

Jacksonville Industrial, Q1 2018

Strong leasing and sale trends continue into 2018

 Total Vacancy
3.5%

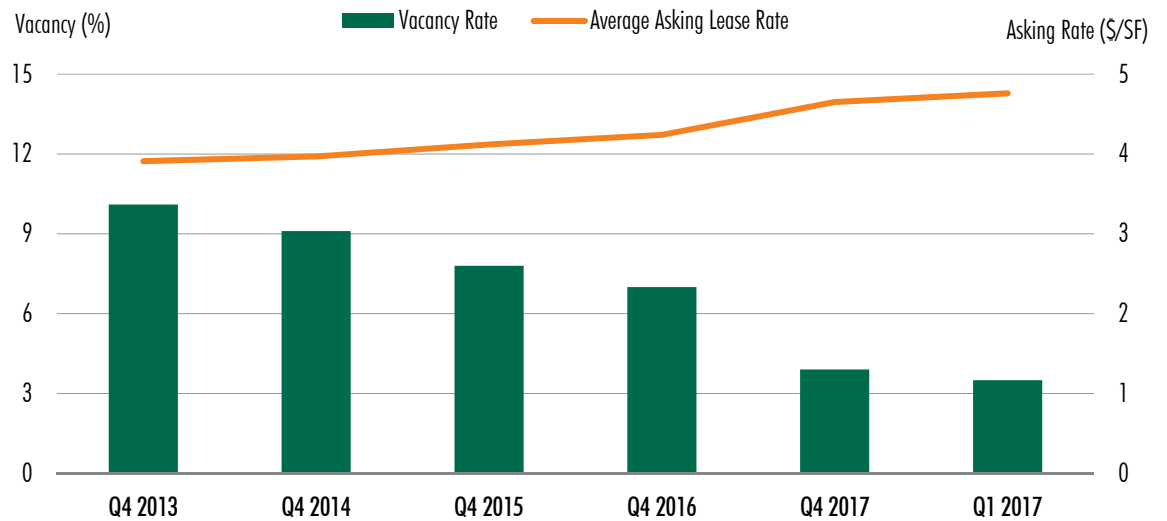
 Lease Rate
\$4.76 PSF

 Net Absorption
499,000 SF

 Completions
98,000 SF

*Arrows indicate change from previous year.

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



Source: CBRE Research, Q1 2018.

- In Q1 2018, vacancy stood at 3.5%, down 40 basis points (bps) quarter-over-quarter and down 330 bps year-over-year.
- The average asking rate in Q1 2018 was \$4.76 per sq. ft., representing a \$0.11 (2.3%) increase quarter-over-quarter and a \$0.53 (12.5%) increase year-over-year.
- In Q1 2018, sales volume amounted to \$226.9 million in six transactions for 2.9 million sq. ft.
- Jacksonville gained 18,600 jobs year-over-year, representing an employment increase of 2.7%.

LEASING ACTIVITY

The Jacksonville Industrial market continued the trend of strong leasing activity, closing the first quarter with 499,000 sq. ft. of net absorption. Approximately 55% of the total number of transactions were executed in the Northside submarket, followed by Westside (22%) and Southside (19%).

Leases impacting absorption in Q1 2018 totaled over 1.0 million sq. ft. across 38 transactions. Article.com, an online furniture retailer, was the largest tenant to take occupancy in Q1 2018 with 319,000 sq. ft. in the Imeson Industrial Park.

Figure 2: Market Statistics

Submarket	Total Inventory (SF)	Total Vacancy (%)	Total Availability (%)	Q1 2018 Net Absorption (SF)	2018 YTD Net Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/NNN)
Downtown	2,440,595	1.3	2.8	0	0	0	3.25
Beaches	166,496	4.9	5.7	39,299	39,299	0	10.14
Northside	31,554,620	4.4	11.5	376,427	376,427	324,000	4.04
Southside	21,599,400	5.7	11.4	75,687	75,687	74,400	7.09
Westside	41,754,508	2.1	6.1	6,638	6,638	725,000	4.08
Clay County	2,919,873	0.1	9.8	526	526	0	3.53
St. Johns County	1,684,101	1.8	1.8	0	0	0	4.50
Jacksonville Market	102,119,593	3.5	8.8	498,577	498,577	1,123,400	4.76
Manufacturing	18,499,203	1.7	7.6	125,591	125,591	0	3.46
Warehouse/Distribution	71,479,804	3.7	9.0	245,118	245,118	1,123,400	4.11
R&D/Flex	8,035,157	7.5	13.5	127,868	127,868	0	9.70

Source: CBRE Research, Q1 2018.

