

Jacksonville



Market Facts

24.9 MSF

Total office inventory in the Jacksonville office market

201,273 SF

Direct net absorption for YTD 2017

14.2%

Overall Vacancy

\$22.03 PSF

Average rental rate for class A space in Jacksonville on a full-service basis

Office Fundamentals Continue to Improve as Growth Pushes Beyond the Urban Core

Economic Drivers

Economic fundamentals in Jacksonville remain solid as indicated by a steady unemployment rate, which at 4.5% in February 2017 was the same rate recorded one year prior. Job growth continues with over 23,000 new jobs added in the trailing 12-month period, healthy leasing activity is occurring, and there is no active speculative development in the current construction pipeline. CSX did announce the planned layoff of 1,000 management-level employees, most of whom are located in Jacksonville, however that still did little to dampen the enthusiasm created by the recent job announcements previously announced by Amazon (a total of 2,700 in two locations), Formativ Health (500), Ernst & Young (450), Fidelity (300), IKEA (250), and Randrr (200).

For the second time in less than a year, the Federal Reserve raised the

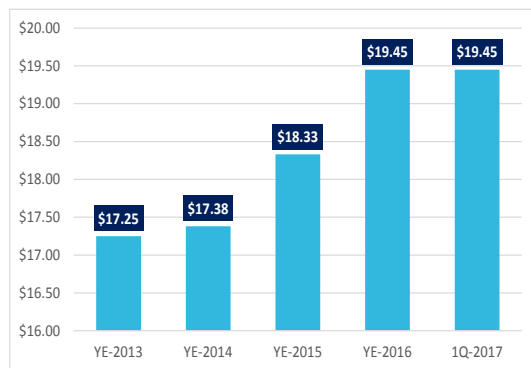
benchmark interest rate by a quarter point, a move that indicates its confidence that the national economy continues to improve. Officials project two more potential hikes over the course of 2017, although any move would be predicated on how the economy is performing. In the meantime, the U.S. stock market has been surging due to reforms expected to come out of Washington, D.C., although relatively flat spending has not resulted in a corresponding spike in economic growth to date.

Office Market Snapshot

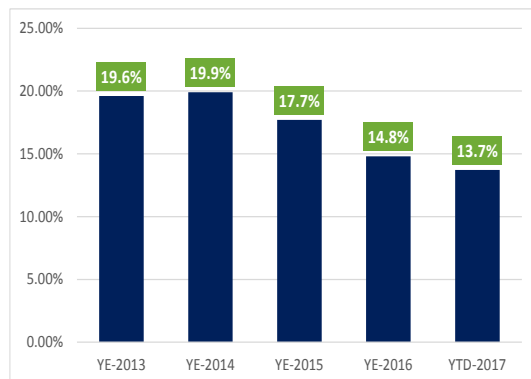
At the close of the first quarter, office fundamentals remained steady with a healthy 1.1 percentage point decline in the direct vacancy rate since year-end 2016 to a current 13.7%, healthy net absorption for the year-to-date of 201,273 square feet (sf), and an incremental uptick in the asking rates

90% of the year's total net absorption to date has occurred in the I-95/9A corridor, and most specifically within the Baymeadows and Southpoint areas.

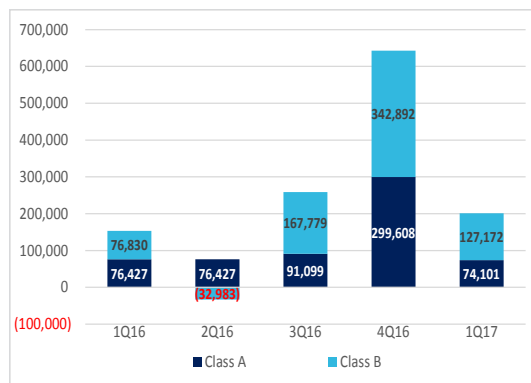
Average Asking Rent Rate (\$/SF/FS)



Direct Vacancy Rate



YTD Net Absorption (SF)



for well positioned class A and B office properties, particularly within the I-95/9A Corridor where the direct weighted average asking rate is up \$0.15 per sf since the close of 2016. Ninety percent of the year's total net absorption to date has occurred in the I-95/9A corridor, and most specifically within the Baymeadows and Southpoint areas. Investment sales activity was insignificant during the first quarter but is expected to pick up as the year progresses.

