Cranes, Rent Hikes Good Signs for Tampa Commercial Market

continued from front cover

Build-to-suit office projects are also expected to continue, such as Progress Energy's headquarters and the MetLife addition at once-vacant Highwoods Preserve in north Tampa.
Those single-tenant buildings could attract record-braking prices from investors who are still seeking solid properties, far surpassing the multitenant benchmark of nearly $200 per square foot. Progress Energy's 16-story building was already being shopped this past summer at a price of $77 million, or $314 per square foot.

Multitenant buildings that have been around awhile could also result in competitive prices, such as the pending sale of the 38-story Tampa City Center building, which opened in 1981. Its equal-aged neighbor, the 20-story Fifth Third Center building, brought $52 million, or $185 per square foot, from an Australian investment group earlier this year.

Demand driving record pricing

Even at those higher prices, Bay area commercial properties are considered a bargain relative to similar buildings in large metropolitan markets across the country. Besides the prospect of rising rents creating greater income potential, investors also realize buildings can be acquired for less than replacement value and well below new construction.

"That means there's room for upside, and when investors believe that, they want to buy," says Mike Davis, senior director with Cushman & Wakefield of Florida in Tampa, who has been involved in several huge office and industrial transactions in recent years.

The potential for record sale prices in the Bay area is being driven lately by supply and demand — a huge volume of institutional investment dollars chasing a limited supply of available properties. As long as that trend continues, more owners could be led to put their properties on the market.

Brad **Luger**

"There's always an owner somewhere that wants to extract a profit," says Brad Luger, executive director with GVA Advantis in Tampa, who brokered two shopping center deals earlier this year attracting well above $400 per square foot.

Tampa Bay, Florida

GLOBAL GROUP INVESTMENT

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GLOBAL GROUP INVESTMENT

ggiNewsletter

Volume One • Issue Two
Spring 2007

Cranes, Rent Hikes Good Signs for Tampa Commercial Market

By Carl Cronan
Tampa Bay Business Journal

The unprecedented number of construction cranes lined up across Tampa Bay area skylines tell only part of the story when it comes to describing how good things are going with commercial real estate.

A record amount of office space absorption, rising rents for both office and industrial buildings, and continued strong investor demand across all property types are painting a better portrait for buildings and land than the Bay area has seen in at least a decade.

The positive momentum should continue into 2007 barring a direct hit by a major named storm, though those from the past two hurricane seasons have had lingering effects on property insurance rates, say local commercial executives.

The last time local businesses saw this many cranes overhead was in the early 1990s, when downtown skyscrapers were added to Tampa and St. Petersburg. Now, those cranes are being used to put up urban residential condominiums in both cities, a new upscale hotel in downtown Tampa, a new headquarters for Progress Energy Florida in downtown St. Petersburg and several suburban office buildings.

Commercial brokers predict there will be more to come in 2007 as buildings currently under way are completed and developers become more confident in their ability to balance asking prices for leasing rates and condo sales with rising land and construction costs.

Office rents reaching plateau

"The big question now is how much rent will office and industrial tenants pay," says Stevens E. Tombrink, executive vice president and managing director of Grubb & Ellis|Commercial Florida in Tampa. He notes that asking rents for Class A office space in Tampa could hit $30 per square foot in the coming year, an all-time high.

Stevens **Tombrink**

While office brokers advise tenants not to drag their feet in renewing leases or seeking favorable space elsewhere, they do expect asking rents for existing space in the Bay area to level off at some point in the coming year.

"We're kind of getting to a new plateau," says Jon Slater, managing director of Studley Inc. in Tampa. "Even in a tighter market, landlords still want to win deals."

Jon **Slater**

A combination of rising demand, shrinking supply and changes in building owners are driving up asking rents, giving office developers a bit more confidence in launching long-awaited projects on a speculative basis, instead of waiting for substantial percentages of pre-leasing contracts.

continued on back cover

Global's Goals & Objectives

Message from Global's President & CEO David Ortiz, CCIM

"In this issue of our newsletter we have featured articles that reflect the positive aspect of the commercial real estate market throughout Florida and this momentum looks set to continue. We at Global are very excited about our two latest developments in the Greater Tampa and Jacksonville areas. The sites were carefully chosen, after in-depth research, for their position in areas of strong economic growth and expanding employment. With the increase in demand for office space and rising rental rates driving the need for our product, we are looking forward to another successful year ahead.

Following our huge success in the Orlando area with our Lake Mary Professional Campus project, we are pleased to announce we are now actively negotiating for the purchase of a prime 14-acre site located in the Orlando area."

For U.S. Office Markets, 2006 Was a Very Good Year

Net Absorption Was Over 100 Mil SF Again; Rental Rates Increased 5%

January 17, 2007
COSTAR GROUP
Written by Mark Heschmeyer

The U.S. office market ended 2006 with a vacancy rate of 11.4% down from 12% at the end of 2005, according to CoStar Group's just released Year-End 2006 Market Report.

As space availability declined, so did net absorption. Tenants absorbed more than 101 million square feet in 2006; that was down from 125 million square feet in 2005.
Rental rates ended the fourth quarter at $23.33/square foot, a 5% increase over rental rates at the end of 2005.