The second largest move-in was by Han-Mill Corporation, a steel product manufacturer, taking 96,000 sq. ft. at 1550 North Ellis Road. First quarter leases signed for future occupancy included two 100,000 sq. ft. transactions. The largest was Jinko Solar, a solar product distributor who will occupy 286,000 sq. ft. at Cecil Commerce Center in Q2 2018. A leading product distributor, Keefe Supply Company signed a lease at Building 1 of Jacksonville International Tradeport for 97,000 sq. ft. in the Northside submarket.

The Jacksonville Industrial market vacancy remained under 4% for the second consecutive quarter. In Q1 2018, vacancy stood at 3.5%, down 40 basis points (bps) quarter-over-quarter and down 330 bps year-over-year. The average asking rate in Q1 2018 was \$4.76 per sq. ft., representing a \$0.11 (2.3%) increase quarter-over-quarter and a \$0.53 (12.5%) increase year-over-year.

INVESTMENT ACTIVITY

Industrial investment has been trending on a national scale. Accordingly, the state of Florida has become a major market for Real Estate Investment

Trusts (REITs) to deploy capital. Real Capital Analytics' (RCA) Q1 2018 sales data shows REITs and publicly traded companies accounting for 77% of investment activity year-to-date in Jacksonville's industrial market, with private investors accounting for the remaining 23%. Hillwood Development Company sold their 1,016,080 sq. ft. Class A warehouse/distribution facility to New York City-based Gramercy Property Trust in a two-property portfolio that fetched a total of \$177.8 million. The Jacksonville portion of the portfolio included a 100% occupied distribution facility that traded for \$95.5 million (\$93.94 per sq. ft.)

Investors dominated trade activity in Q1 2018, accounting for over 2.87 million sq. ft. in industrial sales over the three-month period. In sum, \$226.9 million (\$79.03 per sq. ft.) in total sales volume was tracked in Jacksonville's industrial market during Q1 2018. Colfin Cobalt REIT paid \$25.3 million (\$83.00 per sq. ft.) for a 304,948 sq. ft. portfolio comprised of three warehouses in the Northside submarket, Fort Family Investments paid \$25.3 million (\$91.13 per sq. ft.) for a 277,625 sq. ft. portfolio comprised of

six flex buildings located in the Southside submarket, and Colony North Star paid \$77 million (\$66.26 per sq. ft.) for a 1,162,039 sq. ft. portfolio comprised of four warehouses in the Westside submarket.

DEVELOPMENT

Jacksonville’s industrial market absorbed two new warehouses totaling 97,949 sq. ft. during Q1 2018. St. Augustine-based Makarios Partners’ fully leased, 37,494 sq. ft. speculative project located in the Beaches submarket. Additionally, Innovative Construction Group of N. Florida took occupancy of their new build-to-suit warehouse in March 2018. Their new facility is located in the Southside submarket totaling 60,000 sq. ft.

Three industrial buildings were confirmed as under construction at the close of Q1 2018, with a total of 588,400 sq. ft. of activity spread across the Northside, Southside, and Westside submarkets. The largest of these projects is BMW’s distribution facility in the Westside submarket and is scheduled for delivery in December 2018. On the speculative front, Tradeport 3, located in the Northside submarket, is also a Class A distribution facility that is slated for delivery in December 2018. Benco Dental Supply, a Pennsylvania based dental supply provider, pre-leased all 124,000 sq. ft.

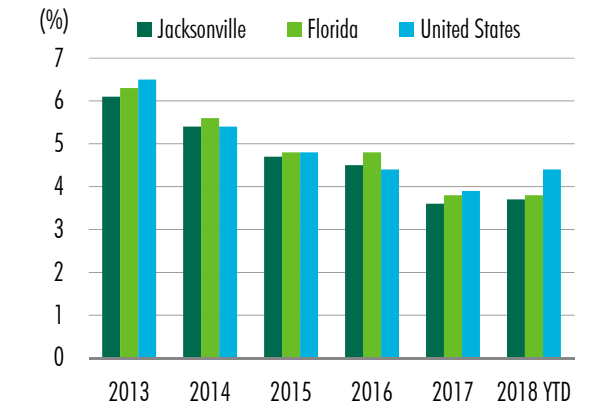
ECONOMIC INFLUENCE

Florida’s strong economy continues into 2018 with a low non-seasonally adjusted unemployment rate of 3.8% in February 2018, down 60 bps from 4.8% a year ago. In Jacksonville the narrative is also positive with an unemployment rate of 3.7% recorded in February 2018. This rate represents an 80 bps drop from a year ago. Jacksonville gained 18,600 jobs year-over-year, representing an employment increase of 2.7%.

