

2014 showing signs to be the year of acceleration as the economy continues to strengthen

Economy

From an employment perspective, Tampa Bay is on a roll. Unemployment has dwindled down to 6.5 percent, 140 basis points below the 2013 rate at this time last year, with no signs that it will halt its current trend downward. The unemployment rate is expected to continue decreasing by 20 to 30 basis points per year for the next three years. Total nonagricultural employment has grown by 2.5 percent over the past 12 months with industries such as manufacturing exceeding 7.0 percent growth over that same time period.

Market conditions

Vacancy continues to tighten throughout the Bay area as the market has seen its direct vacancy rate decrease 60 basis points, the equivalent of 3.2 percent, over the past quarter alone. Certain submarkets are seeing vacancy plummeting at record speeds. Over the past 12 months, Downtown Tampa has seen the largest year-over-year decrease in direct vacancy since the turn of the century. The current vacancy rate of 13.9 percent is below the submarket's five-year and 10-year averages of 17.2 percent and 17.0 percent, respectively. With market conditions looking favorable, the long-rumored SouthGateTower is beginning to look more feasible, especially with Syniverse's nearly 200,000 square feet lease in the I-75/I-4 Corridor expiring in 2016. The technology company's decision on where they will call home post-2016 will significantly alter the landscape of multiple submarkets as new construction is being considered in Downtown Tampa and Westshore in order to accommodate one of the largest firms in the Bay area.

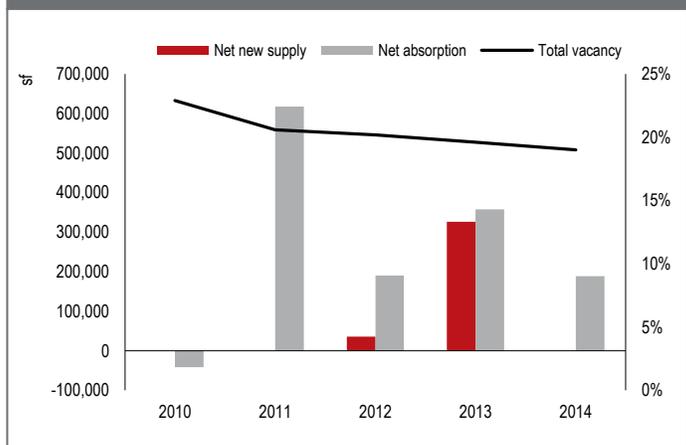
Market outlook

While 2013 can be categorized as the year of recovery, 2014 is poised to be the year of acceleration. Large tracts of land continue to trade hands, signaling investors and developers have confidence in the health of the real estate market and in the economy. An example of this is the 330 acres that recently sold in Pasco County. This was the second tract of land greater than 300 acres to sell along SR54 in the past six months. The other large tract was Behnke Ranch's 536 acres that sold in the fourth quarter of 2013.

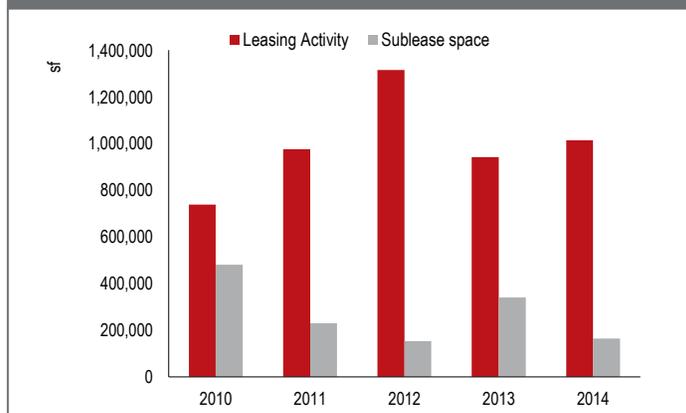
We expect to see vacancy to continue to decline to below historic averages for the market in its entirety. Furthermore, there are realistic expectations for submarkets such as Westshore to join Downtown Tampa in achieving new historic highs for rental rates.

| Key market indicators | | 12-month forecast | |
|-----------------------|----------------------------------|-------------------|---------------|
| Supply | Supply | ↔ | 34,570,770 sf |
| | Direct vacancy rate | ↓ | 18.5% |
| | Total vacancy rate | ↓ | 19.0% |
| | Under construction (% preleased) | ↑ | 0 sf |
| Demand | Leasing activity 12 mo. % change | ↑ | +7.7% |
| | YTD net absorption | ↔ | 188,458 sf |
| Pricing | 12-month overall rent % change | ↑ | 2.7% |
| | Class A overall asking rent | ↑ | \$24.77 psf |
| | Class B overall asking rent | ↑ | \$19.25 psf |

