



AVISON
YOUNG

Jacksonville Office Insight Report

Q2 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Reopening efforts and steadily rising vaccination rates have enabled Jacksonville's unemployment rate to rebound from a high of 11.5% to **4.4%**, although work from home strategies still vary widely by company.
- Office-using job gains have totaled **1.1%** compared with job losses of 3.1% for other industries, underscoring the disproportionate impact the pandemic had on the discretionary segments of the local economy.



Recovery rate

- Florida was ranked **#4** in a WalletHub study of the top U.S. states for their rates of recovery, with industries gaining the most jobs over the year including leisure and hospitality, professional and business services, and trade, transportation and utilities.
- While the pandemic has had a considerable effect on Florida's population, its effect on the business economy was lessened (compared to markets like New York and California) as the state has been largely open for the last few quarters, enabling the business base to return to work and begin to move deals forward.



Office demand

- A majority of current leasing activity is comprised of smaller deals under **10,000 sf**, requiring multiple deals to backfill larger floor plates that have been placed on the market.
- Sublease opportunities will continue to come on the market for the remainder of the year, coming primarily from large corporate users looking to downsize their footprints.
- Dun & Bradstreet announced in May that it would be moving its headquarters to Jacksonville, bringing **500** jobs. It was later announced that the company would acquire Town Center II to house its new operations.

Key takeaways



Office supply

- Direct and sublease vacancy are at their highest point in nine years, totaling **19.2%**.
- At first glance, the sublease market in Jacksonville appears to be one of the most saturated in Florida, comprised of nearly **800,000 sf**. A closer look reveals that many sublease listings are comprised of larger blocks of space, the most notable of which is 500,000 sf through Florida Blue, along with another block of 130,000 sf in Deerwood North as Comcast elected to remain remote and did not elect to renew its lease.



Pricing trends

- Base rents have increased by **1.0%** from peak-to-trough as landlords secured new tenant commitments and lease renewals through favorable lease terms, and much of the increase is due to an increase in higher-priced class A space.
- Some caution regarding lease term remains but there is a trend back toward normal with lease terms from 3 – 10 years back on the table. Concessions of 3 months on a 5-year term are also common.



Capital markets

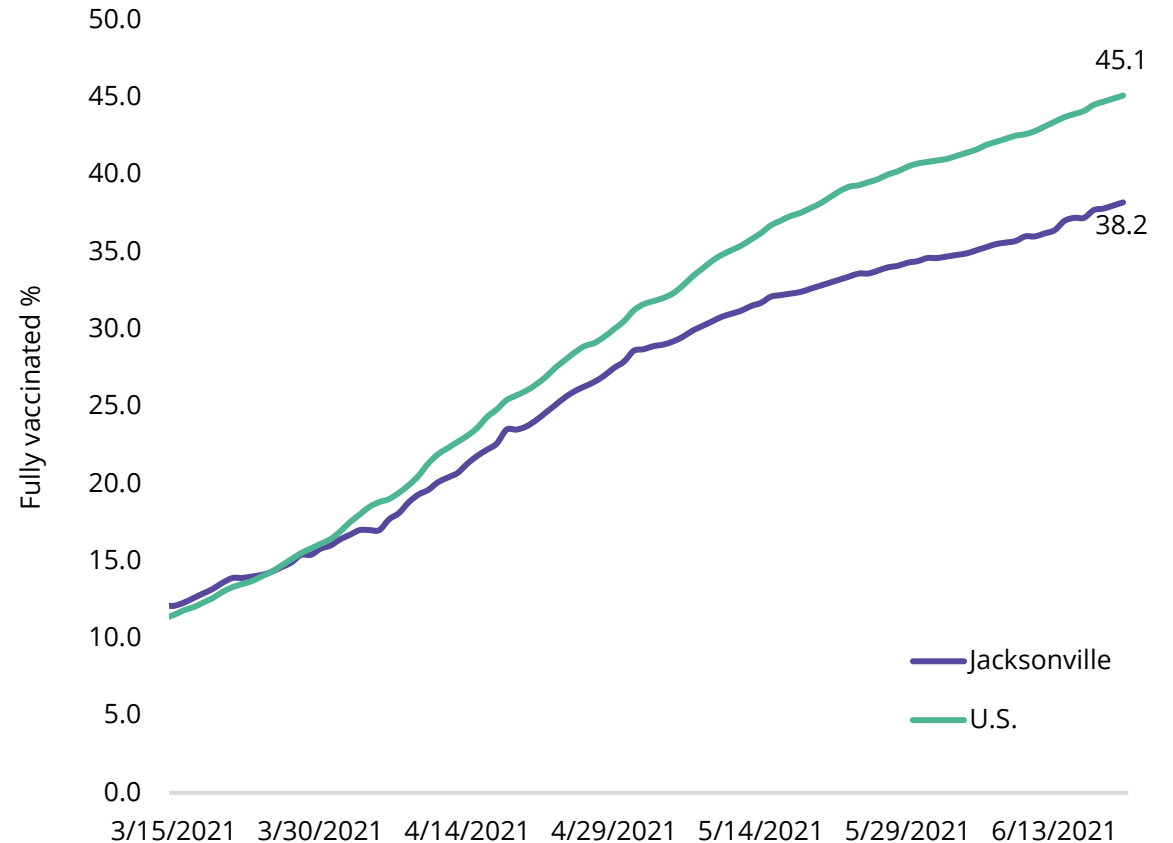
- Office investment activity has been steady in Jacksonville, with total transaction volume of **\$372 million** for the period from Jan 2020 through Jun 2021.
- The most prominent sale during 2Q 2021 was the acquisition of the 218,700-sf Town Center II building in Deerwood Park by Dun & Bradstreet for its newly announced Jacksonville HQ. While the sales price has not yet been recorded, the building previously sold to TPG Real Estate in early 2020 for \$64.5 million and is currently home to SoFi.