OUTLOOK

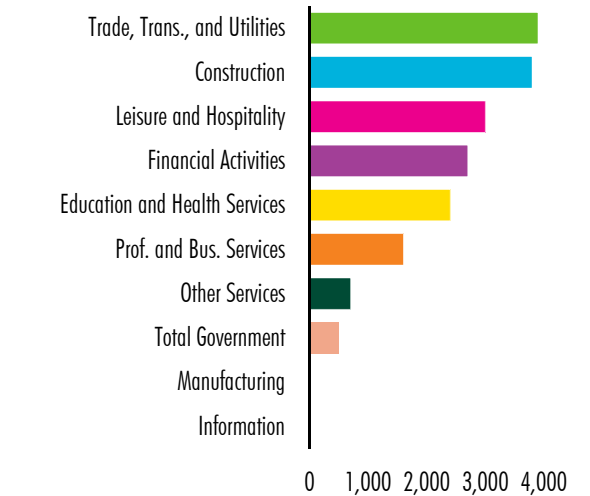
New importation tariffs on steel and aluminum are intended to increase dependence on domestic materials, which should bode well with commercial real estate investors considering the industrial sector stands to realize fundamental strengthening from such measures. In addition to tariffs, an increase in federal infrastructure spending will ensure employment security for the construction sector. Florida’s year-over-year job growth of 2% and the persistence of low unemployment levels represent a stabilized economy that is expected to remain strong throughout 2018.

Figure 3: Unemployment

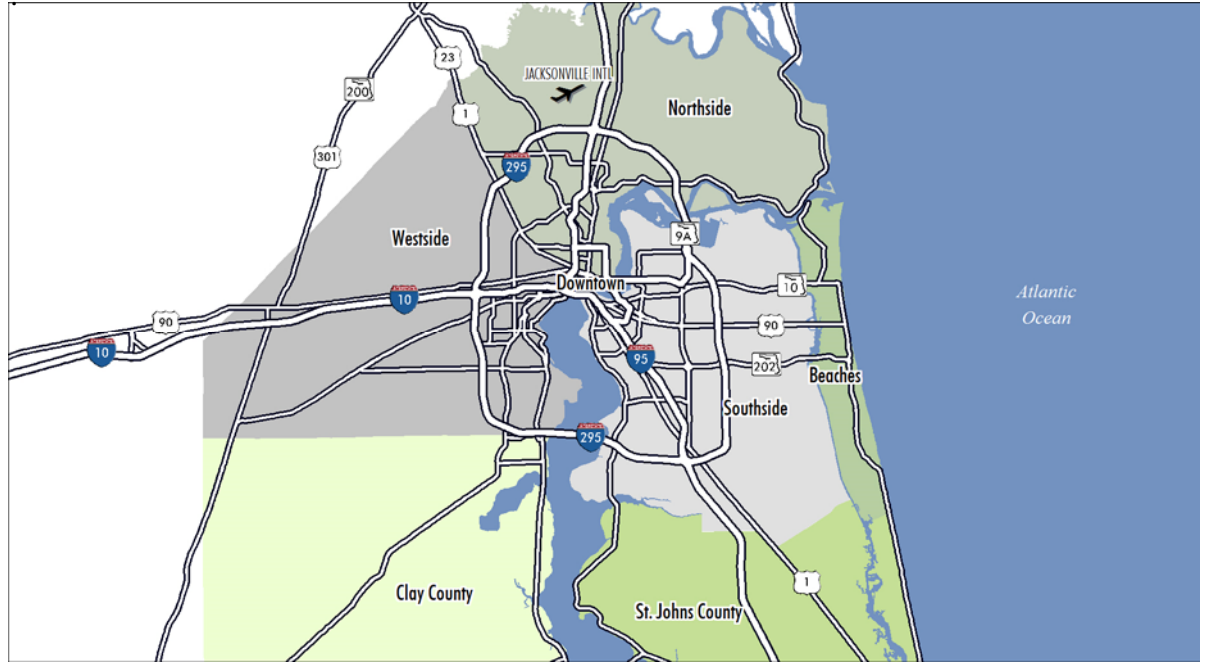


Source: U.S. Department of Labor, Bureau of Labor Statistics, March 2018.

Figure 4: Job Growth by Sector – Change in Employment



Source: U.S. Department of Labor, Bureau of Labor Statistics, March 2018.



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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