Net new supply, net absorption and total vacancy (YTD)



Leasing activity vs. sublease vacant space



Sublease space refers to vacant space

Tenant perspective

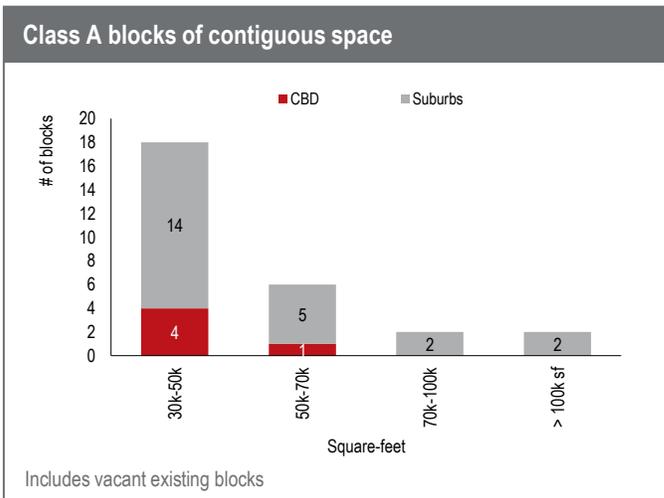
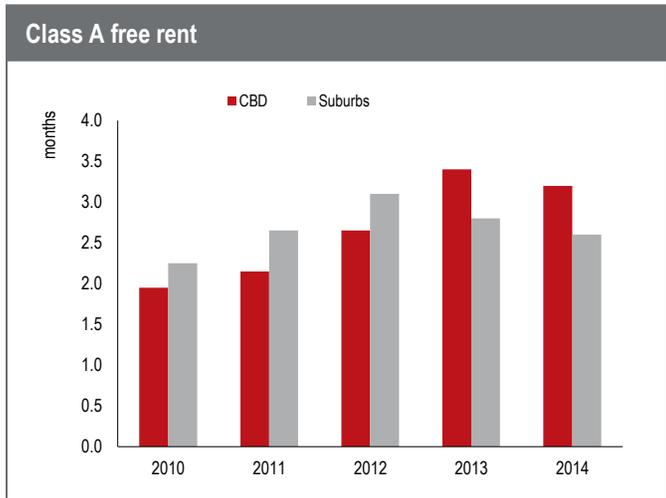
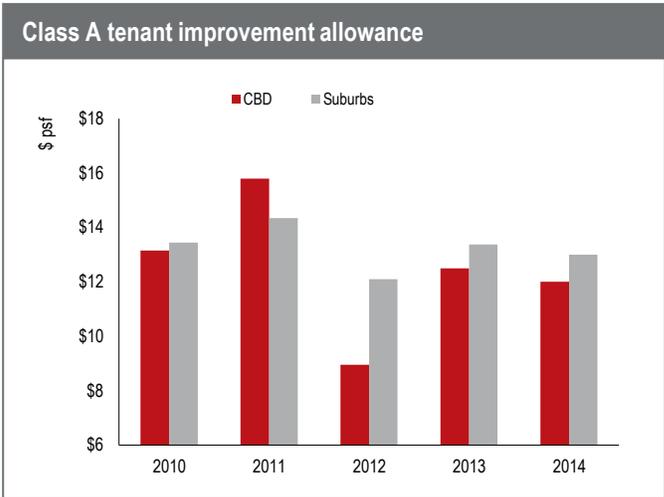
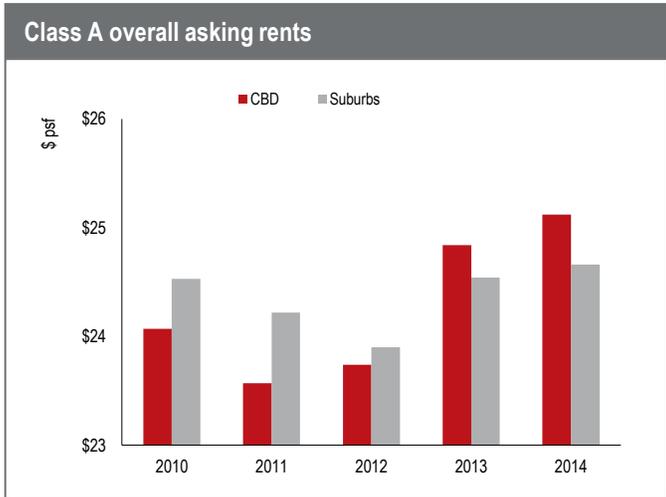
Two large challenges for users are emerging in the Bay area that will likely impact real estate decisions over the next few years. First, large blocks of space in the Class A product are becoming extinct, especially in the central business districts of Tampa and St. Petersburg. As large tenants like Butler Pappas, Trenam Kemker, and Syniverse announce where they will be executing their leases, we expect other firms to quickly decide where they will be moving as the supply of quality space dwindles.