Vaccination rates

38.2%

Share of total Jacksonville population that is fully vaccinated

While the data seems to indicate that the proportionate vaccination rate for Jacksonville lags the U.S. average, it only covers which residents got vaccinated in the county in which they reside. As many traveled to adjacent counties, exact numbers are difficult to determine.



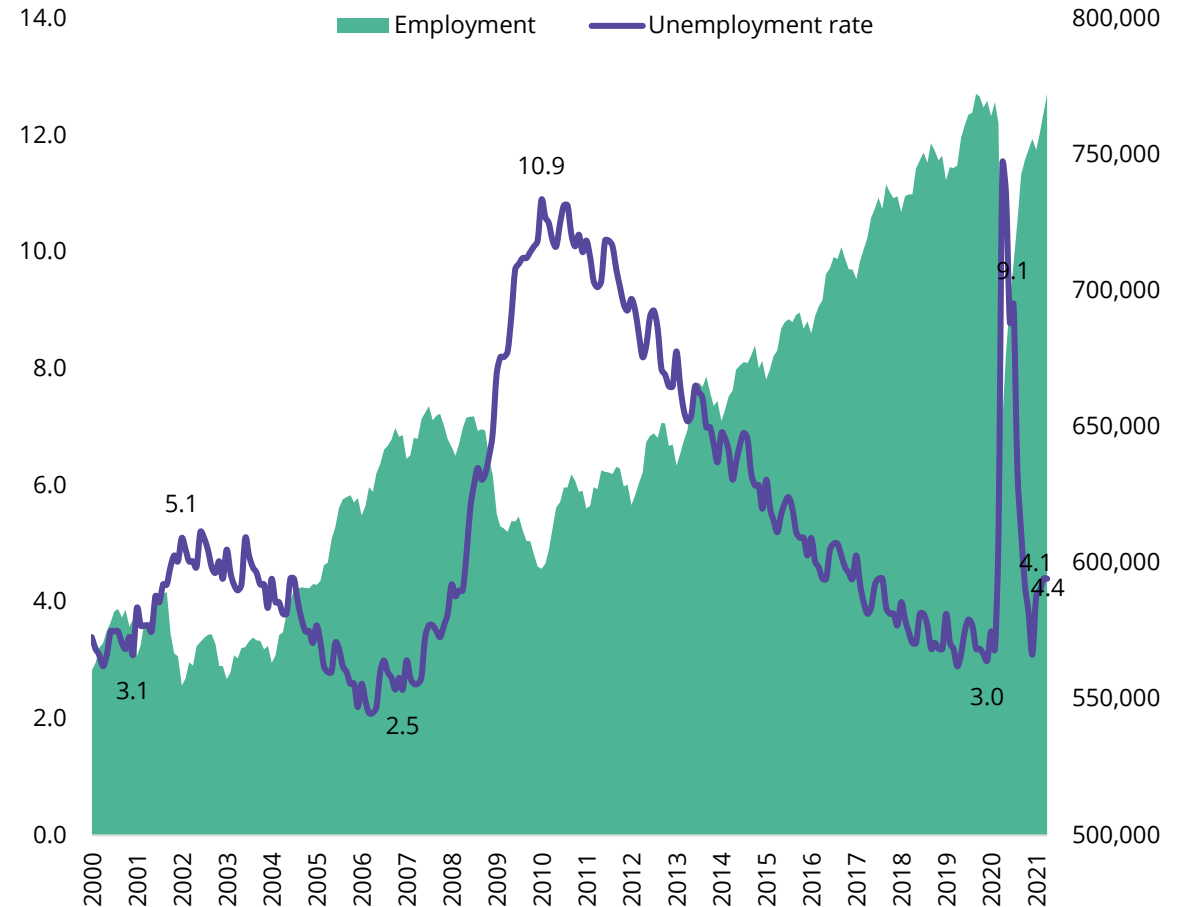
Source: CDC

Employment and unemployment rate

4.4%

Jacksonville unemployment rate as of April 2021, down 1700 bps since the record high reached in April 2020

Historically tightened labor market conditions were halted by the pandemic with nearly 118,000 job losses between February and April 2020. However, reopening efforts have enabled the economy to add over 120,000 jobs since May 2020.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

