

TAMPA BAY | OFFICE

Second Quarter 2015

Office Owners Adapt Space to Millennials' Work Style

Executive Summary

Overall, activity in Tampa Bay's office market increased during the second quarter, with rental rates inching upward and continued high interest from investors. This is due, in part, to the Tampa Bay Economic Development Corporation's (EDC) and Enterprise Florida's efforts to pursue corporate relocations to Tampa Bay. In addition, several large area employers are expanding their Tampa operations such as Liberty Mutual, Coca Cola, Citi Group, Moffit and Florida Hospitals.

Building owners' and tenants' efforts to upgrade properties and office suites to attract and retain the millennial workforce has now become a permanent trend. This generation is seeking collaborative workspaces that are wireless and heavily tech-enabled, with social areas and communal space for working and socializing. Many building owners are reacting to these demands by adding/upgrading fitness centers, common conference rooms, collaborative seating areas, free Wi-Fi and other amenities to their buildings. The results are increased occupancy and higher rates.

Highlighted Transactions

- > In the Westshore submarket, Invesco Advisors, Inc. sold the 181,000 square foot Rocky Point Centre to Parmenter Realty Partners for \$35.1 million. The property was 93% leased at the time of sale.
- > Austin Companies sold Austin Center, a 312,363 square foot multi building office complex at 1111 N. Westshore Blvd. to Redstone Investments for \$28.45 million. The property will be redeveloped with office, retail and housing.
- > Jabil Circuit leased a 51,603 square foot office space in Ceridian's Heron Building in St. Petersburg.
- > Ashley Furniture has leased 67,642 square feet at Centro Ybor to house the furniture giant's e-commerce headquarters.

Summary Statistics

Q2 2015 Regional Office Market

Tampa Bay

Vacancy Rate	15.1%
Change From Q1 2015	-0.6%
Absorption (Square Feet)	307,383
New Completions (Square Feet)	0
Under Construction (Square Feet)	307,335

Asking Rents

Per Square Foot Per Year

Downtown Class A	\$25.64
Change From Q1 2015	-0.74%
Suburban Class A	\$24.38
Change From Q1 2015	+0.45%

Market Indicators

Relative to prior period

Q2 2015

Q3 2015*

VACANCY	↓	↓
NET ABSORPTION	+	+
CONSTRUCTION	↑	↔
RENTAL RATE	↑	↑

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

Vacancy & Absorption

The overall vacancy in Tampa Bay's office market fell to 15.1%, as compared to 15.8% in the first quarter. The St. Petersburg CBD submarket had the area's lowest reported vacancy, at 7.8%, down from 10.3% in the first quarter.

Tampa Bay's office market experienced a healthy total net absorption of 307,383 square feet. While the Westshore and St. Petersburg CBD submarkets remained strong in the second quarter, the I-75 corridor had the region's highest net absorption, with 77,659 square feet absorbed.

Parking continued to be a hot topic in Tampa's CBD as demand rises and supply diminishes with costs for unreserved parking spaces leasing for an average of \$135 per space per month; reserved spaces leasing for an average of \$240 per space per month plus applicable sales tax.

Larger blocks of available contiguous office space continued to disappear. In Hillsborough County, tenants seeking more than 50,000+ square feet of contiguous office space had 11 space options. Tenants in need of 100,000+ square feet had just two options that can accommodate their requirement and one is a sublease from the existing tenant.

Technology, government, healthcare, engineering, mortgage and construction tenants were some of the most active for the quarter.

In the medical office sector, the consolidation of practice groups continued. New size requirements have created facility challenges for many practices. When a consolidated site is selected, tenants are investing significantly more in their TI with an emphasis on technology and quality. A number of older medical office buildings are becoming functionally obsolete or require significant updates to create greater efficiencies and to meet new patient/practice demands. Demand for the older medical office building under 10,000 square feet continues to soften. Typically parking, location and existing improvements do not meet market demands.

