

FIGURES | JACKSONVILLE OFFICE | Q1 2024

Office activity off to a typical slow Q1 start as firms await economic clarity

▲ 22.9%
Vacancy Rate

▼ (2,114)
SF Net Absorption

▲ 38,408
SF Under Construction

▼ 0
SF Deliveries

▲ \$22.67
Full-Service / Lease Rate

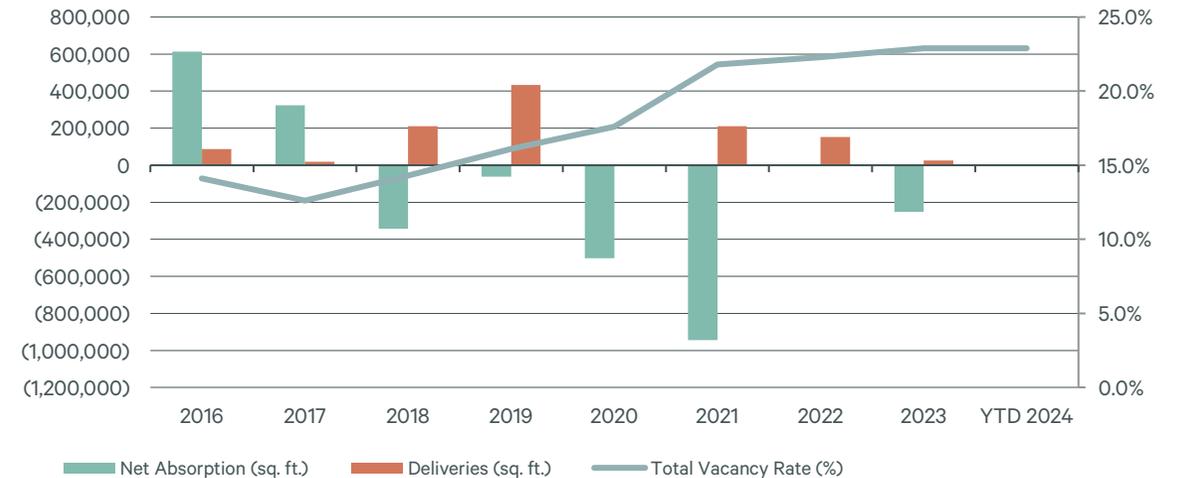
Note: Arrows indicate change from previous year.

OVERVIEW

- Total vacancy sits at 22.8%. Office vacancy remained the same compared to year-end 2023 but increased 110 basis points compared to first quarter 2023.
- According to Real Capital Analytics, the sale of investment-grade properties during first quarter 2024 totaled approximately \$5.6 million across 51,544 sq. ft. (\$108.42 per sq. ft.) compared to \$10.2 million across 70,977 sq. ft. (\$143.09 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%).

The Jacksonville office market experienced a slow start to 2024. Interest rate concerns, construction costs and hybrid schedules have companies taking longer to make decisions on their space needs. Leasing and capital markets are down while total vacancy has remained elevated, consistently above 20% over the past year. However, excitement is building with the planned projects expected to start in Downtown in the near future. The Shipyards office building (157,000 sq. ft.) and Four Seasons hotel are expected to break ground this year.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

During first quarter 2024, Jacksonville's office space absorption was a negative 2,114 square feet. Stellar Energy (18,965 sq. ft.), Berkley Insurance (30,972 sq. ft.), Daniel Kids (20,300 sq. ft.) and CBRE (11,820 sq. ft.) were among the large tenants who occupied space. Leasing activity slowed during first quarter with a 19.8% drop compared to the year ago period totaling 227,958 square feet, with renewals accounting for just 22.6 percent of the total. The average lease size for new leases and expansions during first quarter was 7,355 square feet compared to 5,612 sq. ft during the same period in 2023. APCO Holdings (20,713 sq. ft.), Restoration of America (13,268 sq. ft.), HD Supply (54,827 sq. ft.), Hueman People Solutions (42,303 sq. ft.), Southern Impression Homes (29,031 sq. ft.), JSO (58,959 sf) and Jacksonville University College of Law (47,355 sq. ft.) will take occupancy of more than 266,000 sq. ft. during 2024. Demand should start increasing during 2024 with over 930,000 sq. ft. of tenants in the market looking for space.

VACANCY

The quarter closed with a vacancy rate of 22.9%, remaining the same from Q4 2023 but rising 110 basis points on the year. The addition of sublease space played a role in this increase, with sublease inventory growing by 31.6% over the past year. Currently, 905,884 sq. ft. of sublease space is available with 647,323 sq. ft. vacant. Now is the time for small to mid-sized companies to upgrade their office space.

