

Q1 OFFICE REPORT

THE DILMORE REPORT | JUNE 2020



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Fletcher joined Beck Partners in August of 2017 after graduating from Florida State University with degree in Finance and Real Estate. He has carved out a niche as a Downtown Tallahassee office broker, representing numerous national office tenants on their search for new space in Florida's Capital City.

Market Indicators:

Vacancy	6.18%	Average Asking Rent (PSF)	\$19.45
Net Absorption	314,719	Average Market Rent (PSF)	\$18.72
Construction	87	Average Cap Rate	8.60%
Deliveries	192,180		

Activity:

Sales of office space in Tallahassee have increased since Q1 of 2019 with a sales volume of nearly \$20,000,000 from only \$5,000,000 in Q1 2019. The price per square foot has steadily increased to \$136 PSF from \$130 PSF this time last year. The increased sales volume can largely be contributed to one large medical office transaction that occurred in the middle of January for \$12,000,000 for the 26,920 SF property located at 2000 Centre Pointe Blvd. that was acquired by a privately held medical office investment firm from Nashville, TN.

Leasing Activity:

Tallahassee's office leasing activity was off to a hot start in the first quarter of 2020, with eight office leases executed for 5,000 SF or more, a great deal of activity for the market. The largest lease was a renewal of a tenant brokered by John McNeil for 23,444 SF at 215. S. Monroe St. located in the heart of Downtown Tallahassee. A 3,652 SF lease expansion was completed by Shawn Maxey at 2626 Care Dr. for Capital Regional Vascular Surgery.

Notable new leases signed were 10,921 SF lease brokered by myself for the national information technology firm, CNSI at 1650 Summit Lake Dr. located in the Summit East Technology Park. A 9,000 SF lease where Lewis Buford represented the tenant Bryant Miller Olive P.A. and Jimmy Nystrom represented the landlord of 1545 Raymond Deihl Rd. was completed in early January. And Atkins Engineering signed a 10,500 SF lease at 3522 Thomasville Rd. brokered by Jimmy Nystrom at the end of January.

Rental Rates:

Tallahassee has seen a steady growth of Office rental rates, with the average asking office rent in January was \$19.19 PSF and has since grown to \$19.45 PSF.

2020 FORECAST

It is safe to say that COVID-19 has had a major effect on the economy as a whole but, certainly has cast quite the looming shadow over the commercial real estate industry with office tenants now rethinking their entire office approach. Do we see a major increase in the number of work-from-home employees? Are the open space collaborative offices now a thing of the past? Is there an increased in demand for space in some industries and a major consolidation in others? Is there an increased pride that now resonates with being an essential employee who HAS to be at the office?

Sales volume will likely slow in the office sector as the future of office begins to pan-out. Cap rates will take hit and have already begun to rise in the investment markets. We have not seen any major sales pricing discounts in the Tallahassee office market since COVID-19 first became a household term. Leasing activity carried over into the new year with most major leases being completed before COVID took over and initiated a slow down in activity. On the brightside, we are seeing an increase in interest and in completed leases in Tallahassee as many decision makers have come out of their quarantine and decided to move forward with their businesses future, trusting the traditional office path with a few new tweaks. Office rents are projected to take a decrease through the rest of the year as thing.

Quick Tip for the Future of Office Leasing:

Expect shorter term leases coming across your desk for the next few months until uncertainty has waned with decision makers. Know that a likely slowdown of major capital expenditures from landlords is likely to become the norm. Get use to extensive sanitation and cleaning of office spaces as employees and employers begin reentering the office environment. Be sure to be on the lookout for- and ready to update the Force Majeure language you use in leases. Below is an example of new force majeure language that has made its way into some of my leases:

"Force Majeure. If Landlord or Tenant is delayed, hindered or prevented from the performance of any act required under this Lease, by reason of governmental restrictions, scarcity of labor or materials, strikes, fire, or any other reasons beyond its control (it being agreed that the financial inability of either party shall not be deemed a reason beyond its control), the performance of such act shall be excused for the period of delay (not to exceed 60 days), and the period for the performance of any such act shall be extended for the period necessary to complete performance after the end of the period of such delay (not to exceed 60 days). The parties specifically agree that payment of Rent and Additional Rent by Tenant shall not be abated or delayed as a result of any epidemic or pandemic, including, but not limited to, the epidemic related to COVID-19."

Notice the differences?

Beck Partners aims to keep you informed with the latest market trends in commercial real estate. For specific questions about your commercial real estate lease, sale, property management or market trends, contact Fletcher Dilmore, a Beck Partners Associate at (850) 727-0003 or fdilmore@teambeck.com.



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