

Off to a Slow Start, Jacksonville's Office Market is Well Positioned for a Strong 2019

Healthy economic fundamentals, steady leasing and an increased sense of enthusiasm characterized the Jacksonville office market during 2018. Jacksonville's economy continues to perform, adding nearly 30,000 jobs over the last two years, during which time the unemployment rate has declined 90 basis points to a current 3.4%. Zillow/CBS News also recently ranked Jacksonville as a 'Top 10 Hottest U.S. Housing Market'. Within the urban core, older and functionally inefficient properties are slowly being redeveloped into viable office and mixed-use product, and the Barnett Bank building recently completed its renovation from a dated property into modernized multi family and class A office space while retaining its historical character.

Leasing activity has been steady, additional speculative construction is on the horizon, and investors continue to scour the market for opportunities, confident that they will earn better returns in Jacksonville than they can in South Florida, Orlando or Tampa. During the trailing 12-month period ending March 2019, asking rents are up \$1.19 per sf, or 5.6%, across all properties, with class A rents up 3.9% over the same period. Net absorption was negative at the close of the quarter, due in large part to space rollover that typically occurs during the first quarter of the year. Some of that negative absorption should abate over the next quarter, although the larger blocks of space may take longer to be absorbed. The office market remains favorable for landlords, a trend expected to continue throughout 2019, and exciting plans are on the horizon for Downtown Jacksonville and the I-95/9A Corridor.



Jacksonville was recently rated the **#4 Best City for Job Seekers in 2019** by *Forbes Magazine*

Office Market Snapshot

- An Atlanta developer announced plans during the first quarter for a \$300 million mixed-use development on the site of the Skinner family land located at I-295 and J. Turner Butler Blvd. Fuqua Development's ('Fuqua') proposed project would include 100,000 sf of new office space, along with 350,000 sf of retail, a 20,000-sf food hall, two hotel sites and up to 700 multifamily units. As Fuqua has not yet closed on the 67-acre parcel, groundbreaking will not occur until 2020.
- Asking rental rates have experienced healthy gains, growing by 5.6% in the trailing 12-month period ending with the first quarter of 2019, and the overall vacancy rate has remained flat, declining by only 4 basis points during the same period of time.
- Leasing activity has been picking up in the urban core, due in no small part to several banking-related moves. U.S. Trust Bank of America leased the 36th floor in the Bank of America Tower, and SunTrust Banks, Inc. will be moving into their vacated space. VyStar Credit Union will also be expanding into 100 W Bay St, the current home of SunTrust in Jacksonville, following their acquisition of the building.
- It was reported in March that an international IT company is seeking nearly \$1 million in state and local incentives to relocate its headquarters and distribution facilities to Jacksonville. Code named "Project Liberty", the company projects the creation of nearly 200 jobs by the end of 2021 and already has a presence in the market.
- The Federal Reserve ('Fed') reversed course from its median interest rate forecast in 2018 where it had implied the likelihood of two additional interest rate hikes during 2019. The Fed decided to leave the target range for the Federal Funds rate unchanged between 2.25 and 2.5 percent, where it has been since December in a move widely expected by economists. While U.S. economic growth remains strong, external risks remain including the fate of Brexit, US-China trade relations, and tensions at the southern border.

