

Jacksonville Office, Q3 2018

# Investment sales gain momentum

▲ Total Vacancy  
15.3%

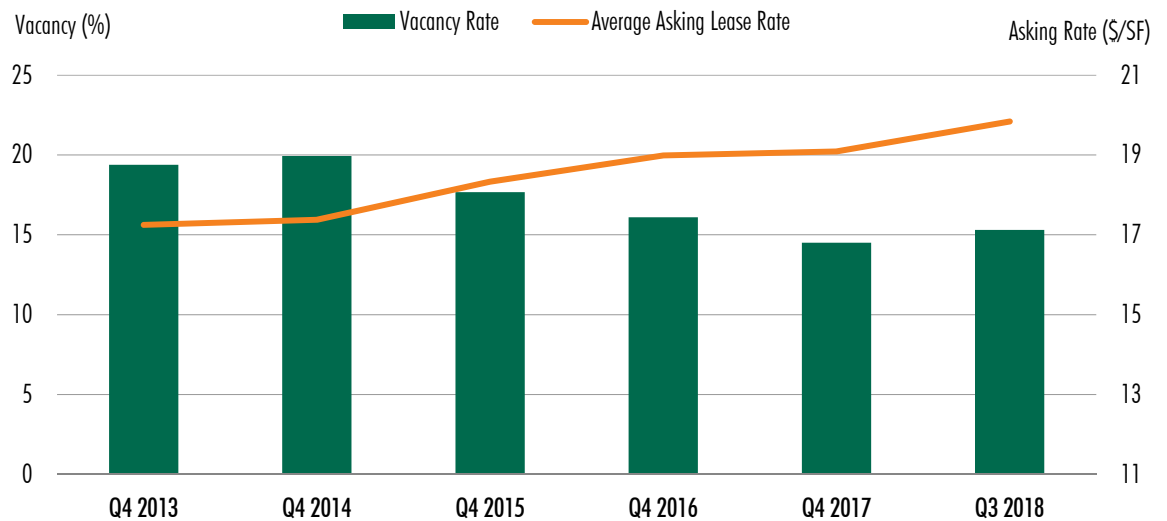
▲ Lease Rate  
\$19.84 PSF

▼ Net Absorption  
79,000 SF

▲ Completions  
210,000 SF

\*Arrows indicate change from previous year.

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



Source: CBRE Research, Q3 2018.

- Genpact and VyStar Credit Union will occupy 112,806 sq. ft. and 82,709 sq. ft., respectively during Q4 2018.
- Net absorption for Q3 2018 was 79,150 sq. ft.
- The vacancy rate in Q3 2018 rose 120 basis points (bps) year-over-year to 15.3%.
- The average asking rate for Q3 2018 was \$19.84 per sq. ft., a gain of 4.6% year-over-year.
- Construction costs are expected to rise 4% to 6% with labor costs rising 10%.

## INVESTMENT SALES ACTIVITY

The sale of investment grade office properties rose during Q3 2018 and were higher than 2017 year-over-year. According to Real Capital Analytics, Q3 2018 office sales were 1.4 million sq. ft. totaling \$179.2 million. Year-to-date sales totaled 3.3 million sq. ft. and \$385.9 million. In comparison, during the first nine months of 2017, 2.0 million sq. ft. were sold totaling \$342.0 million. Activity in 2018 was 12.8% greater than the same period in 2017. Active buyers in the market were institutional (69.0%) and private (29.0%).

