FIGURES | JACKSONVILLE OFFICE | Q2 2023

Office market resiliency continues as tenant demand starts to rebound

▶ 21.5%
Vacancy Rate

▲ (57,125)
SF Net Absorption

▼ 14,000
SF Under Construction

▶ 0
SF Deliveries

▲ $22.75
Full-Service / Lease Rate

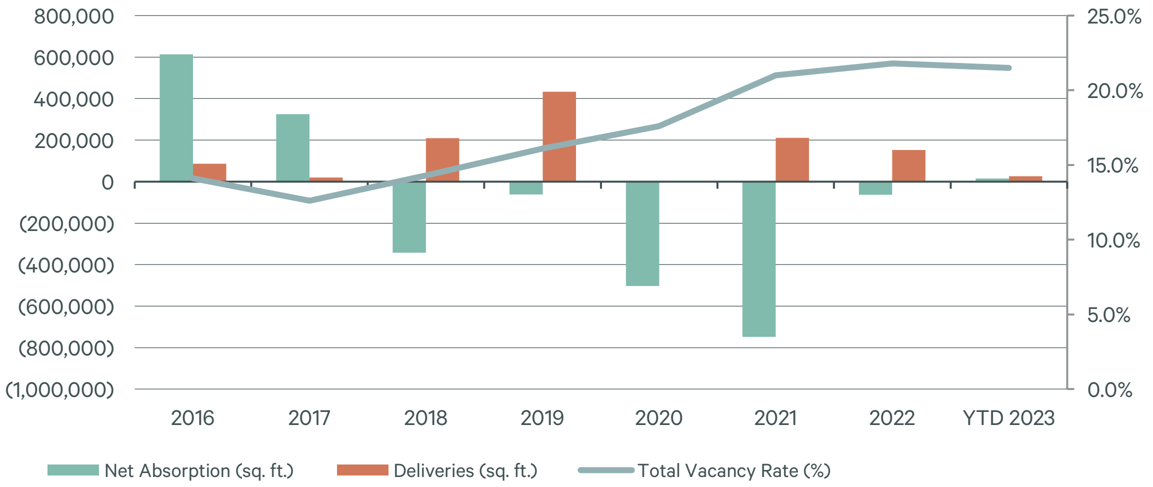
Note: Arrows indicate change from previous year.

OVERVIEW

- Total vacancy sits at 21.5%. Occupancies by Geico Insurance, Magellan Transport and Lincoln Memorial University dropped vacancy 30 basis points compared to year-end 2022.
- According to Real Capital Analytics, the sale of investment-grade properties during the first half of 2023 totaled approximately $47.2 million across 463,834 sq. ft ($101.67 per sq. ft.) compared to $80.6 million across 809,104 sq. ft. ($99.64 per sq. ft.) during the same period in 2022.
- According to the Bureau of Labor Statistics, the unemployment rate in May was 2.7%, the same rate as the year ago period for Jacksonville. The rate is down from 10.8% in April 2020. The rate compares to Florida (2.6%) and the U.S. (3.7%).

Office space headwinds including inflation, recession fears and hybrid schedules/work from home have slowed office demand during the first half of 2023. Leasing activity is down while total vacancy has remained flat compared to a year ago. Space needs decisions by major office occupiers are expected to fluctuate over the next few years as companies decide how to implement occupancy changes. Proposed multi-family, hotel, retail and office developments around the CBD, if started, could provide optimism and renewed interest in the area.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

Over the first half of 2023, Jacksonville's office absorption was a positive 14,832 square feet. Geico Insurance, Magellan Transport Logistics, Office Evolution, Lincoln Memorial University, ADP, and Genpact were among the large tenants who took occupancy of their respective direct and sublease spaces. Allstate sold and vacated 119,377 sq. ft. but over 76,000 sq. ft. has already been pre-leased to Stellar Energy (34,622 sq. ft.) and Confidential (42,303 sq. ft.) with occupancies occurring in Q4 2023 and Q1 2024. 94 leases totaling 677,053 square feet were signed during the first half of 2023, with renewals accounting for 31.0 percent of the total. Class A leases accounted for 66.2% of total leasing activity. The average lease size for new leases and expansions during the first half of 2023 was 6,484 square feet. Demand should continue increasing during 2023 with over 710,000 sq. ft. of tenants in the market looking for space.

VACANCY

The quarter closed with a vacancy rate of 21.5%, remaining flat compared to the year ago period and a 30 basis point drop from Q4 2022. Sublease space on the market increased 26.8% over the past year. Currently, 865,602 sq. ft. of sublease space is available with 562,980 sq. ft. vacant. As tenants make space needs decisions, fluctuations in vacancy and absorption are expected during 2023. Now is the time for small to mid-sized companies to upgrade their office space needs.

