

Jacksonville Office, Q3 2017

# Strong net absorption continues to push down vacancy

 Total Vacancy  
**14.1%**

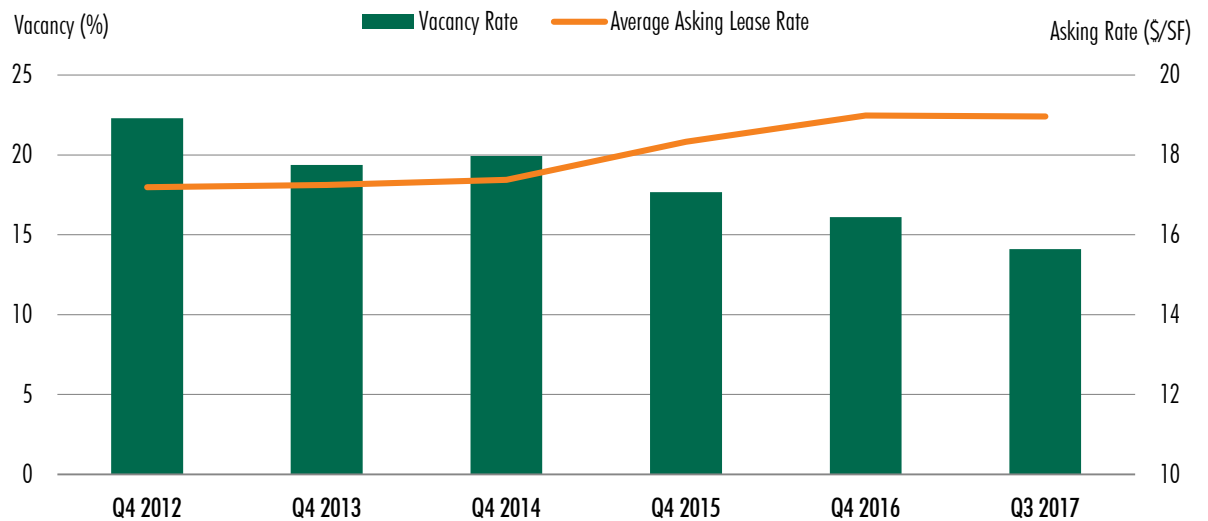
 Lease Rate  
**\$18.96 PSF**

 Net Absorption  
**259,000 SF**

 Completions  
**0 SF**

\*Arrows indicate change from previous year.

Figure 1: Total Vacancy —vs— Average Direct Asking Lease Rate (FSG)



Source: CBRE Research, Q3 2017.

- Net absorption for Q3 2017 was 258,692 sq. ft.
- The third quarter’s 14.1% vacancy rate dropped 120 basis point (bps) from the previous quarter and decreased 160 bps year-over-year.
- The average asking rate for Q3 2017 was \$18.96 per sq. ft.
- Year-to-date capital flows have been dominated by Users (60%).

**LEASING ACTIVITY**

Q3 2017 marks the fourteenth consecutive quarter of positive net absorption for the Jacksonville office market. The third quarter closed with a net absorption number of 258,692 sq. ft. bringing the year-to-date number to 467,672 sq. ft. The 2017 pace of absorption puts the market ahead of the 2016 average pace of 154,943 sq. ft. per quarter leading to a further tightening of available space.

The submarkets experiencing the most net absorption activity in the third quarter were I-95 Corridor/East Beltway and Arlington. The positive