25.5 MSF

Total office inventory in the Jacksonville office market

(111,328) SF

Direct Y-T-D net absorption as of 1Q-2019

12.33%

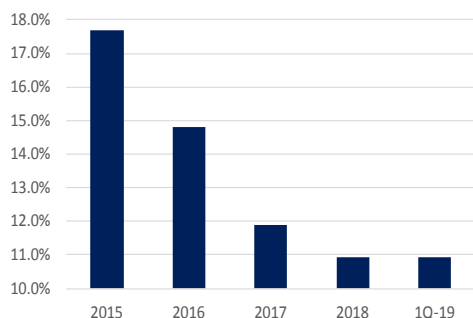
Overall Vacancy

\$23.15/SF/FS

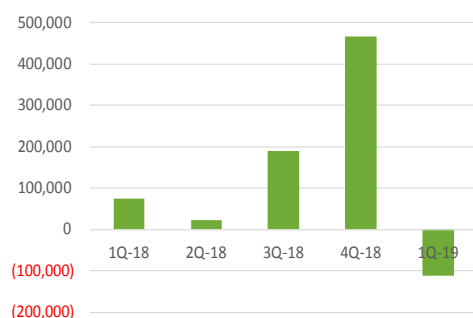
Average rental rate for class A space

Statistical Snapshot

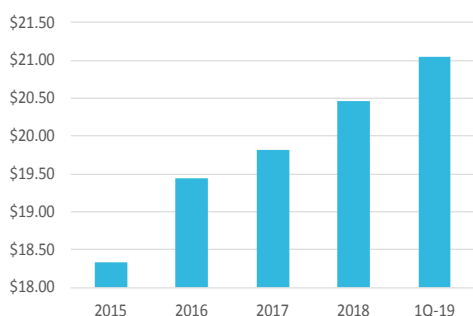
Direct Vacancy Rate



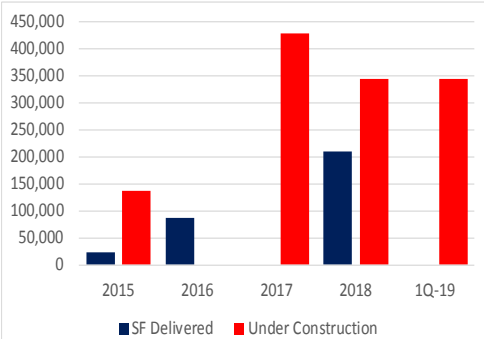
YTD Net Absorption (SF)



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



Construction Pipeline



Jacksonville Office Market At A Glance

Demographics & Economy



126.1 million

Number of visitors to Florida during 2018, breaking a record for the 8th year in a row

29,734

increase in total non-farm employment over trailing 24 months

54,000

new professional and business services jobs added in Florida during 2018

3.5%

FEB-2018
change in Jacksonville's unemployment rate



3.4%

FEB-2019

Development

'THE DISTRICT' IS MOVING FORWARD

The 30-AC mixed-use project on the Southbank is expected to break ground in late Spring 2019



971



new multifamily units have been built downtown since 2014 and are currently 96% occupied



344K

square feet currently under construction



1,100+ new hotel rooms planned or built in and around Downtown Jacksonville during 2018

Market Influencers



\$291 million

in total office sales volume during the T-12 months ending 1Q19



5.6%

average rental rate increase over the trailing 12-months ending 1Q-2019



Jacksonville is becoming increasingly attractive to institutional investors



55,000

number of employees working in Downtown Jacksonville



4th Place

Manpower Group North America's *Employment Outlook Survey* ranked Jacksonville as the 4th best market in the country for 2019

JACKSONVILLE OFFICE MARKET STATISTICS

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	11,791,569	1,290,459	111,628	\$22.24	89.06%	10.94%	0.95%	11.89%	428,710	32,632
Class B	13,047,551	1,590,874	78,470	\$17.92	87.81%	12.19%	0.60%	12.79%	0	42,775
Total	24,839,120	2,881,333	190,098	\$19.86	88.40%	11.60%	0.77%	12.37%	428,710	75,407

Arlington

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	984,575	163,626	0	\$13.14	83.38%	16.62%	0.00%	16.62%	0	0
Total	984,575	163,626	0	\$13.14	83.38%	16.62%	0.00%	16.62%	0	0

Beaches

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	650,634	48,273	0	\$25.60	92.58%	7.42%	0.00%	7.42%	0	1,133
Class B	142,397	4,290	0	\$24.00	96.99%	3.01%	0.00%	3.01%	0	(500)
Total	793,031	52,563	0	\$25.47	93.37%	6.63%	0.00%	6.63%	0	633

Clay County

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	85,000	0	0	\$0.00	100.00%	0.00%	0.00%	0.00%	0	0
Class B	516,169	64,903	0	\$18.96	87.43%	12.57%	0.00%	12.57%	0	(1,400)
Total	601,169	64,903	0	\$18.96	89.20%	10.80%	0.00%	10.80%	0	(1,400)

Downtown - Northbank

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	3,603,906	583,970	3,489	\$21.40	83.80%	16.20%	0.10%	16.30%	0	24,015
Class B	1,462,240	146,544	0	\$19.35	89.98%	10.02%	0.00%	10.02%	0	31,291
Total	5,066,146	730,514	3,489	\$20.99	85.58%	14.42%	0.07%	14.49%	0	55,306

Downtown - Southbank

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	2,049,908	154,053	29,023	\$22.56	92.48%	7.52%	1.42%	8.93%	0	4,318
Class B	235,094	31,019	0	\$20.24	86.81%	13.19%	0.00%	13.19%	0	(858)
Total	2,285,002	185,072	29,023	\$22.17	91.90%	8.10%	1.27%	9.37%	0	3,460

