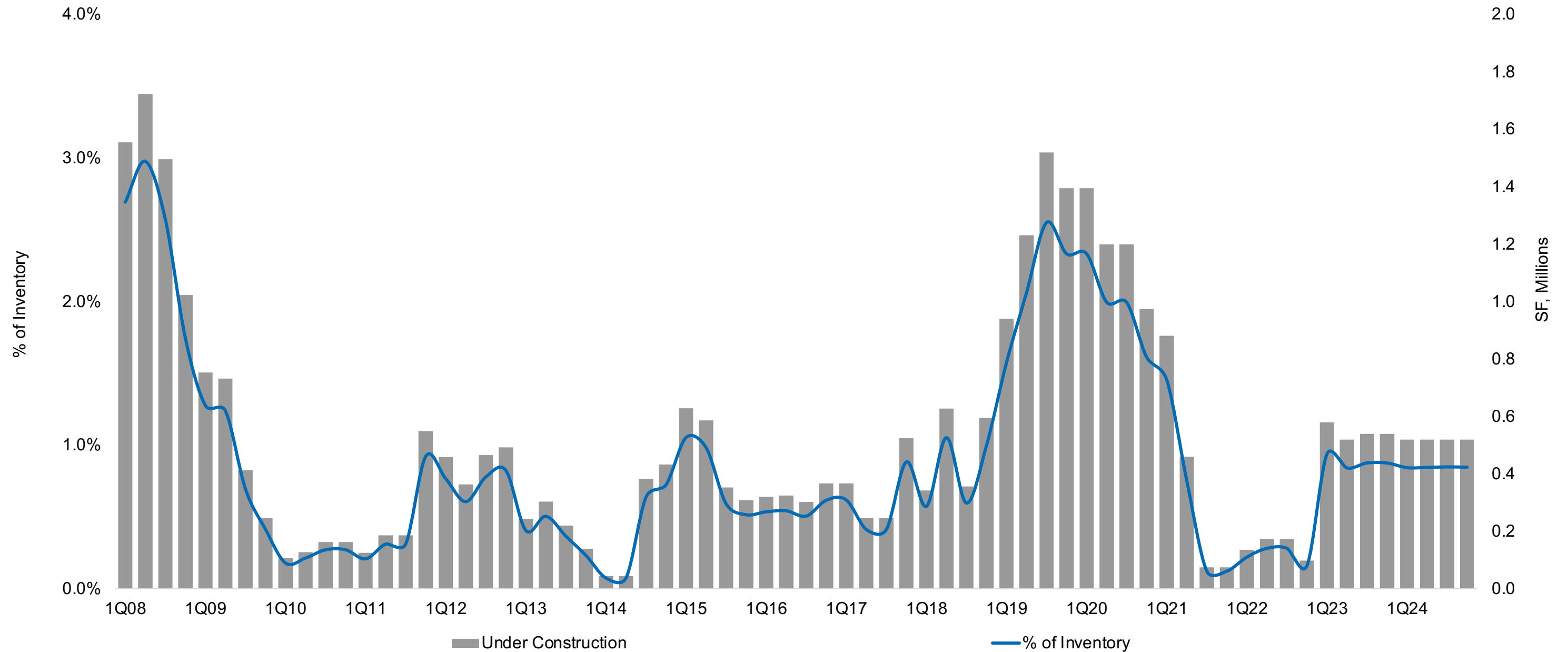


Source: Newmark Research, CoStar

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 fourth 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