Activity Slowly Picking up in Downtown Jacksonville

Investment sales activity was slow during the first quarter with only one building trading hands. The historic Herkimer building in downtown Jacksonville's Northbank was purchased by Cambridge Harbor Office, LLC for \$3,600,000 and will be largely leased back to the former owner, CCMS Associates. The Downtown Investment Authority also approved a \$9.8 million incentive package for the redevelopment of downtown Jacksonville's long vacant Laura Street Trio and Barnett Bank buildings, and presented an agreement to the landlord for the Aetna building on the Southbank for the backfilling of a significant portion of the office space being vacated by Aetna when it completes its relocation to the Baymeadows area. One Call Management intends to occupy 83,000 sf of the 135,000 sf being vacated at 9000 Southside. Finally, the long proposed Jacksonville Intermodal Center (JAXIS) will soon be underway as the Jacksonville Transportation Authority plans to begin construction on the first phase in Winter 2017.

Hines Moving Forward with Southside Quarter

A planned mixed-use property situated near St. Johns Town

Center will be known as Southside Quarter. The project, developed by Hines, is being promoted as a market-defining project that will blend office, residential, retail and commercial uses. Two 125,000-sf office buildings are proposed that will be connected to other planned uses in the 110-acre development via a green-space walkway. All planned office space will break ground on a build-to-suit basis.

Looking Ahead

Investment activity during 2017 is expected to continue at a healthy pace as the growing economy supports business fundamentals including rising rents, occupancies and cash flows. REITs actually rallied by over two percent following the latest move by the Federal Reserve, indicating that investors should not fear additional increases yet to come later in 2017. In fact, REITs have generated positive returns in 12 of the last 16 periods when significant interest rate hikes took place. After all, rate hikes indicate a healthy, growing economy and that is a core fundamental for REIT performance. With regard to overall investment activity, capital will continue to flow into the real estate market, albeit at a somewhat slower pace, and investors are now factoring the rising cost of capital into their negotiations.

Startup companies providing flexible lease options and dynamic, configurable spaces will also impact commercial real estate, although their impact is expected to be modest as it is generally the shorter term tenant that is attracted to such options. Landlords willing and able to provide greater flexibility during the lease negotiation process with traditional tenants should be able to overcome their appeal.