1.1%

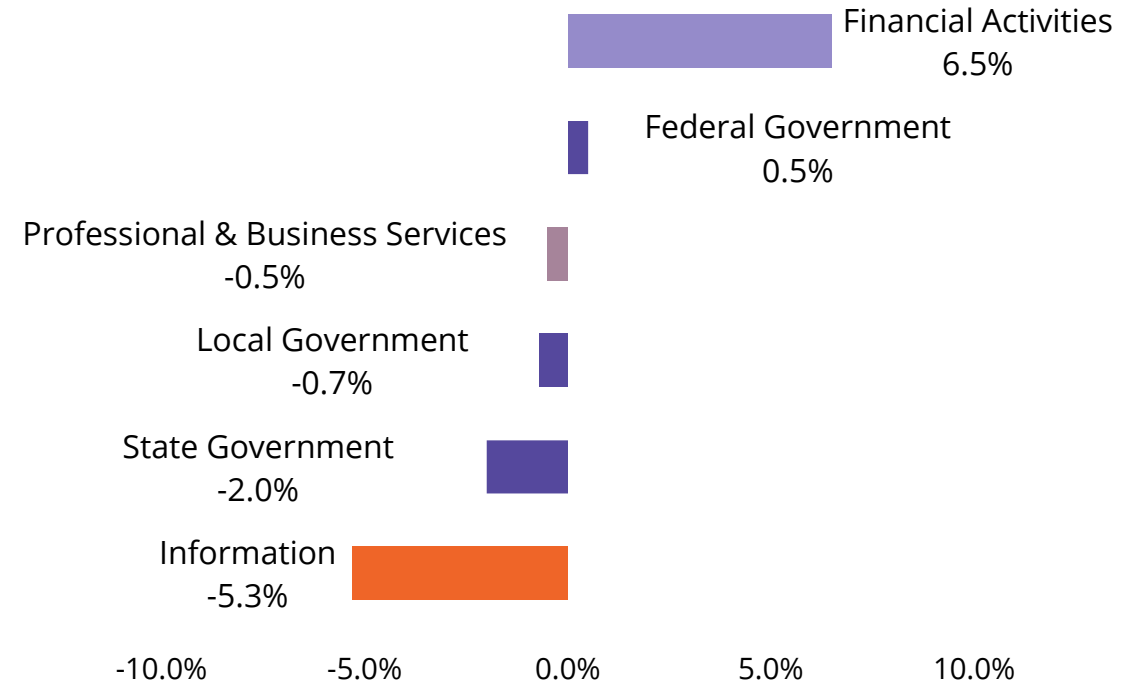
Change in office-using employment during the pandemic

Office-using jobs in the Jacksonville MSA have grown by 1.1% since the start of the pandemic, with the greatest increase in Financial Activities – a sector that contracted significantly during the previous recession when job losses totaled -8.8%.

[VIEW DASHBOARD](#)

Total change in Jacksonville* job gains/(losses)

February 2020 to April 2021



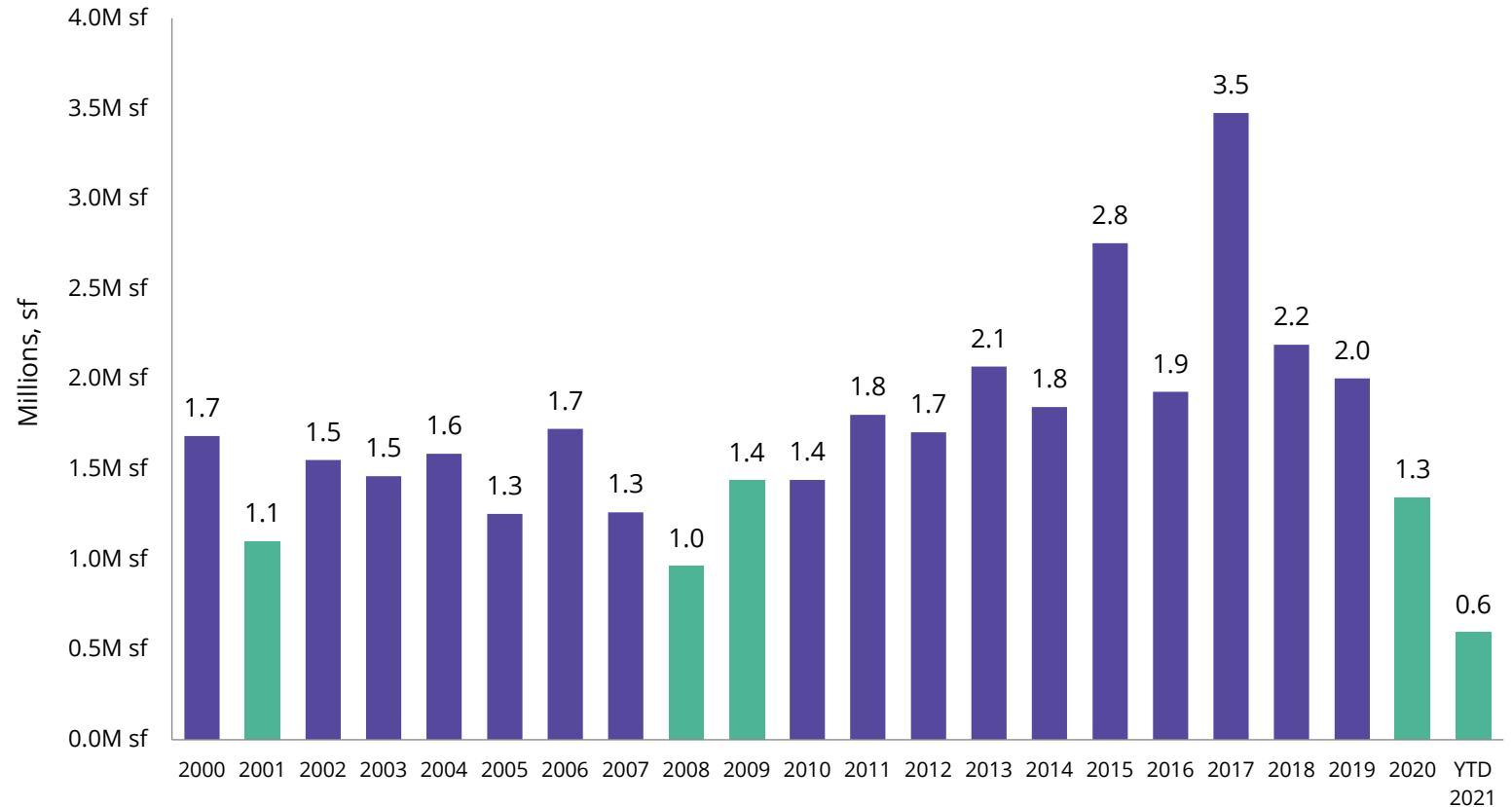
Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Office leasing activity