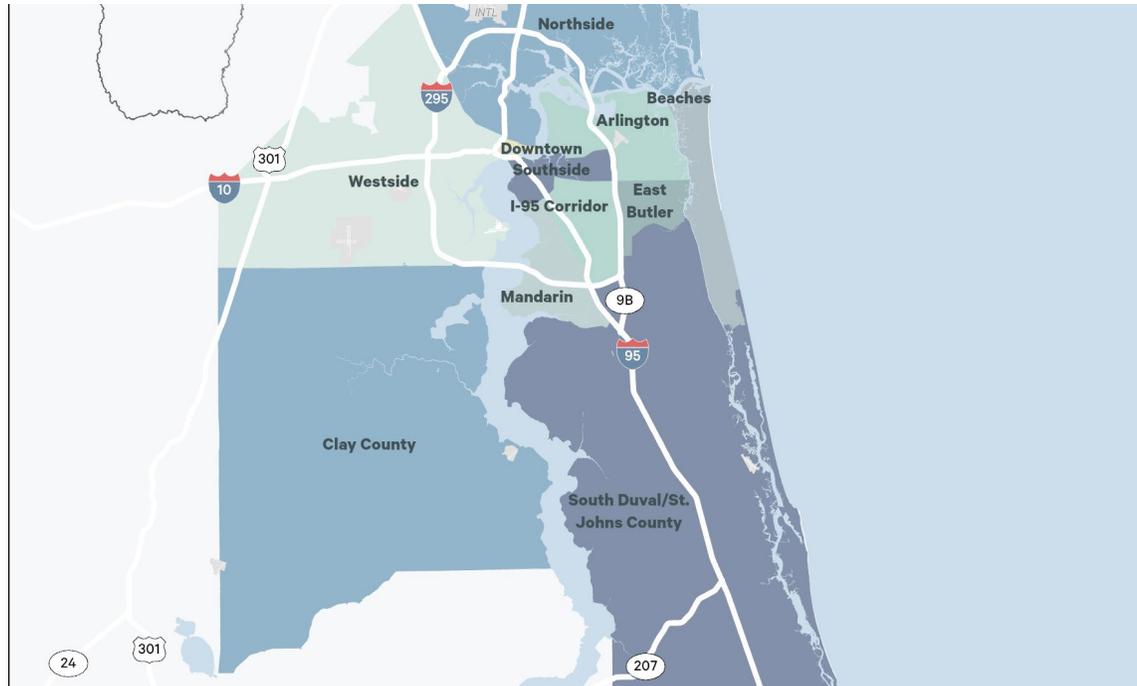
PRICING

The direct average asking lease rate rose, closing first quarter at \$22.67 per sq. ft., a year-over-year increase of 0.2%. Rental rates in class A office space rose to \$24.91 per sq. ft. while class B rents increased to \$21.31 per sq. ft.

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/FSG/G/MG)
CBD	7,948,546	25.3	27.3	45,158	45,158	0	23.41
Northbank	5,738,582	26.5	27.8	35,582	35,582	0	23.43
Southbank	2,209,964	22.3	26.1	9,576	9,576	0	23.38
Arlington	438,028	27.2	27.2	(19,864)	(19,864)	0	17.43
Beaches	837,867	4.1	4.1	(6,312)	(6,312)	14,000	31.52
Clay County	475,747	4.9	6.2	(6,340)	(6,340)	0	21.00
East Butler	516,425	22.7	22.7	25,216	25,216	0	31.19
I-95 Corridor	13,241,540	19.5	23.1	(21,994)	(21,994)	0	22.17
Baymeadows	3,772,617	24.0	30.8	31,743	31,743	0	20.59
Deerwood Park	4,751,531	19.7	22.4	(47,222)	(47,222)	0	24.11
South 95 Corridor	1,489,639	6.3	9.4	8,349	8,349	0	24.40
Southpoint	3,227,753	19.9	21.3	(14,864)	(14,864)	0	21.58
Mandarin	439,373	8.1	8.1	(5,096)	(5,096)	0	18.84
Northside	46,160	14.1	14.1	0	0	0	15.76
South Duval/St. Johns	1,681,648	21.8	22.1	(22,058)	(22,058)	24,408	22.62
Southside	661,039	12.8	12.8	0	0	0	17.00
Westside	202,818	17.4	17.4	9,176	9,176	0	21.07
Suburban Total	18,540,645	18.3	21.0	(47,272)	(47,272)	38,408	22.16
Jacksonville Total	26,489,191	20.4	22.9	(2,114)	(2,114)	38,408	22.67

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.

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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.