Population growth and transportation network have elevated Jacksonville industrial

▲ 5.8% Vacancy Rate

▼ 282,216 SF Net Absorption

▼ 5,398,823 SF Under Construction

▲ 1,828,657 SF Deliveries

▲ $6.96 Triple Net / Lease Rate

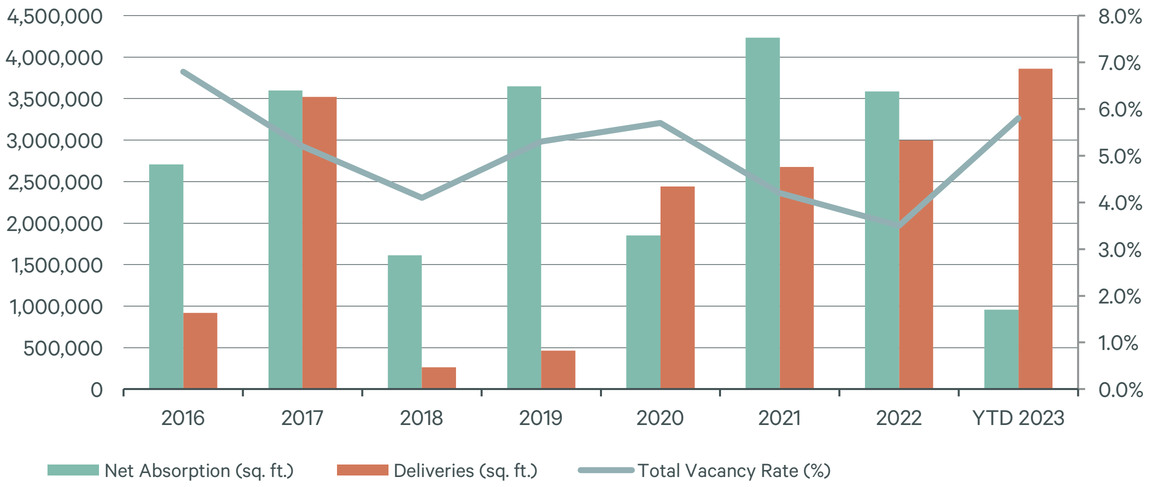
Note: Arrows indicate change from previous year.

OVERVIEW

- Total vacancy sits at 5.8%, driven by new construction completions and subsequent 1.6 million sq. ft. of vacant space added to the market during Q2 2023.
- According to RCA the sale of investment-grade properties during the first half of 2023 totaled approximately $184.6 million across 1.99 million sq. ft ($92.87 per sq. ft.) compared to $439.8 million across 4.7 million sq. ft. ($94.21 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%).

The Jacksonville industrial market ended the quarter with strong fundamentals. With strong demand, asking rent appreciation and robust population growth, developers and tenants have leveraged the strength of the local economy. Approximately 5.1 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 rose to 5.8% due to over 3.8 million sq. ft. of completions during the first half of 2023, 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 over 957,000 sq. ft. of positive net absorption during the first half of 2023. Over 3.8 million sq. ft. was completed during the first half of 2023 with over 1.7 million sq. ft. pre-leased. Major occupiers of space included Unis (174,000 sq. ft.), Metropolitan Warehouse and Delivery (60,000 sq. ft.) Levco Group (27,490 sq. ft.) and Buildex Partnership (27,000 sq. ft.). Leasing activity during the first half of 2023 increased 7.9% over the same period a year ago, totaling 4.3 million sq. ft. The average lease size was 58,695 per sq. ft. 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 throughout the year.

VACANCY

Due to over 3.8 million sq. ft. of construction completions and 2.1 million sq. ft. of space available, the vacancy rate for Q2 2023 rose 240 basis points year-over-year to 5.8%. Only 16 existing buildings and 10 buildings under development can accommodate a user greater than 100,000 sq. ft. In addition, only 11 built options exist for users looking for 100,000 sq. ft. or greater in buildings with 28' or greater clear heights. Vacancy is expected to continue rising as 4.1 million sq. ft. of additional speculative buildings are completed during 2023 with 3.5 million sq. ft. still available for lease.

