Myriad of developments under construction expected to draw interest in Downtown

▲ 23.7%
Vacancy Rate

▲ (48,359)
SF Net Absorption

▲ 116,424
SF Under Construction

▲ 24,808
SF Deliveries

▲ $22.79
Full-Service / Lease Rate

Note: Arrows indicate change from previous year.

OVERVIEW

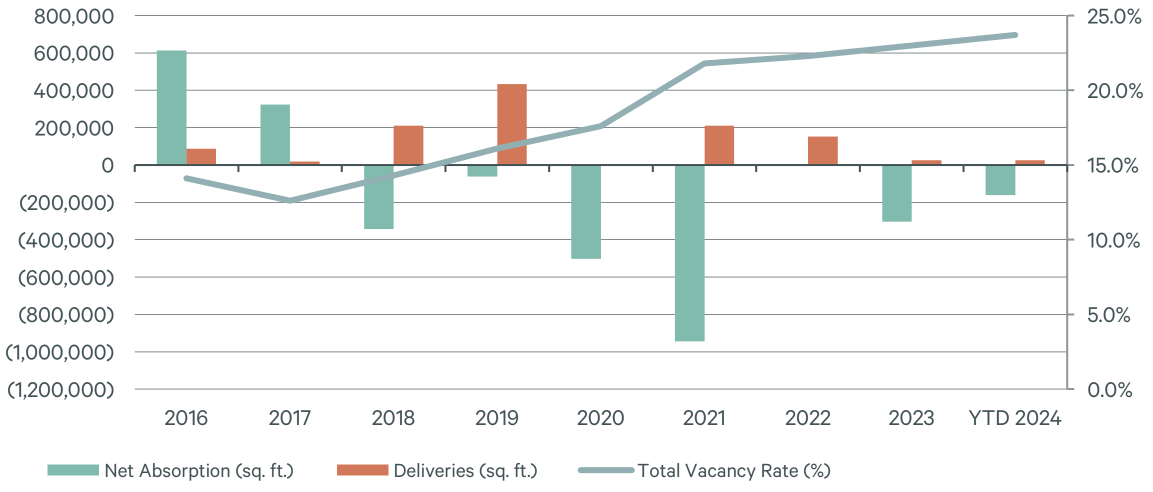
– Total vacancy sits at 23.7%. Office vacancy rose 20 basis points quarter over quarter but is up 190 basis points compared to a year ago.

– According to Real Capital Analytics, the sale of investment-grade properties during the first half of 2024 totaled approximately $44.8 million across 382,002 sq. ft ($117.25 per sq. ft.) compared to $87.8 million across 760,588 sq. ft. ($115.39 per sq. ft.) during the same period in 2023.

– According to the Bureau of Labor Statistics, the unemployment rate in May was 3.0%, a 20 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 (3.3%) and the U.S. (4.0%).

The Jacksonville office market continues to experience flight to quality. Class A product significantly outperforms class B product in absorption, vacancy and rent growth. Interest rate concerns, construction costs and hybrid schedules have companies taking longer to make decisions on their space needs. Leasing activity has improved while capital markets velocity remains down. Total vacancy is still elevated, consistently above 21% over the past year. However, excitement is building with the myriad of projects starting in Downtown.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

During second quarter 2024, Jacksonville's office space absorption was a negative 48,359 square feet. HD Supply (54,827 sq. ft.), Hueman People Solutions (42,303 sq. ft.), APCO Holdings (20,713 sq. ft.) and Brown and Brown Insurance (13,378 sq. ft.) were among the large tenants who occupied space. Leasing activity increased during the first half of 2024 by 6.6% compared to the year ago period totaling 840,110 square feet, with renewals accounting for 48.4 percent.

New developments under construction downtown are expected to draw investor and tenant interest to the area. Toll Brothers broke ground on 40 townhomes located at RiversEdge Park on the Southbank beginning the first phase for the planned development. In the Northbank, Riverfront Plaza broke ground on it's first phase, a family friendly park. Jaguars Shipyards Offices broke ground on a 6-story 112,094 sq. ft. office building. The Four Seasons Hotels and Resorts broke ground and is expected to open in 2026. The Emerald Trail, a 30-mile network of bicycle and pedestrian trails that will connect Downtown to 14 historic neighborhoods and nearly 30 parks with phase 1 complete and the rest under construction or in planning.

VACANCY

The quarter closed with a vacancy rate of 23.7%, rising 20 basis points from Q1 2024 and rising 190 basis points year over year. Sublease space increased 3.1% over the past year. Currently, 892,116 sq. ft. of sublease space is available with 654,809 sq. ft. vacant.