**Figure 2: Market Statistics**

Submarket	Total Inventory (SF)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2017 Net Absorption (SF)	2017 YTD Net Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/FSG/G/MG)
CBD	7,411,273	13.8	14.1	21,520	74,066	0	20.27
Northbank	5,249,233	17.6	17.8	22,485	57,233	0	19.85
Southbank	2,162,040	4.7	5.2	(965)	16,833	0	22.09
Arlington	984,122	39.3	39.5	101,348	112,379	0	10.93
Beaches	793,775	11.7	11.9	1,410	9,587	12,000	25.97
Clay County	559,741	13.2	13.2	5,950	7,495	0	14.02
East Butler	230,876	6.7	6.7	0	4,200	0	25.56
I-95/ East Beltway	11,101,916	10.4	11.1	97,925	253,472	205,000	20.18
Baymeadows	3,457,008	13.9	14.2	12,579	103,589	0	18.78
Deerwood Park	3,474,588	5.8	6.3	58,047	91,773	160,000	23.10
South 95 Corridor	1,100,183	1.8	1.8	5,620	54,415	45,000	21.26
Southpoint	3,070,137	14.8	16.5	21,679	3,695	0	19.73
Mandarin	544,543	8.1	8.1	1,262	(23,358)	0	16.21
Northside	95,600	34.8	34.8	0	0	0	12.00
St. Johns County	573,062	27.4	27.4	28,358	30,151	0	21.01
Southside	1,695,694	19.0	19.0	4,619	(7,191)	0	13.94
Westside	367,096	9.0	9.0	(3,700)	6,871	0	19.21
<b>Suburban Total</b>	<b>16,946,425</b>	<b>13.7</b>	<b>14.2</b>	<b>237,172</b>	<b>393,606</b>	<b>217,000</b>	<b>18.35</b>
<b>Jacksonville Market</b>	<b>24,357,698</b>	<b>13.7</b>	<b>14.1</b>	<b>258,692</b>	<b>467,672</b>	<b>217,000</b>	<b>18.96</b>
Class A	11,405,927	11.6	12.0	75,759	235,135	205,000	22.13
Class B	9,807,737	13.1	13.6	70,166	99,034	12,000	18.08
Class C	3,144,034	23.3	23.4	112,767	133,503	0	12.45

Source: CBRE Research, Q3 2017.

activity in the I-95/East Beltway can be attributed to the substantial move-ins by Brothers Media occupying 24,669 sq. ft. at Concourse I while at Belfort Park I, Pacesetter Claims Service moved into their 14,337 sq. ft. In Arlington, one large move-in drove up net absorption numbers and it was a charter school called Bridge Prep Academy occupying 104,207 sq. ft. as an adaptive reuse of the office space.

Strong net absorption in 2017 continues to drive down vacancies. The third quarter's 14.1% vacancy rate was a 120 basis point (bps) drop from the previous quarter and 160 bps decrease year-over-year. East Butler and Mandarin continue to boast the lowest vacancy in the market with 6.7% and 8.1%, respectively, while Arlington is at the other end of the spectrum with 39.5%.

The average asking rate for Q3 2017 was \$18.96 per sq. ft. This rate represents a \$0.09 increase from the previous quarter and a \$0.20 increase year-over-year. This increasingly tightening market should continue to push rates higher in the near term.

**DEVELOPMENT**

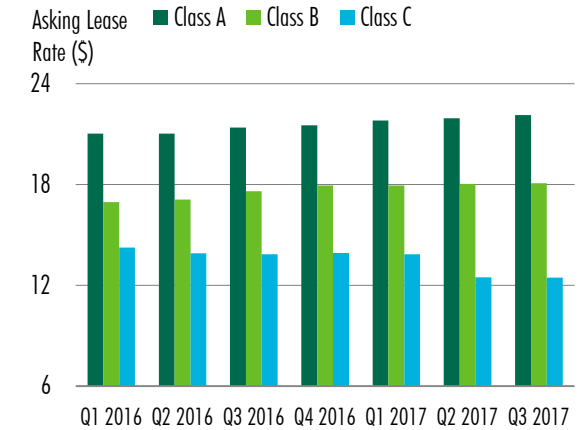
There were no new construction starts in Q3 2017 and no new deliveries, however, a few projects are underway across the Jacksonville market. In Deerwood Park of the I-95/East Beltway submarket, developers have broken ground on 160,000 sq. ft. of Class A space called Town Center One. It's expected to deliver in late 2018. In the South 95 Corridor of that same submarket, crews have broken ground on a 45,000 sq. ft. Class A building called the Offices at Flagler Station. The project is expected to be delivered in early 2018.