Leasing Activity

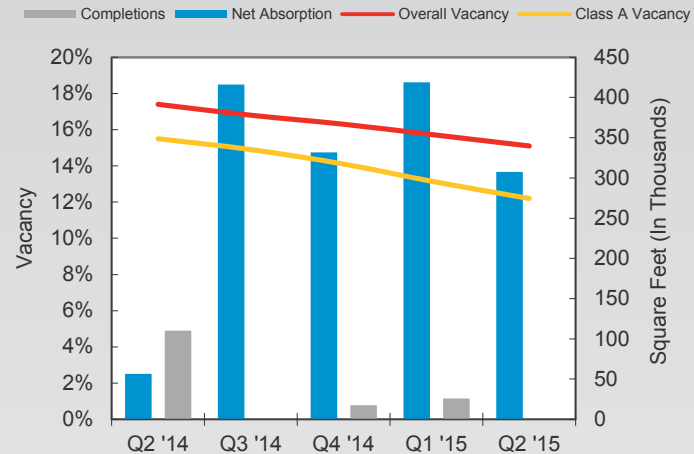
The most active office submarkets remained a landlord's market, while buildings that were not yet reflecting the landlord's market began trending in that direction. Overall, Class A and Class B buildings saw the highest interest from tenants. Class B buildings with outdated common areas saw notably slower leasing activity.

Across Tampa Bay, property owners continued to push asking rental rates higher. In some cases, landlords increased rental rates by \$3 per square foot after making capital improvements to well-occupied buildings.

Tampa Bay's overall average asking rental rate was \$20.14 per square foot during the second quarter, with the Westshore submarket continuing to command the region's highest average asking rate, at \$24.47 per square foot.

Regarding concessions, landlords on average offered \$3-\$4 per square foot per year in allowances for tenant improvements, while offers of free rent are declining – however, in many cases, free rent is offered in exchange for higher rental face rates.

Completions, Absorption And Vacancy Rates

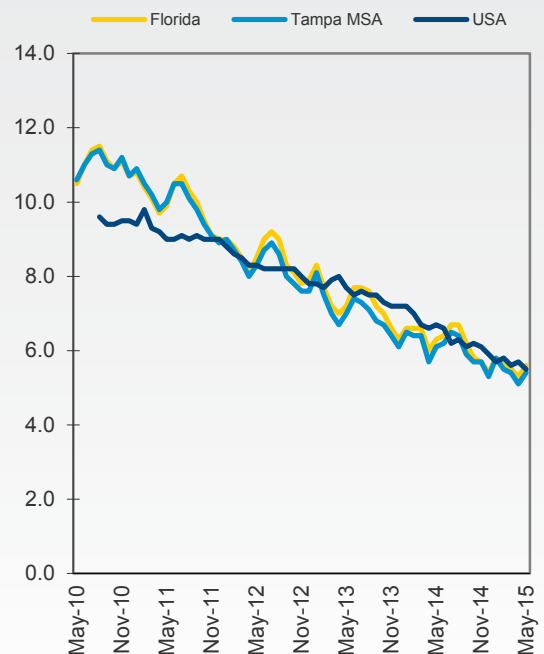


VACANCY RATES

Tampa Bay's overall office vacancy rate ended the second quarter at 15.1 percent. Meanwhile, Class A office vacancy rates fell to 12.2 percent.

Source: Colliers International, CoStar

Unemployment Trends



The Tampa Bay MSA unemployment rate posted 5.4 percent in May 2015, which represents a 1 percent decrease from August 2014. The State of Florida rate ended the month of May at 5.6 percent, while the national rate posted 5.5 percent.

Source: US Bureau of Labor Statistics

SUBMARKET BREAKDOWN

Property Class	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.	Avg. Direct Asking Rate Full Service
TAMPA CBD									
A	12	4,999,685	11.3%	11.9%	-4,096	5,584	0	0	\$25.64/fs
B, C	48	1,812,121	19.6%	19.7%	-1,396	-2,846	0	0	\$18.24/fs
Overall	60	6,811,806	13.5%	14.0%	-5,492	2,738	0	0	\$23.81/fs
WESTSHORE									
A	42	7,886,509	9.7%	10.6%	41,106	233,307	0	175,998	\$27.76/fs
B, C	170	6,957,038	12.6%	12.9%	25,949	74,906	0	36,000	\$20.59/fs
Overall	212	14,845,547	11.0%	11.7%	67,055	308,213	0	211,998	\$24.47/fs
I-75 CORRIDOR									
A	30	3,709,212	18.6%	19.5%	38,834	29,081	0	0	\$22.44/fs
B, C	247	8,004,196	17.6%	17.6%	38,825	123,869	0	0	\$17.66/fs
Overall	277	11,749,408	17.9%	18.2%	77,659	152,950	0	0	\$19.27/fs
NORTH PINELLAS									
A	14	747,670	21.6%	23.7%	-8,957	-28,710	0	0	\$19.82/fs
B, C	126	2,927,177	17.8%	17.8%	18,159	10,509	0	0	\$17.26/fs
Overall	140	3,674,847	18.6%	19.0%	9,202	-18,201	0	0	\$18.05/fs
GATEWAY									
A	18	1,919,892	5.9%	5.9%	15,779	25,231	0	0	\$22.77/fs
B, C	98	3,314,696	24.8%	24.8%	-49,179	-85,413	0	0	\$17.65/fs
Overall	116	5,234,588	17.8%	17.8%	-33,400	-60,182	0	0	\$19.03/fs
ST. PETERSBURG CBD									
A	9	1,630,956	6.3%	7.4%	69,016	74,060	0	0	\$24.30/fs
B, C	43	1,456,627	8.7%	8.7%	4,368	14,837	0	0	\$18.99/fs
Overall	52	3,087,583	7.4%	7.8%	73,384	88,897	0	0	\$22.58/fs