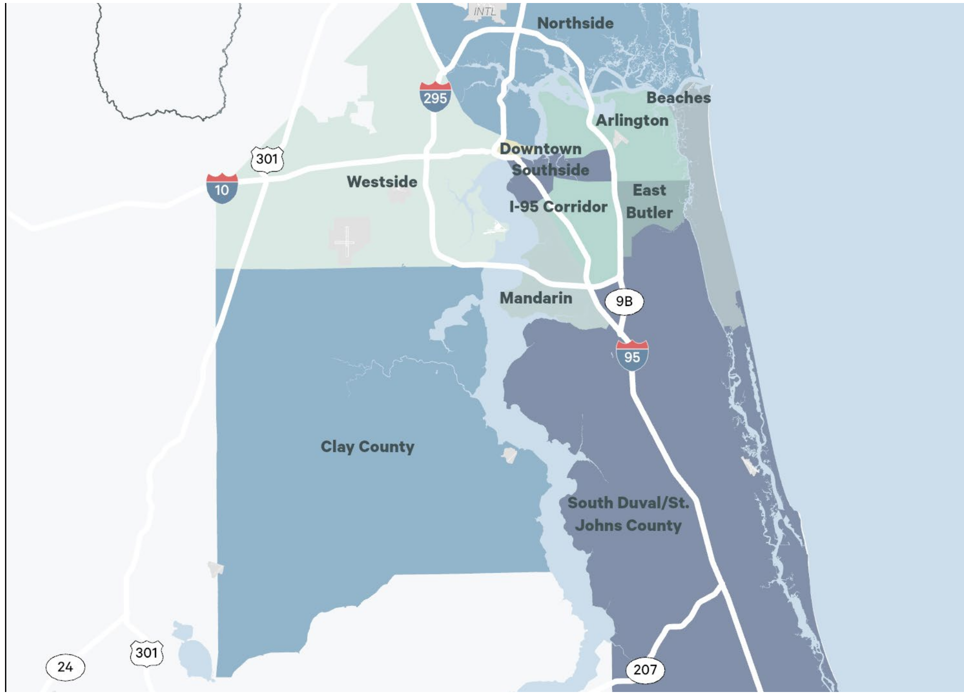
PRICING

The direct average asking lease rate rose, closing second quarter at $22.79 per sq. ft., a year-over-year increase of 0.3%. Rental rates in class A office space rose to $25.06 per sq. ft. while class B rents increased to $21.41 per sq. ft.

FIGURE 2: Statistical Snapshot Q2 2024

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q2 2024 Net Absorption (Sq. Ft.)	2024 Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate ($/SF/FSG/G/MG)
CBD	7,948,546	26.2	28.0	(39,603)	5,555	102,424	23.44
Northbank	5,738,582	26.9	28.0	3,003	38,585	102,424	23.45
Southbank	2,209,964	24.3	28.0	(42,606)	(33,030)	0	23.41
Arlington	438,028	27.2	27.2	0	(19,864)	0	17.43
Beaches	837,867	4.4	4.4	(2,326)	(8,638)	14,000	32.48
Clay County	475,747	6.3	7.6	(6,815)	(13,155)	0	21.00
East Butler	516,425	13.5	13.5	53,194	73,065	0	32.91
I-95 Corridor	13,241,540	20.4	24.2	(66,995)	(130,270)	0	22.28
Baymeadows	3,772,617	26.9	33.3	(8,288)	(38,893)	0	20.91
Deerwood Park	4,751,531	21.1	24.2	(78,953)	(136,735)	0	24.09
South 95 Corridor	1,489,639	2.6	5.2	51,995	70,363	0	24.40
Southpoint	3,227,753	19.9	22.3	(31,749)	(25,005)	0	21.54
Mandarin	439,373	8.1	8.1	0	(5,096)	0	18.84
Northside	46,160	14.1	14.1	0	0	0	15.76
South Duval/St. Johns	1,706,056	20.6	20.9	39,186	17,128	0	23.69
Southside	661,039	26.1	26.1	(25,000)	(88,251)	0	17.00
Westside	202,818	17.4	17.4	0	9,176	0	21.07
Suburban Total	18,565,053	19.2	21.9	(8,756)	(165,905)	14,000	22.36
Jacksonville Total	26,513,599	21.3	23.7	(48,359)	(160,350)	116,424	22.79

Market Area Overview



ECONOMIC OUTLOOK

Following a year of expectation-busting growth, which has given us interest rates higher for much longer, it seems we will get a “soft landing” in 2024. Last year’s expansion was almost certainly driven by fiscal stimulus that far exceeded other western countries. Today, stimulus effects are fading, and higher interest rates continue to bite. There is evidence of this on the consumer front, wherein delinquency rates are trending upward, and credit growth is quickly slowing. The latter signals that consumption—a key driver of GDP growth in recent quarters—is poised to slow further. This partly explains why we believe growth will settle at the mid-1% range this year.

A more severe contraction in consumption would require the labor market to contract. Presently, conditions are merely softening. Both job openings and hours worked are falling. Also, most of the job growth is clustered in sectors that are immune to higher interest rates and receive at least some public funding, such as education, healthcare and government jobs. Leisure & hospitality has been a growth sector, but these cooling trends are evident here too.

A soft landing in consumption and hiring point to further disinflation. Labor-intensive service costs are poised to soften and falling rents across the Sun Belt suggest weaker housing inflation is on the horizon. Fed rate cuts are downstream of disinflation, and a most welcome outcome within the commercial real estate space where higher financing costs and devaluations are triggering distress. The prospect of a rate cut this fall will at least help ease rate volatility, put cap rates on a slight downward trajectory, and generate more common ground between buyers and sellers in coming quarters.

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.

Contact

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

Marc L. Miller
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