

MARKETBEAT

Jacksonville

Office Q4 2018



JACKSONVILLE OFFICE

Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
Jacksonville Employment	705k	717k	▲
Jacksonville Unemployment	3.6%	2.9%	■
U.S. Unemployment	4.1%	3.7%	▼

*Numbers above are monthly figures, Nov. 2018, FL Dept. Economic OPP

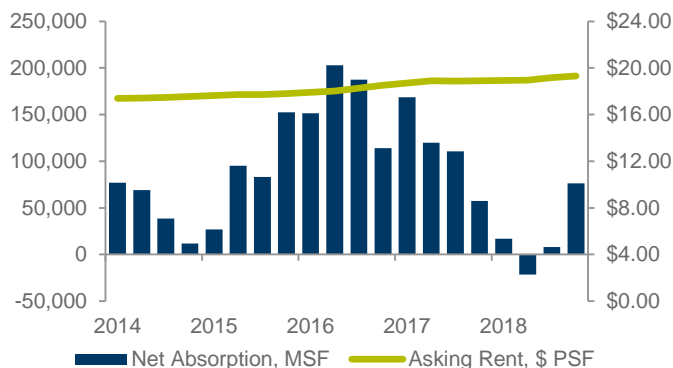
Market Indicators (Overall, All Classes)

	Q4 17	Q4 18	12-Month Forecast
Vacancy	13.5%	12.9%	▼
YTD Net Absorption (sf)	271k	95k	▲
Under Construction (sf)	206k	344k	▲
Average Asking Rent*	\$19.02	\$19.50	▲

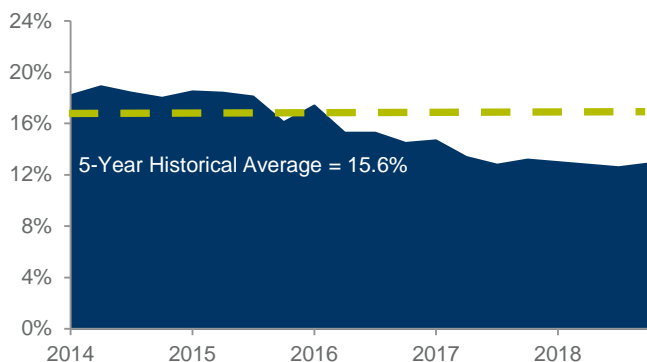
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Jacksonville region saw solid economic growth throughout 2018, adding +12,000 jobs over the trailing 12-month period, for a 1.9% growth rate, the third fastest growing metro area in Florida. The region continued to be a magnet for business relocations and expansions which pushed the unemployment rate down -70 basis points (bps) to 2.9%. New businesses to the area assisted in creating direct jobs in multiple sectors, with notable emphasis on new and emerging technology companies. The three major office-using employment sectors, financial services, business services and information, drove gains and accounted for 32% or 3,900 new jobs.

Market Overview

The overall vacancy rate for office in Jacksonville remained historically low over the past twelve months, dropping -60 bps to 12.9%. Over 1.1 million square feet (msf) of Class A space was available in the market at year-end, which represented a vacancy of 11.2%, up +10 bps over last year. Class B assets tightened over the same time last year as vacancy dipped -30 bps to 14.4%. In the CBD, the overall vacancy rate fell to the lowest rate during this 10-year-cycle to 11.4%, a decrease of -270 bps year-over-year (YOY).

Leasing activity in Jacksonville increased 11.5% to 1.4 msf of space leased over the last year, with Class B space accounting for approximately 42% of all leases signed. The mix of tenants leasing space ranged from organic expansions as well as new tenants to the market. As quality space availabilities tightened, submarkets like Baymeadows and Deerwood Park saw increased performance during the year as several major tenants leased space in new to market office buildings. Collectively, both submarkets outperformed the overall market with over a combined 620,000 square feet (sf) of leasing activity year-to-date (YTD).

Overall year-end absorption remained positive at 94,728 sf as tenants moved into space signed during the first half of the year. Negative absorption during the last quarter placed -145,000 sf of space back on the market, of which 67% was in the Baymeadows submarket, mostly from Class A assets. Since the submarket is very active with tenants seeking high-end space the new availabilities should easily be absorbed during 2019.

