

JACKSONVILLE METRO

Q3 2019 Market Report



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NAI Hallmark is a leader in commercial real estate services.

With more than 26 years of experience and an existing leasing/ management portfolio of 6.5 million square feet, NAI Hallmark is a market leader in all facets of commercial real estate including sales/ leasing brokerage, property management services, real estate intelligence and turnkey development services.

We represent buyers, sellers, investors, developers, owners and tenants with all aspects of their commercial real estate needs. Our industry experts are passionate and committed to providing a superior level of service to our clients, delivering exceptional results, and building lasting relationships based on trust. Our passion is what drives us to be leaders in our industry.

Our Active Industry Memberships:



NAI Hallmark professionals are members of prestigious networks including NAI Global, Society of Office & Industrial Realtors (SIOR), International Council of Shopping Centers (ICSC), Certified Commercial Investment Members (CCIM), National Association of Industrial and Office Parks (NAIOP), Building Owners and Managers Association International (BOMA), Urban Land Institute (ULI).

Jacksonville has seen strong growth in the office market for most of the cycle thanks to a low cost of living, increased wages, cheaper office rents, and available land. Office-using employment has seen an annual increase around 3% since 2010, helping drive lower vacancies in Jacksonville as major companies expand in the area. However, more recently, office-using employment has stagnated in the metro, led by a slowdown in the financial industry and professional/business services. This has resulted in sluggish demand from office tenants, driving up vacancies in the market.

Strong demand from retail tenants chasing the heightened consumer spending in Jacksonville has allowed fundamentals to tighten in the market. Vacancies continue to compress to new lows, following strong absorption numbers in recent quarters.

Thus, landlords have had the opportunity to push rents to record highs. However, rents remain a bargain compared to peer Florida metros. Supply waves in the past few years have not been cause for concern, as most new deliveries have come in the way of build-to-suits.

Jacksonville has a distinct advantage in the industrial market compared to its peers to the south and farther from more inland markets. The metro is positioned along the coast and provides ease of access to vital interstates in all directions, including I-95 and I-10. Jacksonville is also the fourth-largest industrial market in Florida, with over 137 million SF of industrial space.



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- Source: NAI Hallmark, CoStar Property®, & ESRI®
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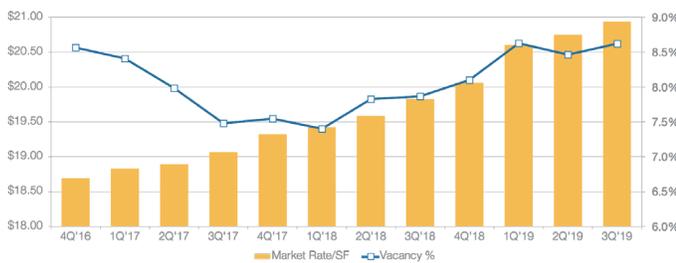
Q3'19 vs. Q2'19



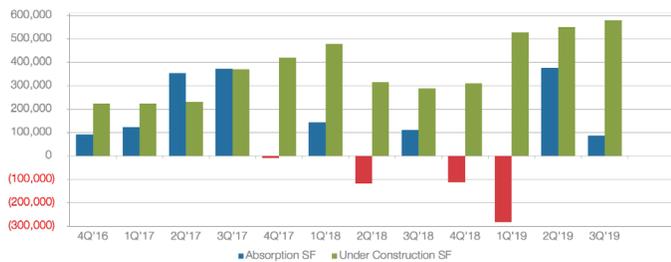
Net Absorption & Vacancy Rates



Asking Rent & Vacancy Trends



Supply & Demand



Vacancy

Nassau County and Northeast Jacksonville contain some of the tightest vacancy rates with very little under construction and moderately strong absorption rates. These submarkets have been able to push vacancies to around 3%.

Sales Activity

In the past year, private firms have accounted for 45% of office sales volume, while institutional firms comprised one-third of all transactions. REITs and private equity firms made up the remaining amounts. All recently sold properties were fully or nearly fully leased, with the average SF of a sale being around 10,000 SF.

Rental Rates

Rent growth has accelerated in recent quarters despite the softening in fundamentals. At 5.4%, year-over-year rent increases are roughly four times the historical average.