**INVESTMENT ACTIVITY**

Nine transactions totaling nearly \$50 million were tracked in Q3 2017. The average price per sq. ft. of these transactions was approximately \$99 with an average building age of 19 years. A major standout transaction was the sale/leaseback of the North Regency II in the Arlington submarket. Crowley Maritime Corporation, who occupies 100% of the building, sold the 113,529 sq. ft. property to Suntrust Robinson Humphrey for \$20.1 million or \$177 per sq. Another deal of note was a six-office portfolio sale in the Clay County submarket. The portfolio sold for \$10.5 million, or \$72 per sq. ft., to Houston-based Interra Capital Group and was 66% leased at the time of sale. In the Southside submarket the 46,469 sq. ft. Evergreen Building sold to a Miami-based Contingent for \$4.9 million, or \$105 per sq. ft. The property was over 90% occupied at the time of sale.

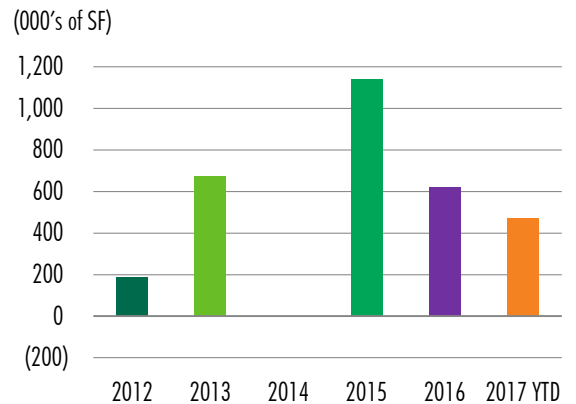
According to Real Capital Analytics (RCA) year-to-date capital flows have been dominated by users (60%) followed far behind by institutional (20%) and private (20%) capital. The Jacksonville market

Figure 3: Average Direct Asking Lease Rate (FSG/G/MG)



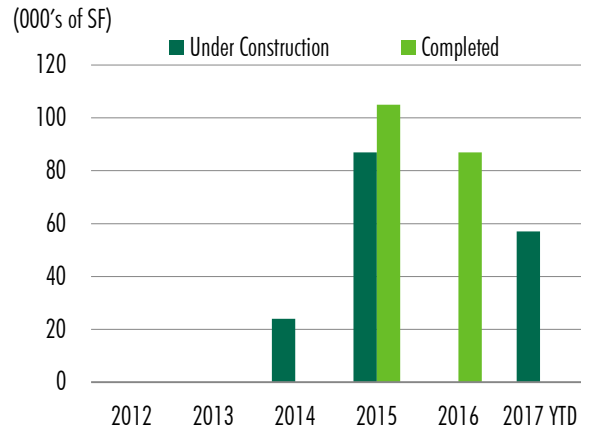
Source: CBRE Research, Q3 2017.

Figure 4: Net Absorption



Source: CBRE Research, Q3 2017.

Figure 5: Under Construction and Completions



Source: CBRE Research, Q4 2014.

saw an influx of institutional dollars in 2016 (60%) with limited activity on the user front (7%). However, the story has clearly changed in 2017 as users look to secure their place in this growing market.

**ECONOMIC INFLUENCE**

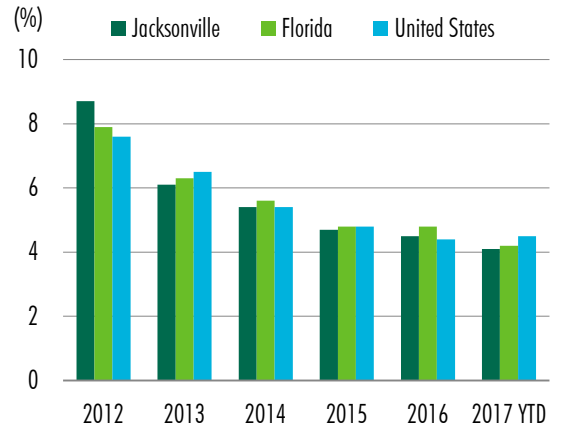
According to the most recent estimate by the Bureau of Economic Analysis, the 2017 National GDP growth estimate has risen in the second quarter report to 3.1%; a 190 bps increase from the first quarter estimate. This is largely driven by increases in consumer spending, business investment, exports, and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

The latest Jacksonville unemployment rate was reported at 4.1% for August which was a decrease of 20 bps from July and 90 bps drop from last year. Some relevant year-over-year Jacksonville job gains were seen in professional and business services industry with a 4.3% gain and education and health services with a 4.4% gain.

