

Leasing Activity Remains Slow at Mid-Year Leading to Tempered Rental Rate Growth

The end of the second quarter of 2019 marked 120 consecutive months of U.S. economic growth, the longest period on record. Nationwide, the steady climb in investment sales over the past few years have been fueled by record amounts of institutional capital and private equity, and office-using employment has reached an all-time high. For the trailing 12 months ending with June 2019, institutional investors had accounted for 86% of all office investment activity in Jacksonville, further strengthening the argument that institutional dollars are increasingly targeting the metro area. The unemployment rate had also fallen 20 bps to 3.0% as of May, due in part to an increase in employment in the professional & business services sector (up 2.5%). Lenders have remained more disciplined during this cycle, even as investors replete with capital are pushing property prices higher and higher, narrowing opportunities for yield, and developers have been careful not to overbuild. Companies and investors alike continue to be attracted to the Sunshine State due to its strong growth dynamics, and Jacksonville was recently named the fastest growth city in Florida by the U.S. Census Bureau.

A recent survey of U.S. investor sentiment by law firm Akerman LLP found that real estate executives and investors remain optimistic about the market and are more bullish in 2019 than they were in the previous year. During the trailing 12-month period ending June 2019, asking rents are up \$1.03 per sf, or 4.9%, across all properties, with class A rents up 1.7% over the same period. Net absorption remained negative at the mid-year point, due in large part to space rollover and tepid leasing.



Jacksonville was recently named the **fastest growing city in Florida** by the U.S. Census Bureau

Office Market Snapshot

- Office market fundamentals in Jacksonville generally remain strong, and the negative net absorption recorded for the year-to-date is not indicative of any trend of weakening as the lease-up of space in this market is more 'slow and steady' than that of other metro areas in Florida. Vacancy rates have remained in the 12-13% range for the last two years, even as limited new speculative construction has delivered, and class A rental rate growth has averaged 1.8% per year since mid-year 2016.
- The largest lease during the second quarter was SS&C Technologies' 106,957-sf lease at Gramercy Woods 700. A tenant in the building since 2017, the global provider of investment and financial software company signed a lease with the building's new ownership Glenfield Capital, expanding from their previous footprint of 73,005 sf.
- WalletHub recently ranked Florida as the 6th best state in which to start a business, as well as having the 3rd highest average growth in the number of small businesses.
- While net absorption for 2019 needs to regain some footing after a couple of disappointing quarters, there are still corrections on the horizon. Atlanta-based InComm announced in April plans to lay off 125 employees at the Prominence 300 building in the Baymeadows area. Call center operations at that building will be outsourced, and all layoffs were expected by July 1st.
- Re-development activity persists in the urban core, if at a slower pace than what many had hoped. It was announced in April that ambitious re-development plans for the Berkman II would be scaled back to include only a 190-room hotel on the bottom floors and 70-80 residential units on the top floors. Affordable housing developer Vestcor is also planning 70 new townhomes in the La Villa area that will be valued at around \$250,000.
- The Federal Reserve ("Fed") is holding the federal funds target range steady until late July, when it is anticipated that Fed Chair Jerome Powell could make the case for a 0.25-point interest rate cut to keep fundamentals in check.

25.5 MSF

Total office inventory in the Jacksonville office market

(191,588) SF

Direct Y-T-D net absorption as of 2Q-2019

13.41%

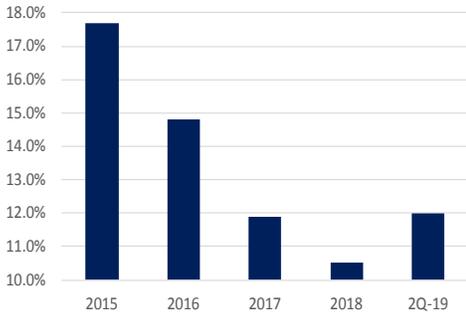
Overall Vacancy

\$22.99/SF/FS

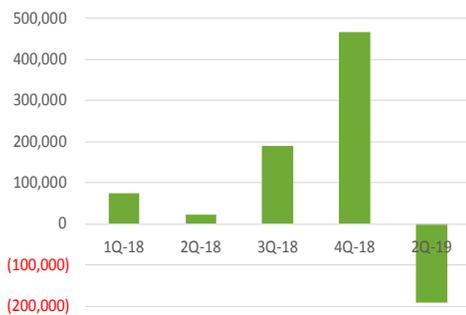
Average rental rate for class A space

Statistical Snapshot

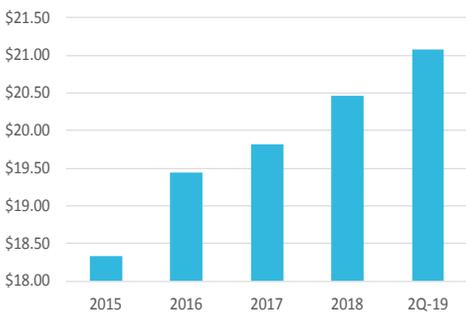
Direct Vacancy Rate



YTD Net Absorption (SF)



