

Tampa, Fla.

Office-Space Market Begins to Feel a Chill

By MAURA WEBBER SADOVI

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The office market in Tampa, a fast-growing region on Florida's west coast known by baseball fans for its warm spring-training weather, is beginning to feel a chill from a slowing economy, increased sublease space and a surge of new buildings.

The slowing pales in comparison to the near free-fall of the metropolitan area's residential market -- where sales of existing single-family homes were off 40% in September from the year-earlier month, according to the Florida Association of Realtors. Construction has stalled on the high-profile Trump Tower Tampa condominiums.



A rendering of what The Grove at Wesley Chapel, one of several retail projects coming to Pasco County.

But there is some spillover from this turmoil into the office market. Some home builders, mortgage companies and other firms are dumping part or all of their office space back on the market, brokers say. For example, the 35,000-square-foot Tampa location of H&R Block Mortgage Corp., which was a unit of H&R Block Inc., was shuttered in March. Many of the changes in the Tampa office market have flown below the radar. "It's bits and pieces, but a lot of bits and pieces," says Cheri O'Neil, senior vice president and branch manager for Studley Inc. in Tampa. Such moves have more than doubled sublease office space available

in the Tampa region to about 1.4 million square feet in the third quarter from about 625,000 square feet a year ago, according to Studley. Already some landlords are starting to offer concessions such as periods of free rent, Ms. O'Neil says.

Anchored by the cities of Tampa and St. Petersburg, Florida's second-largest metropolitan area after Miami has leveraged its below-average living costs to draw both back-office financial operations and snowbirds-turned-residents and push its population to about 2.7 million. Job growth has slowed from an above-average annual pace of 2.2% from 2002 through 2006, according to Moody's Economy.com. Year-over-year employment rose at a slowed pace of 1.02% in September, just below the U.S. rate of 1.2%, according to the Bureau of Labor Statistics.

For now, metro-wide office rents are forecast to rise, albeit at a slower pace, according to Property & Portfolio Research Inc., a Boston-based real-estate-research firm. But the question remains whether the economy will bring enough jobs to fill all the new space on tap for the area. An estimated 1.8 million square feet of new office space is being completed this year, with another 1.1 million expected to be added in 2008. The average increase over the past four years has been 893,000 square feet, PPR says.

Highwoods Properties Inc., of Raleigh, N.C., says its 208,000-square-foot Highwoods Bay Center I building in the Westshore submarket, finished in the third quarter, is 67%-leased. Ed Fritsch, Highwood's chief executive, says he will likely take a "a wait and see" approach to a second twin building because of his concern about the overall slowing of the economy and the new supply. New construction also is under way in the retail sector, even as leasing demand is slowing. Patrick Berman, senior director of retail brokerage for Cushman & Wakefield in Tampa, says it isn't uncommon for landlords to throw in two months of so-called free rent, compared with the one month that was more common a year ago.