44.3%

**Year-to-date 2021
leasing activity
compared to YE-2020**

While leasing activity at the midway point of the year has fallen short of being half of the prior year's activity, leasing interest remains steady and should pick up through the remainder of the year.



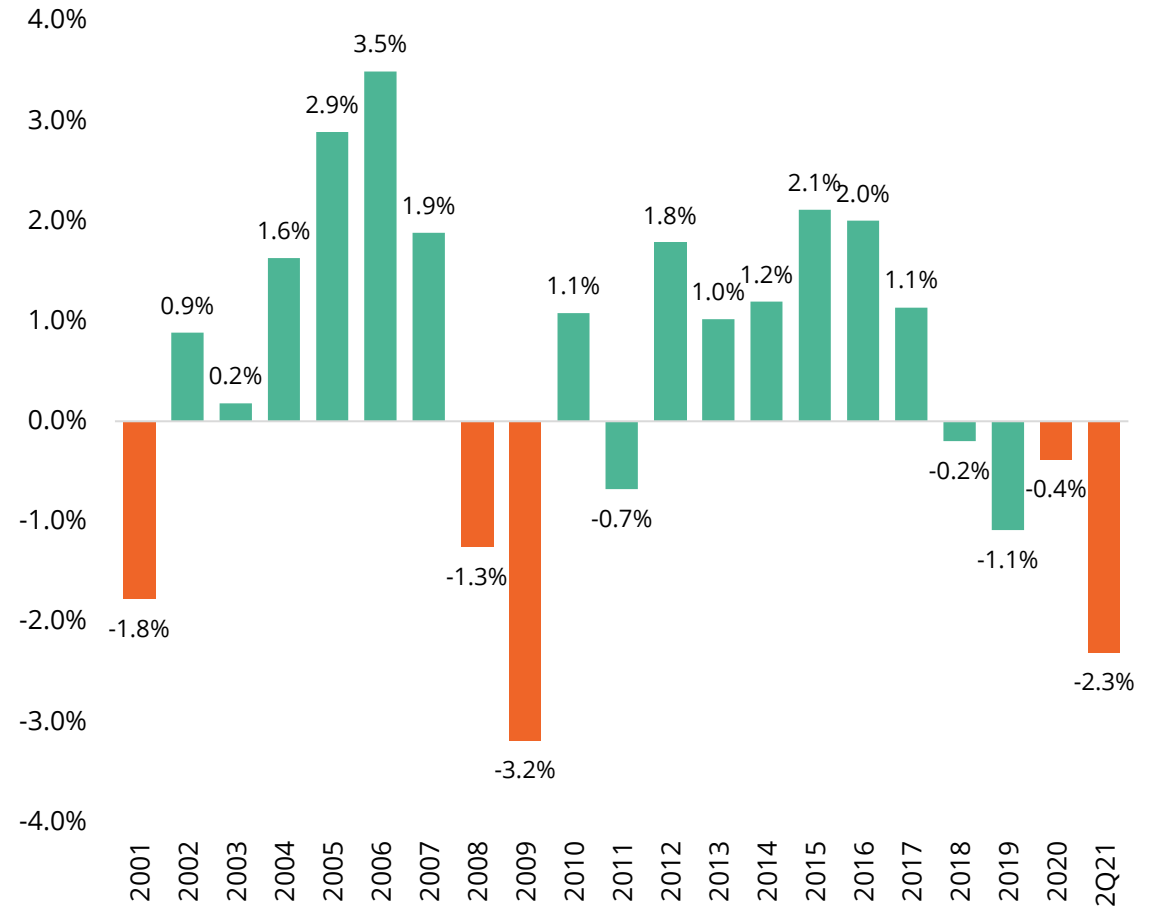
Source: AVANT by Avison Young

Absorption

-2.7%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Negative absorption from 2020 to 2Q21 has totaled 717,090 sf, totaling -2.7% of the existing stock. This negative absorption has not yet reached the low of the global financial crisis (-3.2%) but has surpassed the low of the early 2000's recession (-1.8%).



