Active small to mid-sized tenants keep industrial fundamentals strong

▼ 4.8% Vacancy Rate

▲ 300,781 SF Net Absorption

▼ 4,545,155 SF Under Construction

▼ 368,640 SF Deliveries

▲ $7.92 Triple Net / Lease Rate

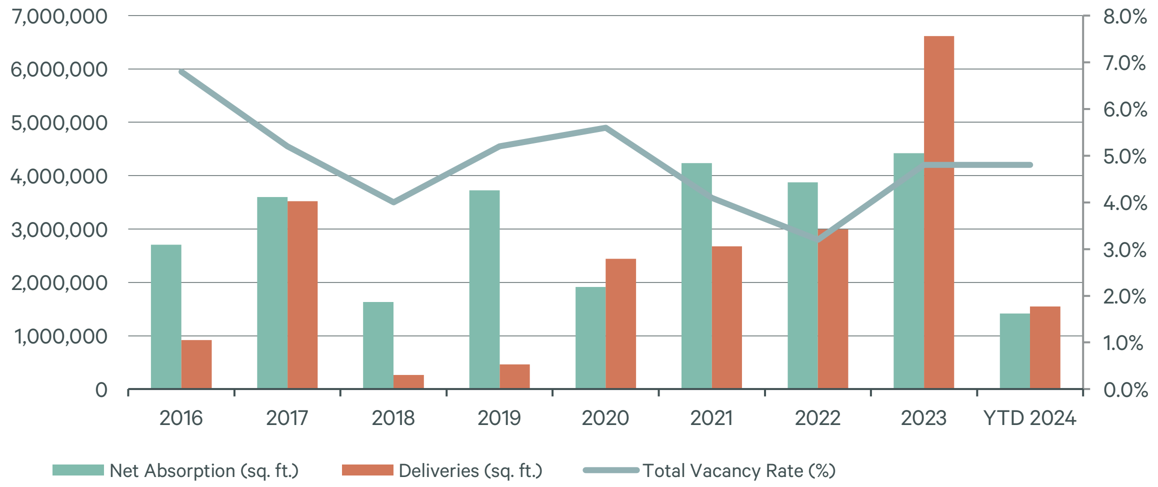
Note: Arrows indicate change from previous year.

OVERVIEW

- Total vacancy sits at 4.8%. Occupancies by Daiken, Trane, Just Floors, Ally Building Supplies and Lansing Building Products dropped vacancy 100 bps compared to Q2 2023.
- According to RCA, the sale of investment-grade properties during the first half of 2024 totaled approximately $268.8 million across 3.0 million sq. ft ($89.36 per sq. ft.) compared to $235.0 million across 2.5 million sq. ft. ($94.38 per sq. ft.) during the same period in 2023.
- According to the Bureau of Labor Statistics, the unemployment rate in May was 3.0%, a 20 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. (4.0%).

Tenant demand continued to be active during Q2 2024 but at a slower pace compared to 2023. Tenants are taking longer as they evaluate their space needs, the economy and future interest rate reductions. Approximately 3.1 million sq. ft. of speculative projects are under construction as developers have slowed construction starts, keeping pace with slower tenant demand. The industrial vacancy rate dropped 100 basis points over the past 12 months to 4.8% despite 1.5 million sq. ft. of completions during the first six months of 2024. These have provided out of market tenants options to lease immediately rather than looking at build-to-suit opportunities.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

Jacksonville recorded approximately 300,000 sq. ft. of positive net absorption during second quarter 2024. Major occupiers of space included Daiken (108,122 sq. ft.), Trane (107,240 sq. ft.), Just Floors and Ally Building Supplies (86,488 sq. ft.) and Lansing Building Products (42,000 sq. ft.). Small to mid-sized tenants have been more active during 2024. Nine leases over 100,00 sq. ft. occurred compared to 16 during the same period in 2023. Leasing activity during the first half of 2024 dropped 42.9% over the same period a year ago, totaling 2.7 million sq. ft. The average lease size was 25,682 sq. ft compared to the average size of 49,782 sq. ft. during the first half of 2023. Tenant demand is expected to remain strong this year.

VACANCY

Despite approximately 8.2 million sq. ft. of construction completions in 31 buildings since the beginning of 2023 and 2.1 million sq. ft. of vacant space, the vacancy rate for Q2 2024 dropped 100 basis points year-over-year to 4.8%. Accounting for space that has been leased but will not be occupied until future quarters, this figure drops to 4.6%. Due to new construction, 25 existing buildings and 9 buildings under development can accommodate a user greater than 100,000 sq. ft. In addition, 16 built options exist for users looking for 100,000 sq. ft. or greater in buildings with 28' or greater clear heights. Only three 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 $7.92 per sq. ft, an increase of 10.5% compared to one year ago. Regarding property sub-type, R&D/Flex recorded $11.17 per sq. ft. while Warehouse/Distribution and Manufacturing assets rose to $7.54 and $6.24 per sq. ft., respectively.

