

Jacksonville Industrial, Q3 2017

E-commerce space completion pushes net absorption over 2 million sq. ft.

 Total Vacancy
5.0%

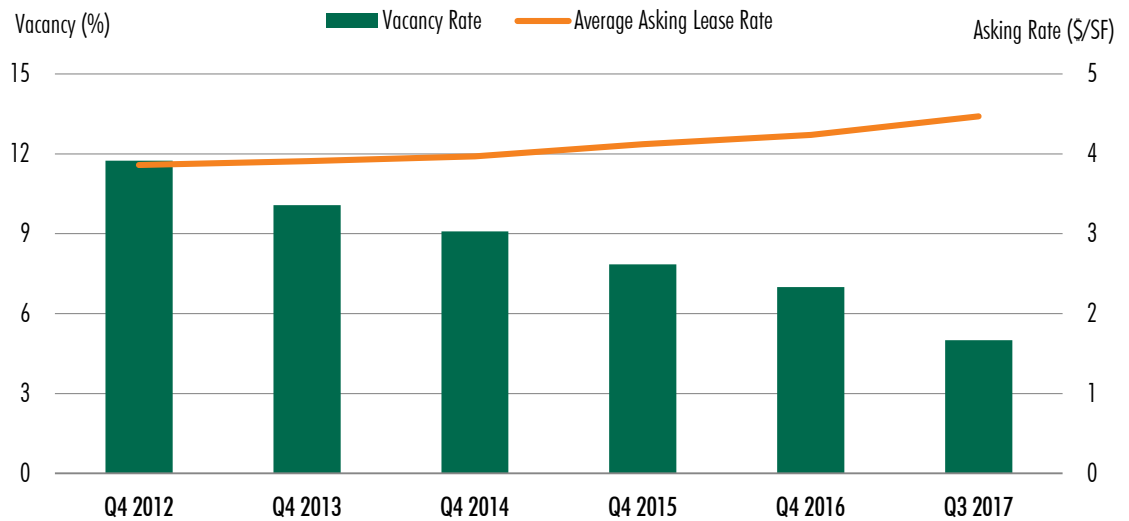
 Lease Rate
\$4.47 PSF

 Net Absorption
2.1 MSF

 Completions
1.3 MSF

*Arrows indicate change from previous year.

Figure 1: Total Vacancy –vs– Average Direct Asking Lease Rate (NNN)



Source: CBRE Research, Q3 2017.

- Net absorption for Q3 2017 was 2,128,396 sq. ft.
- Vacancy rate at 5.0% at close of the third quarter.
- The average asking rate for Q3 2017 was \$4.47 per sq. ft.
- Year-to-date capital flows have been nearly split between institutional (25%), public/REITs (31%), and private (40%) buyers.

LEASING ACTIVITY

Industrial net absorption continued to remain high in Q3 2017 due to several large tenant occupancies and the delivery of build-to-suit facilities. In the third quarter, 2,128,396 sq. ft. of net absorption was recorded. The large occupancies continued to put downward pressure on vacancy rates, which decreased by 90 basis point (bps) quarter-over-quarter to just 5.0% and declined by 170 bps year-over-year.

The Northside and Westside submarkets continued to be drivers of net absorption with occupancies of over 1.2 million and just over

Figure 2: Market Statistics

Submarket	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q3 2017 Net Absorption (SF)	2017 YTD Net Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/NNN)
Downtown	2,440,595	4.3	6.4	0	(5,706)	0	3.25
Beaches	128,547	8.4	10.5	(1,350)	0	0	10.55
Northside	30,357,055	8.7	16.4	1,248,268	1,497,428	378,000	3.52
Southside	21,492,424	6.3	12.0	143,072	181,416	169,250	6.82
Westside	40,737,390	2.0	6.8	712,003	1,033,835	1,702,000	3.91
Clay County	2,919,873	0.2	9.9	28,353	28,353	0	3.69
St. Johns County	1,684,101	1.8	1.8	(1,950)	6,255	0	4.50
Jacksonville Market	99,759,985	5.0	10.8	2,128,396	2,741,581	2,249,250	4.47
Manufacturing	18,499,765	2.8	8.1	(8,048)	202,924	0	3.37
Warehouse/Distribution	69,108,009	5.3	12.0	2,080,494	2,344,210	2,249,250	3.73
R&D/Flex	8,046,782	9.9	14.8	55,150	203,033	0	9.29
Other Industrial	4,105,429	2.6	2.8	800	(8,586)	0	5.46

Source: CBRE Research, Q3 2017.

