Citywide weighted average asking rents for all classes top $23.00 for first time

▲ 23.4%
Vacancy Rate

▲ 145,817
SF Net Absorption

▲ 121,424
SF Under Construction

▶ 0
SF Deliveries

▲ $23.05
Full-Service / Lease Rate

Note: Arrows indicate change from previous year.

OVERVIEW

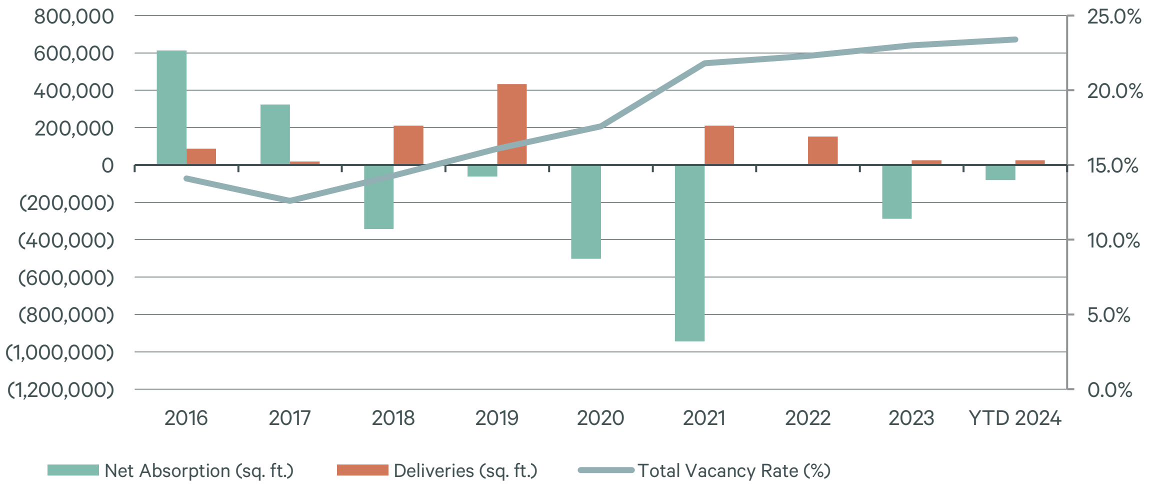
– Total vacancy sits at 23.4%. Office vacancy dropped 50 basis points quarter over quarter but is up 170 basis points compared to one year ago.

– According to Real Capital Analytics, the sale of investment-grade properties during the first nine months of 2024 totaled approximately $115.2 million across 1,503,738 sq. ft ($76.59 per sq. ft.) compared to $108.2 million across 936,036 sq. ft. ($115.57 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%).

Office space headwinds including inflation, recession fears and hybrid schedules/work from home have slowed office demand during the first nine months of 2024 with companies taking longer to make decisions on their space needs. Leasing activity and capital markets velocity remain constricted. Total vacancy has remained consistently above 22% 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

During third quarter 2024, Jacksonville's office space absorption was a positive 145,817 square feet. JSO (58,959 sq. ft.), Jacksonville University College of Law (47,355 sq. ft.), Southern Impression Homes (29,031 sq. ft.), Moran Towing (16,595 sq. ft.) and Turbo Debt (15,239 sq. ft.) were among the large tenants who occupied space. Transactions are taking longer to complete as both tenants and landlords are more sensitive to economic conditions. Leasing activity decreased during the first nine months of 2024 by 9.6% compared to the year ago period totaling 1,238,474 square feet, with renewals accounting for 47.5 percent. The average lease size for new leases and expansions during the first nine months of 2024 was 5,735 square feet compared to 6,458 sq. ft during the same period in 2023.

VACANCY

The quarter closed with a vacancy rate of 23.4%, dropping 50 basis points from Q2 2024 and rising 170 basis points year over year. Class A vacancy is 19.1% and class B vacancy is 26.6%. However, the vacancy rate for available space is only 22.9%. 0.5 percentage points (over 125,000 sq. ft.) of the vacant space in Jacksonville has been leased but will not be occupied until future quarters. Sublease space decreased 19.6% over the past year. Currently, 767,370 sq. ft. of sublease space is available with 642,695 sq. ft. vacant.