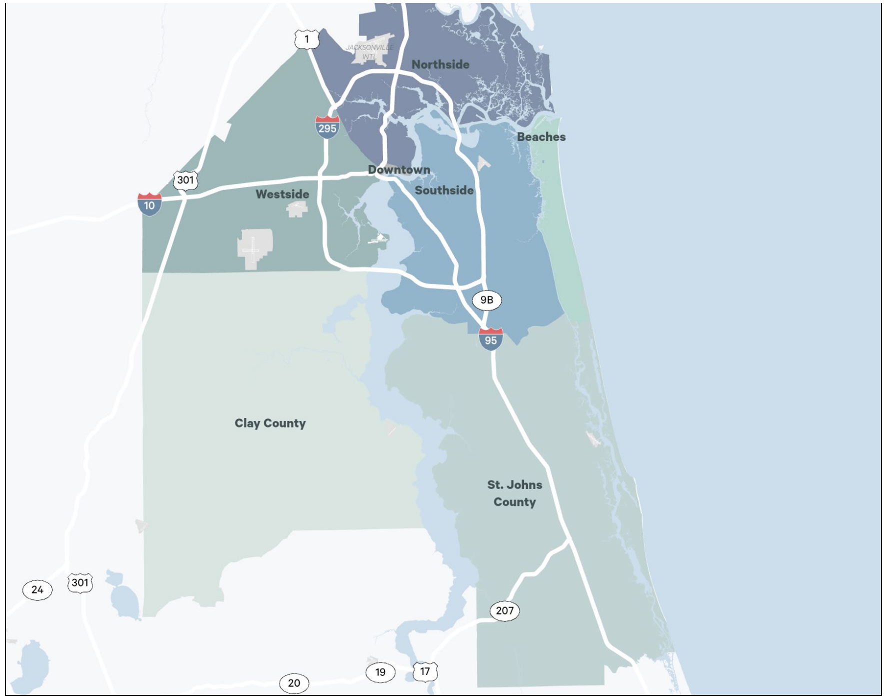
FIGURE 2: Statistical Snapshot Q2 2024

Submarket	Total Inventory (Sq. Ft.)	Direct Vacancy (%)	Total Vacancy (%)	Q2 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	14.00
Northside	44,584,939	3.2	3.3	47,378	232,373	2,575,637	8.52
Southside	22,659,863	5.1	5.6	122,159	44,899	52,920	8.99
Westside	52,061,680	5.5	5.7	831	865,603	852,224	7.16
Clay County	2,919,873	0.9	5.0	0	(18,000)	0	13.85
St. Johns County	2,190,295	4.2	7.5	130,413	295,113	1,064,374	9.50
Jacksonville Total	125,633,988	4.4	4.8	300,781	1,419,988	4,545,155	7.92
Manufacturing	19,002,251	1.0	1.0	(33,663)	262,837	0	6.24
Warehouse/Distribution	97,593,971	5.0	5.4	249,823	1,080,697	4,468,235	7.54
R&D/Flex	9,037,766	5.8	6.5	84,621	76,454	76,920	11.17

FIGURE 3: Notable Leases Q2 2024

Submarket	Property	Tenant	Transaction (SF)
Northside	2101 W 33rd St	Neal Brothers	202,322
Westside	4200 Perimeter Industrial Pkwy W	HemaSource, Inc.	138,180
Westside	6595 Pritchard Rd	Cardinal Health	135,543
Westside	8150 Forshee Dr	BJ's Wholesale Club, Inc.	118,238

Market Area Overview



ECONOMIC OUTLOOK

Following a year of expectation-busting growth, which has given us interest rates higher for much longer, it seems we will get a "soft landing" in 2024. Last year's expansion was almost certainly driven by fiscal stimulus that far exceeded other western countries. Today, stimulus effects are fading, and higher interest rates continue to bite. There is evidence of this on the consumer front, wherein delinquency rates are trending upward, and credit growth is quickly slowing. The latter signals that consumption—a key driver of GDP growth in recent quarters—is poised to slow further. This partly explains why we believe growth will settle at the mid-1% range this year.

A more severe contraction in consumption would require the labor market to contract. Presently, conditions are merely softening. Both job openings and hours worked are falling. Also, most of the job growth is clustered in sectors that are immune to higher interest rates and receive at least some public funding, such as education, healthcare and government jobs. Leisure & hospitality has been a growth sector, but these cooling trends are evident here too.

A soft landing in consumption and hiring point to further disinflation. Labor-intensive service costs are poised to soften and falling rents across the Sun Belt suggest weaker housing inflation is on the horizon. Fed rate cuts are downstream of disinflation, and a most welcome outcome within the commercial real estate space where higher financing costs and devaluations are triggering distress. The prospect of a rate cut this fall will at least help ease rate volatility, put cap rates on a slight downward trajectory, and generate more common ground between buyers and sellers in coming quarters.

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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