

# Jacksonville

## Cautious Optimism Prevails in Jacksonville as the U.S. Economic Expansion Enters its Later Stages

After ten straight years of expansion, the U.S. economy is beginning to show early signs of slowing, even as 136,000 new jobs were added in September. Florida itself has added 213,000 private sector jobs in the first eight months of 2019 while the pace of global growth has begun to decelerate, and Jacksonville's GDP and employment are forecast to rise at an annual rate of 1.8% and 0.8% respectively according to research by Oxford Economics. At some point the U.S. economy will likely be affected by the impact of trade wars and the uncertainty of an upcoming election year, however the degree to which it will affect Jacksonville is yet to be determined. Leasing and sales activity will likely decelerate in 2020, resulting in increased caution on the part of occupiers and investors, at least until after the outcome of what is expected to be a very contentious upcoming election season.

Leasing activity was slow during the third quarter, with only a handful of deals over 10,000 sf taking place. While net absorption has been somewhat tepid so far this year after having absorbed the impact of expected space rollover, it rose during the third quarter following the completion of the fully preleased Town Center Two and Southside Quarter (McKesson) office buildings in Deerwood Park. Rental rate growth remains consistent, rising 3.4% over the trailing 12-month period, with class A rates increasing by 1.9% during the same period of time. Cautious optimism is prevailing in Jacksonville, even as leasing activity has slowed, and the area seems well positioned heading into the final quarter of 2019.



After high profile office deliveries earlier this year, there is currently an absence of speculative construction in the Jacksonville market.

### Office Market Snapshot

- After considering several U.S. cities, San Francisco-based online lender SoFi Lending Corp. ("SoFi") has subleased 36,700 sf at Deerwood Park's newly delivered Town Center Two following Web.com's decision to downsize its footprint in the building. SoFi plans to hire 300 employees by the end of 2021 at an average salary of \$54,000 and received incentives from the City of Jacksonville, which had previously referred to the company as Project Quail.
- The Federal Reserve reduced its policy rate by 25 basis points to a target range of 1.75% to 2% in September, the second interest rate cut from the central bank in two months, as the latest U.S. data suggested some softening in the U.S. economy.
- Axis Income Fund ("Axis"), the developer behind the \$53 million renovation of the Ambassador Hotel site, announced plans to spend \$28 million to redevelop the long-vacant Independent Life building on W Duval St in downtown Jacksonville. The 19-story, 180,000-square-foot building will be home to 140 units of luxury apartments, a ground-floor grocery, and a restaurant. Work is expected to begin in January 2020.
- There has been a significant uptick in sublease space over the trailing 12-month period, rising from 170,000 sf one year ago to over 436,000 sf as of the third quarter of 2019, accounting for 13% of all current availability.
- VanTrust Real Estate, the developer behind Town Center One and Two in Deerwood Park, has received permits to begin work on the first of a five-building office park called Park Place at Nocatee. The 125,000-sf, class A building could break ground as early as 2020.
- Finance and technology companies ("fintech") are increasingly looking at Jacksonville as its reputation as a hub for finance and technology grows. In addition to SoFi's lease at Town Center Two, Florida Governor Ron DeSantis recently announced that another fintech company called SS&C Technologies has expanded its existing Southside office by adding 198 new jobs at an average wage of \$64,000.
- Jacksonville, along with other Florida cities, is expected to see notable growth in the coming years and both GDP and employment are forecast to rise alongside population growth. The metro area has seen strong economic growth over the last 5 years, growing around 1% faster annually than the national average. During this period payroll gains outpaced the US rate by 1.4%.