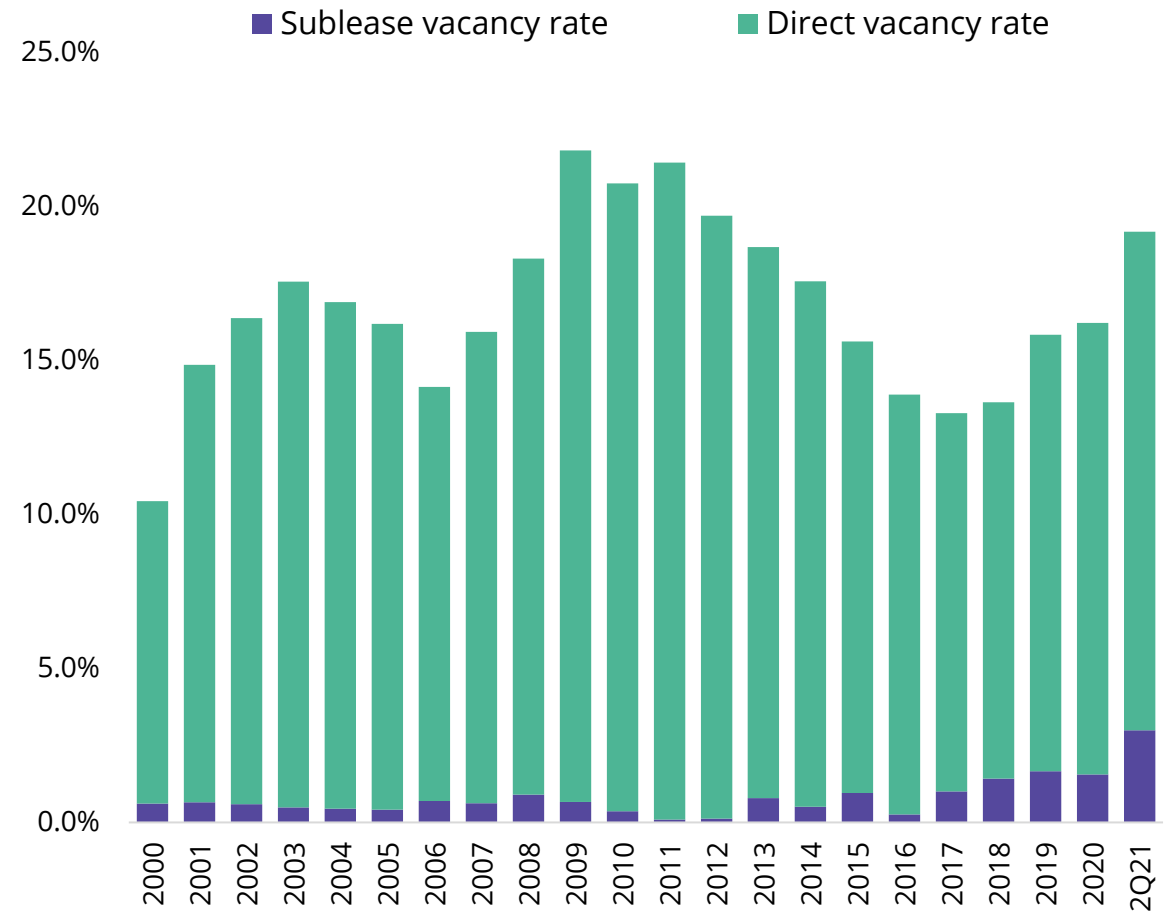
Source: AVANT by Avison Young

Vacancy rate

19.2%

Current vacancy at the highest level in 9 years

The Q2 2021 vacancy rate is at its highest point since 2012 but remains well below the 21.8% recorded in 2009, which was the highest rate in the previous 20-yr period. Overall rents for the current quarter have increased by 0.2% Y-o-Y.



