Record high asking rents in Jacksonville driven by strong tenant demand and high interest rates

▲ 4.3% Vacancy Rate

▲ 2,087,435 SF Net Absorption

▼ 5,729,739 SF Under Construction

▼ 487,000 SF Deliveries

▲ $7.84 Triple Net / Lease Rate

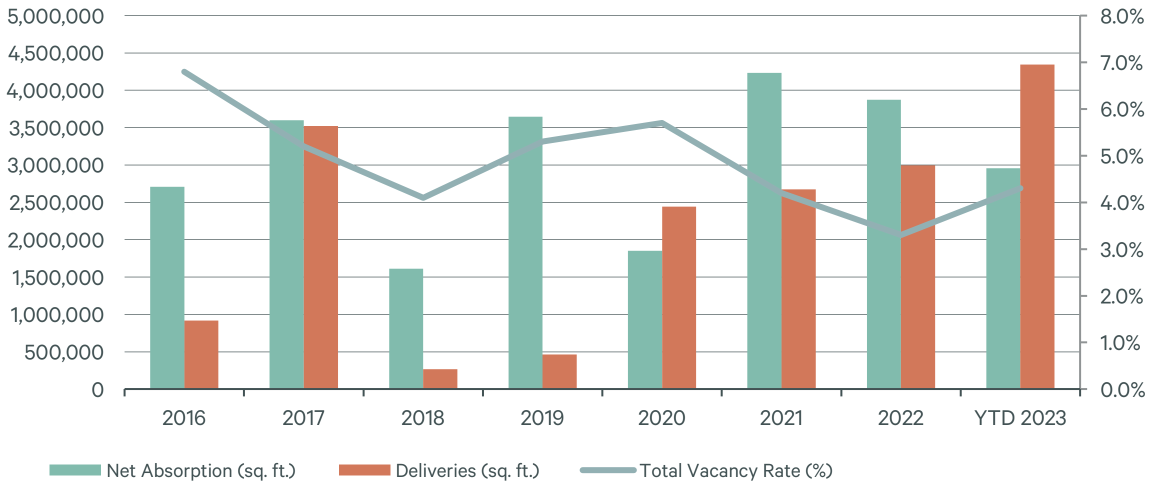
Note: Arrows indicate change from previous year.

OVERVIEW

- Total vacancy sits at 4.3%. Occupancies by Total Distribution, GenPlant, Ipex North America, Geodis, JZ Expedited and US Autoforce dropped vacancy 130 bps compared to Q2 2023.
- According to RCA the sale of investment-grade properties through third quarter of 2023 totaled approximately $515.2 million across 5.6 million sq. ft ($92.45 per sq. ft.) compared to $643.8 million across 7.7 million sq. ft. ($83.93 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%).

The Jacksonville industrial market ended the quarter with strong fundamentals. With strong demand, asking rent appreciation and robust population growth, developers and tenants have leveraged the strength of the local economy. Approximately 5.5 million sq. ft. of speculative projects are under construction as developers have been aggressive in attempting to keep pace with tenant demand. The industrial vacancy rate rose to 4.3% due to over 4.3 million sq. ft. of completions during the first nine months of 2023, allowing out of market tenants options to lease immediately rather than looking at build-to-suit options.

FIGURE 1: Historical Absorption, Deliveries and Vacancy



Source: CBRE Research

DEMAND

Jacksonville recorded over 2.9 million sq. ft. of positive net absorption during the first nine months of 2023. Over 4.3 million sq. ft. was completed year-to-date with over 76.8% pre-leased. Major occupiers of space included Total Distribution (1,000,350 sq. ft.), GenPlant (400,000 sq. ft.), Ipex North America (300,240 sq. ft.) and Geodis (135,000 sq. ft.). Leasing activity through third quarter of 2023 increased 31.9% over the same period a year ago, totaling 8.4 million sq. ft. The average lease size was 56,048 per sq. ft. Several large tenants over 300,000 sq. ft. continue looking at the recently completed buildings and buildings under construction. Tenant demand is expected to remain strong throughout the year.

VACANCY

Due to over 4.3 million sq. ft. of construction completions and 1.8 million sq. ft. of vacant space, the vacancy rate for Q3 2023 rose 130 basis points year-over-year to 4.3%. However, the vacancy rate for available space is only 3.3%. 1.0 percentage points of the vacant space in Jacksonville has been leased but not occupied until future quarters. Only 17 existing buildings and 9 buildings under development can accommodate a user greater than 100,000 sq. ft. In addition, only 10 built options exist for users looking for 100,000 sq. ft. or greater in buildings with 28' or greater clear heights. Only one building can accommodate a 300,000 sq. ft. user. Vacancy is expected to rise as 3.2 million sq. ft. of additional speculative buildings are completed during 2023 with 1.0 million sq. ft. available.

