NNN weighted average asking rent hit all time high as industrial fundamentals remain strong

▲ 5.5%
Vacancy Rate

▼ 731,229
SF Net Absorption

▼ 5,402,187
SF Under Construction

▲ 1,103,657
SF Deliveries

▲ $8.40
Triple Net / Lease Rate

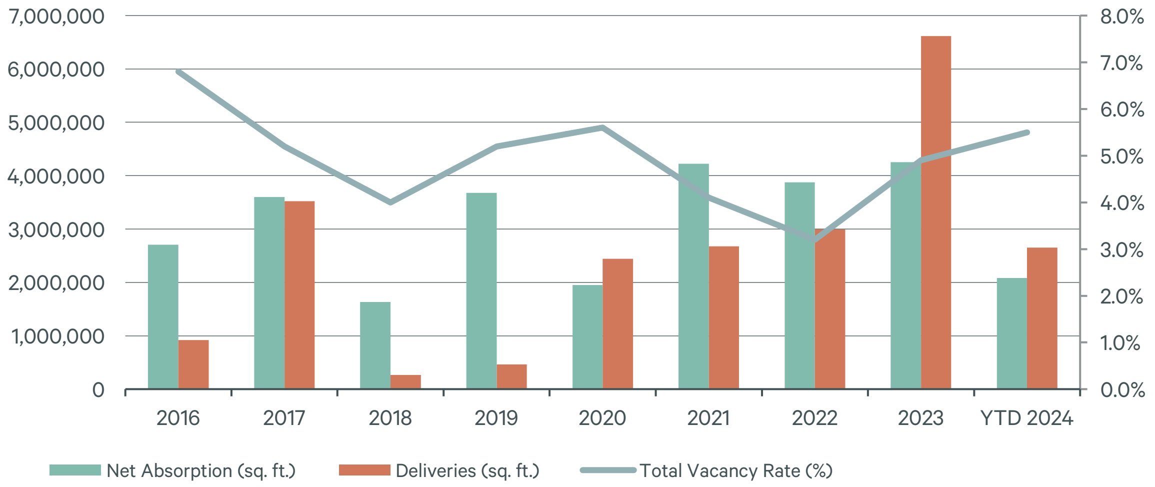
Note: Arrows indicate change from previous year.

OVERVIEW

- Total vacancy sits at 5.5%. Vacancy rose 60 bps compared to Q3 2023 due to construction completions totaling 1.1 million sq. ft. during Q3 2024 with 745,635 sq. ft. vacant.
- According to RCA, the sale of investment-grade properties during the first nine months of 2024 totaled approximately $726.3 million across 6.5 million sq. ft ($112.3 per sq. ft.) compared to $717.1 million across 7.3 million sq. ft. ($98.53 per sq. ft.) during the same period in 2023.
- According to the Bureau of Labor Statistics, the unemployment rate in August was 3.7%, a 30 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. (4.2%).

Tenant demand continued to be active during Q3 2024 but at a slower pace compared to 2023. Tenants are taking longer as they evaluate their space needs, the economy and pace of interest rate reductions. Approximately 3.4 million sq. ft. of speculative projects are under construction as developers have slowed construction starts, keeping pace with slower tenant demand. The industrial vacancy rose 60 basis points over the past 12 months to 5.5% due to 2.65 million sq. ft. of completions and 1.9 million sq. ft. vacant during the first nine months of 2024.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

Jacksonville recorded approximately 730,000 sq. ft. of positive net absorption during third quarter 2024. Major occupiers of space included Arcadia Cold (334,022 sq. ft.), Flexcold (170,000 sq. ft.), HemaSource (140,000 sq. ft.), Nassau Terminal (86,000 sq. ft.) and Quest Logistics (56,878 sq. ft.). Small to mid-sized tenants have been more active during 2024. Fourteen leases over 100,00 sq. ft. occurred compared to 23 during the same period in 2023. Leasing activity during the first nine months of 2024 dropped 54.1% over the same period a year ago, totaling 4.2 million sq. ft. The average lease size was 26,718 sq. ft compared to the average size of 54,779 sq. ft. during the first nine months of 2023. The Federal Reserve started lowering interest rates in September and that should spur demand for the remainder of the year and into 2025.

VACANCY

Due to approximately 9.3 million sq. ft. of construction completions in 37 buildings since the beginning of 2023 and 2.6 million sq. ft. of vacant space, the vacancy rate for Q3 2024 rose 60 basis points year-over-year to 5.5%. Accounting for space that has been leased but will not be occupied until future quarters, this figure drops to 4.8%. Due to new construction, 21 existing buildings and 8 buildings under development can accommodate a user greater than 100,000 sq. ft. In addition, 14 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 user larger than 300,000 sq. ft.