Two of Jacksonville's most popular suburban submarkets, Butler/Baymeadows and Southside, post some of the highest rent gains. The downtown submarkets surpassed the \$21/SF and \$22/SF benchmarks as interest has reemerged for the downtown core.

New Construction

Jacksonville has over 580,000 SF of office space, or around 1.5% of inventory, under construction, with almost 100% pre-leased.

Roughly 60% of all office buildings built this cycle have been 4 & 5 Star properties.

"Despite significant rent growth in Jacksonville's office market over the past 12 months, there is still a sizeable gap in rent per square foot between new construction and existing, true Class A office. The gap has increased investor appetite in retrofitting older buildings to meet the demands of modern tenants."



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Office Submarket Statistics

Market	Existing Inventory		Vacancy		YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Bldgs	Total RBA	Total SF	Vac %				
Arlington	215	1,555,688	185,440	11.9%	(50,717)	19,326	287,496	\$17.93
Baker County	32	123,795	8,660	7.0%	6	0	0	\$16.37
Beaches	373	3,104,934	129,087	4.2%	(32,601)	8,532	187,000	\$25.04
Butler/Baymeadows	274	10,224,141	1,399,330	13.7%	(449,111)	45,022	0	\$21.03
Downtown Northbank	370	12,921,590	1,034,052	8.0%	(125,217)	0	0	\$21.49
Downtown Southbank	137	2,985,719	184,429	6.2%	(44,859)	0	0	\$22.53
Mandarin	308	2,679,612	158,153	5.9%	(610)	36,000	0	\$18.57
Nassau County	245	1,269,087	32,723	2.6%	14,723	20,649	27,331	\$21.28
Northeast Jacksonville	78	885,711	33,601	3.8%	23,419	0	0	\$17.89
Northwest Jacksonville	191	1,230,502	144,899	11.8%	(20,670)	0	20,520	\$18.50
Orange Park/Clay County	416	3,362,005	223,705	6.7%	99,874	50,691	0	\$19.78
Riverside	632	2,991,893	113,435	3.8%	35,602	3,561	0	\$17.13
San Marco	269	1,841,107	112,047	6.1%	(7,166)	0	0	\$17.85
Southside	760	16,638,692	1,842,980	11.1%	311,909	359,470	48,281	\$21.62
St Johns County	455	3,228,273	158,693	4.9%	172,658	137,022	7,780	\$20.36
Totals	4,755	65,042,749	5,761,234	7.2%	(72,760)	680,273	578,408	\$19.82

Significant Office Transactions

Property	Year Built	Bldg SF	Date	Price	Type
McKesson	2019	125,000	9/23/19	\$42,226,402	Sale
10401 Deerwood Park	1989	332,424	7/10/19	\$38,205,733	Sale
4190 Belfort Road	1896	120,000	9/27/19	\$20,700,000	Sale
Fleming Island Business Park	2002	64,660	7/15/19	\$8,650,000	Sale
TIAA Bank Building	2007	50,884	8/26/19	\$3,892,626	Lease

"The Jacksonville investment market continues to be strong. Sale averages (PSF) continue to see modest growth and cap rates are stable."



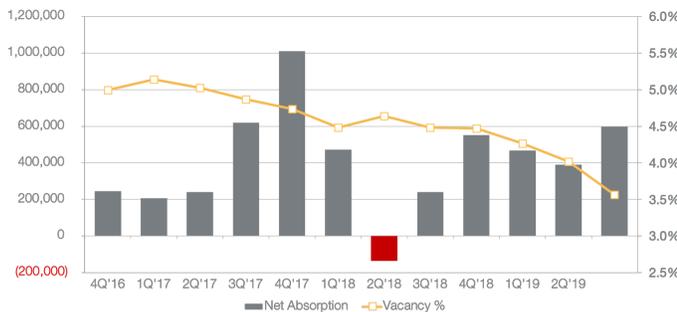
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Q3'19 vs. Q2'19



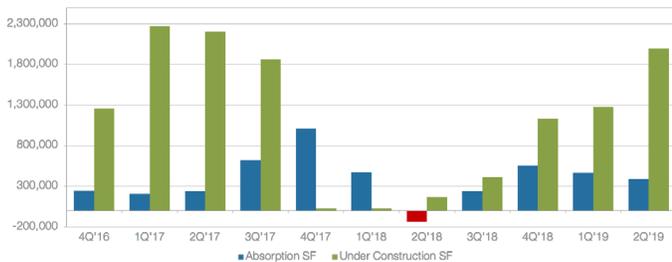
Net Absorption & Vacancy Rates



Asking Rent & Vacancy Trends



Supply & Demand



Vacancy

Vacancy rate stood at 3.7% as of Q3, which is nearly the lowest in the market's history. This is forecasted to rise slightly in future years but should stay below 5%, as just over 65% of new construction is already pre-leased.