Average Asking Rent Rate (\$/SF/FS)



Construction Pipeline



Jacksonville Office Market At A Glance

Demographics & Economy



126.1 million
Number of visitors to Florida during 2018, breaking a record for the 8th year in a row

29,190
increase in total non-farm employment over trailing 24 months

54,000
new professional and business services jobs added in Florida during 2018

3.2% **MAY-2018**
3.0% **MAY-2019**
change in Jacksonville's unemployment rate



Nearly 665,000 passengers traveled through Jacksonville International Airport in March 2019, resulting in 18 straight months of Y-O-Y growth

Development

FLAGLER HEALTH
announced plans for a 40-acre campus in Gate Petroleum Company's Durbin Park development



971 new multifamily units have been built downtown since 2014 and are currently 96% occupied



344K
square feet currently under construction



1,100+ new hotel rooms planned or built in and around Downtown Jacksonville during 2018

Market Influencers



\$506 million
in total office sales volume during the T-12 months ending 2Q19



4.9%
average rental rate increase over the trailing 12-months ending 2Q-2019



86%
of all office sales activity during 2019 has been to institutional investors



55,000
number of employees working in Downtown Jacksonville



4th Place

Manpower Group North America's *Employment Outlook Survey* ranked Jacksonville as the 4th best market in the country for 2019

JACKSONVILLE OFFICE MARKET STATISTICS

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	12,359,525	1,552,348	145,448	\$22.99	87.44%	12.56%	1.18%	13.74%	343,700	(106,525)
Class B	13,173,317	1,513,131	212,294	\$19.11	88.51%	11.49%	1.61%	13.10%	0	(85,063)
Total	25,532,842	3,065,479	357,742	\$21.08	87.99%	12.01%	1.40%	13.41%	343,700	(191,588)

Arlington

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	984,575	87,752	9,421	\$17.53	91.09%	8.91%	0.96%	9.87%	0	(8,518)
Total	984,575	87,752	9,421	\$17.53	91.09%	8.91%	0.96%	9.87%	0	(8,518)

Beaches

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	695,634	52,995	4,251	\$26.21	92.38%	7.62%	0.61%	8.23%	0	(14,123)
Class B	142,397	1,540	0	\$24.00	98.92%	1.08%	0.00%	1.08%	0	(1,540)
Total	838,031	54,535	4,251	\$26.15	93.49%	6.51%	0.51%	7.01%	0	(15,663)

Clay County

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	85,000	0	0	\$0.00	100.00%	0.00%	0.00%	0.00%	0	0
Class B	516,169	28,596	0	\$18.13	94.46%	5.54%	0.00%	5.54%	0	1,939
Total	601,169	28,596	0	\$18.13	95.24%	4.76%	0.00%	4.76%	0	1,939

Downtown - Northbank

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	3,663,906	608,542	1,863	\$22.51	83.39%	16.61%	0.05%	16.66%	0	9,608
Class B	1,323,424	137,677	0	\$20.23	89.60%	10.40%	0.00%	10.40%	0	(25,990)
Total	4,987,330	746,219	1,863	\$22.09	85.04%	14.96%	0.04%	15.00%	0	(16,382)

Downtown - Southbank

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	2,049,908	109,915	0	\$22.79	94.64%	5.36%	0.00%	5.36%	0	32,344
Class B	235,094	14,305	0	\$19.00	93.92%	6.08%	0.00%	6.08%	0	75
Total	2,285,002	124,220	0	\$22.35	94.56%	5.44%	0.00%	5.44%	0	32,419

I-95 / 9A Corridor

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	5,327,464	632,422	16,718	\$23.37	88.13%	11.87%	0.31%	12.18%	343,700	(57,337)
Class B	7,045,596	876,158	202,873	\$19.81	87.56%	12.44%	2.88%	15.31%	0	(152,970)
Total	12,373,060	1,508,580	219,591	\$21.30	87.81%	12.19%	1.77%	13.97%	343,700	(210,397)

Park Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Baymeadows	4,722,989	518,881	187,776	\$19.53	89.01%	10.99%	3.98%	14.96%	0	(54,823)
Deerwood Park	3,615,413	402,237	18,010	\$24.35	88.87%	11.13%	0.50%	11.62%	343,700	22,526
I-95 Corridor	1,101,398	159,519	0	\$23.26	85.52%	14.48%	0.00%	14.48%	0	(73,389)
Southpoint	2,933,260	427,943	13,805	\$19.85	85.41%	14.59%	0.47%	15.06%	0	(104,621)

