

FIGURES | JACKSONVILLE OFFICE | Q3 2023

# Leasing activity remains strong as vacancy and rents remain flat

▼ 21.3%

Vacancy Rate

▲ 6,909

SF Net Absorption

▼ 38,408

SF Under Construction

▶ 0

SF Deliveries

▲ \$22.67

Full-Service / Lease Rate

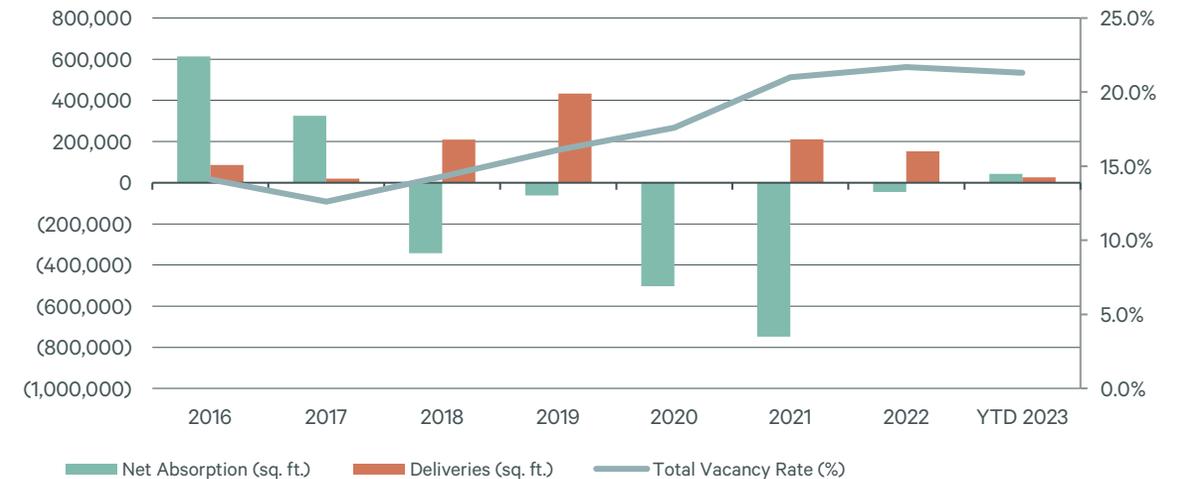
Note: Arrows indicate change from previous year.

## OVERVIEW

- Total vacancy sits at 21.3%. Occupancies by Medical Micro Instruments, Aerotek and Interactive Resources dropped vacancy 40 basis points compared to year-end 2022.
- According to Real Capital Analytics, the sale of investment-grade properties during the first nine months of 2023 totaled approximately \$120.2 million across 989,253 sq. ft. (\$121.55 per sq. ft.) compared to \$256.8 million across 2,371,673 sq. ft. (\$108.29 per sq. ft.) during the same period in 2022.
- According to the Bureau of Labor Statistics, the unemployment rate in August was 3.2%, a 20 basis point increase compared to the year ago period for Jacksonville. The rate is down from 10.8% in April 2020. The rate compares to Florida (2.7%) and the U.S. (3.8%).

Office space headwinds including inflation, recession fears and hybrid schedules/work from home have slowed office demand during the first nine months of 2023. Leasing activity is down while total vacancy has remained between 21.0% and 22.0% over the past year. Space needs decisions by major office occupiers are expected to fluctuate over the next few years as companies decide how to implement occupancy changes.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

## DEMAND

Gateway Jax, backed by DLP Capital, launched plans for multi-family, grocery, retail and office developments in the CBD. The first phase of the project is \$500 million and when completed over the next ten years will total \$2.0 billion in investments in the Northbank core of downtown. If started, this project could provide optimism and renewed interest in the area. During Q3 2023, Jacksonville's office absorption was a positive 6,909 square feet. Medical Micro Instruments, Aerotek, Interactive Resources and Serenity TMS were among the tenants who took occupancy of their respective direct and sublease spaces. 141 leases totaling 1,178,976 square feet were signed during the first nine months of 2023, with renewals accounting for 34.9 percent of the total. Class A leases accounted for 54.5% of the total. The average lease size for new leases and expansions during the first nine months of 2023 was 6,673 square feet. Demand is expected to remain strong during the remainder of 2023.

## VACANCY

The quarter closed with a vacancy rate of 21.3%, dropping 40 basis points compared to the year ago period. Sublease space on the market increased 40.7% over the past year. Currently, 954,314 sq. ft. of sublease space is available with 585,542 sq. ft. vacant. As tenants make space needs decisions, fluctuations in vacancy and absorption are expected during 2023. Now is the time for small to mid-sized companies to upgrade their office space needs.

