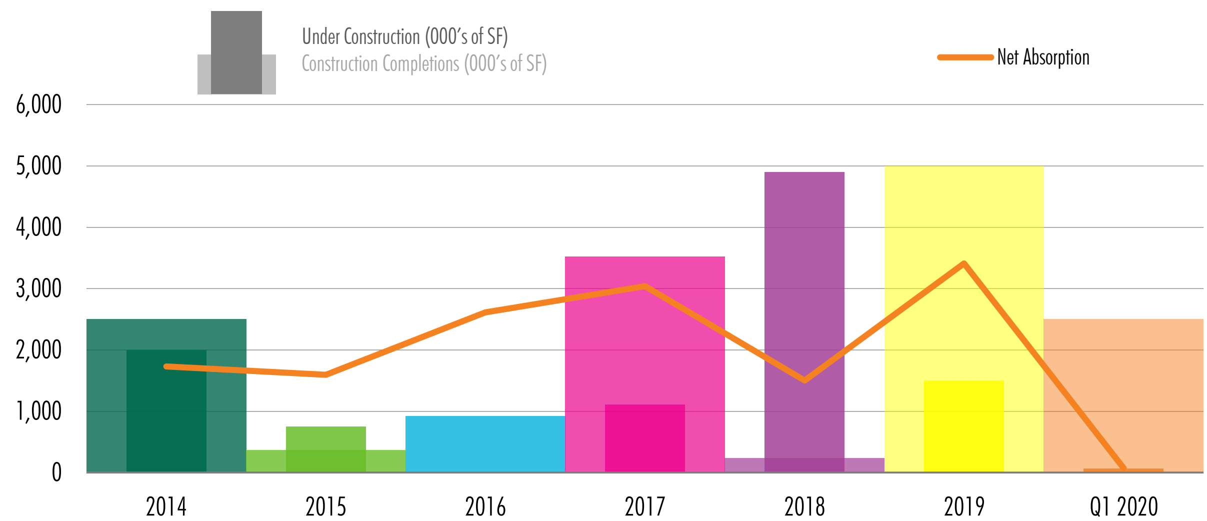
Jacksonville Industrial, Q1 2020

Strong consecutive quarter for industrial development

Total Vacancy	Lease Rate	Net Absorption	Completions
7.6 %	$5.08 PSF	73,300 SF	2.5 MSF

*Arrows indicate change from previous year.

Figure 1: Under Construction and Completions –vs– Net Absorption



Source: CBRE Research, Q1 2020.

- The largest delivery was a 552,720 sq. ft. warehouse developed by VanTrust Real Estate.
- Pattillo Industrial Real Estate Intends to add another 315,000 sq. ft. warehouse to their Northpoint Industrial Park.
- Jacksonville features several warehouses able to accommodate tenants seeking space greater than 200,000 sq. ft.
- The unique nature of COVID-19 induced economic downturn should result in an unusually swift recovery that could begin as early as Q3 2020.

DEVELOPMENT

This was another strong quarter for industrial development in Jacksonville, with roughly 2.5 million sq. ft. coming to market in Q1 2020. The Northside submarket experienced the highest volume of deliveries, with six new buildings equating roughly 2.0 million sq. ft. of speculative space. The largest delivery was a 552,720 sq. ft. warehouse developed by VanTrust Real Estate and located in one of Jacksonville's most notable industrial business parks, Imeson International Tradeport. In the Westside, a 486,146 sq. ft. speculative warehouse was also delivered and developed by one of Jacksonville's most active developers, Pattillo Industrial Real Estate.

Figure 2: Market Statistics

Submarket	Total Inventory (SF)	Total Availability (%)	Total Vacancy (%)	Q1 2020 Net Absorption (SF)	2020 Net Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate ($/SF/NNN)
Downtown	2,159,234	6.3	1.2	0	0	0	4.06
Beaches	166,496	8.9	7.3	(4,050)	(4,050)	0	12.27
Northside	35,616,517	17.3	13.6	(14,675)	(14,675)	31,095	4.09
Southside	22,014,426	8.5	5.4	107,576	107,576	0	8.21
Westside	45,770,395	6.8	4.8	(15,561)	(15,561)	10,000	4.39
Clay County	2,919,873	9.3	0.3	0	0	0	3.82
St. Johns County	1,684,101	1.6	1.5	0	0	20,790	7.00
Jacksonville Market	110,331,042	10.5	7.6	73,290	73,290	61,885	5.08
Manufacturing	18,964,969	5.2	1.5	(20,000)	(20,000)	0	4.60
Warehouse/Distribution	8,743,135	11.7	8.9	89,546	89,546	41,095	4.28
R&D/Flex	82,622,938	11.1	8.3	3,744	3,744	20,790	10.15

Source: CBRE Research, Q1 2020.