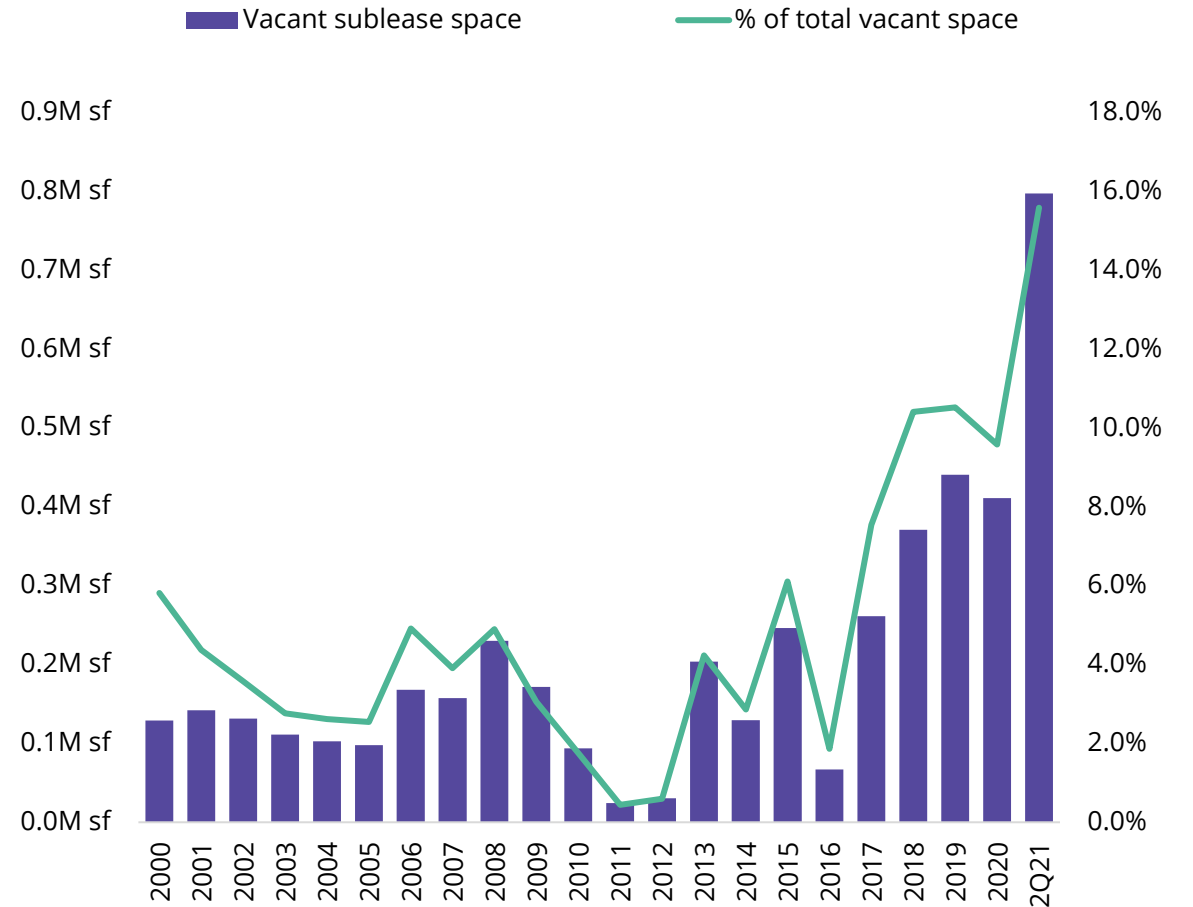
Source: AVANT by Avison Young

Vacant sublease space

0.8 msf

Record levels of sublease vacant space

The share of sublease-to-total vacant space of 15.6% has surpassed the peak of 4.9% from the global financial crisis and 5.8% from the early 2000's recession, however it is primarily comprised of a few large blocks of space.