PRICING

High interest rates continue to impact rising asking rents. The direct weighted average asking lease rate was $8.40 per sq. ft, an increase of 5.0% compared to one year ago. Regarding property sub-type, R&D/Flex recorded $11.35 per sq. ft. while Warehouse/Distribution and Manufacturing assets rose to $8.10 and $6.82 per sq. ft., respectively.

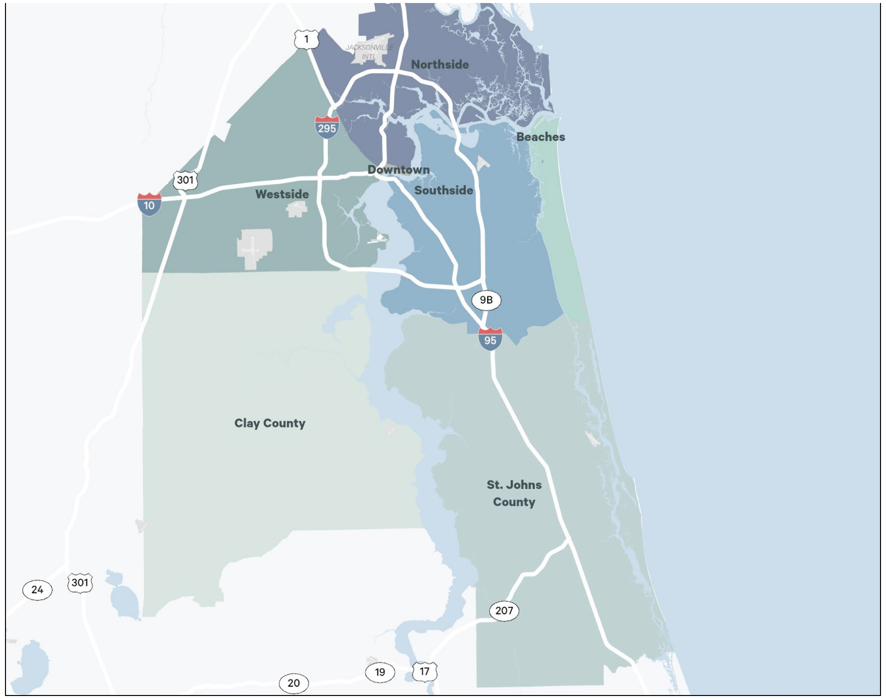
FIGURE 2: Statistical Snapshot Q3 2024

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q3 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	16.00
Northside	45,891,336	3.7	3.8	584,645	817,018	2,614,310	8.74
Southside	22,659,927	5.8	6.3	(157,230)	(140,961)	233,920	9.15
Westside	51,695,778	5.6	5.8	206,983	1,031,396	1,723,483	6.93
Clay County	2,919,873	0.9	5.0	0	(18,000)	300,000	13.85
St. Johns County	2,724,195	19.4	22.1	96,831	391,944	530,474	10.95
Jacksonville Total	127,108,447	5.0	5.5	731,229	2,081,397	5,402,187	8.40
Manufacturing	19,002,251	1.3	1.3	(62,825)	200,012	300,000	6.82
Warehouse/Distribution	99,044,366	5.6	6.1	897,384	1,908,261	5,049,267	8.10
R&D/Flex	9,061,830	7.0	7.7	(103,330)	(26,876)	52,920	11.35

FIGURE 3: Notable Leases Q3 2024

Submarket	Property	Tenant	Transaction (SF)
Westside	1700 Imeson Rd	Amazon	272,190
Northside	10089 N Main St	USPS	240,000
Westside	8700 Jesse B Smith Ct	Builders First Source	190,402
Northside	13500 Tradeport Cir	Ecolab	126,948

Market Area Overview



ECONOMIC OUTLOOK

Soft landings are rare, but recent data suggest that this outcome for the economy is increasingly likely. Business investment is holding its own and consumer distress is confined to a few vulnerable segments. Discretionary spending, such as travel, is generally on a par with last year although many signs indicate the post-pandemic spending boom is over. The key threat to consumption is a rollover in the labor market although the recent bump in unemployment appears benign, mainly driven by an increase in participation. A reason for concern is the decline in the share of private industries that are creating jobs. On the other hand companies are not shedding workers at a particularly high rate. The labor market has slowed, but it is not slumping.

While many are focused on November's election the most consequential policy lever has already been pulled via the FOMC's 50 bps September cut and signaling another 50 by year-end. This easing of financial conditions combined with continued economic growth should support modest hiring and consumption that precedes tighter commercial space market fundamentals. This backdrop will breathe fresh wind into real estate transactions markets and coincides with other signals that cap rates have peaked and may be starting to fall in some sectors.

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

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