Mandarin

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	644,137	45,487	0	\$21.02	92.94%	7.06%	0.00%	7.06%	0	20,479
Total	644,137	45,487	0	\$21.02	92.94%	7.06%	0.00%	7.06%	0	20,479

Nocatee

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	142,751	21,533	0	\$28.00	84.92%	15.08%	0.00%	15.08%	0	2,483
Class B	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Total	142,751	21,533	0	\$28.00	84.92%	15.08%	0.00%	15.08%	0	2,483

Northside

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	94,608	3,360	0	\$12.00	96.45%	3.55%	0.00%	3.55%	0	0
Total	94,608	3,360	0	\$12.00	96.45%	3.55%	0.00%	3.55%	0	0

St Johns County

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	141,916	45,075	0	\$18.51	68.24%	31.76%	0.00%	31.76%	0	2,366
Class B	265,838	18,327	0	\$21.43	93.11%	6.89%	0.00%	6.89%	0	4,538
Total	407,754	63,402	0	\$19.36	84.45%	15.55%	0.00%	15.55%	0	6,904

Southside

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	252,946	81,866	122,616	\$23.00	67.63%	32.37%	48.48%	80.84%	0	(81,866)
Class B	1,544,699	269,618	0	\$16.58	82.55%	17.45%	0.00%	17.45%	0	77,258
Total	1,797,645	351,484	122,616	\$18.07	80.45%	19.55%	6.82%	26.37%	0	(4,608)

Westside

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	376,780	30,311	0	\$18.34	91.96%	8.04%	0.00%	8.04%	0	(334)
Total	376,780	30,311	0	\$18.34	91.96%	8.04%	0.00%	8.04%	0	(334)

The average class A rental rate with the urban core was up 1.9% over the trailing 12-months ending with June, outpacing the metro's average of 1.7% over the same period.

Leading Indicators (Y-O-Y 2Q-2018 to 2Q-2019)

Vacancy Rate	Net Absorption	Average Asking Rate (FS)	New Construction	Total Employment
13.41%	(191,588) SF	\$21.08	343,700 SF	0.76 MM

CBD										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	5,713,814	718,457	1,863	\$22.55	87.43%	12.57%	0.03%	12.61%	0	41,952
Class B	1,558,518	151,982	0	\$20.12	90.25%	9.75%	0.00%	9.75%	0	(25,915)
Total	7,272,332	870,439	1,863	\$22.13	88.03%	11.97%	0.03%	11.99%	0	16,037

Non-CBD / Suburban										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	6,645,711	833,891	143,585	\$23.37	87.45%	12.55%	2.16%	14.71%	343,700	(148,477)
Class B	11,614,799	1,361,149	212,294	\$19.00	88.28%	11.72%	1.83%	13.55%	0	(59,148)
Total	18,260,510	2,195,040	355,879	\$20.66	87.98%	12.02%	1.95%	13.97%	343,700	(207,625)

Reporting Methodology: This report includes all class 'A' and 'B' office buildings and parks 20,000 SF and greater in the Jacksonville MSA that are not owner occupied, office medical, or government owned. All rents are reported on a full-service gross basis. The information in this report has been collected by the Avison Young research team via sources that are deemed reliable but is not guaranteed.

Significant Second Quarter 2019 Lease Transactions - Sorted by SF

Tenant	Property	SF	Type	Submarket
SS&C Technologies, Inc.	Gramercy Woods 700	106,957	Renewal/Expansion	Baymeadows
Allegis Group	WaterView Bldg II	28,000	New	Deerwood Park
McKesson	Prominence - Bldg 100	13,719	Sublease	Baymeadows
Uniti Fiber*	Quadrant I	4,616	New	Southpoint
Moody Appraisal Group*	Riverplace South	3,969	Relocation/Expansion	Downtown Southbank

* Avison Young handled this transaction

Significant Second Quarter 2019 Sales Transactions - Sorted by Sale Price

Property	SF	Sale Price	Price/SF	Buyer	Submarket
Deerwood Park Portfolio (11 bldgs)	1,270,000	\$231,000,000	\$182	Starwood Capital JV Trinity Capital JV Vanderbilt Partners	Deerwood Park
9000 Southside (4 bldgs)	430,816	\$53,000,000	\$123	Glenfield Capital	Baymeadows
Cypress Point Business Park (8 bldgs)	344,000	\$35,800,000	\$104	Viking Partners	Baymeadows