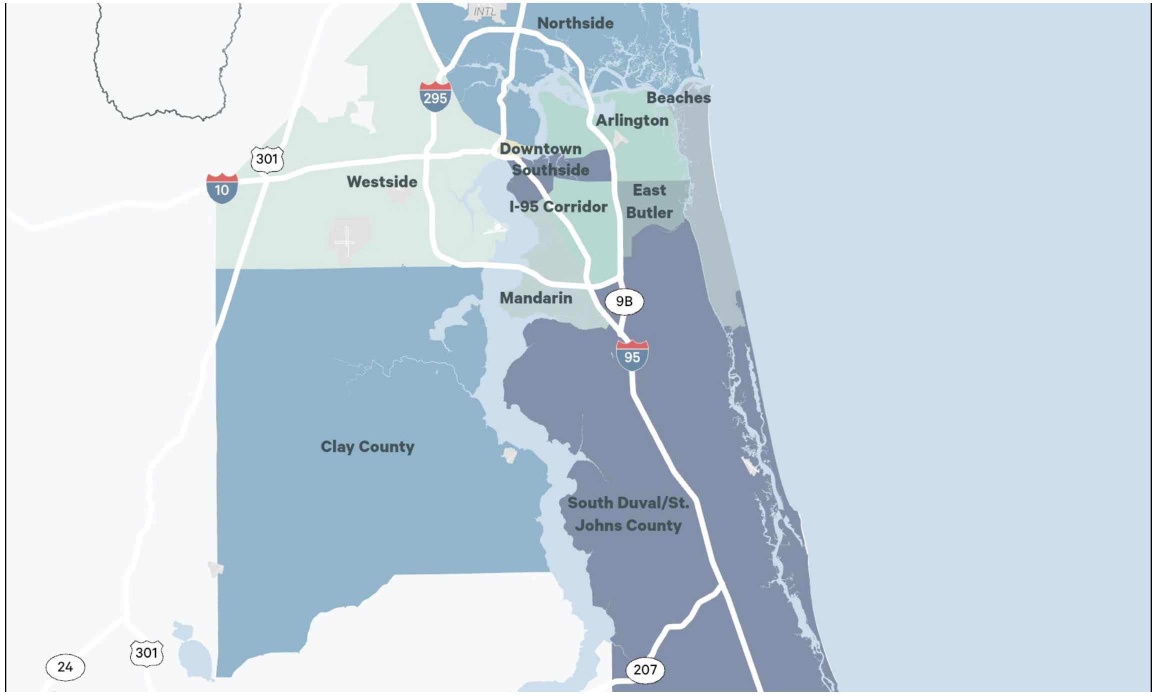
PRICING

The direct average asking lease rate rose, closing second quarter 2023 at $22.75 per sq. ft., a year-over-year increase of 1.8%. Rental rates in class A office space rose to $24.39 per sq. ft. while class B rents increased to $20.88 per sq. ft.

FIGURE 2: Statistical Snapshot Q2 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q2 2023 Net Absorption (Sq. Ft.)	2023 Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/SF/FSG/G/MG)
CBD	7,948,546	24.1	25.8	14,610	50,356	0	23.17
Northbank	5,738,582	24.4	25.6	14,986	38,323	0	22.86
Southbank	2,209,964	23.4	26.5	(376)	12,033	0	24.02
Arlington	438,028	19.1	19.1	0	0	0	17.04
Beaches	837,867	3.3	3.3	(5,880)	26,094	14,000	30.32
Clay County	475,747	4.9	4.9	80,000	130,000	0	21.00
East Butler	546,425	29.3	29.3	(119,377)	(121,037)	0	31.77
I-95 Corridor	13,050,659	18.6	21.8	(46,802)	(72,004)	0	22.37
Baymeadows	3,772,617	23.4	30.9	(1,241)	4,302	0	20.70
Deerwood Park	4,560,650	21.7	23.2	(90,826)	(56,939)	0	24.20
South 95 Corridor	1,489,639	4.9	6.4	(328)	(328)	0	24.52
Southpoint	3,227,753	15.1	16.3	45,593	(19,039)	0	21.24
Mandarin	439,373	9.3	9.3	0	0	0	18.84
Northside	46,160	14.1	14.1	0	0	0	15.76
South Duval/St. Johns	1,681,648	18.5	19.6	23,424	21,645	0	25.40
Southside	661,039	6.5	6.5	0	(26,639)	0	18.75
Westside	202,818	21.3	21.3	(3,100)	6,417	0	22.47
Suburban Total	18,349,764	17.3	19.6	(71,735)	(35,524)	14,000	22.49
Jacksonville Total	26,298,310	19.3	21.5	(57,125)	14,832	14,000	22.75

Market Area Overview



ECONOMIC OUTLOOK

For the last six months the consensus amongst economists has been that H2 would bring the United States to the brink of recession and possibly push it over the edge. Recently, this narrative has been challenged by a surprisingly resilient consumer and labor market. Indeed, GDP growth in Q2 2023 is poised to hit the mid-2% range (p.a.). Beneath this veneer of health lies a fragile economy, which will probably lapse into recession, albeit a little later than previously expected.

The chief concern is credit conditions tightening at a magnitude that typically precedes a recession. The consequences are already manifest in the housing market, and particularly across the Western U.S. where valuations are most disconnected from local incomes. Other rate sensitive sectors, such as manufacturing, are also under pressure—both domestic and abroad—exemplified by cooling capital goods orders and PMI data. And while the labor market is objectively tight, it is softer than one year ago when we saw higher quit rates and stronger wage growth. Tighter credit conditions are also likely to catch up with Americas small and medium sized industries (restaurants, cafes) in the service sector in the next two quarters.

Perhaps the key question is: Will the inflation slow fast enough to avert further rate hikes? CBRE's baseline view is that there is no need for further rate hikes because inflation is coming under control, but because of strong recent data the Fed will make one more rate hike, just to make sure the job is done. This will slightly exacerbate the coming slowdown and lead the Fed to begin cutting rates at the end of the year. The long expected slowdown in the U.S. economy is still on track, but will start in earnest at the end of Q3 and last through to the end of Q1 2024 by which time, inflation will have slowed up, and rates will be falling.

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

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