

# MARKETBEAT

## Jacksonville

### Office Q4 2017



#### JACKSONVILLE OFFICE

##### Economic Indicators

	Q4 16	Q4 17	12-Month Forecast
Jacksonville Employment	698k	679k	▲
Jacksonville Unemployment	4.7%	3.6%	■
U.S. Unemployment	4.7%	4.1%	▼

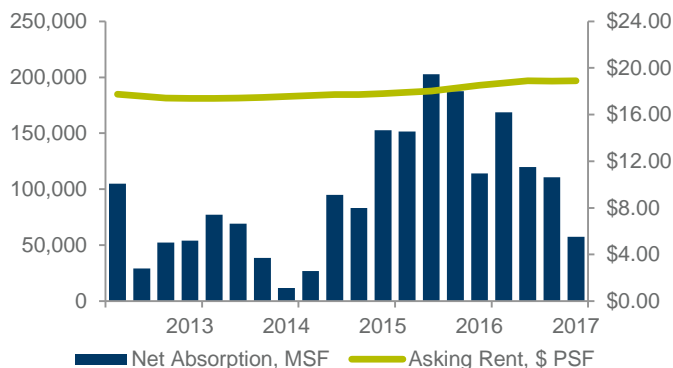
##### Market Indicators (Overall, All Classes)

	Q4 16	Q4 17	12-Month Forecast
Vacancy	14.8%	13.5%	▼
YTD Net Absorption (sf)	475k	271k	▲
Under Construction (sf)	0	206k	▲
Average Asking Rent*	\$18.92	\$19.02	▲

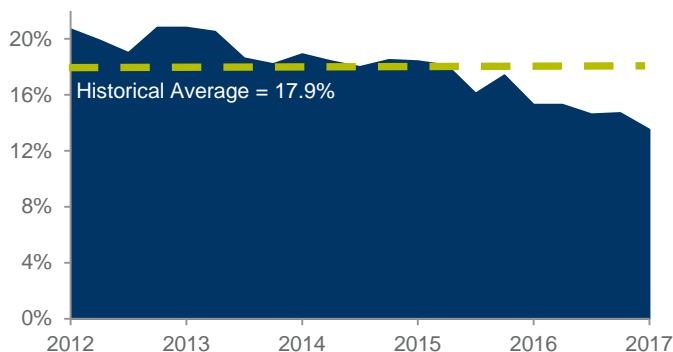
\*Rental rates reflect gross asking \$psf/year

##### Overall Net Absorption/Overall Asking Rent

###### 4-QTR TRAILING AVERAGE



##### Overall Vacancy



## Economy

Hurricane Irma caused a slight squeeze on hiring in the Jacksonville Metropolitan Statistical Area (MSA) earlier in the year but by December had quickly rebounded to normal economic dynamics, adding 18,000 jobs over the 12-month period. Jacksonville ranked the third highest of all major MSAs in Florida for job growth with a rate of 2.8%. The unemployment rate fell 110 basis points (bps) to 3.6%. Overall job growth accelerated as companies such as Web.com and Availity both announced local and new-to-market expansion of payrolls. According to Moody's Jacksonville's performance in job creation will outperform most of the state over the next several years and be bolstered by economic drivers that will rely on the metro's skilled workforce and attractive business climate.

## Market Overview

Tenant demand was robust through 2017 as leasing activity surpassed 1.3 million square feet (msf) year-to-date. Tenants were particularly attracted to the Southpoint, Deerwood Park, and Baymeadows submarkets which combined for over 516,000 sf, or 39% of the market's leasing activity. Absorption remained positive for the eighth consecutive year, but slowed slightly due to the downsizing and relocation of Aetna from the South Bank submarket Downtown into the suburban Baymeadows submarket. The negative impact of the move was mitigated somewhat by One Call's local expansion signing for over half of the vacant space in Aetna's old address.

Vacancy rates fell throughout the market, dropping 90 bps year-over-year to 13.5%. Over the same time period occupancies in suburban submarkets swelled, declining the vacancy rate by 160 bps. The Deerwood Park submarket had the largest drop, decreasing its overall vacancy rate 290 bps over the past 12 months. Overall rental rates rose 50 bps over the last year reaching the highest point since 2009 at \$19.02 per square foot (psf). Comparatively, Class A space also increased 170 bps to the highest rental rates since 2009 to \$21.95 psf. Most notably, Class A rental rates in the Mandarin submarket experienced the largest annual bump of 1,480 bps.

Construction pursuits expanded in 2017 as two speculative projects broke ground for a combined 205,000 sf. Demand from expanding and new-to-market tenants, coupled with the booming local economy and rising rental rates provided confidence for developers to start construction on well-located projects near high demand clusters. Given the high occupancies in Class A space in suburban submarkets and the lack of large available blocks, most inventory under construction could see significant preleasing activity before completion and have the potential to support additional speculative development.