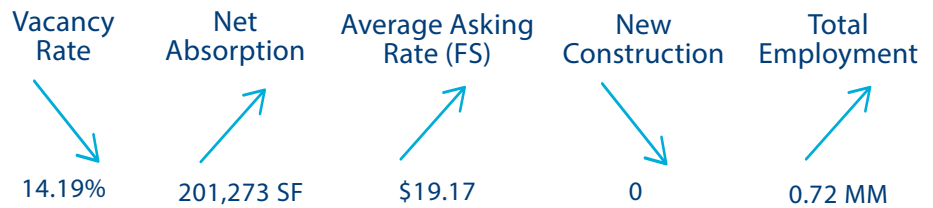
JACKSONVILLE MSA TOTAL									
Class Breakdown	Total RSF	Avg Rent Rate	Direct Vacant SF	% Occupied	% Direct Vacant	% Sublet Vacant	Total Vacancy	Under Construction	YTD Absorption
Class A	11,791,569	\$22.03	1,445,748	87.74%	12.26%	0.49%	12.75%	0	74,101
Class B	13,081,073	\$17.07	1,964,477	84.98%	15.02%	0.47%	15.49%	0	127,172
Jacksonville MSA Total	24,872,642	\$19.17	3,410,225	86.29%	13.71%	0.48%	14.19%	0	201,273
Downtown - Northbank									
Class Breakdown	Total RSF	Avg Rent Rate	Direct Vacant SF	% Occupied	% Direct Vacant	% Sublet Vacant	Total Vacancy	Under Construction	YTD Absorption
Class A	3,603,906	\$21.06	669,113	81.43%	18.57%	0.01%	18.58%	0	12,638
Class B	1,524,311	\$17.39	236,504	84.48%	15.52%	0.66%	16.17%	0	(4,309)
Downtown Northbank Total	5,128,217	\$20.10	905,617	82.34%	17.66%	0.20%	17.86%	0	8,329
Downtown - Southbank									
Class Breakdown	Total RSF	Avg Rent Rate	Direct Vacant SF	% Occupied	% Direct Vacant	% Sublet Vacant	Total Vacancy	Under Construction	YTD Absorption
Class A	2,049,908	\$22.62	81,866	96.01%	3.99%	0.32%	4.31%	0	7,740
Class B	235,094	\$18.50	2,600	98.89%	1.11%	0.00%	1.11%	0	0
Downtown Southbank Total	2,285,002	\$22.49	84,466	96.30%	3.70%	0.28%	3.98%	0	7,740
I-95 / 9A Corridor									
Class Breakdown	Total RSF	Avg Rent Rate	Direct Vacant SF	% Occupied	% Direct Vacant	% Sublet Vacant	Total Vacancy	Under Construction	YTD Absorption
Class A	5,117,454	\$22.55	511,874	90.00%	10.00%	0.98%	10.99%	0	50,920
Class B	6,698,170	\$18.52	713,772	89.34%	10.66%	0.62%	11.28%	0	130,825
Butler/Baymeadows Total	11,815,624	\$20.20	1,225,646	89.63%	10.37%	0.78%	11.15%	0	181,745
Business Park Breakdown	Total RSF	Avg Rent Rate	Direct Vacant SF	% Occupied	% Direct Vacant	% Sublet Vacant	Total Vacancy	Under Construction	YTD Absorption
<i>Baymeadows</i>	4,404,935	\$19.08	497,231	88.71%	11.29%	1.10%	12.39%	0	80,266
<i>Deerwood Park</i>	3,399,380	\$22.68	301,550	91.13%	8.87%	0.04%	8.91%	0	6,578
<i>I-95 Corridor</i>	1,051,388	\$20.79	56,858	94.59%	5.41%	0.00%	5.41%	0	2,108
<i>Southpoint</i>	2,959,921	\$19.60	370,007	87.50%	12.50%	1.43%	13.93%	0	92,793
Mandarin									
Class Breakdown	Total RSF	Avg Rent Rate	Direct Vacant SF	% Occupied	% Direct Vacant	% Sublet Vacant	Total Vacancy	Under Construction	YTD Absorption
Class A	N/A	\$0.00	0	0.00%	0.00%	0.00%	0.00%	0	0
Class B	590,477	\$19.39	67,086	88.64%	11.36%	0.00%	11.36%	0	(6,598)
Mandarin Total	590,477	\$19.39	67,086	88.64%	11.36%	0.00%	11.36%	0	(6,598)
Arlington									
Class Breakdown	Total RSF	Avg Rent Rate	Direct Vacant SF	% Occupied	% Direct Vacant	% Sublet Vacant	Total Vacancy	Under Construction	YTD Absorption
Class A	0	\$0.00	0	0.00%	0.00%	0.00%	0.00%	0	0
Class B	984,575	\$14.25	340,030	65.46%	34.54%	0.44%	0.44%	0	12,755
Arlington Total	984,575	\$14.25	340,030	65.46%	34.54%	0.44%	0.44%	0	12,755
Beaches									
Class Breakdown	Total RSF	Avg Rent Rate	Direct Vacant SF	% Occupied	% Direct Vacant	% Sublet Vacant	Total Vacancy	Under Construction	YTD Absorption
Class A	793,385	\$26.79	118,149	85.11%	14.89%	0.00%	14.89%	0	2,803
Class B	142,397	\$24.00	2,050	98.56%	1.44%	0.00%	1.44%	0	2,810
Beaches Total	935,782	\$26.74	120,199	87.16%	12.84%	0.00%	12.84%	0	5,613
Southside									
Class Breakdown	Total RSF	Avg Rent Rate	Direct Vacant SF	% Occupied	% Direct Vacant	% Sublet Vacant	Total Vacancy	Under Construction	YTD Absorption
Class A	0	\$0.00	0	0.00%	0.00%	0.00%	0.00%	0	0
Class B	1,652,654	\$15.79	373,466	77.40%	22.60%	0.33%	22.92%	0	(12,709)
Southside Total	1,652,654	\$15.79	373,466	77.40%	22.60%	0.33%	22.92%	0	(12,709)
Westside									
Class Breakdown	Total RSF	Avg Rent Rate	Direct Vacant SF	% Occupied	% Direct Vacant	% Sublet Vacant	Total Vacancy	Under Construction	YTD Absorption
Class A	0	\$0.00	0	0.00%	0.00%	0.00%	0.00%	0	0
Class B	376,780	\$20.71	54,573	85.52%	14.48%	0.00%	14.48%	0	10,776
Westside Total	376,780	\$20.71	54,573	85.52%	14.48%	0.00%	14.48%	0	10,776
Northside									
Class Breakdown	Total RSF	Avg Rent Rate	Direct Vacant SF	% Occupied	% Direct Vacant	% Sublet Vacant	Total Vacancy	Under Construction	YTD Absorption
Class A	0	\$0.00	0	0.00%	0.00%	0.00%	0.00%	0	0
Class B	94,608	\$10.25	37,940	59.90%	40.10%	0.00%	40.10%	0	0
Northside Total	94,608	\$10.25	37,940	59.90%	40.10%	0.00%	40.10%	0	0
Clay County									
Class Breakdown	Total RSF	Avg Rent Rate	Direct Vacant SF	% Occupied	% Direct Vacant	% Sublet Vacant	Total Vacancy	Under Construction	YTD Absorption
Class A	85,000	\$0.00	0	0.00%	0.00%	0.00%	0.00%	0	0
Class B	516,169	\$18.89	89,431	82.67%	17.33%	0.00%	17.33%	0	(2,850)
Clay County Total	601,169	\$18.89	89,431	85.12%	14.88%	0.00%	14.88%	0	(2,850)
St Johns County									
Class Breakdown	Total RSF	Avg Rent Rate	Direct Vacant SF	% Occupied	% Direct Vacant	% Sublet Vacant	Total Vacancy	Under Construction	YTD Absorption
Class A	141,916	\$18.45	64,746	54.38%	45.62%	0.00%	45.62%	0	0
Class B	265,838	\$18.09	47,025	82.31%	17.69%	0.00%	17.69%	0	(3,528)
St Johns County Total	407,754	\$18.30	111,771	72.59%	27.41%	0.00%	27.41%	0	(3,528)