Sales Activity

Sales within the past year have primarily been concentrated in the popular Southside and St. Johns County submarkets. Roughly a third of all sales within the past year have been in these two submarkets, along with some of Jacksonville's largest sales including the Windsor Commons and CB Square off of Atlantic Boulevard.

Rental Rates

Jacksonville still contains some of the lowest rents nationally, at \$17.70/SF.

Butler/Baymeadows maintains some of the highest asking rents of \$24/SF, with annual growth around 5%. The Beaches Submarket comes in second at almost \$22/SF. Both submarkets contain about 11% of the metro's existing retail stock. All other submarkets, including St. Johns County and Southside, have rents below \$20/SF.

New Construction

Jacksonville's retail construction has rebounded in recent years, with 2,500,000 SF under construction as of Q3. This is in stark contrast to the national trend and puts Jacksonville in the top 10 for SF under construction in the U.S., ahead of larger metros like Atlanta and Boston.

"We are seeing numerous national retailers continue to search for space in Jacksonville, showing sustained demand in our market. Jacksonville is proving to be an attractive option for thriving brands as rates are more affordable than most of the country, yet median income continues to trend in the right direction."



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Retail Submarket Statistics

Market	Existing Inventory		Vacancy		YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Bldgs	Total RBA	Total SF	Vac %				
Arlington	443	8,105,574	256,241	3.2%	319,376	35,643	22,774	\$12.89
Baker County	152	1,479,934	22,030	1.5%	(7,058)	9,001	0	\$14.16
Beaches	528	5,190,108	171,488	3.3%	(20,482)	35,153	100,177	\$22.45
Butler/Baymeadows	201	5,349,416	149,837	2.8%	16,104	61,503	15,000	\$24.06
Downtown Northbank	557	3,865,339	289,939	7.5%	(37,095)	0	11,373	\$12.27
Downtown Southbank	122	640,771	24,734	3.9%	(483)	0	0	\$19.72
Mandarin	278	4,831,206	171,716	3.6%	20,855	26,785	4,425	\$20.61
Nassau County	653	6,032,168	209,506	3.5%	123,699	154,833	269,377	\$17.22
Northeast Jacksonville	289	3,759,458	183,906	4.9%	112,917	48,650	94,635	\$18.80
Northwest Jacksonville	679	4,406,040	276,280	6.3%	(102,185)	0	0	\$11.90
Orange Park/Clay County	825	10,700,120	493,408	4.6%	105,023	62,182	53,200	\$17.52
Riverside	1,277	13,615,612	493,565	3.6%	297,256	53,144	74,608	\$16.33
San Marco	318	2,931,159	149,383	5.1%	25,994	0	3,000	\$14.74
Southside	1,022	15,504,871	445,529	2.9%	351,832	141,932	604,943	\$18.59
St Johns County	1,099	11,091,727	303,342	2.7%	721,483	720,314	1,209,491	\$20.14
Totals	8,443	97,503,503	3,640,904	3.9%	1,927,236	1,349,140	2,463,003	\$17.43

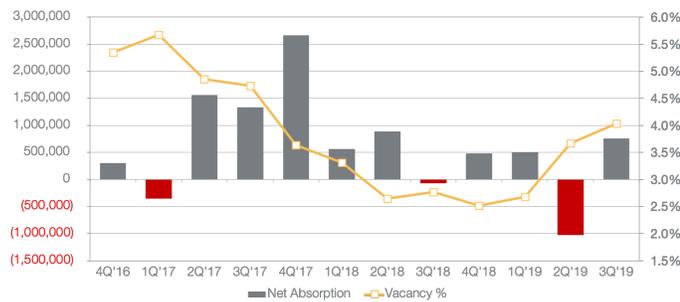
Significant Retail Transactions

Property	Year Built	Bldg SF	Date	Price	Type
Shoppes at Southside	2004	109,113	9/27/19	\$23,300,000	Sale
15 1st Street South	1999	8,023	8/22/19	\$6,000,000	Sale
825-999 University Blvd North	1958	203,658	8/20/19	\$5,080,000	Sale
Penman Plaza	1962	6,658	9/13/19	\$1,224,335	Lease
921 Blanding Blvd	1988	4,650	9/30/19	\$765,000	Sale