I-95 / 9A Corridor

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	5,117,454	424,285	79,116	\$22.91	91.71%	8.29%	1.55%	9.84%	428,710	3,166
Class B	6,673,059	677,801	78,470	\$19.20	89.84%	10.16%	1.18%	11.33%	0	11,700
Total	11,790,513	1,102,086	157,586	\$20.63	90.65%	9.35%	1.34%	10.68%	428,710	14,866

Park Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Baymeadows	4,420,549	462,114	82,061	\$19.51	89.55%	10.45%	1.86%	12.31%	0	(27,080)
Deerwood Park	3,399,380	294,307	31,332	\$22.96	91.34%	8.66%	0.92%	9.58%	378,700	8,496
I-95 Corridor	1,051,388	57,765	0	\$21.50	94.51%	5.49%	0.00%	5.49%	50,010	(4,975)
Southpoint	2,919,196	287,900	44,193	\$19.85	90.14%	9.86%	1.51%	11.38%	0	38,425

Mandarin

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	644,137	87,503	0	\$19.01	86.42%	13.58%	0.00%	13.58%	0	2,380
Total	644,137	87,503	0	\$19.01	86.42%	13.58%	0.00%	13.58%	0	2,380

Nocatee

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	142,751	32,437	0	\$28.00	77.28%	22.72%	0.00%	22.72%	0	0
Class B	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Total	142,751	32,437	0	\$28.00	77.28%	22.72%	0.00%	22.72%	0	0

Northside

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	94,608	3,360	0	\$12.00	96.45%	3.55%	0.00%	3.55%	0	0
Total	94,608	3,360	0	\$12.00	96.45%	3.55%	0.00%	3.55%	0	0

St Johns County

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	141,916	47,441	0	\$18.25	66.57%	33.43%	0.00%	33.43%	0	0
Class B	265,838	25,489	0	\$18.16	90.41%	9.59%	0.00%	9.59%	0	2,548
Total	407,754	72,930	0	\$18.22	82.11%	17.89%	0.00%	17.89%	0	2,548

Southside

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	1,652,654	330,149	0	\$16.35	80.02%	19.98%	0.00%	19.98%	0	1,414
Total	1,652,654	330,149	0	\$16.35	80.02%	19.98%	0.00%	19.98%	0	1,414

Westside

Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	0	0	0	\$0.00	0.00%	0.00%	0.00%	0.00%	0	0
Class B	376,780	56,190	0	\$17.68	85.09%	14.91%	0.00%	14.91%	0	(3,800)
Total	376,780	56,190	0	\$17.68	85.09%	14.91%	0.00%	14.91%	0	(3,800)

Asking rental rates within the CBD have risen 5.4% over the trailing 12-month period ending March 2019, while class A rates in the urban core have increased by 5.2%.

Leading Indicators (Y-O-Y 1Q-2018 to 1Q-2019)

Vacancy Rate	Net Absorption	Average Asking Rate (FS)	New Construction	Total Employment
12.33%	(111,328) SF	\$21.05	343,700 SF	0.74 MM

CBD										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	5,713,814	768,677	0	\$22.83	86.55%	13.45%	0.00%	13.45%	0	(23,480)
Class B	1,558,518	134,218	0	\$20.20	91.39%	8.61%	0.00%	8.61%	0	(8,151)
Total	7,272,332	902,895	0	\$22.44	87.58%	12.42%	0.00%	12.42%	0	(31,631)

Non-CBD / Suburban										
Class Breakdown	Total RSF	Direct Vacant SF	Sublet Vacant SF	Asking Rate	% Occupied	% Vacant	% Sublet Vacancy	% Total Vacancy	Under Construction	Net Absorption
Class A	6,600,711	685,813	153,248	\$23.51	89.61%	10.39%	2.32%	12.71%	343,700	(112,448)
Class B	11,614,799	1,198,236	202,240	\$18.59	89.68%	10.32%	1.74%	12.06%	0	32,751
Total	18,215,510	1,884,049	355,488	\$20.38	89.66%	10.34%	1.95%	12.29%	343,700	(79,697)

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.

