Despite lack of big box leases during Q1 2024, industrial fundamentals remain strong

▼ 4.3%
Vacancy Rate

▲ 1,343,216
SF Net Absorption

▼ 5,620,751
SF Under Construction

▲ 1,180,490
SF Deliveries

▲ $7.94
Triple Net / Lease Rate

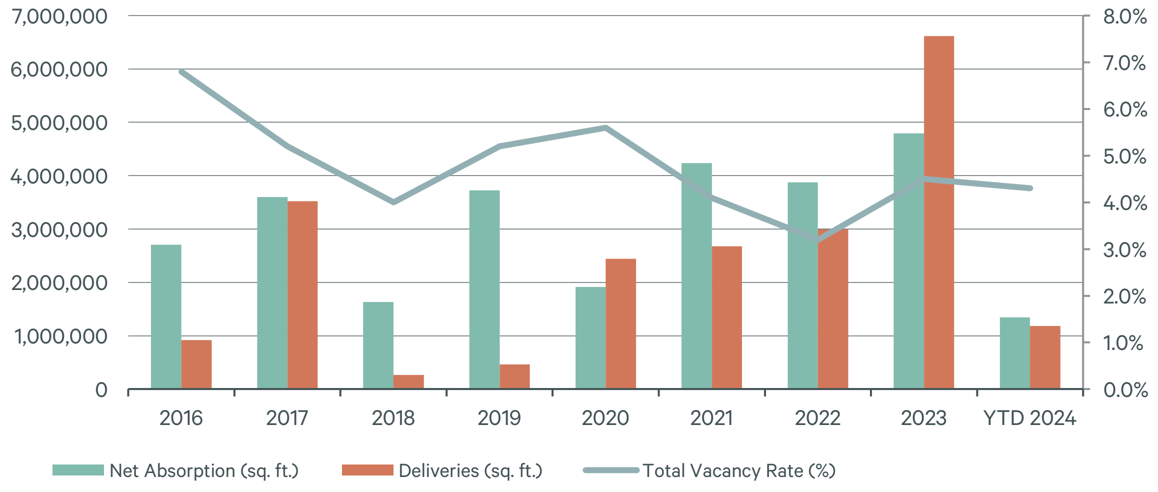
Note: Arrows indicate change from previous year.

OVERVIEW

- Total vacancy sits at 4.3%. Occupancies by Stellar Energy, HD Supply, Terminal Warehouse, Publix, and GXO Logistics Supply dropped vacancy 20 bps compared to Q4 2023.
- According to RCA the sale of investment-grade properties during Q1 2024 totaled approximately $32.1 million across 253,480 sq. ft ($126.64 per sq. ft.) compared to $101.7 million across 990,641 sq. ft. ($102.69 per sq. ft.) during the same period in 2023.
- According to the Bureau of Labor Statistics, the unemployment rate in February was 3.3%, an 80 basis point increase compared to a year ago for Jacksonville. The rate is down from 10.8% in April 2020. The rate compares to Florida (3.1%) and the U.S. (3.9%).

Tenant demand continued to be active during Q1 2024 but at a slower pace compared to 2023. Tenants are taking longer as they evaluate their needs, the economy and future interest rate reductions. Approximately 4.8 million sq. ft. of speculative projects are under construction as developers have been aggressive in attempting to keep pace with tenant demand. The industrial vacancy rate dropped 10 basis points over the past 12 months to 4.3% despite 1.2 million sq. ft. of completions during first quarter 2024, while allowing out of market tenants options to lease immediately rather than looking at build-to-suit options.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

Jacksonville recorded approximately 1.3 million sq. ft. of positive net absorption during first quarter 2024.. Major occupiers of space included Stellar Energy (510,433 sq. ft.), HD Supply (419,280 sq. ft.), Terminal Warehouse Company (245,000 sq. ft.), Publix (168,480 sq. ft.), and GXO Logistics Supply Chain (168,000 sq. ft.). Leasing activity during first quarter 2024 dropped 27.6% over the same period a year ago, totaling 1.5 million sq. ft. The average lease size was 30,859 per sq. ft compared to the average size of 44,514 sq. ft. during first quarter 2023. Several large tenants over 300,000 sq. ft. continue looking at the recently completed buildings and buildings under construction. Tenant demand is expected to remain strong this year.

VACANCY

Despite approximately 7.8 million sq. ft. of construction completions in 29 buildings since the beginning of 2023 and 2.1 million sq. ft. of vacant space, the vacancy rate for Q1 2024 dropped 10 basis points year-over-year to 4.3%. The vacancy rate for available space is only 4.1%. 0.2 percentage points of the vacant space in Jacksonville has been leased but will not be occupied until future quarters. Due to new construction, 24 existing buildings and 13 buildings under development can accommodate a user greater than 100,000 sq. ft. In addition, 16 built options exist for users looking for 100,000 sq. ft. or greater in buildings with 28' or greater clear heights. Only four buildings can accommodate a 300,000 sq. ft. user.

PRICING

High interest rates continue to impact rising asking rents. The direct weighted average asking lease rate was $7.94 per sq. ft, an increase of 6.6% compared to one year ago. Regarding property sub-type, R&D/Flex recorded $11.05 per sq. ft. while Warehouse/Distribution and Manufacturing assets rose to $7.53 and $4.87 per sq. ft., respectively.