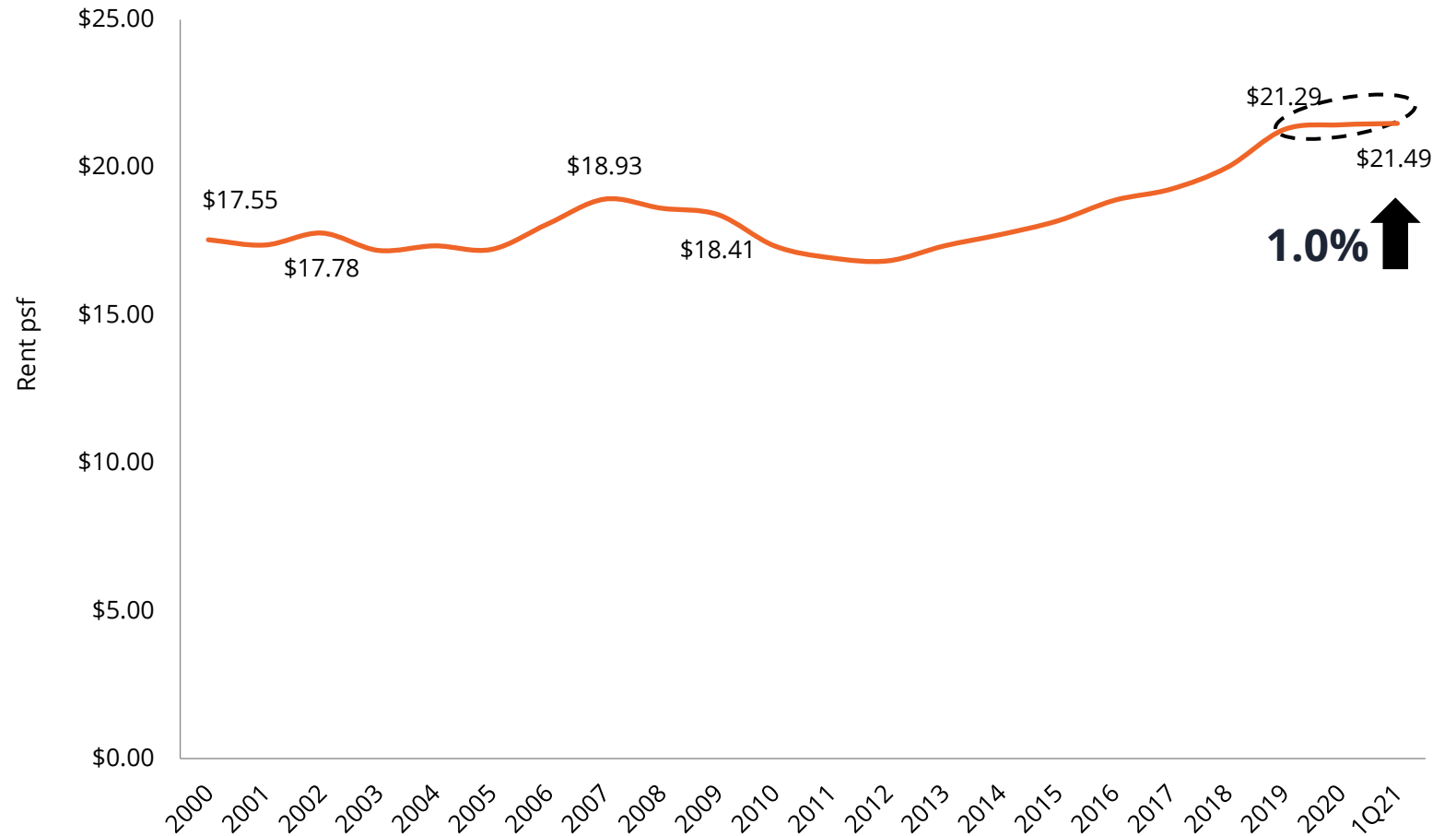


Source: AVANT by Avison Young

1.0%

Peak-to-trough change in rents since the onset of the pandemic

Base rents have increased incrementally since the onset of the pandemic and the resulting recession due in part to an increased supply of class A space, which is the opposite of what occurred in the last recession.



Source: AVANT by Avison Young

Jacksonville's construction pipeline

6 properties

proposed or under construction

1.7 msf

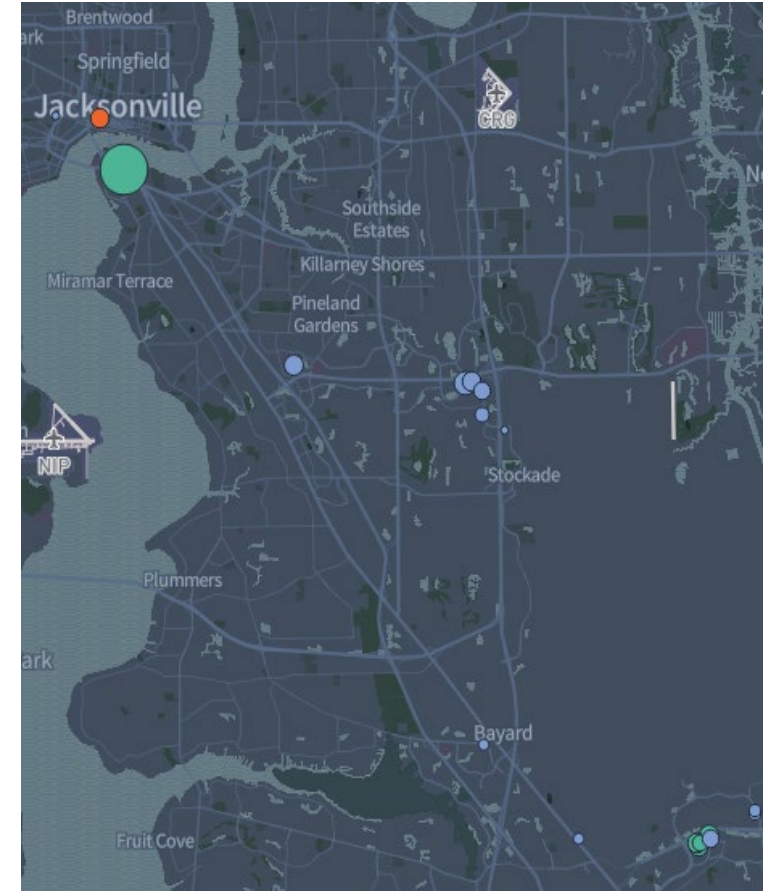
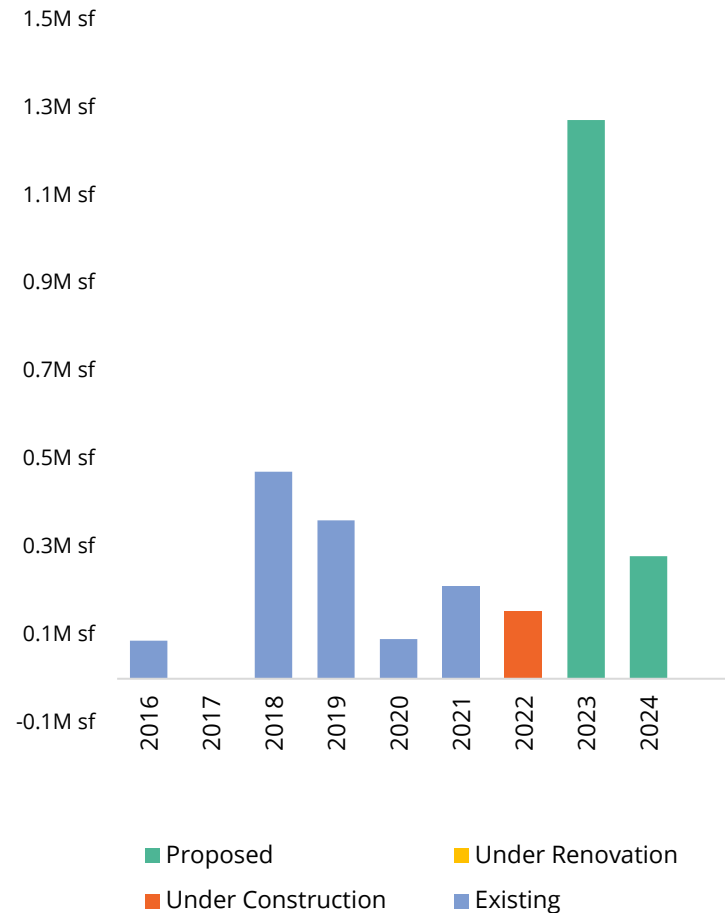
proposed or under construction