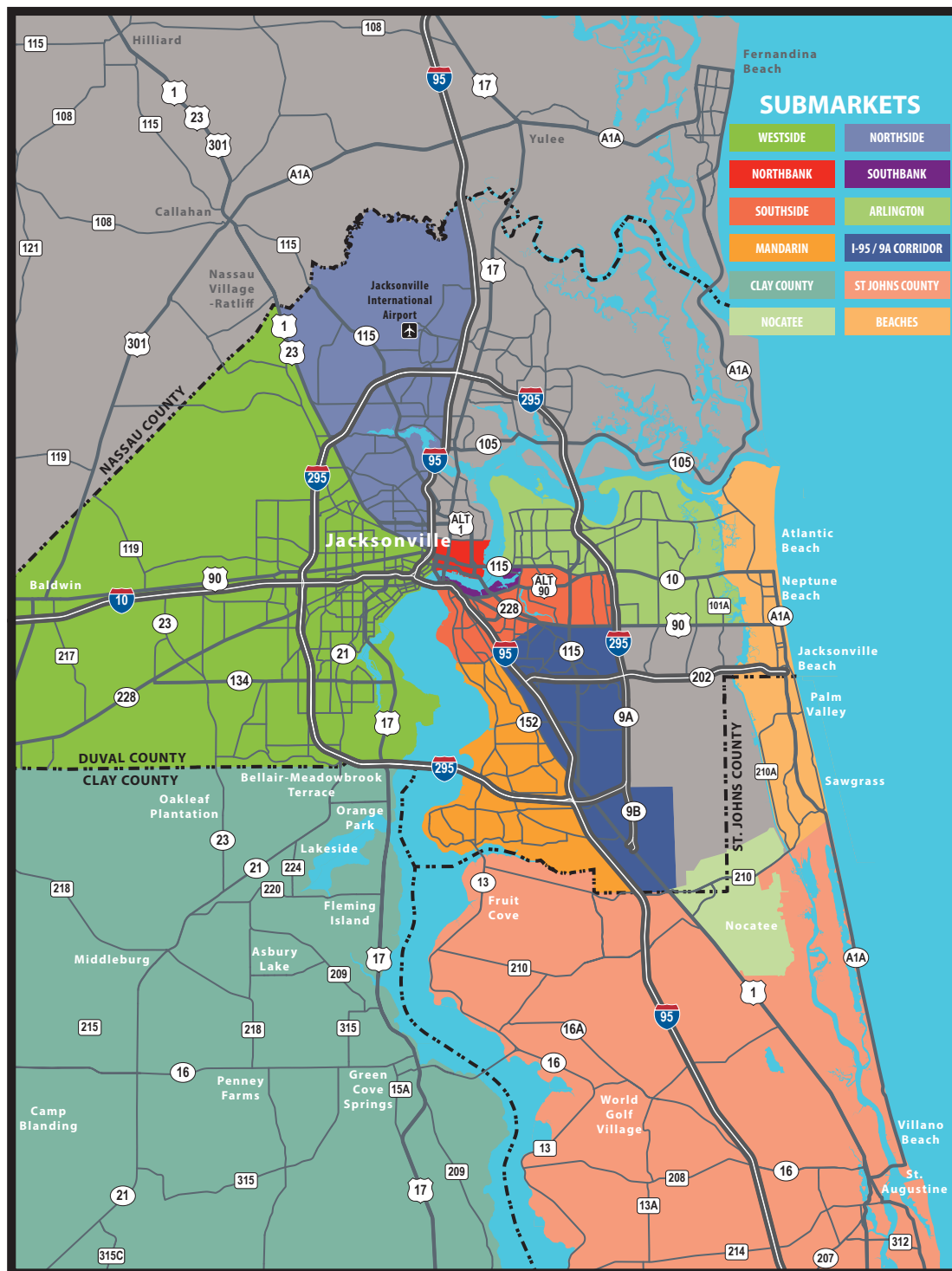
Significant First Quarter 2019 Lease Transactions - Sorted by SF

Tenant	Property	SF	Type	Submarket
Ally Bank	12808 Gran Bay Pky W	112,306	Expansion	I-95 Corridor
Intuition, LLC	6735 S Southpoint Dr	36,299	New	Southpoint
Pacesetter Claims	Baymeadows Way Business Ctr	15,000	New	Baymeadows
PopHealthCare*	Avenues Two	11,110	Renewal	Baymeadows
Insight Global	Town Center One	10,205	New	Deerwood Park
Valley National Bank*	10739 Deerwood Park Blvd	8,022	Renewal	Deerwood Park
Claim Central	Town Center One	5,482	New	Deerwood Park
Automobile Marketing Company	Oaks at Southpoint	5,246	New	Southpoint
Benesch Engineering	One Enterprise Tower	3,990	New	Downtown Northbank

* Avison Young handled this transaction

Significant First Quarter 2019 Sales Transactions - Sorted by Sale Price

Property	SF	Sale Price	Price/SF	Buyer	Submarket
100 W Bay St	75,744	\$5,000,000	\$66	VyStar Credit Union	Downtown Northbank
6800 Southpoint Pky <i>Sale also included a 2.11-ac land parcel</i>	78,859	\$3,800,000	\$48	Real Capital Solutions, Inc.	Southpoint



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