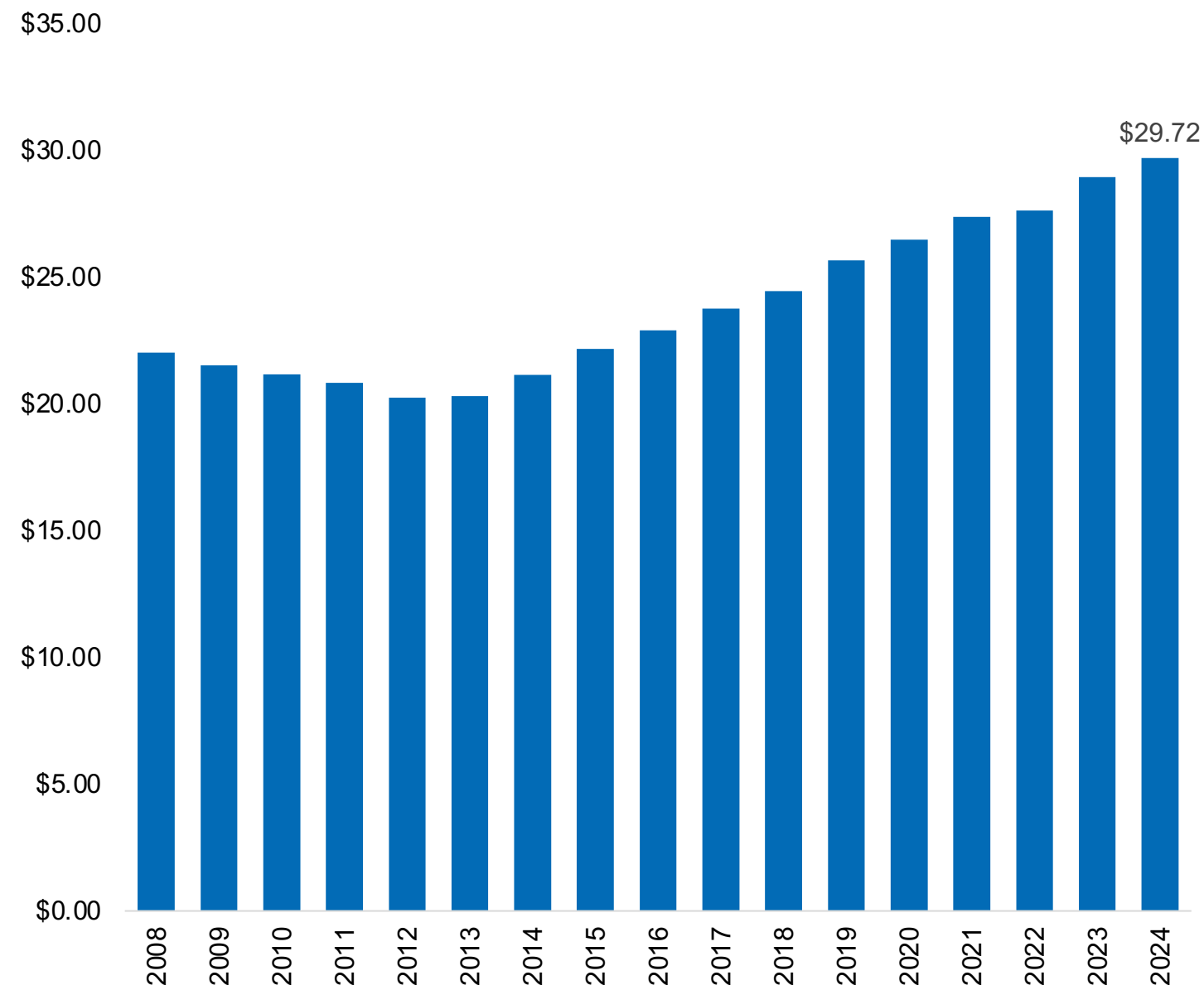


Source: Newmark Research, CoStar

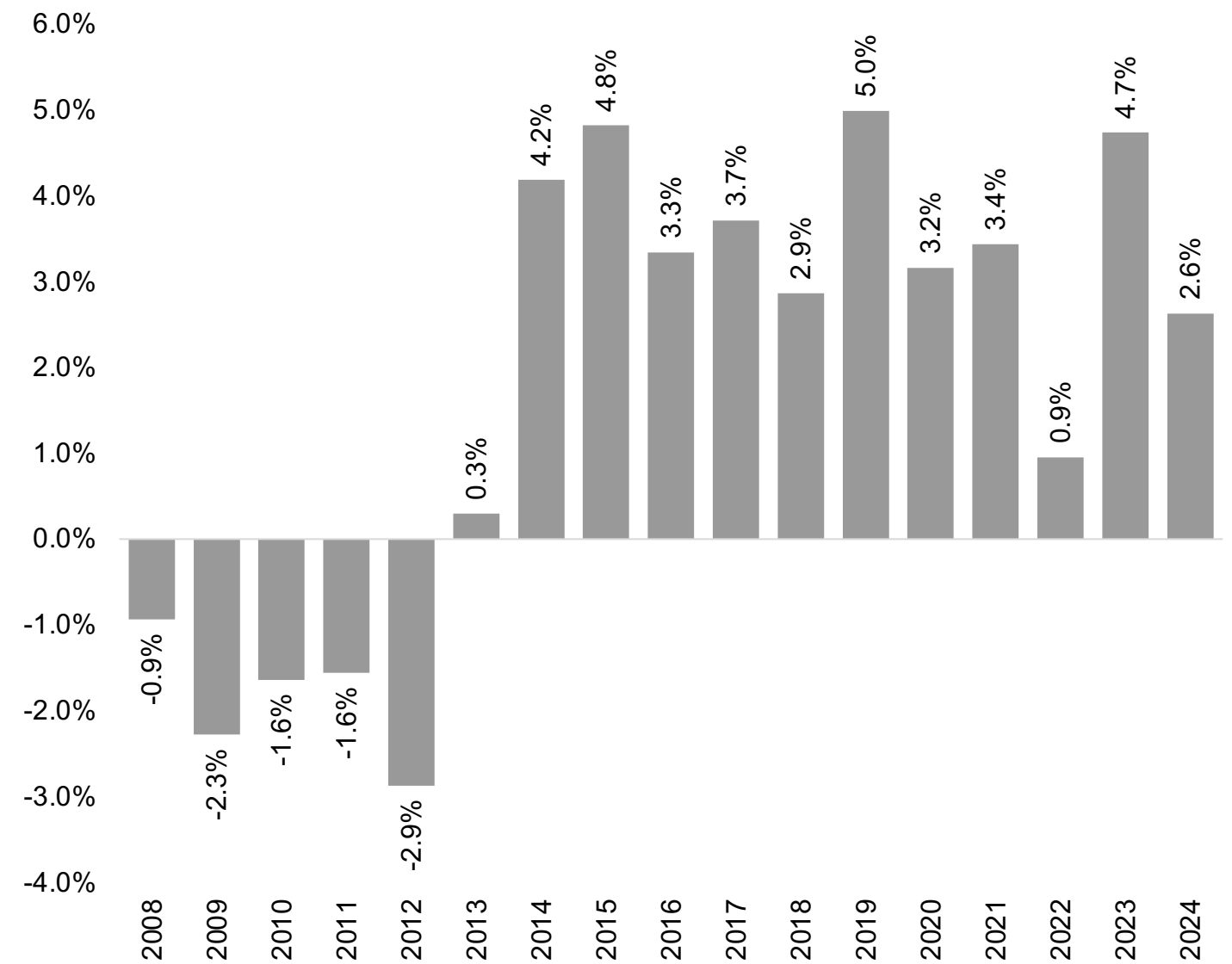
Rents Reach New High

Rents reached an all-time historical high in the fourth quarter of 2024 at \$29.72/SF, increasing by 2.6% 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