As new availabilities came to market, full service overall asking rents remained relatively stable, with a marginal increase of 2.5% to \$19.50 per square foot (psf). Sublease space was constrained which allowed landlords in the region to be increasingly more confident in raising rents, although incrementally, on positive tenant demand and dwindling availabilities. Full service overall asking rental rates for Class A space remained historically high at \$22.93 psf, an increase of 6.2% over a three-year period.

The volume of speculative office construction continued to remain muted as only two buildings that were 64% preleased delivered to the market during the year increasing the Class A inventory by 210,867 sf. Despite tenant demand for high quality space and strengthened current office fundamentals there is still a small pipeline of office development. Two large build-to-suit projects totaling 343,000 sf were under construction at the end of the year. The area's steady growth in both employment and population, kept the investment market on track. Investor's YTD sales volume rose to 3.0 msf, an increase of 45.6% from yearend 2017 as investors targeted stabilized suburban office assets. Both corporate users and investment management firms were attracted to the markets strong office fundamentals in core assets.

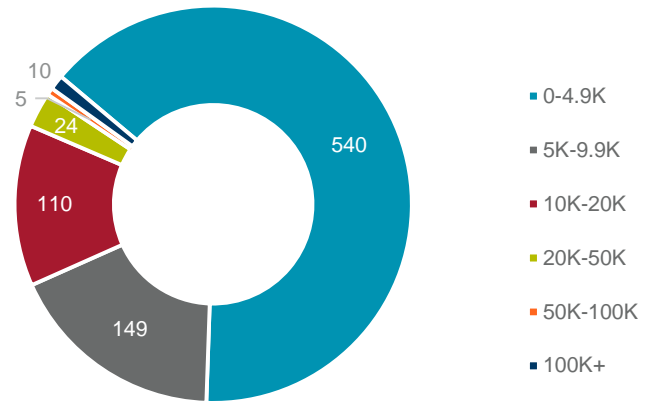
Over 1.5 msf of office space was leased in 2018 with Class B space accounting for approximately 42% of all leases signed.

The regions office market continued to benefit from strong economic gains and continued business expansion. New construction projects were proposed as several tenants were circling the market for a large block of space. Another incentive that could benefit the office market is the new Opportunity Zone program established by Congress in the Tax Cuts and Jobs Act of 2017. Opportunity Zones encourages long-term investments in low-income urban and rural communities. In Northeast Florida, 34 census tracts are designated as Opportunity Zones, including 19 in Duval County. This program along with competitive market fundamentals, could provide stable improvement to several office submarkets.

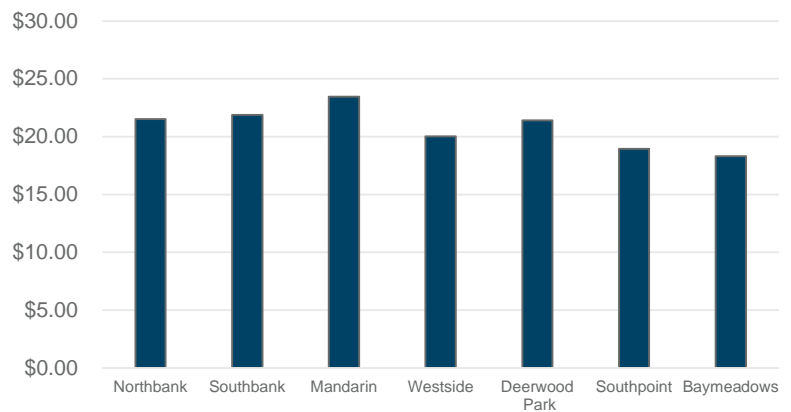
Market Highlights

- Tenant demand accounted for 4.1 msf of office space leased within a three-year-period.
- Modest rent growth pushed overall market asking rental rates above pre-recession levels.
- Limited new speculative construction pushed vacancy rate to its lowest level this cycle.