Figure 3: Significant Q1 2020 Occupancies

Submarket	Property	Tenant	Transaction (SF)
Southside	1037 Hendricks Ave	Reddi-Arts	22,355
Southside	2900-2912 Dawn Rd	Undisclosed	20,000
Southside	5343 Bowden Rd	Frascold	18,850
Southside	7900 Belfort Pkwy	Undisclosed	17,191

Source: CBRE Research, Q1 2020.

Figure 4: Significant Q1 2020 Lease Transactions

Submarket	Property	Tenant	Transaction (SF)
Southside	8691 Western Way	Carrier Enterprises LLC	53,320
Northside	2120 Walnut St	Green Technologies	32,595
Southside	1037 Hendricks Ave	Reddi-Arts	22,355
Southside	5343 Bowden Rd	Frascold	18,850

Source: CBRE Research, Q1 2020.

Figure 5: Significant Project Completions (SF)

Submarket	Property	Owner	Developer	Building (SF)
Northside	10501 Cold Storage Rd	VanTrust Real Estate	VanTrust Real Estate	552,720
Westside	9950 Pritchard Rd	Pattillo Industrial Real Estate	Pattillo Industrial Real Estate	486,146
Northside	250 Busch Dr	Webb International	Webb International	477,946
Northside	12090 New Berlin Rd	Pattillo Industrial Real Estate	Pattillo Industrial Real Estate	279,000

Source: CBRE Research, Q1 2020.

Proposed projects have also had an uptick in activity, with roughly 8.9 million sq. ft. of speculative industrial space planned throughout 2023. Included in this total, the Northside is poised to experience an additional six new speculative buildings, or roughly 5.9 million sq. ft. of space. Furthermore, the Westside is also paced to receive another 2.9 million sq. ft. of industrial space. More recently, Pattillo announced they intend to add another 315,000 sq. ft. warehouse to their Northpoint Industrial Park.

LEASING ACTIVITY

The vacancy rate for Q1 2020 made a substantial year-over-year increase of 340 basis points (bps) to 7.6%. However, it should be emphasized that this increase directly correlates to the roughly 2.5 million sq. ft. of vacant speculative industrial space that came to market this quarter. Jacksonville has several warehouses that can accommodate tenants seeking space greater than 200,000 sq. ft. In addition to inventory, the location of this market gives occupiers access to several major distribution routes such as I-95 and I-10.

Jacksonville experienced 73,300 sq. ft. of positive net absorption and 236,000 sq. ft. of leasing activity across 26 transactions. Despite a slow first quarter, the direct average asking lease rate reached a year-over-year increase of 1.8% to $5.08 per sq. ft. Regarding property development type, Manufacturing and R&D/Flex achieved an increase in average asking rates to $4.60 per sq. ft. and $10.15 per sq. ft., or an increase of 14.1% and 4.4%, respectively. Distribution assets also saw a rise in average asking rates to $4.28 per sq. ft., or a year-over-year increase of 1.9%.

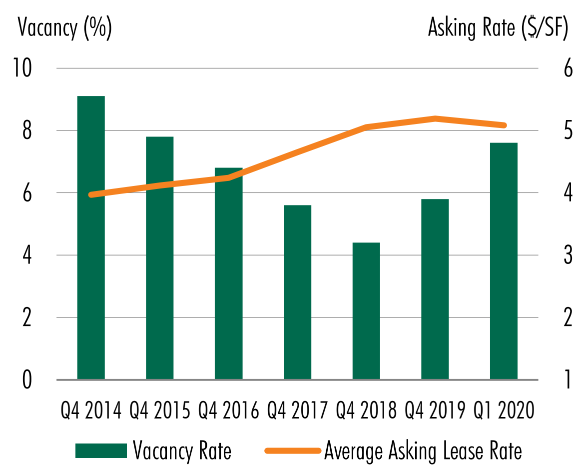
SALES ACTIVITY

Investment sales activity for Q1 2020 in Jacksonville's industrial market remained steady with total transactions equaling $92.0 million across 1.3 million sq. ft., in consideration. In comparison to Q1 2019, total transaction volume was $181.6 million across 2.8 million sq. ft. The largest sale that took place this quarter was Crossroads Distribution Center—Building 100, a 297,00 sq. ft. warehouse purchased by Link Industrial Properties, for $24.3 million, or $81.6 per sq. ft. Institutional (40.1%) and Private (25.6%) buyers held the majority share of investment sales activity, with Users/Other and REITs holding 17.7% and 16.6%, respectively.

