

Jacksonville Office, Q1 2020

# Office space continues to see market-wide demand

▲ Total Vacancy  
16.1%

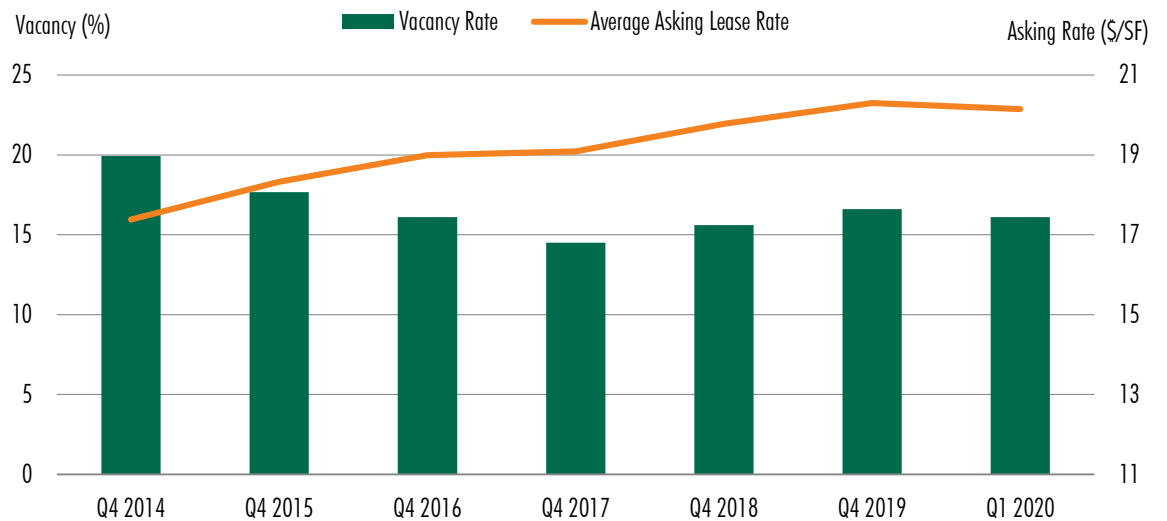
▲ Lease Rate  
\$20.15 PSF

▲ Net Absorption  
139,000 SF

▼ Under Construction  
0 SF

\*Arrows indicate change from previous year.

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



Source: CBRE Research, Q1 2020.

- Q1 2020 demand for office space remained strong, experiencing 138,600 sq. ft. of positive net absorption.
- Announcement of a speculative 60,000 sq. ft. Class A office building was made this quarter. Delivery set for Q4 2020.
- Investment sales transactions totaled \$235.6 million, in consideration, for Q1 2020.
- The unique nature of this COVID-19 induced downturn should result in an unusually swift recovery that could begin as early as Q3 2020.

## DEMAND

The demand for office space in Jacksonville remained strong in Q1 2020, with positive net absorption totaling 138,600 sq. ft. In addition to this metric, office space experienced 296,700 sq. ft. of leasing velocity, nearly 70 transactions. In recent years, the I-95/East Beltway submarket has experienced the highest volume of leasing activity and this trend continued, with the submarket accounting for 150,400 sq. ft. of leasing activity. Small to mid-sized transactions were the most active in Q1 2020, with an average size of 4,400 sq. ft.

Figure 2: Market Statistics

Submarket	Total Inventory (SF)	Direct Vacancy (%)	Total Vacancy (%)	Q1 2020 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/FSG/G/MG)
CBD	7,464,197	14.1	14.2	27,522	27,522	0	21.61
Northbank	5,302,157	16.9	17.0	19,165	19,165	0	21.36
Southbank	2,162,040	7.2	7.2	8,357	8,357	0	22.68
Arlington	984,122	39.8	39.8	(8,340)	(8,340)	0	13.61
Beaches	793,775	3.4	3.6	(2,165)	(2,165)	0	26.59
Clay County	559,741	8.7	8.7	0	0	0	14.61
East Butler	286,112	16.3	16.3	0	0	0	24.00
I-95/East Beltway	12,087,215	13.0	16.8	86,912	86,912	0	21.18
Baymeadows	3,764,397	14.7	21.6	(71,311)	(71,311)	0	19.49
Deerwood Park	3,978,288	8.8	10.7	21,571	21,571	0	23.58
South 95 Corridor	1,150,193	9.2	9.2	59,659	59,659	0	24.59
Southpoint	3,194,337	17.6	21.5	77,440	77,440	0	20.90
Mandarin	544,543	4.2	4.2	0	0	0	19.29
Northside	95,600	0.0	0.0	0	0	0	N/A
St. Johns County	573,062	16.0	16.7	3,895	3,895	0	21.10
Southside	1,695,694	20.3	20.3	29,392	29,392	0	14.95
Westside	367,096	5.8	5.8	1,389	1,389	0	20.07
<b>Suburban Total</b>	<b>17,986,960</b>	<b>14.3</b>	<b>16.9</b>	<b>111,083</b>	<b>111,083</b>	<b>0</b>	<b>19.38</b>
<b>Jacksonville Market</b>	<b>25,451,157</b>	<b>14.2</b>	<b>16.1</b>	<b>139,052</b>	<b>139,052</b>	<b>0</b>	<b>20.15</b>
Class A	11,995,873	13.7	14.9	194,773	194,773	0	22.63
Class B	10,364,426	11.3	14.5	(31,966)	(31,966)	0	19.55
Class C	3,090,858	26.0	26.0	(24,202)	(24,202)	0	14.54

Source: CBRE Research, Q1 2020.