700,000 sq. ft., respectively. The Northside experienced two major move-ins with 400,928 sq. ft. absorbed in the Northport Logistics Center by Grimes Logistics Services and 125,476 sq. ft. occupied in Building 1 of the Majestic International Trade Port by Unipart Services America, Inc. The Westside had four major move-ins with 400,000 sq. ft. occupied in the Westlake Industrial Park by UPS, 237,000 sq. ft. absorbed at 4948 Bulls Bay Highway by an international e-commerce company, 173,000 sq. ft. was taken in the Volvo Building 30-A by Volvo Group North America and 171,577 sq. ft. was occupied in the Westside Industrial Park Building 35 by Moore Medical.

In terms of total lease transactions, a majority of the activity was also concentrated in the Northside and Westside submarkets. The Northside had Topaz Lighting sign for 89,600 sq. ft. at the Whittaker Building 780 while the Westside had the logistics corporation, Veritiv Operating Company, sign for 113,100 sq. ft. at

Westside Industrial Park Building 2, and American Metal sign for 32,000 at the Westside Distribution Center.

DEVELOPMENT

There was 1,262,435 sq. ft. of new space delivered to the market and nearly double that in the construction pipeline at the close of the third quarter. The completions came entirely from two large developments including the 855,000 sq. ft. build-to-suit fulfillment center constructed for a prominent international e-commerce company in the Northside. The second delivery included the 407,435 sq. ft. of speculative space in the Westside's Cecil Commerce Center.

The bulk of the projects currently under construction stem from a few large projects with another e-commerce fulfillment center set to be completed in Q4 2017 comprising 977,000 sq. ft. in the Westside submarket. A BMW Regional

Distribution Center is also underway and set for delivery by the end of 2018. The facility will also be located in the Westside submarket with a total building area of 450,000 sq. ft.

INVESTMENT ACTIVITY

A total of eight transactions were tracked in Q3 2017 totaling over 2.1 million sq. ft. and amounting to just over \$115 million in sales. The most notable transaction was a national portfolio trade that included nine Jacksonville properties between IC Industrial Management as the seller and Ivanhoe Cambridge as the buyer. The total sale included 157 buildings for a purchase price of \$980 million. The nine Jacksonville properties sold for \$64.5 million and comprised of nearly 1.2 million sq. ft., situated in the Jacksonville International Tradeport (eight buildings) and Wells Road Distribution Center. The second largest sale was also in the Jacksonville International Tradeport and it was the Creekside Buildings I, II and III. The total building area includes 334,000 sq. ft. and was purchased for \$24.1 million or about \$72 per sq. ft. by Colony Northstar from Thackeray Partners.

In the Westside submarket, there were several trades including the sale of Buildings 1 and 2 of the Westgate Distribution Center. The property totaled 237,000 sq. ft. and was bought for \$7.4 million or a little more than \$31 per sq. ft. by The Eisenberg Group; a family investment office based out of Coral Springs, Florida.

According to Real Capital Analytics (RCA), year-to-date capital flows have been split between institutional (25%), public/REITs (31%), and private (40%) buyers. This divide represents moderate decline in public and private capital investment and a major resurgence for institutional capital, which was practically inactive in 2016.