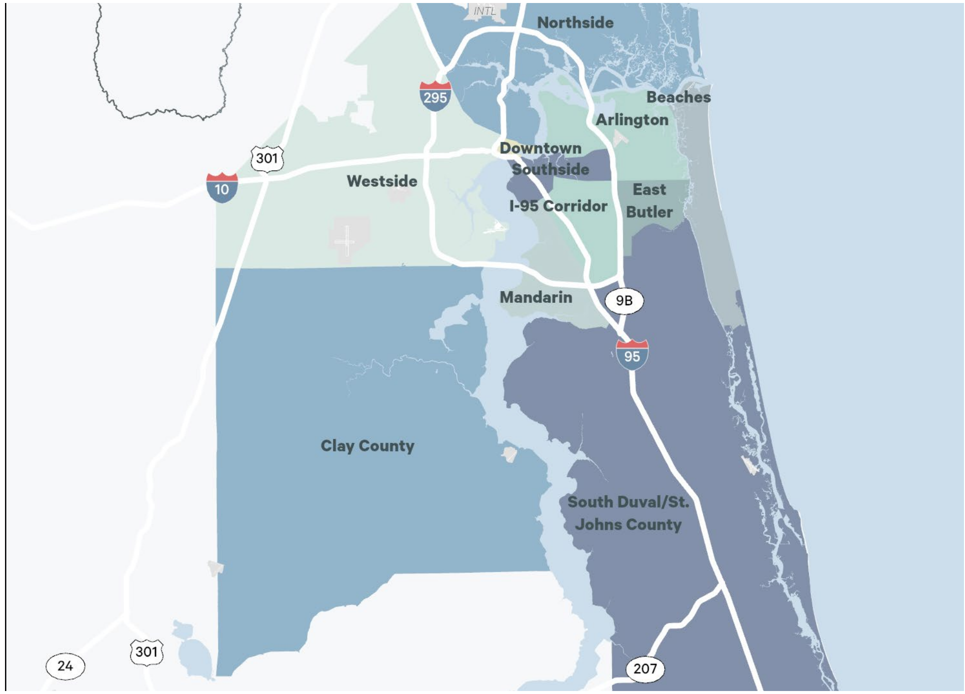
PRICING

The direct average asking lease rate rose, closing third quarter at $23.05 per sq. ft., a year-over-year increase of 1.4%. Rental rates in class A office space rose to $25.31 per sq. ft. while class B rents increased to $21.60 per sq. ft. Tenant improvement costs continue increasing due to increased labor costs, materials and elevated interest rates.

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/FSG/G/MG)
CBD	7,948,546	25.4	27.0	72,064	67,265	102,424	23.51
Northbank	5,738,582	25.8	26.9	71,001	99,232	102,424	23.52
Southbank	2,209,964	24.2	27.3	1,063	(31,967)	0	23.50
Arlington	438,028	31.5	31.5	(9,373)	(38,787)	0	17.38
Beaches	837,867	4.4	4.4	170	(8,468)	19,000	33.01
Clay County	475,747	5.6	5.6	9,655	(3,500)	0	21.00
East Butler	516,425	13.5	14.5	(5,345)	67,720	0	32.30
I-95 Corridor	13,254,308	20.1	24.0	68,175	(106,149)	0	22.57
Baymeadows	3,785,385	26.2	32.8	15,851	(23,042)	0	21.03
Deerwood Park	4,751,531	19.9	22.9	59,672	(77,063)	0	24.09
South 95 Corridor	1,489,639	3.3	5.8	21	61,113	0	25.09
Southpoint	3,227,753	21.1	23.6	(7,369)	(67,157)	0	22.40
Mandarin	439,373	9.1	9.1	(4,373)	(9,469)	0	19.42
Northside	46,160	14.1	14.1	0	0	0	15.76
South Duval/St. Johns	1,706,056	20.0	20.0	15,239	32,367	0	24.00
Southside	661,039	25.2	25.2	5,726	(82,525)	0	17.00
Westside	202,818	21.8	21.8	(6,121)	355	0	19.35
Suburban Total	18,577,821	19.0	21.8	73,753	(148,456)	19,000	22.72
Jacksonville Total	26,526,367	20.9	23.4	145,817	(81,191)	121,424	23.05

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 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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