PRICING

Construction costs have decreased from their highs but continue to impact rising asking rents. The direct weighted average asking lease rate was $6.96 per sq. ft, an increase of 10.1% 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 $6.46 and $5.44 per sq. ft., respectively.

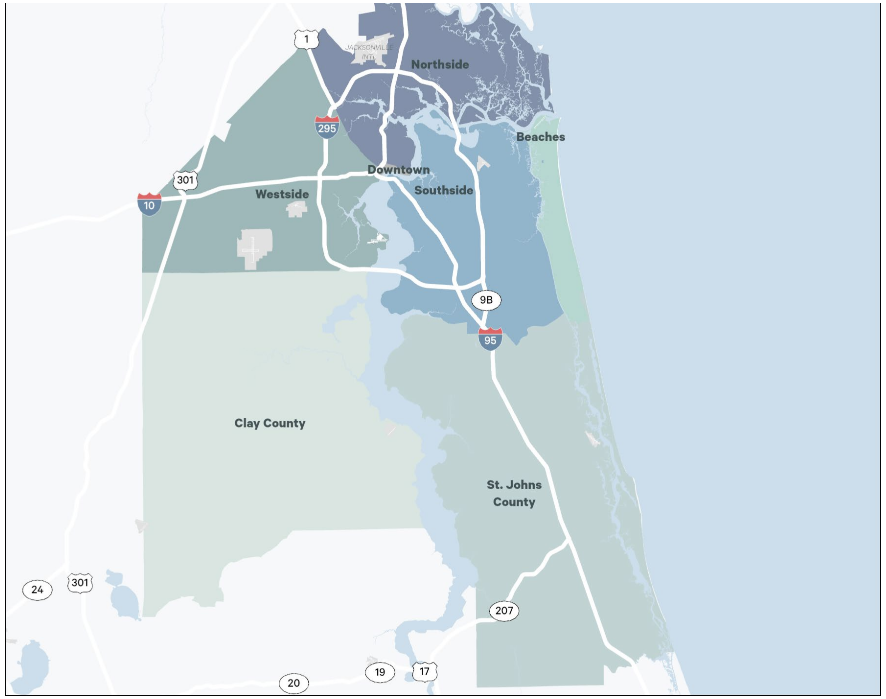
FIGURE 2: Statistical Snapshot Q2 2023

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/NNN)
Downtown	1,029,331	2.6	2.6	0	0	0	4.65
Beaches	188,007	3.6	3.6	0	0	0	16.00
Northside	41,934,903	3.1	3.8	221,298	210,669	3,492,193	5.91
Southside	22,230,990	3.8	4.4	(1,122)	(28,595)	183,000	8.72
Westside	50,199,840	7.5	7.7	62,040	920,180	1,723,630	6.05
Clay County	2,919,873	0.3	4.4	0	(120,000)	0	13.85
St. Johns County	2,117,464	16.3	17.4	0	(24,610)	0	9.50
Jacksonville Total	120,620,408	5.2	5.8	282,216	957,644	5,398,823	6.96
Manufacturing	18,944,969	1.1	1.1	(32,160)	(32,160)	0	5.44
Warehouse/Distribution	92,783,546	5.9	6.5	274,816	1,011,085	5,398,823	6.46
R&D/Flex	8,891,893	6.9	7.8	39,560	(21,281)	0	11.05

FIGURE 3: Notable Leases Q2 2023

Submarket	Property	Tenant	Transaction (SF)
Northside	10543 Canada Dr	Article.com	319,000
Westside	9909 Pritchard Rd	IPEX North America	300,240
Northside	9601 N Main St	Suddath Global Logistics	291,615
Westside	11007 Development Way	Frida Baby	270,716

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 industrial buildings 10,000 sq. ft. and greater in size in Clay, Duval and St Johns counties.

Contacts

Tripp Gulliford
Executive Managing Director
+1 904 630 6344
tripp.gulliford@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