

MARKET REPORT

Office
Jacksonville Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

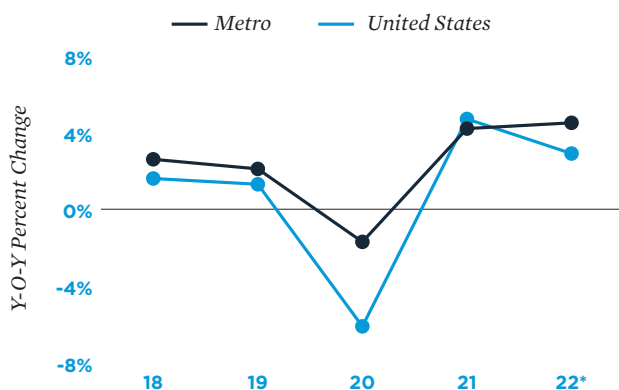
2Q/22

Record Levels of Net Absorption Signal a Brighter Future in Jacksonville's Office Sector

Demand returns in force. Net absorption exceeded 1 million square feet in 2021 for the first time on record and is on pace to surpass that threshold again this year. Over the past 12 months ending in March 2022, firms were most active leasing space in the Southside, due to the area's diverse collection of floor plans. Furthermore, leasing velocity recently surged in the Butler-Baymeadows submarket, with tenants taking more than 220,000 square feet off the market and slicing 230 basis points off the local vacancy rate in the first quarter alone. Notable signings in these locales included Treace Medical Concepts and Adecco, each committing to at least 80,000 square feet of space within the past two quarters. Jacksonville is well positioned to sustain this momentum as the metro's talented labor force, population growth and regionally discounted rents offer expanding firms an attractive alternative to Florida's more expensive markets.

Development soars to 13-year high. New office construction in Jacksonville is well above the metro's trailing 10-year average of 330,000 square feet per annum. The bulk of near-term deliveries are slated for Downtown Northbank, highlighted by individual headquarters for FIS and JEA, totaling over 530,000 square feet combined. The build-to-suit nature of the active pipeline suggests upcoming supply will have minimal impact on overall fundamentals. Instead, high pre-leasing activity accounting for new builds will require expanding firms to browse the metro's existing stock, stimulating a second consecutive year of annual vacancy compression.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



**34,000
JOBS**
will be created

EMPLOYMENT:

Firms are on pace to expand the workforce by 4.5 percent in 2022, having added roughly 12,600 jobs through the first four months. By year-end, the rate of hiring will support the creation of 10,000 new positions in traditional office-using sectors.



**1,025,000
SQ. FT.**
will be completed

CONSTRUCTION:

Deliveries this year are projected to outpace supply additions in 2021 and exceed the trailing 10-year average by nearly 700,000 square feet. At 1.7 percent, year-over-year inventory expansion will be the largest recorded since 2008.



**50
BASIS POINT**
decrease in vacancy

VACANCY:

Net absorption is projected to surpass 1 million square feet for the second straight year, lowering availability to 13.5 percent in 2022. However, the rate will still remain 180 basis points above the metro's pre-pandemic rate.

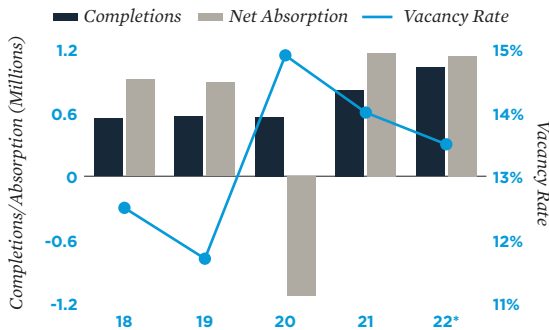


**2.9%
INCREASE**
in asking rent

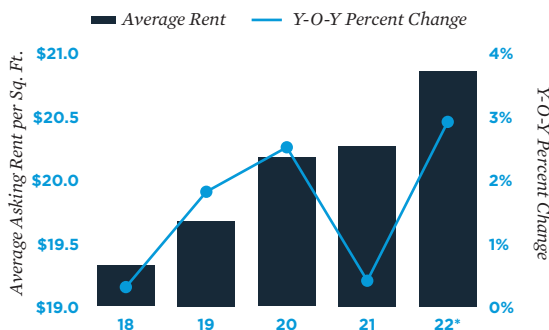
RENT:

Building off last year's modest rent gain of 0.4 percent, the average asking rent in Jacksonville rises to \$20.85 per square foot in 2022. Still, marketed rates are roughly 14 percent lower than all other major Florida metros on average.

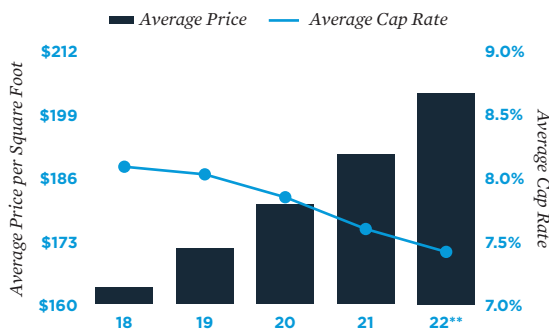
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

418,000 sq. ft. completed

- Developers increased office inventory by 0.8 percent over the past 12 months ending in March, with the bulk of supply additions delivering in the metro's suburban submarkets.
- The Orange Park-Clay County and Beaches submarkets received the bulk of completions during the past four quarters.



VACANCY

80 basis point decrease in vacancy Y-O-Y

- Driven by a 100-basis-point decrease in Class B/C offices, overall vacancy in Jacksonville fell to 13.6 percent. The Class A sector also registered compression, as tenants absorbed 127,000 square feet of high-quality space.
- Local vacancy in the Southside and St. Johns County each declined by at least 200 basis points during the same interval.



RENT

0.7% increase in the average asking rent Y-O-Y

- Rent growth slowed over the past 12 months relative to the previous year-long period when the average asking rate rose 2.5 percent. Entering April, the metro's mean marketed rent sat at \$20.29 per square foot.
- The average asking rent in the suburbs rose 2.9 percent during this span, while the CBD's mean rate grew by just 0.6 percent.

Investment Highlights

- Transaction velocity has accelerated in recent quarters, with overall investment activity reaching a two-decade high over the past 12 months ending in March. The average sale price rose roughly 11 percent during this span to \$203 per square foot, compressing the average cap rate 30 basis points to the mid-7 percent range. Entry costs in Jacksonville are at least 16 percent lower than any other major Florida metro, which is creating a competitive bidding environment. Additionally, first-year returns are roughly 40 basis points higher than other major markets in the state, a huge draw to yield-driven investors.
- Buyers seeking Class A assets are often active in Southside Jacksonville, the metro's largest submarket by inventory. Buildings comprising more than 100,000 square feet that are at least 80 percent leased are changing hands most frequently, with pricing typically above \$200 per square foot.
- Strong leasing activity in Butler-Baymeadows and Orange Park-Clay County has heightened investor interest in both submarkets. Class B/C offices under 50,000 square feet are providing buyers with first-year returns that average in the high-7 percent range. Most of these trades fall within the \$1 million to \$10 million price tranche.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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