

Florida office space scarce despite demand

Residential is thriving in Florida as is the industrial market, but the office market seems unable to get momentum going

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Orlando's economic prospects haven't looked so positive in ages. Not only are Florida's economic numbers improving from month to month along with job creation numbers, but even the real estate market is moving ahead. Speculative industrial projects are paying off, as can be seen with McCraney Property Development's new 700,000 sq ft of space at Bent Oak Industrial Park. Tenants are expected to fill the space this fall.

But is this translating into growth for the city's office market? The short answer is simple: no.

At least not yet, though the numbers are promising. Tampa had 38,104 sq ft of net absorption in the first quarter of 2015, the third consecutive quarter with positive absorption. The bulk of the absorption occurred in class A offices on the Westshore submarket. Across the board in this region, rents increased \$0.53, up 2.4 percent from a year ago, with an average of \$22.54/sq ft. Class A rent growth was slower, just 2 percent, reaching an average of \$25.27 per sq ft.

South Florida is also seeing rising demand in the office sector, but while residential and retail construction is taking off in the region, office supply remains quiet. Steve Hurwitz, a principal at CREC, says this is largely due to the high cost of developing office space. He also points out that submarket like Wynwood, Little River and Brickell are proving more attractive than CBD locations because of the type of amenities (like shopping and

Developers and banks are still risk-averse when it comes to spec office development



restaurants) they can offer. He foresees a bright future however for boutique office developments that offer other uses as well.

When will new office space be developed? Larry Richey, senior managing partner at Cushman & Wakefield, says it all comes down to financing, which is only available for significantly pre-leased projects. "There is no spec building," he says. "Even a building that is 50 percent pre-leased will not receive financing. There are only build-to-suit opportunities." USAA built a 370,000 sq ft space in Tampa and The Laser Spine Institute is building its own 175,000 sq ft headquarters, set to open in the first quarter of 2016.

Richey of Cushman & Wakefield says that Tampa is an attractive market that's

experiencing an all-time high in interest for relocations and expansions of high-profile companies. "Tampa is in the Top 5 in the United States in large markets in the costs to run a business." He says that labor availability and cost is a primary concern for companies but adds that there is no existing class A product that's more than 100,000 sq ft available in Tampa. This could slow the arrival of new office tenants, since buildings can take up to two years to complete once planning is approved.

For now, brokers can only try to shift companies around in existing office space. But while demand remains strong, financing is expected to remain tight. Will cash-rich developers open their wallets and start building office space on spec? We may be approaching the tipping point.