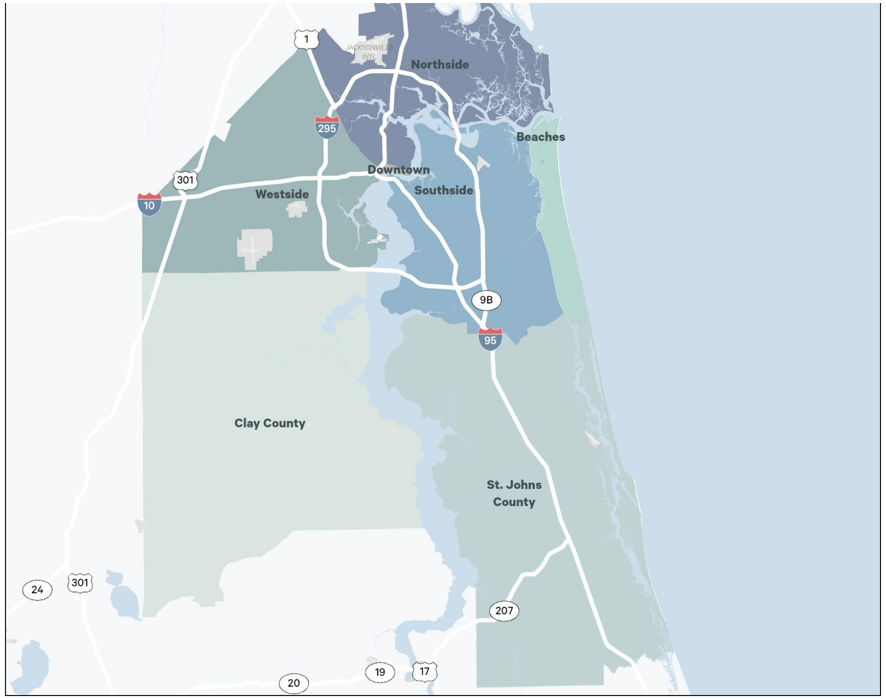
FIGURE 2: Statistical Snapshot Q1 2024

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q1 2024 Net Absorption (Sq. Ft.)	2024 Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/SF/NNN)
Downtown	1,029,331	2.6	2.6	0	0	0	N/A
Beaches	188,007	0.7	0.7	0	0	0	14.00
Northside	44,584,939	3.1	3.1	262,375	262,375	2,519,637	8.33
Southside	22,376,863	4.1	4.9	38,869	38,869	235,920	8.84
Westside	51,670,122	4.6	4.8	895,272	895,272	1,800,820	7.19
Clay County	2,919,873	0.9	5.0	(18,000)	(18,000)	0	13.85
St. Johns County	2,190,295	10.1	13.4	164,700	164,700	1,064,374	9.66
Jacksonville Total	124,959,420	4.0	4.3	1,343,216	1,343,216	5,620,751	7.94
Manufacturing	19,002,251	0.8	0.8	296,500	296,500	0	4.87
Warehouse/Distribution	96,919,403	4.4	4.7	1,054,883	1,054,883	5,543,831	7.53
R&D/Flex	9,037,766	6.2	7.5	(8,167)	(8,167)	76,920	11.05

FIGURE 3: Notable Leases Q1 2024

Submarket	Property	Tenant	Transaction (SF)
Westside	6590 Pritchard Rd	W. W. Grainger	297,000
Westside	4259 Perimeter Industrial Pkwy	GXO Logistics Supply Chain	168,000
Northside	9765 N Main St	Arcadia Cold	116,404
Westside	7489 Commonwealth Ave	Daiken	108,122

Market Area Overview



ECONOMIC OUTLOOK

Continued economic growth paired with the Fed signaling more accommodative policy all suggests the U.S. economy is heading toward a ‘soft landing’. GDP growth should be less than half 2023’s pace when growth topped 3%. Reasons for the slowdown include a more prudent consumer and much weaker hiring. This latter issue is most acute within interest rate sensitive sectors, such as tech start-ups and goods manufacturing. Notable exceptions include investment in EV and microchip production capacity.

More caution from businesses means a good chunk of recent hiring came from publicly funded sectors (e.g., education, healthcare, state & local governments). A key exception is leisure & hospitality, driven by continued demand for discretionary services. With many private firms on the sidelines the job openings rate declining to 5.5% from its peak of 7.8% in 2022. This has also meant the pace of wage growth has cooled, but not enough to see inflation fall quickly to 2%. With unemployment remaining below 4% and high-capacity utilization, CPI is unlikely to return to target until 2025.

The Fed will likely make three, 25 basis point cuts this year. This outlook is putting downward pressure on longer-term rate expectations, providing some optimism for real estate capital markets, but the recovery will only begin after the first cut is actually delivered. Better than expected growth over the last 18 months has been helpful in holding real estate vacancy down, notably in the industrial, retail and multifamily sectors.

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

Contacts

Tommie Reilly
Managing Director
+1 904 630 6352
tommie.reilly@cbre.com

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

Kyle Koller
Research Manager
+1 813 273 8422
kyle.koller@cbre.com

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