## Outlook

Economic fundamentals throughout the Jacksonville MSA are poised to create additional opportunity in the new year. With job growth and business expansion in office-using sectors, demand should remain steady and lead to a decline in overall vacancies. New office product will provide additional confidence for landlords to raise rental rates. Jacksonville will continue to be positioned as an ideal choice for companies that want a competitively priced market and exceptional quality of life amenities. Cushman & Wakefield expects the office market to trend positively with further growth in rental rates alongside occupancy levels in 2018.

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Northbank	5,447,767	11,072	856,247	15.9%	(28,467)	87,492	116,730	0	\$20.50	\$20.99
Southbank	2,160,231	10,500	197,009	9.6%	(105,628)	(117,946)	96,711	0	\$22.01	\$22.31
<b>CBD</b>	<b>7,607,998</b>	<b>21,572</b>	<b>1,053,256</b>	<b>14.1%</b>	<b>(134,095)</b>	<b>(30,454)</b>	<b>213,441</b>	<b>-</b>	<b>\$20.81</b>	<b>\$21.28</b>
Arlington	1,024,265	2,156	344,664	33.9%	(10,127)	31,433	43,319	0	\$13.30	N/A
Southside	2,029,987	-	315,357	15.5%	(1,521)	13,976	28,681	0	\$14.99	\$28.70
Beaches	646,662	-	57,437	8.9%	(1,867)	16,115	19,278	0	\$27.54	\$28.00
Northside	127,326	-	3,360	2.6%	0	16,747	1,302	0	\$12.00	N/A
Mandarin	1,461,244	-	87,833	6.0%	2,018	37,106	17,910	0	\$21.35	\$25.50
St. John's County	554,474	-	111,664	20.1%	6,094	29,806	36,430	0	\$17.55	N/A
Clay County	555,387	3,170	101,365	18.8%	11,623	26,077	14,454	0	\$20.90	N/A
Westside	97,720	-	0	0.0%	0	5,749	7,805	0	\$0.00	N/A
<b>Butler/Baymeadows</b>	<b>10,593,589</b>	<b>84,587</b>	<b>1,154,582</b>	<b>11.7%</b>	<b>(49,920)</b>	<b>124,776</b>	<b>949,387</b>	<b>205,857</b>	<b>\$19.66</b>	<b>\$22.75</b>
Deerwood Park	3,646,462	-	354,395	9.7%	(15,126)	20,097	432,418	205,857	\$23.43	\$23.63
Southpoint	2,974,221	62,296	323,113	13.0%	(20,484)	(30,223)	234,415	0	\$18.64	\$22.18
Baymeadows	3,972,906	22,291	477,074	12.6%	(14,310)	134,902	282,554	0	\$17.82	\$21.50
<b>Suburbs</b>	<b>17,090,654</b>	<b>89,913</b>	<b>2,176,262</b>	<b>13.3%</b>	<b>(43,700)</b>	<b>301,785</b>	<b>1,118,566</b>	<b>205,857</b>	<b>\$18.22</b>	<b>\$23.68</b>
<b>JACKSONVILLE TOTALS</b>	<b>24,698,652</b>	<b>111,485</b>	<b>3,229,518</b>	<b>13.5%</b>	<b>(177,795)</b>	<b>271,331</b>	<b>1,332,007</b>	<b>205,857</b>	<b>\$19.02</b>	<b>\$21.95</b>

\*Rental rates reflect gross asking \$psf/year

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	YTD CNSTR COMPETIONS (SF)	DIRECT AVERAGE ASKING RENT*
Class A	10,037,693	21,572	1,096,071	11.1%	(118,894)	-29,166	761,322	205,857	0	\$22.04
Class B	11,374,642	89,913	1,662,920	15.4%	(52,388)	222,454	521,895	0	0	\$18.14
Class C	3,286,317	0	470,527	14.3%	(6,513)	78,043	48,790	0	0	\$15.55

**Key Lease Transactions 2017**

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Town Center Two	218,700	Web.com	Direct	Deerwood Park
5555 Gate Parkway	105,000	Avality	Direct	Deerwood Park
841 Prudential Drive	83,000	One Call	Direct	Southbank
4875 Belfort Road	65,000	Formative Health	Direct	Southpoint

**Key Sales Transactions 2017**

PROPERTY	SF	BUYER	PRICE / \$PSF	SUBMARKET
225 Water Street	317,577	Michael Dev Corp	\$15,200,000 / \$48	Northbank
7777 Baymeadows Way West	224,281	Continental Capital Partners	\$22,500,000 / \$100	Baymeadows
1845 Town Center Boulevard	145,776	Interra Capital Group	\$10,500,000 / \$72	Clay County
9487 Regency Square Boulevard	113,529	SunTrust Robinson Humphrey	\$20,136,552 / \$177	Arlington

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