Q3'19 vs. Q2'19



Net Absorption & Vacancy Rates



Asking Rent & Vacancy Trends



Supply & Demand



Vacancy

Vacancy levels have dipped well below the national average despite the slight uptick in recent quarters. Vacancy is expected to increase further in coming years as supply-side pressure is placed on the industrial market. Access to Jacksonville's infrastructure and affordability have been important draws for companies looking to expand.

Sales Activity

Industrial property sales have dipped dramatically in Q3 with only two properties totalling 415,210 SF sold in with quarter.

Rental Rates

Asking rents in the metro continue to expand, and largely validates the strengths of the metro's infrastructure improvements. As of Q3, Jacksonville rental rates were roughly 30% less expensive than the national average.

Beaches submarket leads the metro in rents at over \$12/SF with smaller facilities incorporating more flex space.

Rent growth has softened for industrial properties over 250,000 SF primarily due to landlords competing with recent new supply.

New Construction

Roughly 5,100,000 SF, or almost 5% of inventory, is under construction, with Wayfair's build-to-suit distribution center in Riverside comprising almost one-sixth of that stock. Of current inventory under construction, only half is pre-leased showing developer's continued confidence in the market.

"The Jacksonville Industrial market continues to receive interest from out of town investors. Even with a minor increase in vacancy, the strong industrial market allows landlords to push rental rates and demand higher sales prices."



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Industrial Submarket Statistics

Market	Existing Inventory		Vacancy		YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Bldgs	Total RBA	Total SF	Vac %				
Arlington	90	1,045,926	42,027	4.0%	(13,644)	26,383	0	\$8.87
Baker County	21	1,354,144	55,886	4.1%	(55,311)	0	0	\$5.33
Beaches	162	1,128,961	21,945	1.9%	(21)	0	85,322	\$12.50
Butler Corridor	647	20,744,797	824,449	4.0%	266,567	211,450	36,250	\$8.40
Downtown	465	11,563,551	67,736	0.6%	122,989	0	0	\$5.08
Mandarin	109	1,491,829	30,878	2.1%	(14,746)	0	0	\$9.28
Nassau County	118	3,327,981	9,145	0.3%	23,506	26,326	0	\$6.26
North Side	128	8,526,260	1,102,870	12.9%	130,988	846,234	709,850	\$5.23
Northeast	38	4,209,427	92,364	2.2%	(89,125)	0	279,000	\$5.71
Ocean Way	130	13,941,652	1,566,729	11.2%	(495,091)	521,833	1,070,666	\$6.78
Orange Park/Clay Cnty	223	5,726,581	65,731	1.1%	215,827	80,413	0	\$7.14
Riverside	751	20,802,038	254,164	1.2%	182,916	0	1,012,567	\$5.69
San Marco	259	4,729,982	165,074	3.5%	96,030	0	0	\$7.44
South Side	124	1,565,499	34,520	2.2%	4,057	0	0	\$9.62
St Johns	352	5,725,699	122,090	2.1%	22,805	26,559	20,790	\$8.47
West Side	566	32,953,077	1,280,820	3.9%	488,960	1,138,912	1,848,320	\$5.54
Totals	4,183	138,837,404	4,455,608	3.6%	886,707	2,878,110	5,062,765	\$7.33

Significant Industrial Transactions

Property	Year Built	Bldg SF	Date	Price	Type
10501 Cold Storage Road	2019	300,000	7/18/19	\$20,100,000	Sale
12300 Presidents Court	2005	115,210	9/20/19	\$9,249,100	Sale
1502 Jessie Street	1957	32,740	7/10/19	\$1,150,000	Sale
Beach Blvd Distribution Center	2000	46,000	9/6/19	\$506,467	Lease
1030 Ellis Road North	1974	73,015	7/10/19	\$276,000	Lease

Economic Indicators



population
1.5M

businesses
55K

3 Fortune 500
companies

#4 best city
for job seekers
in 2019
- Forbes



Florida is
#2 best state
for business
- Tax Foundation



Jacksonville's workforce
is **.7 million** strong

#9 best big city to live in
- Money

Mayo **#1**
Clinic
hospital in nation
- U.S. News & World Report

20+ higher
education
colleges and universities in region

#2 best city for tech
outside of CA & NY
- Datafox

no. 2 most underrated
beach town in America
- Jetsetter



Jacksonville International Airport
best airport in service quality
- Airports Council International



The Premier Managed Commercial Real Estate Network.