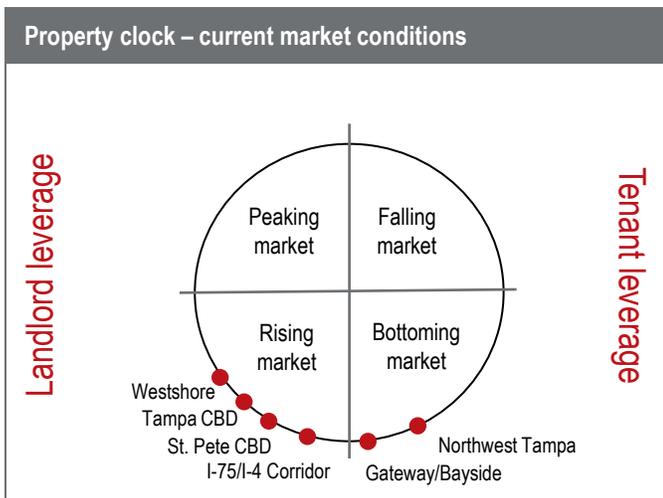
The second challenge facing tenants is the rapidly escalating rents. In the Tampa CBD, rents have appreciated 4.5 percent over the past twelve months. For the market in its entirety, rents have appreciated 2.8 percent over the past year. As firms recognize this, they are scurrying to lock up office space sooner than later as no signs exist that rental appreciation will stop anytime soon. Submarkets like the Tampa CBD and Westshore have leverage aligning with the landlords while other submarkets still can be categorized as neutral.

Landlord perspective

Landlords are repeatedly witnessing tenants demonstrate a false sense of reality when it comes time to negotiate a renewal at a tenant's current location. Tenants still believe that they have leverage in negotiations and are experiencing sticker shock upon seeing what type of deal the market is commanding. An effect of this is that landlords are able to secure longer leases than they have in recent years because users are recognizing that continued economic expansion will likely cause rents to continue to rise.

Owners of trophy assets are having to continue to pump capital into their buildings in order to stay competitive in the marketplace. The downside of these capital expenditures is that the landlord is not always seeing tangible returns in terms of higher rents; however, without these improvements there is a chance that a tenant will relocate to a different trophy asset that offers greater amenities. Desirable amenities include common areas for employees and outdoor space.





Submarket leverage – market history and forecast

| Submarket | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------------|------------------|------------------|--------------------|--------------------|--------------------|
| Tampa CBD | Balanced | Balanced | Landlord-favorable | Landlord-favorable | Landlord-favorable |
| Downtown St. Petersburg | Tenant-favorable | Tenant-favorable | Balanced | Balanced | Landlord-favorable |
| I-75 / I-4 Corridor | Tenant-favorable | Tenant-favorable | Balanced | Landlord-favorable | Landlord-favorable |
| Northwest Tampa | Tenant-favorable | Tenant-favorable | Tenant-favorable | Balanced | Balanced |
| Westshore | Tenant-favorable | Balanced | Landlord-favorable | Landlord-favorable | Landlord-favorable |
| Gateway/Bayside | Tenant-favorable | Tenant-favorable | Tenant-favorable | Balanced | Balanced |

■ Landlord-favorable conditions
 ■ Balanced conditions
 ■ Tenant-favorable conditions

Completed lease transactions

| Tenant | Building Name | Submarket | SF | Type |
|--------------------|--------------------|-------------------|--------|---------------------|
| Binder and Binder | Lakepointe One | Westshore | 31,043 | New |
| Access2Care | 16331 Bay Vista | Pinellas Outlying | 25,000 | New |
| BKS Partners | One MetroCenter | Westshore | 17,409 | Renewal & Expansion |
| Regus | Wells Fargo Center | Tampa CBD | 13,000 | New |
| Genesis Healthcare | Anchor Plaza | Westshore | 11,319 | Renewal |

Construction Activity

| Address / Building Name | Submarket | Developer | SF | Completed Date |
|-------------------------|-----------|---|--------|----------------|
| 12802 Citrus Park Lane | Northwest | Ryan Companies US and Odessa developer Chris Daye | 75,000 | December 2013 |

Tampa Bay methodology: Inventory includes all Class A, & B office properties > 30,000 square feet, excluding all condo, medical and government owned buildings, and owner occupied buildings; vacancy is direct unless specified otherwise



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