**OUTLOOK**

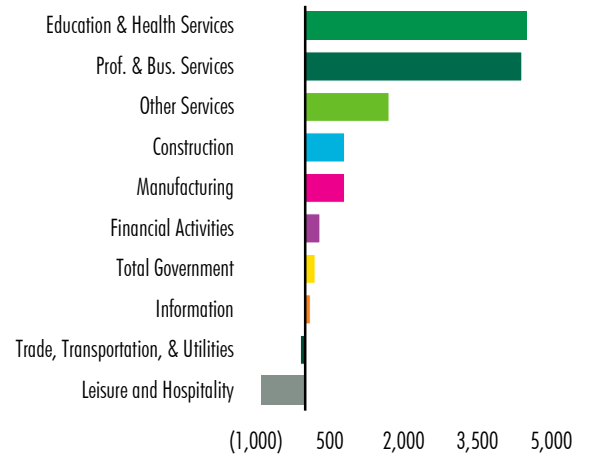
According to the University of Florida Consumer Sentiment Index (CSI), consumer sentiment among Floridians has seen a slight drop to 95.5 from 96.1 in September. The category weighing down the index was “one’s personal financial situation now compared with a year ago” which dropped from 87.8 to 87.2. 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 the current cycle.

Figure 6: Unemployment

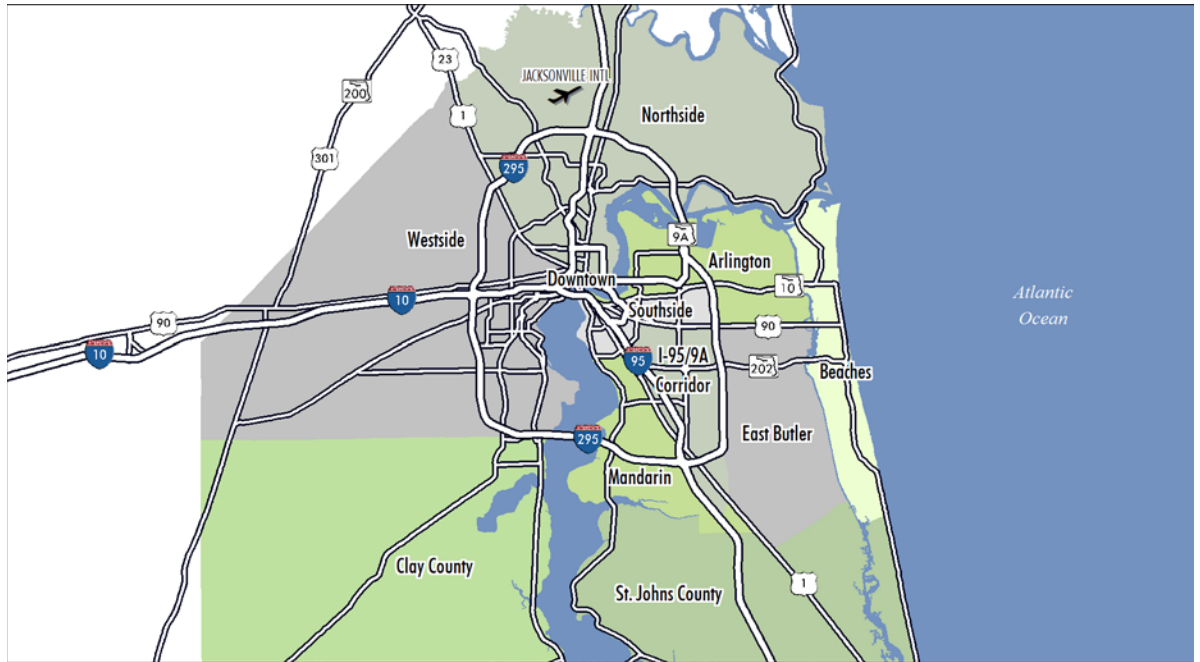


Source: U.S. Department of Labor, Bureau of Labor Statistics, September 2017.

Figure 7: Job Growth by Sector – Change in Employment



Source: U.S. Department of Labor, Bureau of Labor Statistics, September 2017.



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

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