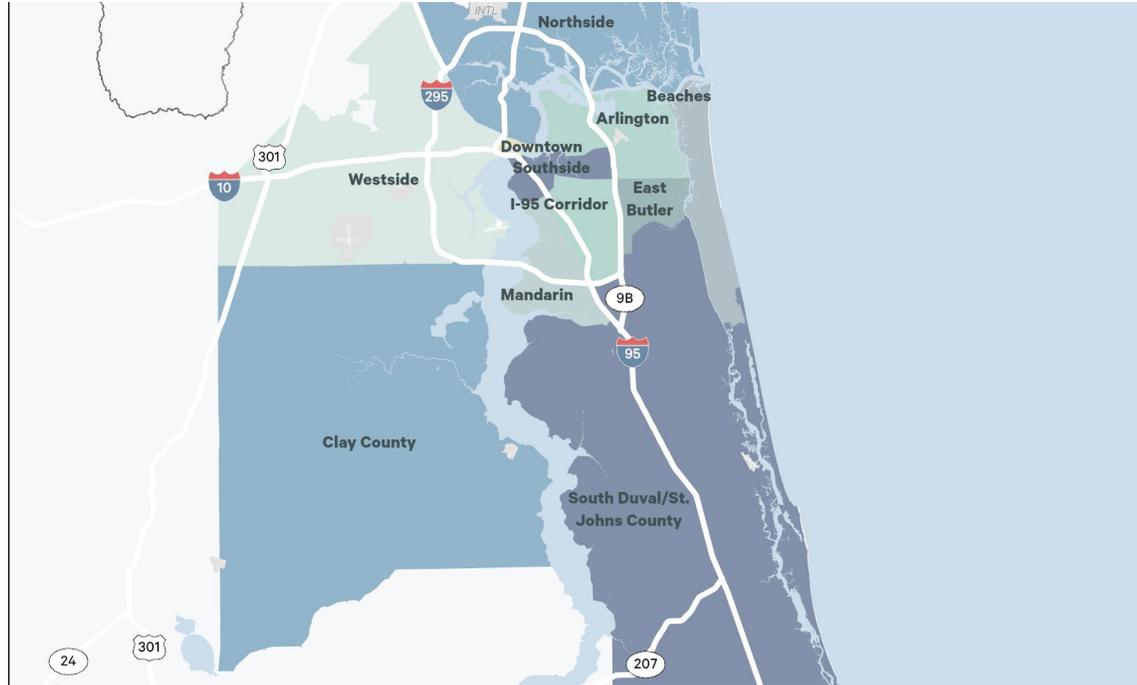
## PRICING

The direct average asking lease rate rose, closing third quarter 2023 at \$22.67 per sq. ft., a year-over-year increase of 1.3%. Rental rates in class A office space rose to \$24.44 per sq. ft. while class B rents increased to \$20.78 per sq. ft.

FIGURE 2: Statistical Snapshot Q3 2023

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q3 2023 Net Absorption (Sq. Ft.)	2023 Net Absorption (Sq. Ft.)	Under Construction (Sq. Ft.)	Avg. Asking Lease Rate (\$/SF/FSG/G/MG)
CBD	7,948,546	24.2	26.3	(35,022)	15,334	0	22.93
Northbank	5,738,582	24.5	25.9	(15,847)	22,476	0	22.72
Southbank	2,209,964	23.6	27.4	(19,175)	(7,142)	0	23.41
Arlington	438,028	17.8	17.8	5,703	5,703	0	17.08
Beaches	837,867	3.8	3.8	680	26,774	14,000	30.57
Clay County	475,747	4.9	4.9	0	130,000	0	21.00
East Butler	516,425	31.7	31.7	6,956	(133,251)	0	30.93
I-95 Corridor	13,050,659	18.3	21.5	2,866	(42,738)	0	22.31
Baymeadows	3,772,617	22.7	29.4	26,537	60,292	0	20.56
Deerwood Park	4,560,650	19.7	21.7	49,015	2,858	0	24.20
South 95 Corridor	1,489,639	5.2	8.3	(5,110)	(28,222)	0	24.60
Southpoint	3,227,753	17.1	18.0	(67,576)	(77,666)	0	21.48
Mandarin	439,373	7.0	7.0	0	0	0	18.84
Northside	46,160	14.1	14.1	0	0	0	15.76
South Duval/St. Johns	1,681,648	17.3	17.5	20,172	55,929	24,408	25.41
Southside	661,039	6.1	6.1	2,454	(24,185)	0	18.51
Westside	202,818	19.7	19.7	3,100	9,517	0	21.98
<b>Suburban Total</b>	<b>18,349,764</b>	<b>16.8</b>	<b>19.1</b>	<b>41,931</b>	<b>27,749</b>	<b>38,408</b>	<b>22.50</b>
<b>Jacksonville Total</b>	<b>26,298,310</b>	<b>19.1</b>	<b>21.3</b>	<b>6,909</b>	<b>43,083</b>	<b>38,408</b>	<b>22.67</b>

## Market Area Overview



## ECONOMIC OUTLOOK

The U.S. economy has defied expectations for a slowdown and has even exhibited some signs of acceleration despite sharp tightening of credit conditions and ongoing write-downs in the banking sector. This resilience due to a number of factors: 1) the Chips and IRA Acts have stimulated the construction sector; 2) the Fed. and the FDIC have provided prompt and effective support for the banks, and; 3) consumers are in good shape from a balance sheet and income perspective. Nevertheless, headwinds are intensifying: such as higher oil prices, resumption of student loan payments, and a weakening global economy. These headwinds, not serious in themselves, will hit home at a time when the squeeze from elevated interest rates is at its maximum. The upshot for real estate is that the Fed is likely finished with its tightening cycle, allowing a clearer path for real estate capital markets to unfold. Although we expect economic growth to deteriorate it is likely that valuations will stabilize during 1H 2024.

**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.

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