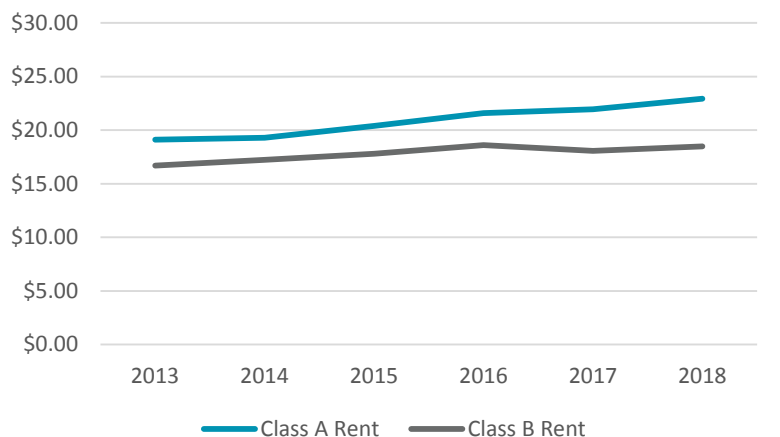
Availability by Size Segment
OVERALL VACANCIES IN ONE SUITE



Full Service Asking Rents by Submarket



CLASS A & B Asking Rent Trend



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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT OTR 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	5,206,933	0	680,027	13.1%	-48,702	67,826	202,795	0	\$21.52	\$22.38
Southbank	2,180,268	7,615	153,569	7.4%	25,349	55,419	56,652	0	\$21.88	\$22.24
CBD	7,387,201	7,615	833,596	11.4%	-23,353	123,245	259,447	-	\$21.59	\$22.35
Arlington	983,527	0	304,525	31.0%	-43,094	-54,916	8,389	0	\$15.04	N/A
Southside	1,837,602	0	252,681	13.8%	7,317	37,757	87,669	0	\$15.05	N/A
Beaches	530,346	0	51,744	9.8%	-4,164	-3,057	30,742	0	\$27.72	\$27.88
Northside	30,000	0	3,360	11.2%	0	0	0	0	\$12.00	N/A
Mandarin	1,500,254	0	167,878	11.2%	0	-1,571	50,469	0	\$21.34	\$27.50
St. John's County	358,536	0	107,955	30.1%	0	-31,097	13,044	0	\$18.25	N/A
Clay County	490,077	7,578	13,047	4.2%	6,873	-2,908	15,807	0	\$20.02	N/A
Westside	181,216	0	2,500	1.4%	0	-2,500	0	0	\$21.40	N/A
Butler/Baymeadows	10,687,707	115,423	1,218,260	12.5%	-89,124	29,775	930,270	343,700	\$19.68	\$23.06
Deerwood Park	3,752,899	9,480	349,521	9.6%	12,693	134,774	378,561	343,700	\$23.47	\$23.73
Southpoint	3,040,149	65,116	328,759	13.0%	-4,113	-55,223	306,138	0	\$18.95	\$23.00
Baymeadows	3,894,659	40,827	539,980	14.9%	-97,704	-49,776	245,571	0	\$18.32	\$21.70
Suburbs	16,599,265	123,001	2,121,950	13.5%	-122,192	-28,517	1,136,390	343,700	\$18.65	\$24.04
JACKSONVILLE TOTALS	23,986,466	130,616	2,955,546	12.9%	-145,545	94,728	1,395,837	343,700	\$19.50	\$22.93

*Rental rates reflect gross asking \$psf/year
**Does not include renewals

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT OTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	YTD CNSTR COMPETITIONS (SF)	DIRECT AVERAGE ASKING RENT*
Class A	10,194,634	12,689	1,130,038	11.2%	-17,475	202,596	712,671	343,700	210,867	\$22.98
Class B	10,738,513	117,927	1,430,023	14.4%	-105,037	-116,594	580,760	0	20,037	\$18.58
Class C	3,053,319	0	395,485	13.0%	-23,033	8,726	102,406	0	0	\$14.38

Key Lease Transactions 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
6651 Gate Parkway	125,000	McKeeson	New Lease	Baymeadows
7777 Baymeadows Way West	28,877	Undisclosed	New Lease	Baymeadows
76 South Laura Street	24,668	Morgan & Morgan	Renewal	CBD

*Renewal – Not included in Leasing Activity Statistics.

