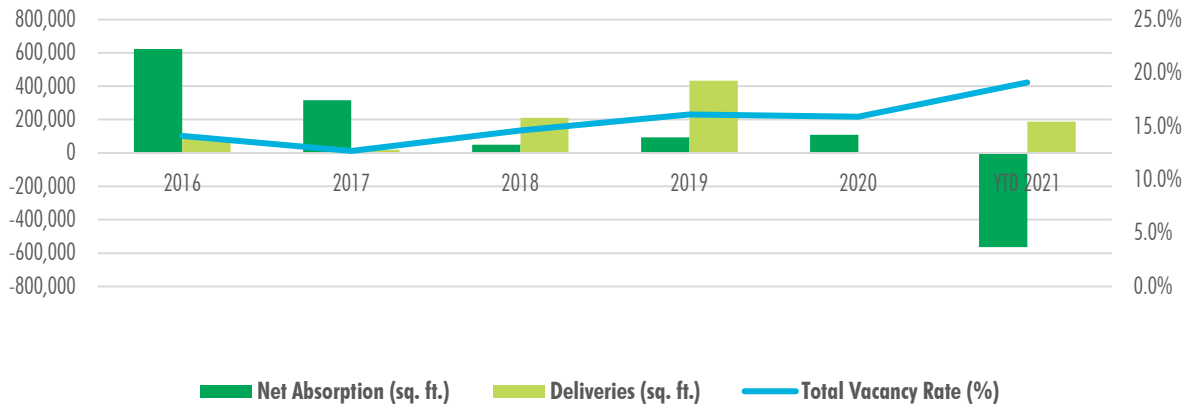


Jacksonville Office

Rising vacancy driven by a few large move-outs

▲ Inventory 23,137,059
▲ New Deliveries 125,000
▲ Under Const. 176,342
▲ Total Vacancy 19.2%
▼ Net Absorption (231,879)
▲ Lease Rate \$21.67

Historical Absorption, Deliveries and Vacancy



- Total vacancy sits at 19.2%, driven by Comcast, Guidewell and Truist vacating space in Q2 2021.
- The sale of investment-grade properties during the first half of 2021 totaled approximately \$108.9 million across 976,000 sq. ft compared to \$335.2 million across 1.8 million sq. ft. during the same period in 2020.
- According to the Bureau of Labor Statistics, the unemployment rate in May was 4.2%, a 680 bps decrease year-over-year for Jacksonville. The rate is down from 11.5% in April 2020.

OVERVIEW

The office recovery continued to lag other property sectors during the second quarter as a few large move-outs pushed market vacancy higher. This continues to be a result of larger than normal swings in occupancy as firms still work to finalize their occupancy decisions, often opting for shorter term leases for increased flexibility. However, some large tenants have announced a full return to the office by September, which could help prop up the office market. This pairs with other positive news such as the Dunn & Bradstreet HQ relocation to Town Center Two which could spur other fintech companies to relocate to the area.

DEMAND

Office space absorption in Jacksonville totaled a negative 231,879 sq. ft. during second quarter 2021. Only 106,777 sf of the negative absorption was direct with the difference being sublease space. Year-to-date negative absorption totaled 564,484 sq. ft. However, only 241,437 sq. ft. year-to-date, or 42.8% of the total was negative direct absorption, with the difference being sublease space. Large tenants over 20,000 sq. ft. such as Comcast, Guidewell and Truist vacated or downsized their direct and sublease space. Demand should increase during the remainder of 2021 with over 580,000 sq. ft. of tenants in the market looking for space. Leasing activity during second quarter totaled 51 leases totaling 253,558 sq. ft. with renewals accounting for 19.0%. The average lease size for new leases was 4,779 sq. ft during the second quarter.

The quarter closed with a vacancy rate of 19.2%, representing a 330 bps increase compared to one year ago. Sublease space on the market increased 82.4% over the past year. Currently, 997,625 sq. ft. of sublease is available with 834,088 sq. ft. vacant. As tenants make space needs decisions, fluctuations in vacancy and absorption are expected during 2021.