## 25.9 MSF

Total office inventory in the Jacksonville office market

## 218,497 SF

Direct Y-T-D net absorption as of 3Q-2019

## 13.27%

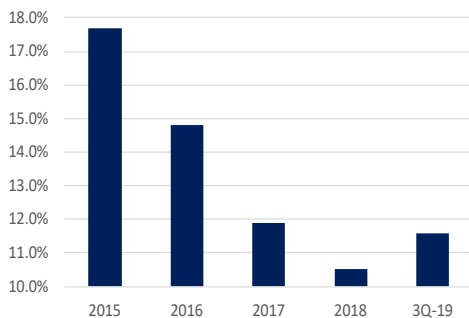
Overall Vacancy

## \$23.03/SF/FS

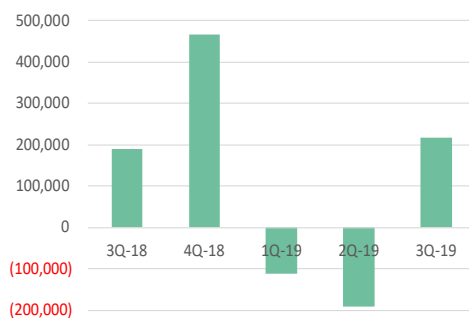
Average rental rate for class A space

## Statistical Snapshot

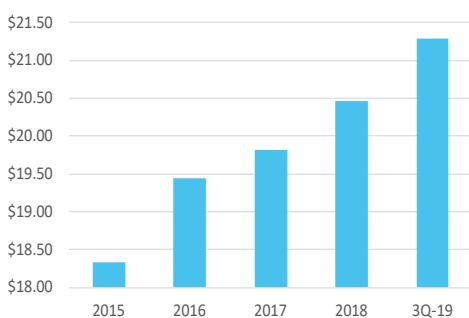
## Direct Vacancy Rate



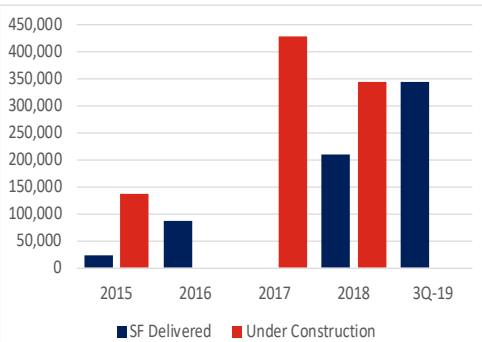
## Net Absorption (SF)



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



## Construction Pipeline



## Jacksonville Office Market At A Glance

## Demographics &amp; Economy



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

**32,600**  
increase in total non-farm employment over trailing 24 months

**500**



new fintech jobs were announced in August

**3.5%**  
**AUG-2018**



**3.4%**  
**AUG-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

## VyStar Credit Union

has begun construction work at its multi-tower campus in the Northbank, which will bring 1,100 employees downtown in 2020



**30%**



The amount to date that has exceeded the planned renovation cost for the Barnett Bank building, which is now home to the University of North Florida's entrepreneurship center.



The cost of building new facilities in Jacksonville is **15%** below the national average

VanTrust has received permits to begin work on a 125,000-sf class A tower in Nocatee named Park Place One



## Market Influencers



**\$490 million**  
in total office sales volume during the T-12 months ending 3Q19



**3.4%**  
average rental rate increase over the trailing 12-months ending 3Q-2019



**55,000**  
number of employees working in Downtown Jacksonville



**92%**  
of all office sales activity during 2019 has been to institutional and private investors



**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	12,703,225	1,600,598	158,659	\$23.03	87.40%	12.60%	1.25%	13.85%	0	248,691
Class B	13,173,317	1,397,487	277,603	\$19.30	89.39%	10.61%	2.11%	12.72%	0	(30,194)
<b>Total</b>	<b>25,876,542</b>	<b>2,998,085</b>	<b>436,262</b>	<b>\$21.29</b>	<b>88.41%</b>	<b>11.59%</b>	<b>1.69%</b>	<b>13.27%</b>	<b>0</b>	<b>218,497</b>

## 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	103,259	9,421	\$17.24	89.51%	10.49%	0.96%	11.44%	0	(24,025)
<b>Total</b>	<b>984,575</b>	<b>103,259</b>	<b>9,421</b>	<b>\$17.24</b>	<b>89.51%</b>	<b>10.49%</b>	<b>0.96%</b>	<b>11.44%</b>	<b>0</b>	<b>(24,025)</b>