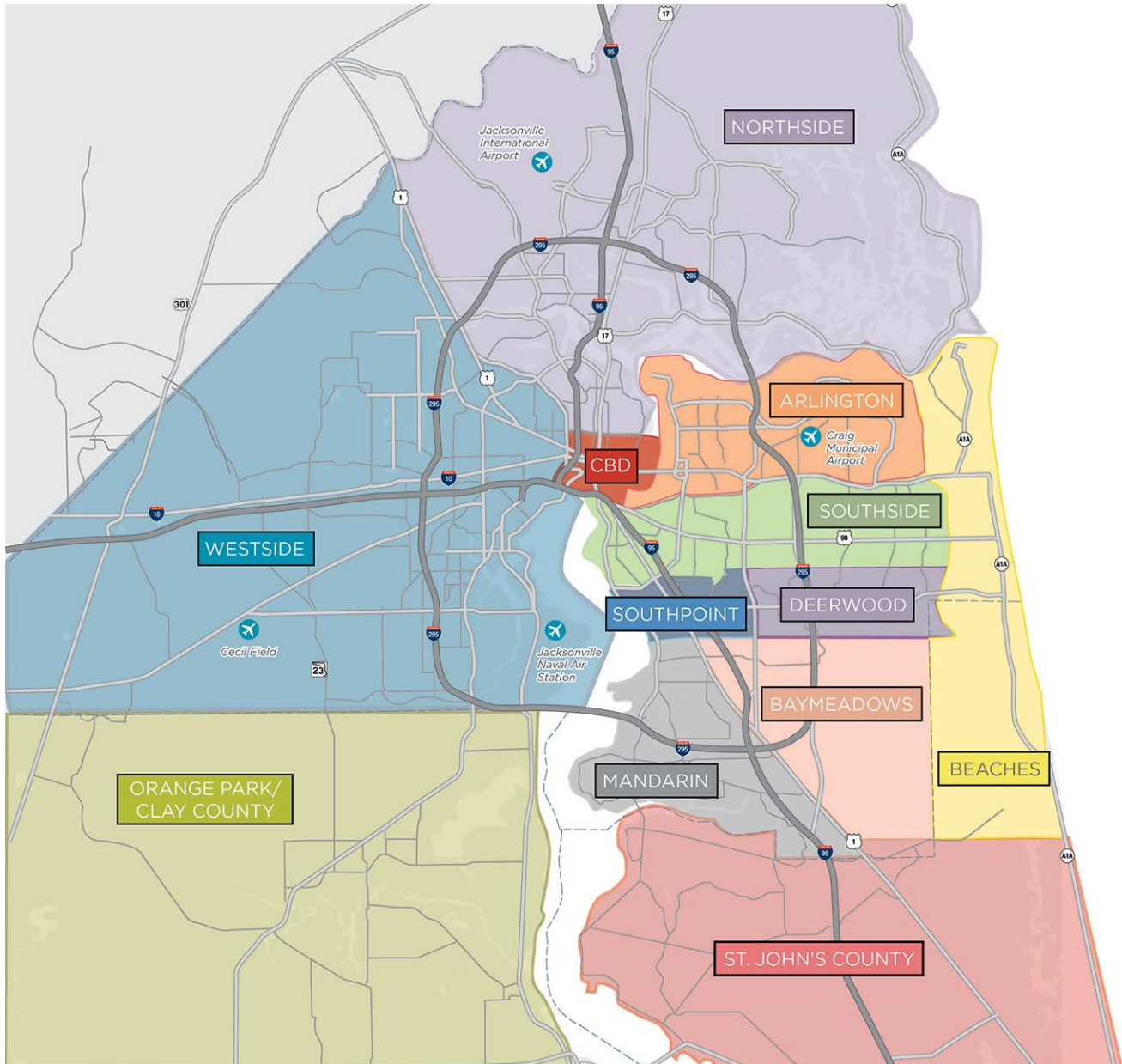
Key Sales Transactions 2018

PROPERTY	SF	BUYER	PRICE / \$PSF	SUBMARKET
76 S Laura Street	369,481	VyStar Credit Union	\$59,000,000/\$160	Northbank
200 West Forsyth Street	269,176	Ash Properties Inc.	\$24,465,000/\$91	Northbank

MARKETBEAT

Market Name

Office Q4 2018



Cushman & Wakefield of Florida, LLC
20 N Orange, Ste. 300
Jacksonville, FL 32801

For more information, contact:
Valerie Tatum
Senior Analyst
Tel: +1 954 377 0492
valerie.tatum@cushwake.com

Chris Owen
Director, Florida Research
Tel: +1 407 541 4417
chris.owen@cushwake.com

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