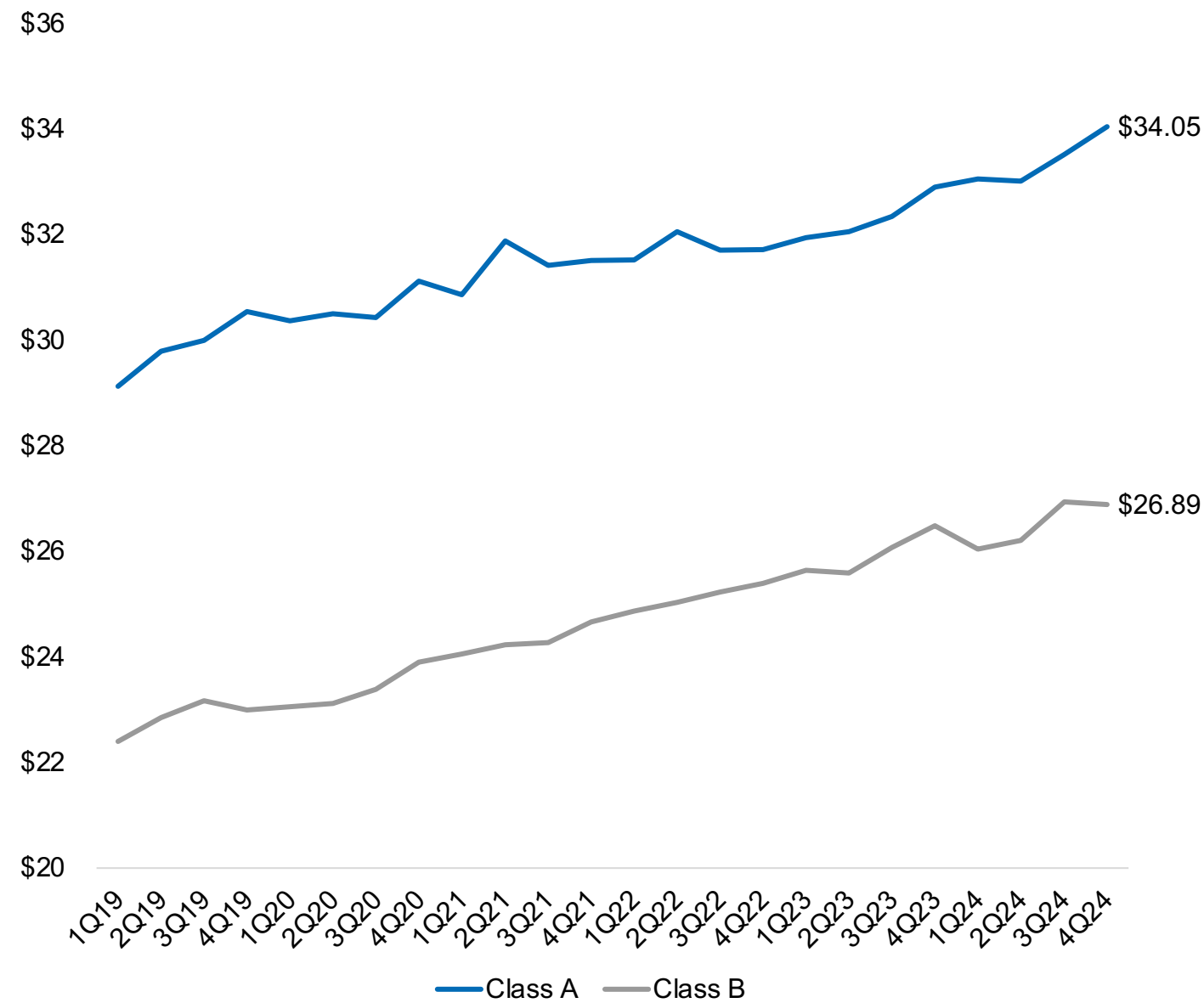


Source: Newmark Research, CoStar

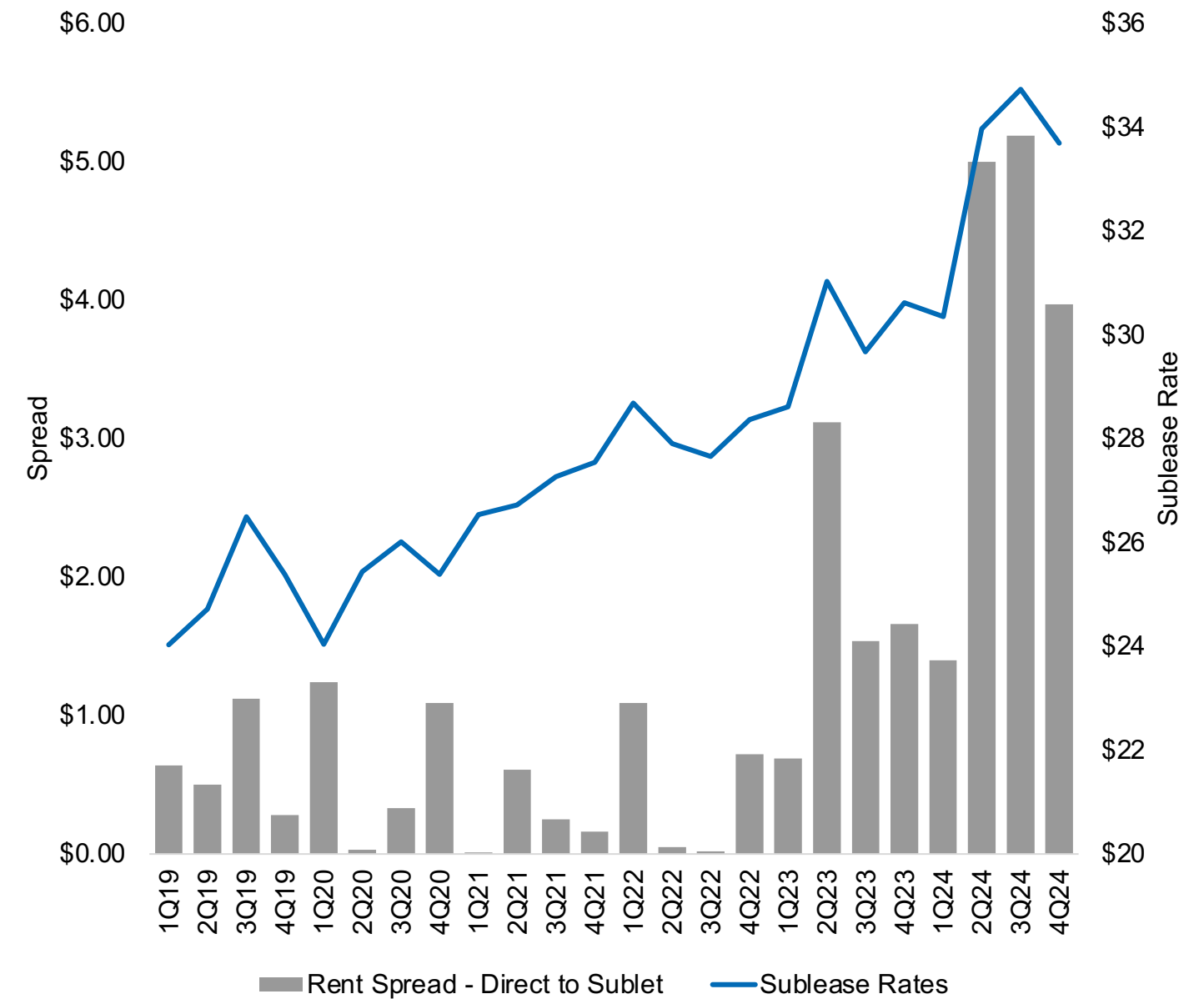
Rent Spread Increases Yearly, but Lower than Pandemic Levels

