



JACKSONVILLE

EXECUTIVE SUMMARY

- Office market fundamentals have remained healthy given restrained speculative development in recent years, and there is a limited supply of high-quality large blocks of space in key areas.
- Over 4 million sf of new industrial space underway will likely result in an accelerating vacancy rate during 2020, although it should flatten to between 5% and 6% by the end of the year.
- Retail development will continue to thrive in St. Johns County in 2020, particularly within Nocatee Town Center, St Johns Town Center, and The Pavilion at Durbin Park.
- Private investors continue to offer opportunities in Jacksonville as it offers greater yields over pricier markets in South Florida.

Jacksonville's office and industrial market fundamentals were healthy in 2019, with a couple of key speculative office projects delivering, feverish industrial development occurring, and several planned projects inching forward in the urban core, within the I-95/9A Corridor, and in Nocatee. Investors continue to target Jacksonville, which offers greater yield than many other Florida markets, and low interest rates should continue to encourage investment interest in Jacksonville during 2020.

Recently named the fastest growing city in Florida by the U.S. Census Bureau, Jacksonville is expected to see notable growth in the coming years and both GDP and employment growth are forecast to rise alongside population growth, the latter of which will further accelerate as the state and local taxes (SALT) provisions of the 2017 Tax Cuts and Jobs Act result in outmigration from higher tax states like New York. Overall, the Jacksonville metro area has seen healthy economic growth over the last 5 years, growing around 1% faster annually than the national average.

The office market has remained healthy and the renaissance of Jacksonville's urban core made progress during 2019 with several projects inching forward. Axis Income Fund announced plans to invest \$28 million to redevelop the long-vacant Independent Life building at 233 W Duval St and The Landing, a once thriving but recently distressed retail development, is slated for demolition in downtown Jacksonville which will pave the way for eventual future redevelopment. Elsewhere downtown, Jacksonville Jaguars owner Shad Khan is proposing a \$450 million mixed-use development adjacent to the stadium with plans for a luxury boutique hotel, multifamily component and 120,000 sf of class A office space. Outside of the urban core, the I-95/9A Corridor continues to attract a

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	→	↑↑	↓
Vacant Space	↑	↑	↑↑↑
Construction Levels	↑	↑↑	→
Leasing Volume	↑	↓	↓↓
Investment Volume	↑	↑	→

dominant share of office leasing, investment and development activity. Locally based company FIS Services recently announced plans to grow their Jacksonville operations after the \$43 billion acquisition of payment services company Worldpay, Inc. The combined company plans to develop a new 300,000-sf, \$145 million headquarters in the Riverside area.

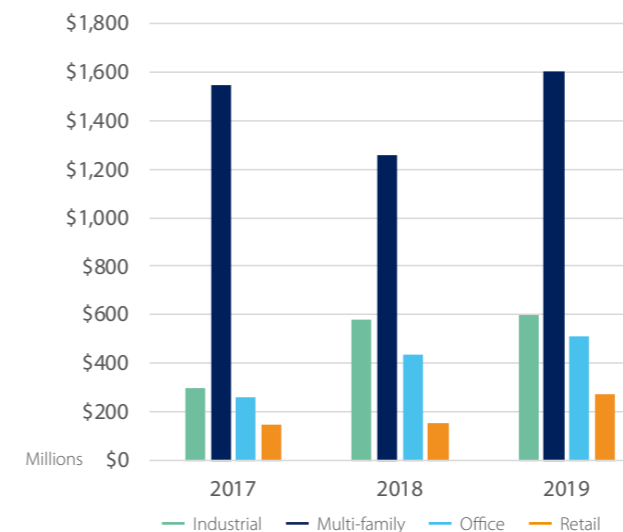
Industrial market fundamentals are solid with 4.1 million sf of new development underway and a vacancy rate below 5.0%, however net absorption is expected to be somewhat weaker in 2020 given slower leasing and the impact of several anticipated new deliveries that remain fully available. That said, the e-commerce sector in Florida is flourishing and as Jacksonville sits at the relative crossroads of multiple major interstate transportation arteries and creates a direct link with a major industrial hub in Atlanta, the industrial market here should continue to perform in 2020.

Investment activity during 2019 was solid, with total investment volume for the office, industrial, retail, and multifamily sectors eclipsing \$3 billion by the year's end.

Nearly two-thirds of all investment sales transactions in 2019 were to private investors, who are increasingly targeting Jacksonville over pricier markets in South Florida in order to secure greater yield. As an absence of inflationary pressures is creating the likelihood of a period of ultra-low or negative rates, the possibility of further yield compression and thus the search for yield is unlikely to get any easier any time soon, which may bode well for Jacksonville.

Lenders have remained more disciplined during this cycle, even as investors replete with capital are pushing property prices higher and higher, and developers have been careful not to overbuild. The largest investment sale during 2019 was Evergreen Industrial's sale of an 11-building, 1.2 million-sf office portfolio in the Deerwood Park area to a partnership of Starwood Capital, Trinity Capital and Vanderbilt Partners for \$231.0 million, or \$182 per sf. Office and retail investment volumes are expected to accelerate to some degree in 2020, and industrial volumes are projected to be relatively flat.

TOTAL INVESTMENT VOLUME



Source: Real Capital Analytics

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