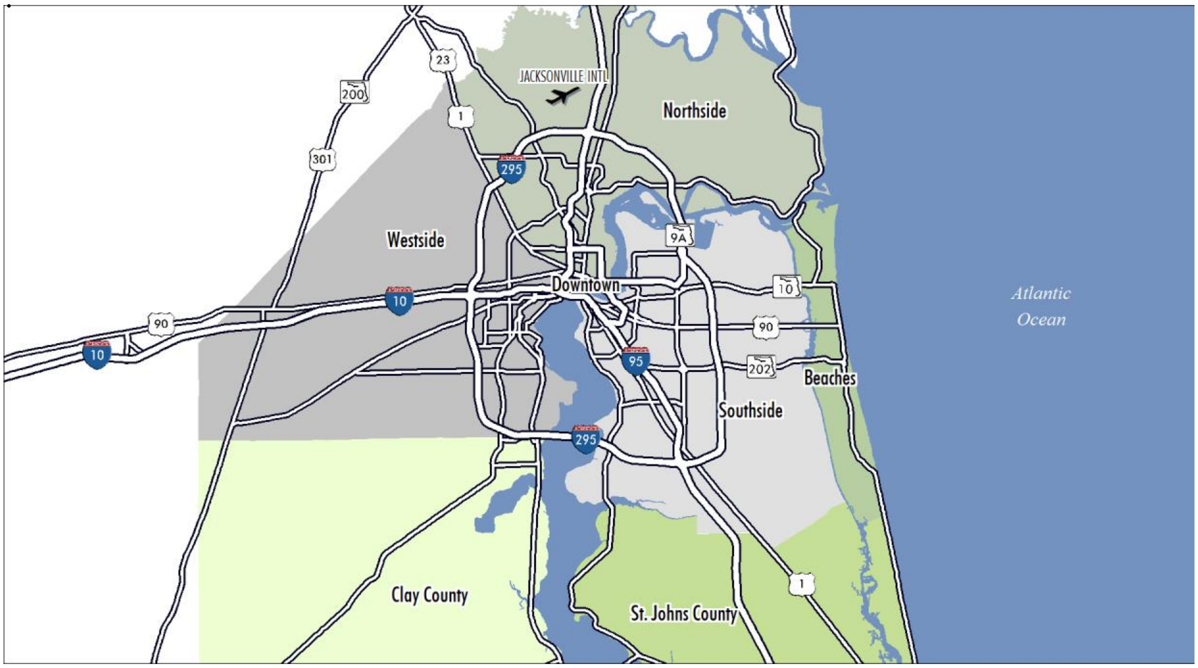
OUTLOOK

The COVID-19 pandemic has forced some state governments to impose strict stay-at-home orders that are adversely affecting many industries. This is leading the U.S. economy into a recession that will result in very sharp declines in GDP for H1 2020 and in job losses, particularly in the retail, food & beverage and transportation sectors. Office-using employment may be less negatively affected than in recent recessions. But the unique nature of this downturn should result in an unusually swift recovery that could begin as early as Q3 2020. Assuming the coronavirus peaks this summer in the U.S.—mirroring China's experience—the U.S. government's fiscal and monetary stimulus will begin to bear fruit. This will be paired with pent-up private demand that could help the U.S. economy return to growth by year-end and drive stronger than previously expected growth in 2021.

Figure 6: Total Vacancy –vs– Average Direct Asking Lease Rate (NNN)



Source: CBRE Research, Q1 2020.



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

CONTACTS

Tripp Gulliford
Senior Managing Director
+1904 630 6344
tripp.gulliford@cbre.com

Marc L. Miller
Associate Field Research Director
+1 305 381 6428
marc.miller1@cbre.com

Steve Harriss
Senior Field Research Analyst
+1 904 630 6348
steve.harriss@cbre.com

Jake Stauber
Field Research Analyst
+1 904 633 2606
jake.stauber@cbre.com

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Contact CBRE Jacksonville
225 Water Street
Suite 110
Jacksonville, FL 32202
T: 1 904 634 1200
F: 1 904 791 8953