Figure 2: Market Statistics

Submarket	Total Inventory (SF)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2018 Net Absorption (SF)	2018 YTD Net Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/FSG/G/MG)
CBD	7,411,273	16.0	16.2	12,736	43,781	0	21.48
Northbank	5,249,233	19.3	19.5	6,614	34,199	0	21.20
Southbank	2,162,040	8.0	8.2	6,122	9,582	0	22.46
Arlington	984,122	38.9	38.9	(5,312)	7,782	0	12.04
Beaches	793,775	3.4	3.6	5,413	(5,028)	0	27.55
Clay County	559,741	2.6	2.6	(4,620)	48,453	0	13.52
East Butler	230,876	5.8	5.8	0	1,913	0	24.00
I-95/ East Beltway	11,311,926	13.5	14.3	62,275	(148,039)	0	21.41
Baymeadows	3,457,008	13.1	14.0	(867)	(25,337)	0	19.88
Deerwood Park	3,634,588	12.7	12.8	55,689	(55,205)	0	23.95
South 95 Corridor	1,150,193	3.9	5.1	16,670	8,371	0	22.00
Southpoint	3,070,137	18.7	19.7	(9,217)	(75,868)	0	20.43
Mandarin	544,543	6.4	6.4	12,265	3,667	0	16.60
Northside	95,600	0.0	0.0	0	14,100	0	12.00
St. Johns County	573,062	21.1	21.1	(751)	32,799	0	20.91
Southside	1,695,694	19.7	19.7	(356)	(36,554)	0	14.20
Westside	367,096	6.8	6.8	(2,500)	2,866	0	20.69
<b>Suburban Total</b>	<b>17,156,435</b>	<b>14.5</b>	<b>15.0</b>	<b>66,414</b>	<b>(78,041)</b>	<b>0</b>	<b>18.96</b>
<b>Jacksonville Market</b>	<b>24,567,708</b>	<b>14.9</b>	<b>15.3</b>	<b>79,150</b>	<b>(34,260)</b>	<b>0</b>	<b>19.84</b>
Class A	11,615,937	14.1	14.8	69,314	(46,902)	0	22.56
Class B	9,807,737	13.3	13.4	28,728	7,660	0	19.30
Class C	3,144,034	23.3	23.3	(18,892)	4,982	0	13.06

Source: CBRE Research, Q3 2018.

**LEASING ACTIVITY**

Demand for office space remains strong with continued job growth and business expansion. Net absorption for the Jacksonville office market was positive, totaling 79,150 sq. ft. during Q3 2018. Absorption year-to-date totaled a negative 34,260 sq. ft., largely due to CSX vacating 124,000 sq. ft. at 6737 Southpoint Drive in Q1 2018. However, absorption will get a boost in Q4 2018 when Genpact occupies 112,806 sq. ft. at the former CSX building and VyStar Credit Union occupies at least 82,709 sq. ft. at 76 South Laura Street.

Leases executed during Q3 2018 totaled approximately 502,133 sq. ft. across 68

transactions. The majority of this activity took place in the CBD and the I-95/East Beltway Corridor submarkets.

The vacancy rate in Q3 2018 rose 120 basis points (bps) year-over-year to 15.3% due to large tenants downsizing and newly constructed buildings coming to market. The average asking rate for Q3 2018 was \$19.84, which represents a gain of 4.6% year-over-year. Year-over-year lease rate comparisons by class show average asking lease rates for available Class B properties experienced the largest increase recording a 6.7% increase to \$19.30 per sq. ft. Class C properties increased 4.9% to an asking rate of \$13.06 per sq. ft. and Class A properties increased 1.9% to an asking rate of \$22.56 per sq. ft.

Figure 3: Significant Q3 2018 Lease Transactions

Submarket	Property	Tenant	Transaction (\$)
I-95/East Beltway Corridor	6805 Southpoint Parkway	Miller Electric	123,000
I-95/East Beltway Corridor	6737 South Southpoint Drive	Genpact	112,806
I-95/East Beltway Corridor	14701 Philips Highway	Dream Finders	45,000
CBD	Wells Fargo Center	GateHouse Media	30,176

Source: CBRE Research, Q3 2018.

Figure 4: Significant Q3 2018 Sale Transactions

Submarket	Property	Buyer	Seller	Building (SF)	Sale Price (\$)
CBD	VYStar Tower	VyStar Credit Union	CarVal, Mainstreet Cap Prtnrs	383,239	59,000,000
I-95/East Beltway Corridor	Concourse Jacksonville	Westport Capital	Gemini Rosemont	288,147	36,086,342
I-95/East Beltway Corridor	Summit at Southpoint	Rose & Berg Realty Group	Bluerock RE LLC	276,400	29,550,000
CBD	BB&T Tower	Ash Properties	JER Partners, JPMCC 2007-LDP12	252,983	24,465,000

Source: CBRE Research, Q3 2018.