Deerwood Park



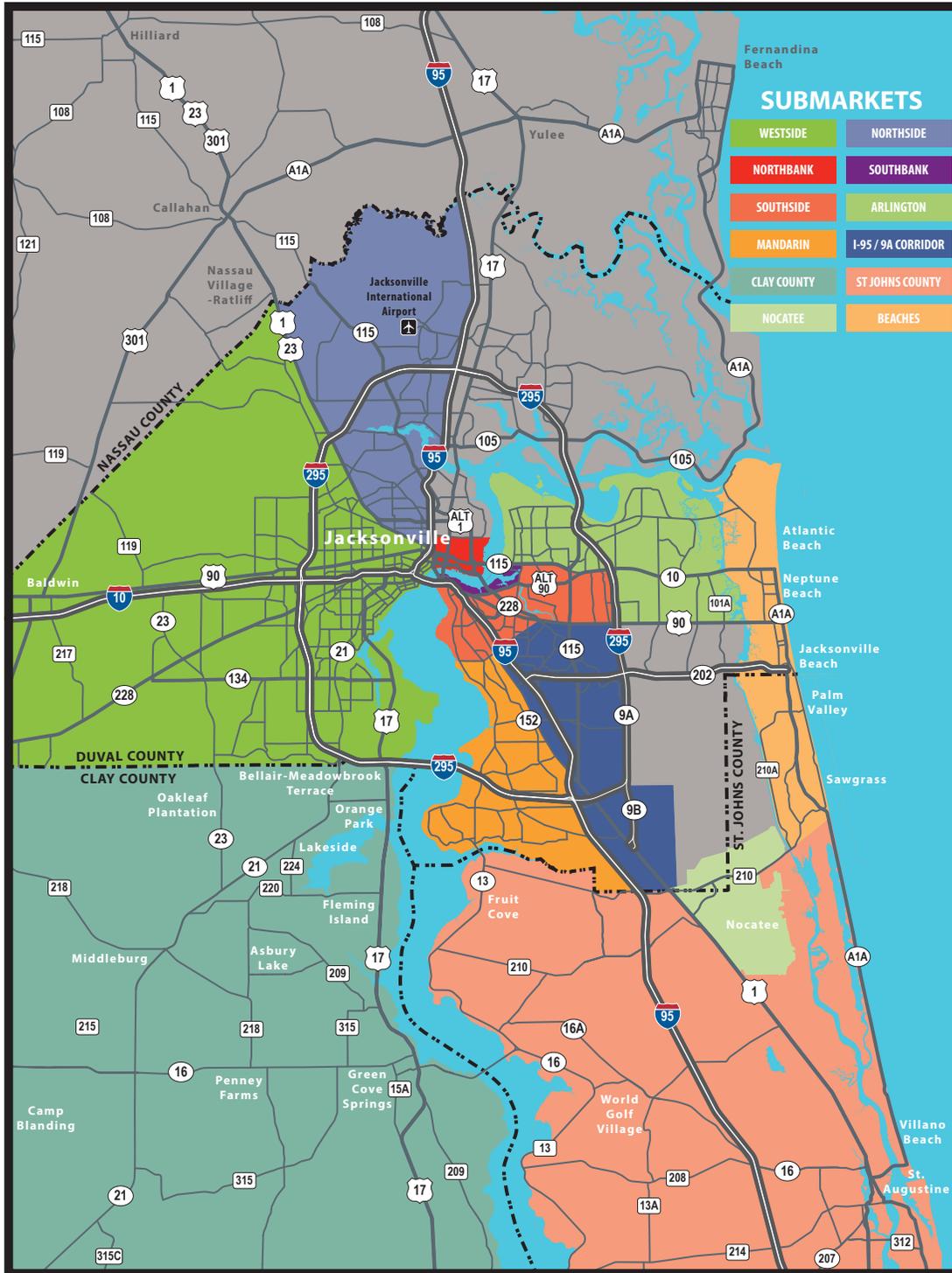
9000 Southside

Portfolio Investment Sales Activity Accounts for \$320 MM During Q2

An 11-building class A portfolio in Deerwood Park was purchased during the second quarter for \$231 million by a joint venture of Starwood Real Estate Income Trust, Inc., Vanderbilt Office Properties and Trinity Capital Advisors. The off market transaction totaled 1.3 million sf and the portfolio was 90% leased with major tenants including Fidelity Investments, The Adecco Group and JP Morgan Chase. Glenfield Capital and Viking Partners also made significant acquisitions in the neighboring Baymeadows submarket. The three deals together accounted for just over 2 million sf of space.

Jacksonville Office Market Report

Second Quarter 2019



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