## 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	54,567	6,798	\$26.48	92.16%	7.84%	0.98%	8.82%	0	(15,695)
Class B	142,397	0	0	\$0.00	100.00%	0.00%	0.00%	0.00%	0	0
<b>Total</b>	<b>838,031</b>	<b>54,567</b>	<b>6,798</b>	<b>\$26.48</b>	<b>93.49%</b>	<b>6.51%</b>	<b>0.81%</b>	<b>7.32%</b>	<b>0</b>	<b>(15,695)</b>

## 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	26,996	0	\$18.20	94.77%	5.23%	0.00%	5.23%	0	3,539
<b>Total</b>	<b>601,169</b>	<b>26,996</b>	<b>0</b>	<b>\$18.20</b>	<b>95.51%</b>	<b>4.49%</b>	<b>0.00%</b>	<b>4.49%</b>	<b>0</b>	<b>3,539</b>

## 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	664,856	1,863	\$22.73	81.85%	18.15%	0.05%	18.20%	0	(46,706)
Class B	1,323,424	135,617	0	\$20.65	89.75%	10.25%	0.00%	10.25%	0	(23,930)
<b>Total</b>	<b>4,987,330</b>	<b>800,473</b>	<b>1,863</b>	<b>\$22.38</b>	<b>83.95%</b>	<b>16.05%</b>	<b>0.04%</b>	<b>16.09%</b>	<b>0</b>	<b>(70,636)</b>

## 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	153,639	0	\$22.91	92.51%	7.49%	0.00%	7.49%	0	(11,380)
Class B	235,094	12,284	0	\$19.00	94.77%	5.23%	0.00%	5.23%	0	2,096
<b>Total</b>	<b>2,285,002</b>	<b>165,923</b>	<b>0</b>	<b>\$22.62</b>	<b>92.74%</b>	<b>7.26%</b>	<b>0.00%</b>	<b>7.26%</b>	<b>0</b>	<b>(9,284)</b>

## 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	5,671,164	661,169	27,382	\$23.23	88.34%	11.66%	0.48%	12.14%	0	317,382
Class B	7,045,596	756,508	259,294	\$20.37	89.26%	10.74%	3.68%	14.42%	0	(94,095)
<b>Total</b>	<b>12,716,760</b>	<b>1,417,677</b>	<b>286,676</b>	<b>\$21.71</b>	<b>88.85%</b>	<b>11.15%</b>	<b>2.25%</b>	<b>13.40%</b>	<b>0</b>	<b>223,287</b>

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	399,553	264,671	\$20.41	91.54%	8.46%	5.60%	14.06%	0	3,730
Deerwood Park	3,959,113	415,139	8,200	\$24.26	89.51%	10.49%	0.21%	10.69%	0	413,090
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	443,466	13,805	\$19.92	84.88%	15.12%	0.47%	15.59%	0	(120,144)

## 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	35,898	8,888	\$20.36	94.43%	5.57%	1.38%	6.95%	0	30,068
<b>Total</b>	<b>644,137</b>	<b>35,898</b>	<b>8,888</b>	<b>\$20.36</b>	<b>94.43%</b>	<b>5.57%</b>	<b>1.38%</b>	<b>6.95%</b>	<b>0</b>	<b>30,068</b>

## 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	21,292	0	\$28.00	85.08%	14.92%	0.00%	14.92%	0	2,724
Class B	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
<b>Total</b>	<b>142,751</b>	<b>21,292</b>	<b>0</b>	<b>\$28.00</b>	<b>85.08%</b>	<b>14.92%</b>	<b>0.00%</b>	<b>14.92%</b>	<b>0</b>	<b>2,724</b>

## 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	2,205	0	\$12.00	97.67%	2.33%	0.00%	2.33%	0	1,155
<b>Total</b>	<b>94,608</b>	<b>2,205</b>	<b>0</b>	<b>\$12.00</b>	<b>97.67%</b>	<b>2.33%</b>	<b>0.00%</b>	<b>2.33%</b>	<b>0</b>	<b>1,155</b>