CBD									
Class Breakdown	Total RSF	Avg Rent Rate	Direct Vacant SF	% Occupied	% Direct Vacant	% Sublet Vacant	Total Vacancy	Under Construction	YTD Absorption
Class A	5,653,814	\$21.24	771,357	86.36%	13.64%	0.00%	13.64%	0	29,120
Class B	1,806,259	\$17.40	418,018	76.86%	23.14%	0.00%	23.14%	0	5,092
CBD	7,460,073	\$19.89	1,189,375	84.06%	15.94%	0.00%	15.94%	0	34,212
Non-CBD/Suburban									
Class Breakdown	Total RSF	Avg Rent Rate	Direct Vacant SF	% Occupied	% Direct Vacant	% Sublet Vacant	Total Vacancy	Under Construction	YTD Absorption
Class A	6,141,635	\$22.33	721,700	88.25%	11.75%	0.00%	11.75%	0	270,488
Class B	11,409,200	\$17.29	1,801,023	84.21%	15.79%	0.00%	15.79%	0	337,800
Non-CBD/Suburban	17,550,835	\$18.73	2,522,723	85.63%	14.37%	0.00%	14.37%	0	608,288

Reporting Methodology: This report includes all class 'A' and 'B' office buildings and parks 20,000 SF and greater in the Jacksonville MSA that are not owner occupied, office medical, or government owned. All rents are reported on a full-service gross basis. The information in this report has been collected by the Avison Young research team via sources that are deemed reliable but is not guaranteed.

Investment activity during 2017 is expected to continue at a healthy pace as the growing economy supports business fundamentals including rising rents, occupancies and cash flows.

Leading Indicators (Y-O-Y 1Q-2016 to 1Q-2017)



Significant First Quarter 2017 Lease Transactions - Sorted by SF

Tenant	Property	Type	SF	Submarket
Formativ (Northwell Health)	Butler Plaza III	New	76,075	I-95/9A Corridor
CSX	6680 Southpoint Pkwy	New	56,460	I-95/9A Corridor
Arizona Chemical Company	9000 Southside - Bldg 100	New	36,348	I-95/9A Corridor
A. Harold and Associates	7595 Baymeadows Way	New	24,898	I-95/9A Corridor
NY Life Insurance	Centurion Centre I	New	18,183	I-95/9A Corridor
Logistics Company	Bowden Commerce Center 200	New	14,842	I-95/9A Corridor
Undisclosed	Prominence Building 400	New	12,500	I-95/9A Corridor

Significant First Quarter 2017 Sales Transactions - Sorted by Sale Price

Property	SF	Sale Price	Price/SF	Buyer	Submarket
The Herkimer Bldg	29,000	\$3,600,000	\$124	Cambridge Harbor Office, LLC	Northbank

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