NAI Global is the single largest, most powerful global network of owner-operated commercial real estate brokerage firms. NAI Global member firms are leaders in their local markets and span the world with 400+ offices and more than 7,000 professionals supported by the central resources of the NAI Global organization.

Market your products and services to this global audience either year round via our special packages designed to put your name in lights and keep it there or via an event sponsorship or exhibit.

Top 4 Brand

375+

Offices

6,000+

Professionals

750+

Key Decision
Makers

1.15+

Billion

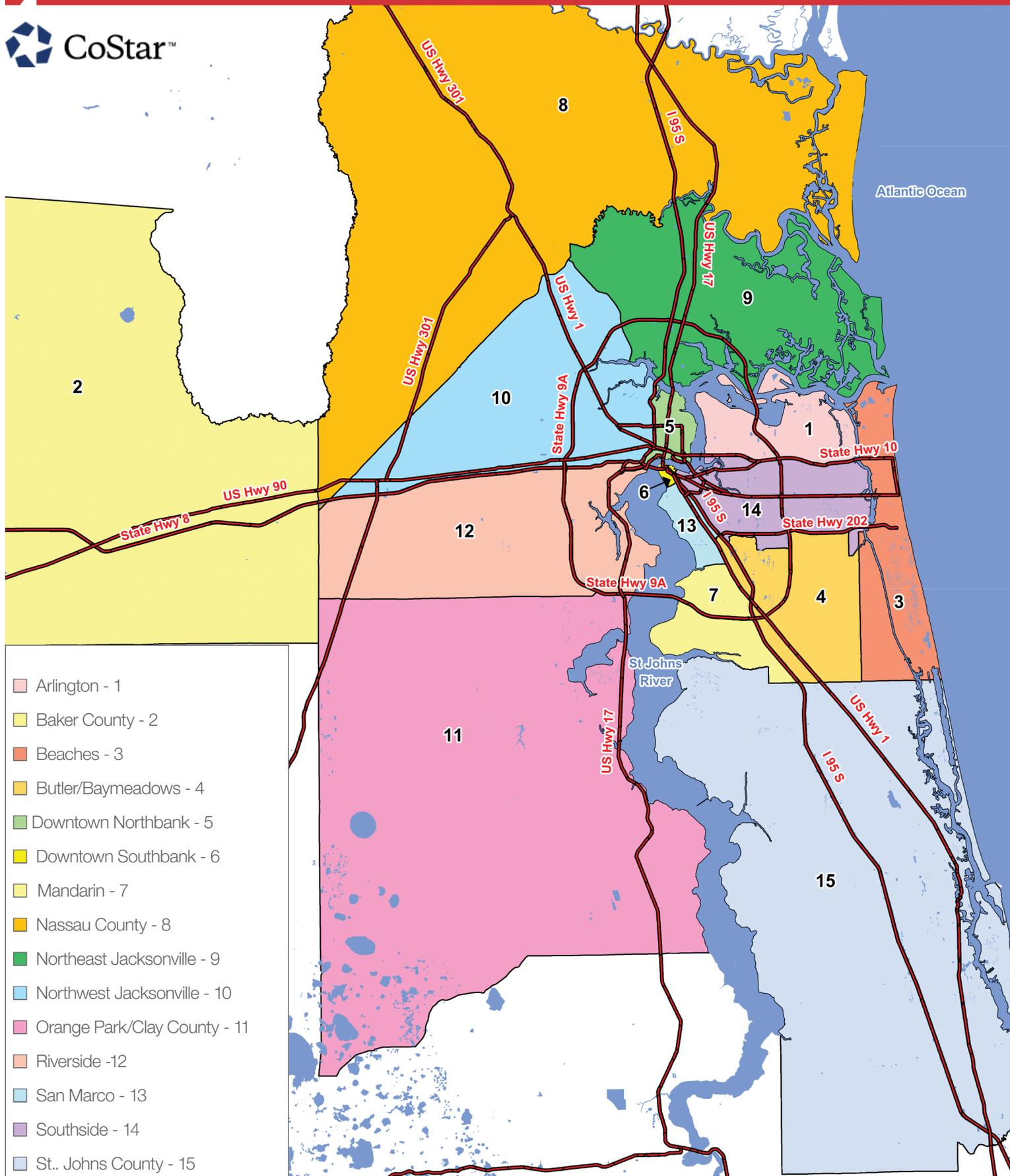
Square Feet
Managed

#2

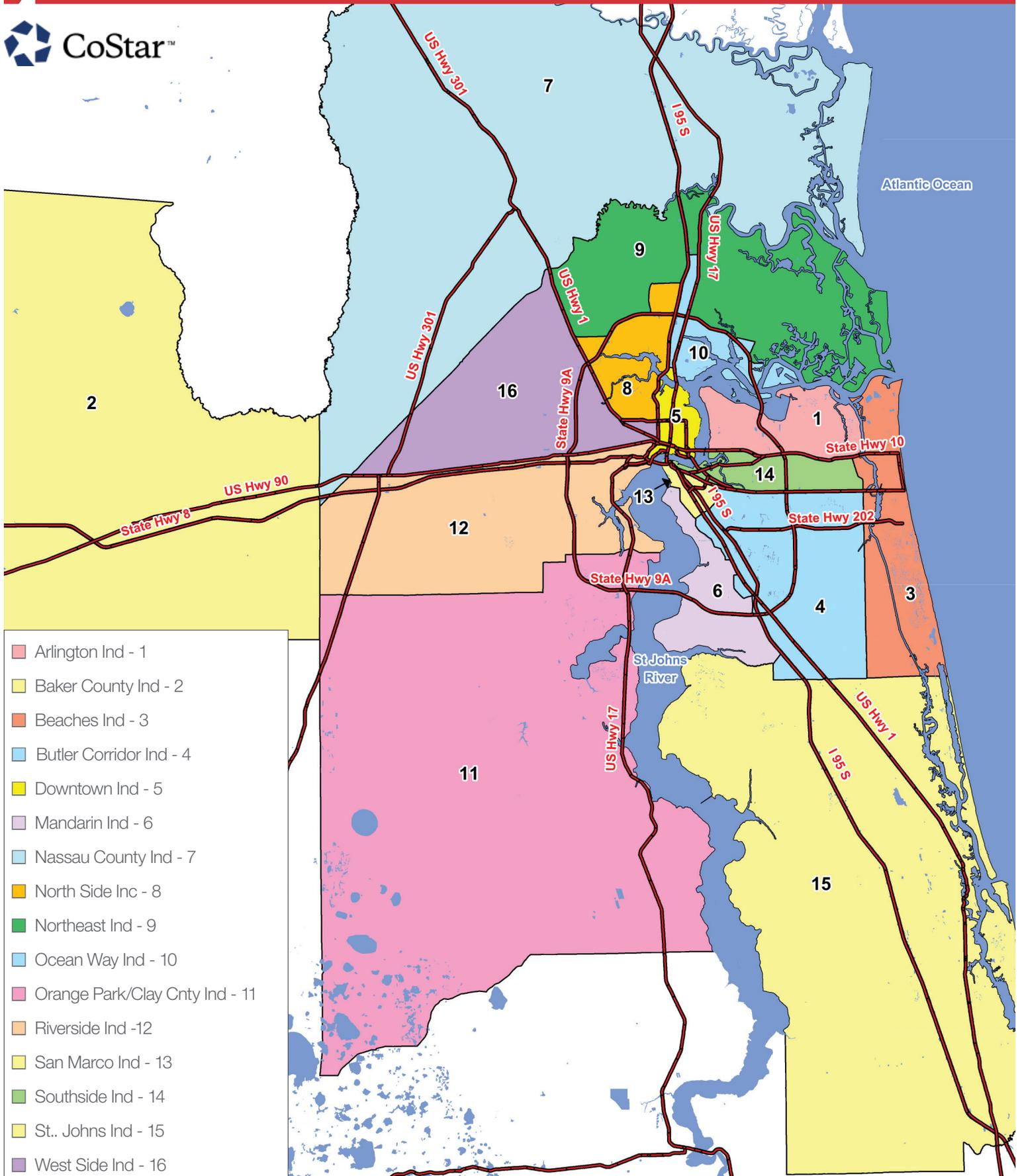
Rank

Total SIOR's
Total CCIM's

Office & Retail Submarkets



Industrial Submarkets



Building Class

Class A: Buildings that generally qualify as extremely desirable investment-grade properties and command the highest rents or sale prices compared to other buildings in the same market.

Class B: Buildings that generally qualify as a more speculative investment. Such buildings offer utilitarian space without special attractions, and have ordinary design.

Class C: Buildings that generally qualify as no-frills, older buildings that offer basic space and command lower rents or sale prices compared to other buildings in the same market.

Deliveries:

Buildings that complete construction during a specified period of time. In order for space to be considered delivered, a certificate of occupancy must have been issued for the property.

Direct Space:

Space that is being offered for lease directly from the landlord or owner of a building, as opposed to space being offered in a building by another tenant (or broker of a tenant) trying to sublet a space that has already been leased.

Existing Inventory:

The square footage of buildings that have received a certificate of occupancy and are able to be occupied by tenants. It does not include space in buildings that are either planned, under construction or under renovation.

Full Service Rental Rate:

Rental rates that include all operating expenses such as utilities, electricity, janitorial services, taxes and insurance.

Industrial Building:

A type of building adapted for such uses as the assemblage, processing, and/or manufacturing of products from raw materials or fabricated parts. Additional uses include warehousing, distribution, and maintenance facilities. The primary purpose of the space is for storing, producing, assembling, or distributing product.

Market:

Geographic boundaries that serve to delineate core areas that are competitive with each other and constitute a generally accepted primary competitive set of areas. Markets are building-type specific, and are non-overlapping contiguous geographic designations having a cumulative sum that matches the boundaries of the entire Region (See also: Region). Markets can be further subdivided into Submarkets.

Net Absorption:

The net change in occupied space over a given period of time.

Office Building:

A type of commercial building used exclusively or primarily for office use (business), as opposed to manufacturing, warehousing, or other uses.

Price/SF:

Calculated by dividing the price of a building (either sales price or asking sales price) by the Rentable Building Area.

Quoted Rental Rate:

The asking rate per square foot for a particular building or unit of space by a broker or property owner. Quoted rental rates may differ from the actual rates paid by tenants following the negotiation of all terms and conditions in a specific lease.

Region:

Core areas containing a large population nucleus, that together with adjacent communities have a high degree of economic and social integration. Regions are further divided into market areas, called Markets. (See also: Markets)