## 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	19,360	0	\$21.95	92.72%	7.28%	0.00%	7.28%	0	3,505
<b>Total</b>	<b>407,754</b>	<b>64,435</b>	<b>0</b>	<b>\$19.55</b>	<b>84.20%</b>	<b>15.80%</b>	<b>0.00%</b>	<b>15.80%</b>	<b>0</b>	<b>5,871</b>

## 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	0	122,616	\$0.00	100.00%	0.00%	48.48%	48.48%	0	0
Class B	1,544,699	277,677	0	\$16.45	82.02%	17.98%	0.00%	17.98%	0	69,199
<b>Total</b>	<b>1,797,645</b>	<b>277,677</b>	<b>122,616</b>	<b>\$16.45</b>	<b>84.55%</b>	<b>15.45%</b>	<b>6.82%</b>	<b>22.27%</b>	<b>0</b>	<b>69,199</b>

## 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	27,683	0	\$18.32	92.65%	7.35%	0.00%	7.35%	0	2,294
<b>Total</b>	<b>376,780</b>	<b>27,683</b>	<b>0</b>	<b>\$18.32</b>	<b>92.65%</b>	<b>7.35%</b>	<b>0.00%</b>	<b>7.35%</b>	<b>0</b>	<b>2,294</b>

Oxford Economics research finds that Jacksonville has seen strong economic growth over the last 5 years, growing around 1% faster annually than the national average.

### Leading Indicators (Y-O-Y 3Q-2018 to 3Q-2019)

Vacancy Rate	Net Absorption	Average Asking Rate (FS)	New Construction	Total Employment
13.27%	218,497 SF	\$21.29	0 SF	0.77 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	818,495	1,863	\$22.77	85.68%	14.32%	0.03%	14.36%	0	(58,086)
Class B	1,558,518	147,901	0	\$20.51	90.51%	9.49%	0.00%	9.49%	0	(21,834)
<b>Total</b>	<b>7,272,332</b>	<b>966,396</b>	<b>1,863</b>	<b>\$22.42</b>	<b>86.71%</b>	<b>13.29%</b>	<b>0.03%</b>	<b>13.31%</b>	<b>0</b>	<b>(79,920)</b>

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	6,989,411	782,103	156,796	\$23.31	88.81%	11.19%	2.24%	13.43%	0	306,777
Class B	11,614,799	1,249,586	277,603	\$19.16	89.24%	10.76%	2.39%	13.15%	0	(8,360)
<b>Total</b>	<b>18,604,210</b>	<b>2,031,689</b>	<b>434,399</b>	<b>\$20.76</b>	<b>89.08%</b>	<b>10.92%</b>	<b>2.33%</b>	<b>13.26%</b>	<b>0</b>	<b>298,417</b>

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 Third Quarter 2019 Lease Transactions - Sorted by SF

Tenant	Property	SF	Type	Submarket
Step Up for Students*	Quadrant II	38,905	Renewal/Expansion	Southpoint
SoFi Lending Corporation*	5201 Gate Pky	36,700	Sublease	Deerwood Park
US Auto Credit	Cypress Point Business Park 200	17,100	New	Baymeadows
Yusen Logistics	Enterprise Park	8,497	New	Southpoint

\* Avison Young handled this transaction

### Significant Third Quarter 2019 Sales Transactions - Sorted by Sale Price

Property	SF	Sale Price	Price/SF	Buyer	Submarket
Capital Plaza at Deerwood Park	448,096	\$51,500,000	\$115	Somerset Properties	Deerwood Park
Southside Quarter	125,000	\$42,266,402	\$338	Real Capital Solutions	Deerwood Park
Midtown Centre	760,793	\$31,500,000	\$41	Nova Capital Partners	Southside
Enterprise Park	224,360	\$20,675,000	\$92	LRC Properties	Southpoint