PRICING

High interest rates continue to impact rising asking rents. The direct weighted average asking lease rate was $7.84 per sq. ft, an increase of 20.2% compared to one year ago. Regarding property sub-type, R&D/Flex recorded $11.08 per sq. ft. while Warehouse/Distribution and Manufacturing assets rose to $7.48 and $5.21 per sq. ft., respectively.

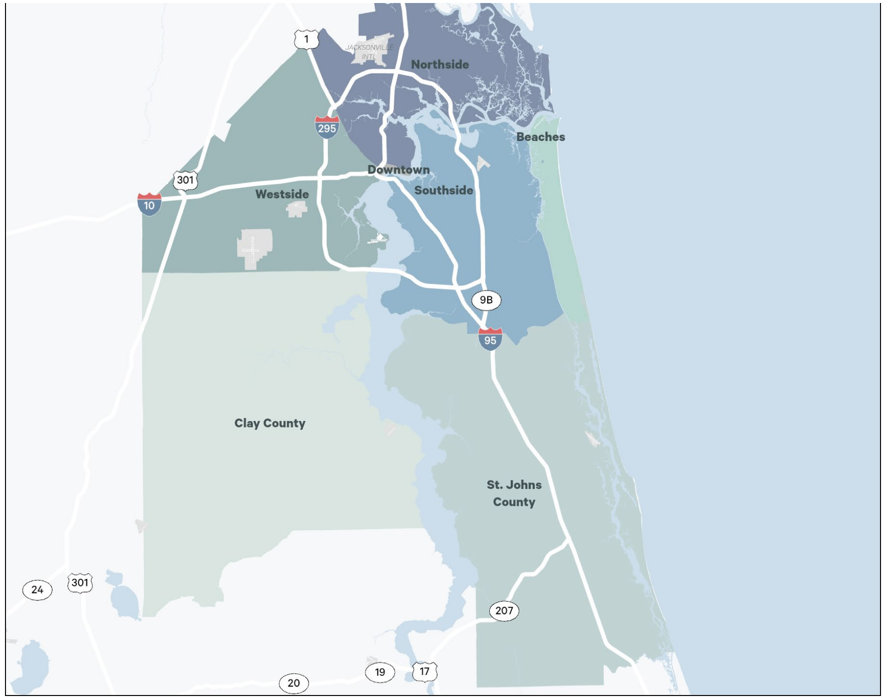
FIGURE 2: Statistical Snapshot Q3 2023

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/NNN)
Downtown	1,029,331	2.6	2.6	0	0	0	4.65
Beaches	188,007	3.6	3.6	0	0	0	16.00
Northside	42,236,903	3.2	3.6	293,375	504,044	3,737,393	8.23
Southside	22,230,990	4.1	4.6	(107,348)	(77,223)	183,000	8.79
Westside	50,384,840	3.7	4.1	1,948,798	2,723,478	1,809,346	6.39
Clay County	2,919,873	0.3	4.4	0	(120,000)	0	13.85
St. Johns County	2,117,464	16.3	19.7	(47,390)	(72,000)	0	9.50
Jacksonville Total	121,107,408	3.8	4.3	2,087,435	2,958,299	5,729,739	7.84
Manufacturing	18,944,969	1.2	1.2	(28,500)	(60,660)	0	5.21
Warehouse/Distribution	93,270,546	4.0	4.6	2,083,378	2,970,688	5,729,739	7.48
R&D/Flex	8,891,893	6.4	7.1	32,557	48,271	0	11.08

FIGURE 3: Notable Leases Q3 2023

Submarket	Property	Tenant	Transaction (SF)
Northside	1400 Zoo Pkwy	Sam's Club	1,003,200
Westside	Florida Gateway Logistics Bldg 8	Total Distribution	1,000,350
Westside	11006 Development Way	HD Supply	419,280
Westside	12400 Presidents Ct	GenPlant	400,000

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 industrial buildings 10,000 sq. ft. and greater in size in Clay, Duval and St Johns counties.

Contacts

Tommie Reilly
Managing Director
+1 904 630 6352
tommie.reilly@cbre.com

Marc L. Miller
Associate Field Research Director
+1 305 381 6428
marc.miller1@cbre.com

Kyle Koller
Research Manager
+1 813 273 8422
kyle.koller@cbre.com

Steve Harriss
Senior Field Research Analyst
+1 904 630 6348
steve.harriss@cbre.com