

Tampa Bay Business Journal - April 30, 2007

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TAMPA BAY Business Journal

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Area becoming a high-rent district as rates spike

Tampa Bay Business Journal - April 27, 2007 by [Carl Cronan](#) Real estate editor

TAMPA -- Businesses that lease space might want to consider moving quickly with relocation plans or renewing where they are now.

Office rents are climbing.

A combination of increased demand, higher operating costs and new space coming to the market is driving prices upward lately, to nearly \$30 a square foot in some submarkets. While that number isn't all that unusual in other large metropolitan areas around the country, it would be a new high for the Tampa Bay area.

Annual average asking rents for office space in Hillsborough and Pinellas counties ended the first quarter at around \$21 per square foot, and premium or Class A space averaged above \$23 per square foot, estimates by various commercial real estate brokerages say.

"They've already increased since the end of the first quarter," said Larry Richey, senior managing director of Cushman & Wakefield of Florida Inc. in Tampa. "We expect them to rise at a significant pace until we enter a cycle, as we always do, when space becomes more plentiful."

Westshore is tight

The Westshore business district has the highest averages, at around \$25 a square foot overall and at least \$28 a square foot for Class A space. Although Westshore has the Bay area's largest office inventory at more than 11 million square feet, its first-quarter vacancy rate of 7.6 percent is the lowest of all large local office submarkets, according to Cushman & Wakefield research.

"There are some buildings in Westshore where rates have ramped up north of \$30," said Jon Slater, managing director of the Tampa office of Studley Inc., a national tenant representation firm. Some tenants are holding off expanding their current space until ongoing rent increases stabilize.

That may happen later this year, though ongoing price hikes for commercial property insurance -- which landlords commonly pass along to tenants -- could drive average rents higher. Coverage costs that used to be measured in dimes per square foot are now counted in dollars.

"Potentially, huge increases in coverage premiums have focused investors' attention on making profit without breaking the bank," said Stevens Tombrink, executive VP of Grubb & Ellis|Commercial Florida in Tampa and Bay area president of the National Association of Industrial and Office Properties.

Developers are also trying to balance the cost of new office space against what the local market will bear.

For example, Crescent Resources LLC plans to break ground this summer on Corporate Center Four at International Plaza along Boy Scout Boulevard in Westshore. Asking rents are \$32 a square foot, the highest of any local building, though it's doubtful the landlord will make a fortune at that rate.

"We're not making any more on a return basis than we ever have," said Ron Ruffner, Crescent's VP and director of development in Tampa.

The cost of staying put

Renewals in older buildings as well as new are expected to jump \$2 to \$3 per square foot from previous lease terms, Ruffner said.

While smaller office users have greater flexibility in renewing leases or seeking new space, larger tenants are limited in their choices because contiguous space in buildings is harder to come by and construction isn't keeping pace with demand, brokers said.

However, Ruffner points out that modern offices such as the newer Corporate Center buildings have greater efficiency built into the space, meaning tenants won't need to rent as many square feet.

But with few new options for tenants to explore, building owners sense they have the upper hand. That includes those who have bought local buildings at higher prices and are seeking the maximum return on investment.

Richey, of Cushman & Wakefield, advises tenants to explore their space options at least a year before the end of a current lease term.

"It's expensive to move," he said, "and the landlords know that."

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