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.
2015 2Q	1,479	64,422,831	14.7%	15.1%	307,383	726,157	0	307,335	\$20.14/fs	\$24.71/fs
2015 1Q	1,479	64,422,831	15.3%	15.7%	418,774	418,774	26,000	307,335	\$19.94/fs	\$24.64/fs
2014 4Q	1,478	64,396,831	15.9%	16.3%	331,678	1,033,855	17,344	157,337	\$19.62/fs	\$24.29/fs
2014 3Q	1,477	64,379,487	16.4%	16.8%	416,136	702,177	0	73,576	\$19.71/fs	\$24.32/fs
2014 2Q	1,477	64,379,487	17.0%	17.4%	56,460	286,041	110,000	17,344	\$19.47/fs	\$23.92/fs

SALES ACTIVITY

PROPERTY NAME	CLASS	BUYER NAME	SIZE SF	SALES PRICE	SUBMARKET
Rocky Pointe Centre	A	Parmenter Realty Partners	181,014	\$35,100,000 (\$193.91/sf)	Westshore
Austin Center	B	Redstone Investments	312,362	\$28,450,000 (\$91.08/sf)	Westshore
Labcorp Building	B	Broadstone LC Florida, LLC	94,686	\$15,600,000 (\$164.76/sf)	Westshore

LEASING ACTIVITY

PROPERTY NAME	CLASS	TENANT NAME	SIZE (SF)	LEASE TYPE	SUBMARKET
Ceridian Heron Building	B	Jabil Circuit	51,603	New	South Pinellas
Lakeside	B	Willis Insurance	49,357	New	Westshore
Riverside at Telecom Park	A	Florida Hospital Associates	48,553	New	Northeast Tampa

Sales & Development

During the second quarter, investor interest for Tampa Bay office sales remained high as investors became more selective in the properties that they would consider. The greatest interest is in properties with 80-85% occupancy, strong cash flow and present a value-add opportunity. Larger institutional investors are particularly interested in location and quality of the property.

Interest in the Tampa Bay market came from equity sources of many types, including private and institutional investors locally, nationally and internationally.

With the sales activity, tenants are finding the need to pay attention to the Assessed Property Values which are increasing resulting in higher real estate taxes and ultimately gets passed on to the tenant in their Operating Expense escalation. This can be upwards of \$1.00-\$1.25 per square foot.

Though interest rates remained stable, the market continues to anticipate modest increases in late 2015. Lenders continue to

prefer working with organizations that have established relationships, as the buyer qualification procedure for lenders is rigorous.

In Pinellas County, developer interest in repurposing assets for office use in the St. Petersburg CBD has shifted west toward Tropicana Field, home of the Tampa Bay Rays. This dovetails with the exceptionally low vacancy rate in the CBD. Currently, several developers are looking to acquire properties to be redeveloped as office space for trendy organizations such as tech firms.

During the second quarter, Mount Kellett Capital Management put Rivergate Tower in downtown Tampa on the market. The 500,000 square foot office tower sold in December 2014 for \$59.6 million as part of a portfolio sale and is now under contract again this time for approximately \$70 million with an expected close in the 3rd quarter. Florida Medical Clinic also broke ground on a 100,000 square foot property in Wiregrass Ranch, located near the Shops at Wiregrass and Florida Hospital Wesley Chapel in Pasco County.

502 offices in
67 countries on
6 continents

United States: **140**
Canada: **31**
Latin America: **24**
Asia Pacific: **199**
EMEA: **108**

\$2.3
billion in
annual revenue
1.7
billion square feet
under management
16,300
professionals
and staff



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