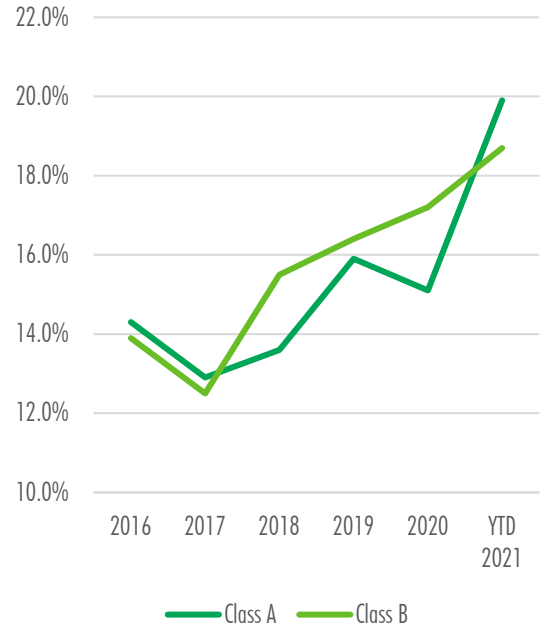
PRICING

The direct average asking lease rate rose, closing this quarter at \$21.67 per sq. ft., representing a year-over-year increase of 3.5%. Rental rate growth was primarily in Class B office space, which experienced a year-over-year increase of 4.9%, while Class A rents increased 2.0% over the same period.

OUTLOOK

2021 will exhibit the highest economic growth since the early 1980s, with GDP growth hitting 7% as the pandemic fades and society

Vacancy Rate



Asking Rates (\$/sq. Ft. FSG)



and commerce normalize. The key impediment to greater growth is not sluggish demand but a shortage of key inputs, such as labor, microchips and raw materials.

Wage and price escalations have driven inflationary fears. In May, core CPI grew at its fastest annual pace since the early 1990s, at 5%.

Q2 2021 Statistical Snapshot

Many of the drivers behind the May figure are transitory, such as a shortage of autos (both for-sale and rentals) and base effects from the drop in prices last year. The upshot is that inflation will fall from current levels but will remain above the Fed's traditional 2% target through 2022. The Fed is likely to retain its 'dovish' stance but could begin to curtail its asset purchase program earlier than expected.

Submarket	Total Inventory (SF)	Direct Vacancy (%)	Total Vacancy (%)	Q2 2021 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Avg. Asking Lease Rate (\$/SF/FSG/G/MG)
CBD	6,976,283	17.3	19.7	7,970	(324,760)	153,000	22.41
Northbank	4,814,243	19.3	21.0	13,784	(116,584)	153,000	22.43
Southbank	2,162,040	12.9	16.8	(5,814)	(208,176)	0	22.28
Arlington	438,028	14.8	16.4	0	0	0	16.25
Beaches	812,103	5.5	5.5	3,292	580	0	29.64
Clay County	475,747	4.9	4.9	1,312	4,374	0	22.73
East Butler	236,876	15.3	15.3	2,171	2,171	0	24.99
I-95 Corridor	11,415,243	15.4	20.7	(225,775)	(163,574)	0	21.10
Baymeadows	3,571,417	20.2	28.9	(92,397)	(10,160)	0	19.65
Deerwood Park	3,978,288	11.8	14.8	(139,292)	(118,463)	0	22.99
South 95 Corridor	695,610	12.0	14.2	(14,390)	(24,453)	0	23.40
Southpoint	3,169,928	15.2	20.5	20,304	(10,498)	0	21.35
Mandarin	394,254	5.8	5.8	(77)	(2,577)	0	18.80
Northside	46,160	14.1	14.1	0	0	0	15.76
South Duval/St. Johns	1,631,638	25.0	28.0	(19,380)	(80,765)	0	23.41
Southside	576,251	6.1	6.1	(1,392)	97	0	19.16
Westside	134,476	1.7	1.7	0	0	23,342	19.50
Suburban Total	16,160,776	14.9	19.0	(239,849)	(239,724)	23,342	21.32
Jacksonville Total	23,137,059	15.6	19.2	(231,879)	(564,484)	176,342	21.67

Q2 2021 Notable Leases

Submarket	Property	Tenant	Transaction (SF)
I-95 Corridor	4600 E Touchton Rd	TD Bank	29,308
CBD	301 W Bay St	Valor Intelligent Processing	29,126
CBD	841 Prudential	Baptist Healthcare	20,806



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Market Coverage: Includes all competitive Class A and B office buildings 10,000 sq. ft. and greater in size in Clay, Duval and St. Johns Counties. Excludes: single occupancy, government and medical buildings.

Note: Tracked inventory was audited to reflect prevailing perception of the market. Class C product was removed from the tracked set, and Class changes were implemented where necessary to better capture current status. All changes are reflected historically in the data and analysis but cannot be compared to previously released Research reports.

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