In the fourth quarter of 2024, Class A rents ended at \$34.05/SF, while Class B rents reported \$26.89/SF. Rent difference between the two assets is at \$7.16/SF, reflecting a 5.2% spread decrease since 2019 but an 11.7% 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 in the fourth quarter of 2024 dropped from an all-time high in the previous quarter by 3.0% to \$33.69/SF.

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 fourth quarter of 2024, Class A space accounted for 52.1% of the market's leasing activity by SF but only 35.3% of the market's deal volume. Average leases signed in Class A space were 6,627 SF and continue to remain larger than the average market deal size of 4,487 SF.

Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
MetLife	Highwoods Preserve IV	East Tampa	Direct New	217,370
<i>The life insurance company sold and leased back their space at 18210 Crane Nest Drive, thereby signing the largest lease of the quarter.</i>				
Hill Ward Henderson	Bank of America Plaza	Tampa CBD	Renewal	82,500
<i>The law firm signed a lease renewal through March 2037 at 101 E Kennedy Blvd to continue occupying floors 35 through 38. Hill Ward Henderson has been a tenant in the building since it first opened in 1986.</i>				
Spectrum	Hidden River V	East Tampa	Direct New	45,000
<i>Part of the Charter Communications brand, Spectrum signed a new lease at 8800 Hidden River Parkway for 45,000 SF.</i>				
Tampa Bay Rays	800 2 nd Ave S	St Petersburg CBD	Direct New	40,588
<i>Following damage from Hurricane Milton to the roof of Tropicana Field, the Tampa Bay Rays have signed a short-term lease for its 350 front-office personnel at the former UPC Insurance headquarters. The building had been sitting vacant since the insurance company declared insolvency.</i>				
Valera Solutions	Sparkman Wharf	Tampa CBD	Direct New	30,521
<i>Valera Solutions signed a new lease to occupy 615 Channelside Drive.</i>				

Source: Newmark Research, CoStar



Please reach out to your
Newmark business contact for this information

For more information:

Kirsten Kempf

Senior Research Analyst

Kirsten.Kempf@nmrk.com

Ching-Ting Wang

Head of Southeast Research

ChingTing.Wang@nmrk.com

Tampa

4221 W Boy Scout Blvd

Suite 440

Tampa, FL 33607

t 813-639-1111

New York Headquarters

125 Park Ave.

New York, NY 10017

t 212-372-2000

nmrk.com

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