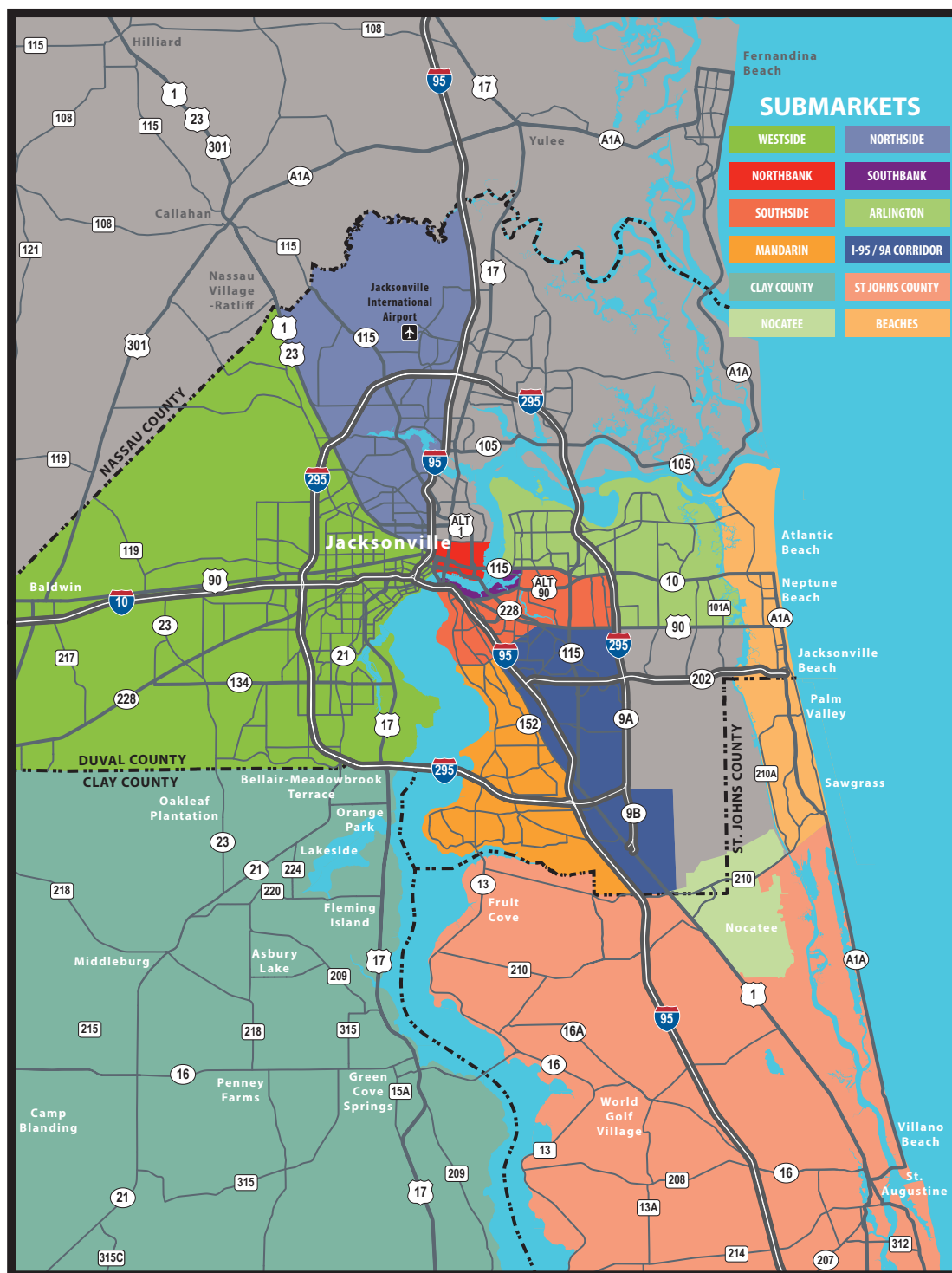
Deerwood Park



9000 Southside

### Solid Office Investment Activity in Deerwood Park During Q3

Capital Plaza, a prominent three-building class A office park in Deerwood Park, traded hands in July, selling for \$51.5 million, or \$115 per sf, to a partnership between Pennsylvania-based Somerset Properties and Ten Capital Management. Also in Deerwood Park, Colorado-based Real Capital Solutions - which has been on an investment tear in Florida - purchased the newly delivered Southside Quarter building that is fully leased by McKesson for \$42.3 million, or an impressive \$338 per sf.



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