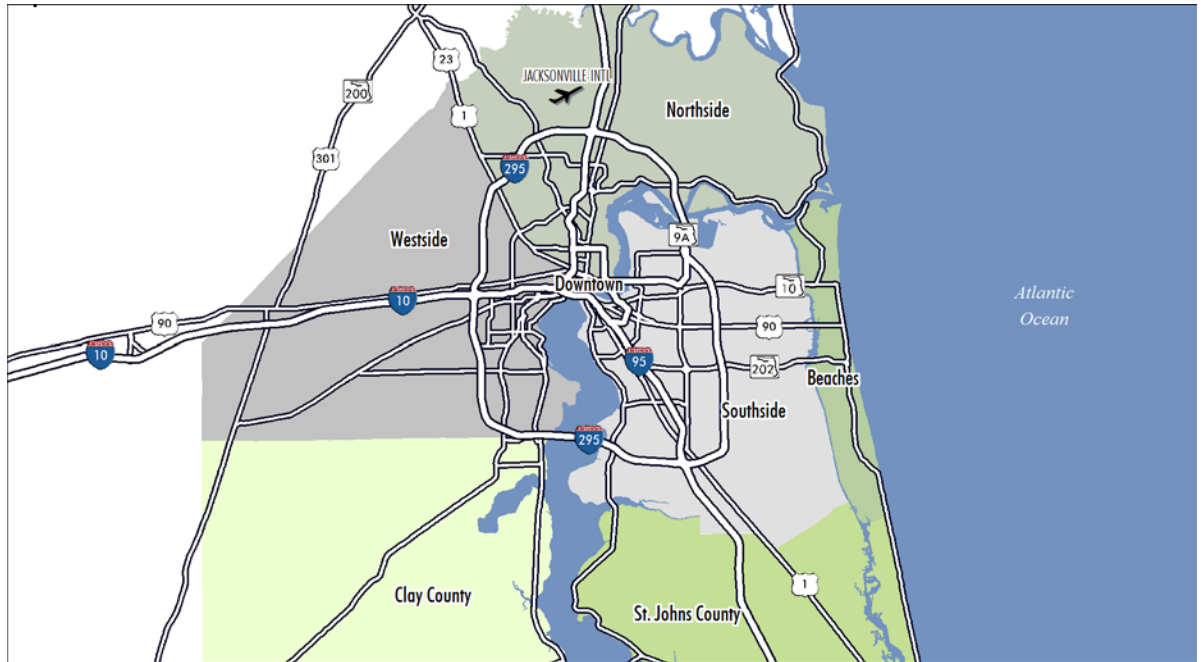
ECONOMIC INFLUENCE

According to the most recent estimate by the Bureau of Economic Analysis, the 2017 National GDP growth estimate has risen in the second quarter report to 3.1%; a 190 bps increase from the first quarter estimate. This is largely driven by increases in consumer spending, business investment, exports, and federal government spending.

The latest Jacksonville unemployment rate was reported at 4.1% for August which was an increase of 20 bps from May, but 90 bps drop from last year. Some relevant year-over-year gains are seen in administrative and waste services with a 9.5% gain, trade transportation and utilities with a 3.6% gain, manufacturing with a 2.7% gain, and construction with a 2% gain.

OUTLOOK

According to the University of Florida Consumer Sentiment Index (CSI), consumer sentiment among Floridians has seen a slight drop to 95.5 in September from 96.1 in August. The category weighing down the index was “one’s personal financial situation now compared with a year ago,” which dropped from 87.8 to 87.2. The report attributes most of this pessimism with the hurricane season in which Hurricane Harvey forcibly closed several Texas oil refineries driving up gas prices for Floridians by \$0.36 a gallon and the damage from Hurricane Irma triggering business closures across Florida causing some subsequent job loss. However, these were only minor and short-lived disruptions to an overarching positive trend of strong economic growth and job creation in Jacksonville in which the continuing improvement in fundamentals is allowing for additional expansion in this current cycle.



Market Coverage: Includes all competitive industrial buildings 10,000 sq. ft. and greater in size in Clay, Duval and St. Johns counties.

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