(RBA) Rentable Building Area:

The total square footage of a building that can be occupied by, or assigned to a tenant for the purpose of determining a tenant's rental obligation. Generally RBA includes a percentage of common areas including all hallways, main lobbies, bathrooms, and telephone closets.

Sales Price:

The total dollar amount paid for a particular property at a particular point in time.

SF:

Abbreviation for Square Feet.

Submarkets:

Specific geographic boundaries that serve to delineate a core group of buildings that are competitive with each other and constitute a generally accepted primary competitive set, or peer group. Submarkets are building type specific (office, industrial, retail, etc.), with distinct boundaries dependent on different factors relevant to each building type. Submarkets are non-overlapping, contiguous geographic designations having a cumulative sum that matches the boundaries of the Market they are located within (See also: Market).

Under Construction:

Buildings in a state of construction, up until they receive their certificate of occupancy.

Vacancy Rate:

A measurement expressed as a percentage of the total amount of physically vacant space divided by the total amount of existing inventory. Under construction space generally is not included in vacancy calculations.

YTD:

Abbreviation for Year-to-Date. Describes statistics that are cumulative from the beginning of a calendar year through whatever time period is being studied.

Q3 2019 MARKET REPORT

Jacksonville Market Report

NAI Hallmark has a 26-year history of successfully managing commercial real estate to its highest performance. Our team is committed to providing best-in-class service to our clients and takes an owner's perspective approach to unlock the full potential of every deal.

It would be our privilege to work with you.



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