The overall office market performance made for another strong year in office building investments. Tallying office building sales of 15,000 square feet or larger, total office building sales activity for the first nine months of 2006 was up compared to the same period in 2005. The value of buildings sold increased 19% in 2006 over 2005 even though the volumes each period were similar. The average price per square foot paid for office properties jumped 17%

In the first nine months of 2006, the market saw 2,928 office sales transactions with a total volume of $62.1 billion. The price per square foot averaged $193.59.

In the same first nine months of 2005, the market posted 2,954 transactions with a total volume of $52 billion. The price per square foot averaged $165.22.

Cap rates were lower in 2006, averaging 7.40% compared to the same period in 2005 when they averaged 7.96%.

The office markets in the four corners of the country ended the year with the lowest office vacancy rates. New York City had the lowest vacancy rate in the country at 5.9%; Long Island was close behind at 9.4%. In Southern California, Los Angeles, Inland Empire and Orange County finished out the year with vacancy rates around 8% or less. **In Florida, Tampa/St. Petersburg and Orlando, and Broward, Palm Beach and Dade counties all posted vacancy rates in the 8% range or less.** And in the Pacific Northwest, the Seattle/Puget Sound market came in at 8.9%. Washington, DC, and Nashville also finished the year with vacancy rates in the single digits.

Office markets that averaged more than 1 million square feet of net absorption per quarter last year included: Atlanta, Boston, Chicago, Dallas/Fort Worth, Houston, New York, Philadelphia, Phoenix and Washington, DC. Both New York and Washington, DC, posted more than 7 million square feet of total net absorption.

Perhaps more indicative of office space demand than total net absorption is the percentage of inventory absorbed in the year. For example, in Jacksonville, FL, net absorption was 1.9 million square feet for the year but was more than 4% of total office market inventory.

Other cities posting net absorption of 4% or more of total inventory included: Austin, the Inland Empire, Orlando and Phoenix.

Reflecting the increased demand for office space, several markets boasted rental rate increases in the double digits. The average asking rent in New York City went up nearly 20% over the course of 2006. Its rates were far and away the highest in the country, averaging $49.66/square foot at the end of the year. Washington, DC, was second $32.36/square foot rents on average.

Office

Colliers International

Market Report

Jacksonville, FL

Reproduced from Online Report-Jan 2007

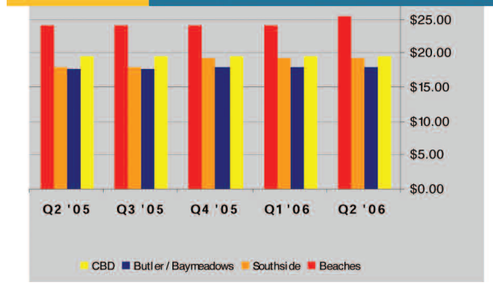
Jacksonville's MSA, which includes Duval, St. Johns, Clay, Nassau and Baker Counties, has a population of over 1.2 million. According to Demographics Now, 2005, projected growth for the area is estimated at 9.9% over the next five years. In the May 2006 issue of Business 2.0, Jacksonville is ranked nationally in the Top 10 "Hottest Cities" that will lead job growth through 2015. Over the past year, the city has experienced 30 major corporate expansions or relocations, with businesses taking advantage of Jacksonville's temperate climate, low cost of living, skilled workforce and business-friendly environment.

The City of Jacksonville has taken a proactive role in the city's overall growth and development by establishing economic incentive programs to help support multiple commercial and residential projects. Attracting more people to live downtown is a major goal for civic leaders. Developers are currently involved with several new or planned residential projects in the downtown area, providing a key component in the renewed strength of downtown as a place to live and work.

The top four employment sectors in Jacksonville, based on figures from the Florida Dept. of Labor and Employment Security, are Professional Business Services (15.1%), Education and Health Services (11.7%), Government (11.7%) and Finance and Insurance (10.0%). These growing industries are providing an improving demand for office space within the city's key submarkets. The result is an expected gradual lowering of the local office vacancy rate, while rents will continue to rise modestly this year.

FIGURE 1

Class A Rental Rate Trends



Consensus has it that the Jacksonville office market is in an upward trend. While it is still considered a tenant's market; landlords are beginning to limit rent concessions while attempting to improve their income stream. Most build-to-suit projects in Jacksonville will continue to be tenant driven, multi-tenant building deals, with additional user space coming online upon completion of these projects.

BUTLER/BAYMEADOWS 8,684,643 SF	
Overall Vacancy	14.9%
Class A Vacancy	10.1%
YTD Absorption	345,460 SF

Overall Rental Rate	$17.56
Class A Rental Rate	$18.04

TRENDS

Butler/Baymeadows continues to offer excellent potential for both office developers and investors, while suiting the needs of owner users. It has been the city's most active submarket for new office development in recent years. Most of Jacksonville's population growth is in this area, increasing the eventual need for more office space, while providing for solid long-term leasing demand and increased rents. Much of its existing Class A office product is along the Butler Boulevard corridor. Tenant space is primarily available in various business centers such as Deerwood Park, Freedom Commerce Center, and the Deerwood Center.

A hot spot in this submarket is Flagler Center, a developing office park in the southeast quadrant of I-95 and Old St. Augustine Road. The recent opening of a highway interchange at this intersection is increasing the market appeal of Flagler Center, particularly as residential growth continues to push southward in this area toward St. Johns County.