Figure 5: Significant Projects Under Construction (SF) \*

Submarket	Property	Owner	Developer	Building (SF)
I-95/East Beltway	Town Center Two	Van Trust Real Estate	Van Trust Real Estate	218,700
I-95/East Beltway	Southside Quarter One	Hines Interest	Hines Interest	125,000

Source: CBRE Research, Q3 2018.

\*Denotes: Not included in tracked set.

**DEVELOPMENT**

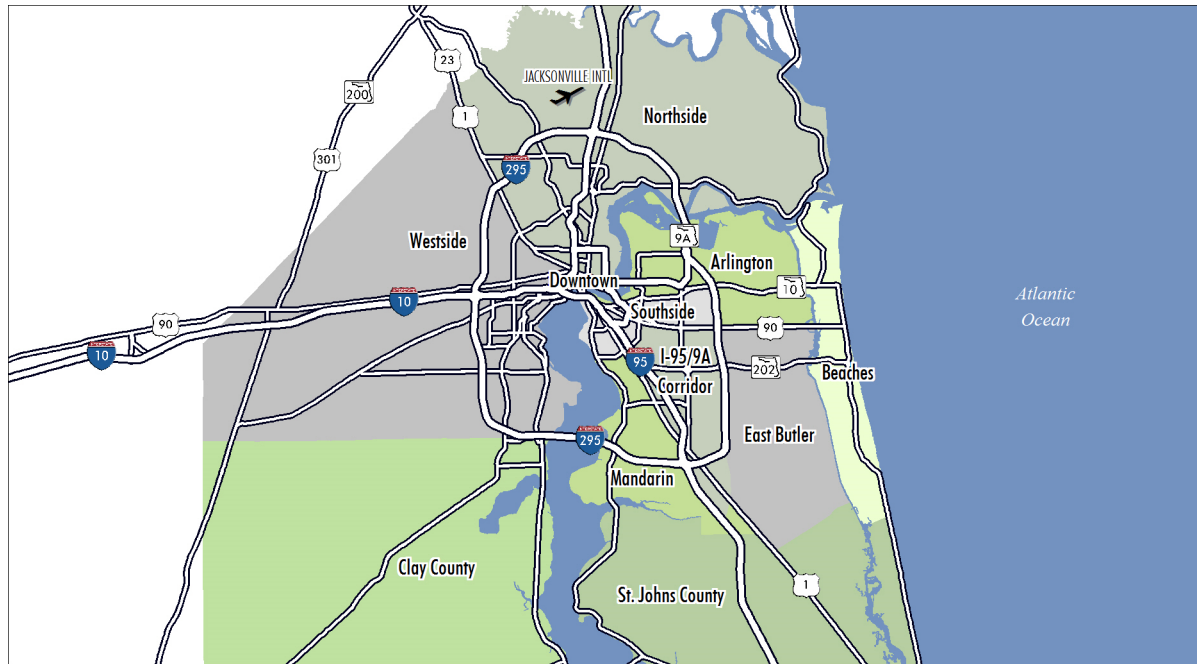
Construction completions during Q3 2018 totaled 210,010 sq. ft. Some of the projects under construction are notable projects, but not included in our statistics due to them being single tenant, build-to-suit developments. One of these projects is Town Center Two, a 218,700 sq. ft. building being built for Web.com by VanTrust, which is expected to be completed in May 2019. The other project is a 125,000 sq. ft. build-to-suit for McKesson by Hines, expected to be completed in September 2019.

Construction costs continue to rise. According to CBRE project management, overall construction costs are expected to rise 4 to 6% with labor costs rising 10%. Increased costs are impacting tenant finish out and office development. In addition, receiving a permit for tenant finish is taking five to seven weeks. The vendor market is saturated and adding time to complete any construction projects.

**OUTLOOK**

According to the Bureau of Labor Statistics, the unemployment rate decreased 70 basis points to 3.5% in August 2018 year-over-year in the Jacksonville metropolitan statistical area (MSA). The Jacksonville MSA nonfarm job creation totaled 21,600 jobs over the past year. Office-using industries added 7,900 jobs during the past year..

Falling vacancy rates, strong employment figures, and increasing net absorption are anticipated to continue to bolster the Jacksonville office market. Overall, Jacksonville will continue to be an attractive market as steady growth in employment creates demand for office space.



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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