Figure 3: Significant Q1 2020 Lease Transactions

Submarket	Property	Tenant	Transaction (SF)
I-95/East Beltway	12854 Kenan Drive	HTS Logistics	20,000
CBD	1 Independent Drive	Gunster	19,103
I-95/East Beltway	8800 W Baymeadows Way	Autoquotes LLC	14,997
I-95/East Beltway	7751 Belfort Parkway	Undisclosed	14,337

Source: CBRE Research, Q1 2020.

Figure 4: Significant Q1 2020 Sale Transactions

Submarket	Property	Buyer	Seller	Building (SF)	Sale Price (\$)
I-95/East Beltway	Town Center One & Two	TPG Real Estate	VanTrust Real Estate	378,700	107,125,000
CBD	841 Prudential Drive	ShareMD	GEM Realty Capital, Inc.	515,000	67,000,000

Source: CBRE Research, Q1 2020.

Figure 5: Significant Project Announcements (SF)

Submarket	Property	Owner	Developer	Building (SF)
CBD	FIS Headquarters	FIS	Hines	300,000
CBD	JEA Headquarters	JEA	Ryan Companies	200,000

Source: CBRE Research, Q1 2020.

The quarter closed with a vacancy rate of 16.1%, representing a slight year-over-year increase from Q1 2019 (15.7% vacancy rate). This was a result of previous deliveries and several large sublet spaces coming to market. The direct average asking lease rate continued its steady upward trajectory closing this quarter at \$20.15 per sq. ft., representing a year-over-year increase of 0.9%. The growth was primarily seen in the Class B and Class C properties, which experienced a year-over-year increase of 0.7% and 7.7%, respectively. Class A rents remained virtually flat over that period. This should be viewed as a positive sign for investors seeking higher returns on value-add opportunities in the Jacksonville office market.

**DEVELOPMENT**

During Q1 2020 there has been minimal construction activity apart from International Management Company’s announcement of their new speculative Class A office building, which should bring roughly 60,000 sq. ft. of much needed new product to the Jacksonville market. Plans to deliver this building to market are set for Q4 of this year.

Previous projects that are already under consideration include Jacksonville’s municipally owned utility company, JEA Headquarters. The utility company made the announcement last year they would be constructing their new nine story, 200,000 sq. ft. office headquarters, which is set to break ground next quarter. Following suit, Fidelity National Information Services (FIS) announced plans of their 12-story, 300,000 sq. ft. world headquarters, which is still on track for completion in June of 2022. Due to the lack of quality large blocks of space, we may see

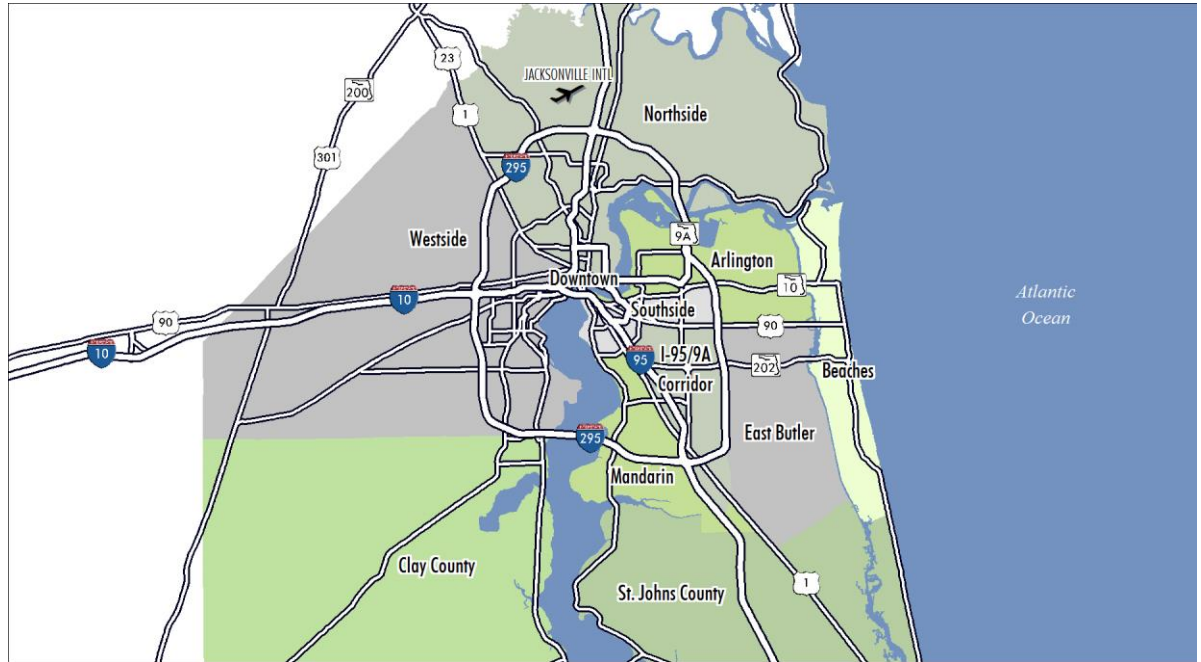
office-users opt for build-to-suit projects as an alternative in the future.

**INVESTMENT SALES ACTIVITY**

The sale of investment-grade properties in Q1 2020 experienced substantial activity, totaling approximately \$235.6 million across roughly 1.2 million sq. ft. In comparison, the sale of investment-grade office space in Q1 2019 totaled approximately \$29.5 million across roughly 373,198 sq. ft. The most notable transaction was the portfolio sale of Town Center One and Two, which traded at \$107.1 million, or \$283 per sq. ft. These two Class A buildings were purchased by institutional buyer, TPG Real Estate.

**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.



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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