6.3%

share of office inventory

1.2 msf

New construction deliveries in Jacksonville since 2016



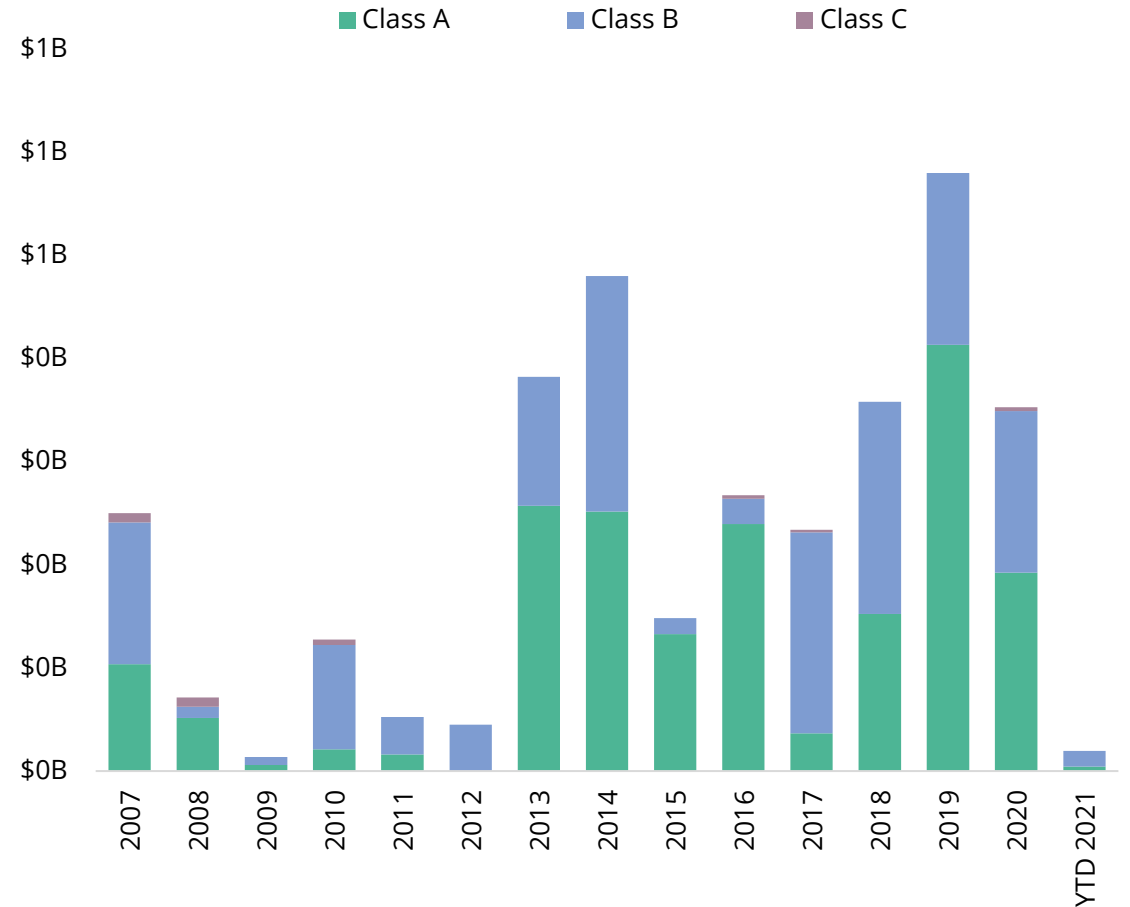
Source: AVANT by Avison Young

Office investment dollar volume

\$372.0M

Jacksonville office dollar volume 2020 to present

Office sales activity temporarily paused during the pandemic, however, total sales volume from 2020 through year-to-date 2021 is up 17.2% compared to the prior five-year average dollar volume. It should be noted that these numbers do not include the sale of Town Center II in Deerwood Park as that price as not yet been recorded.



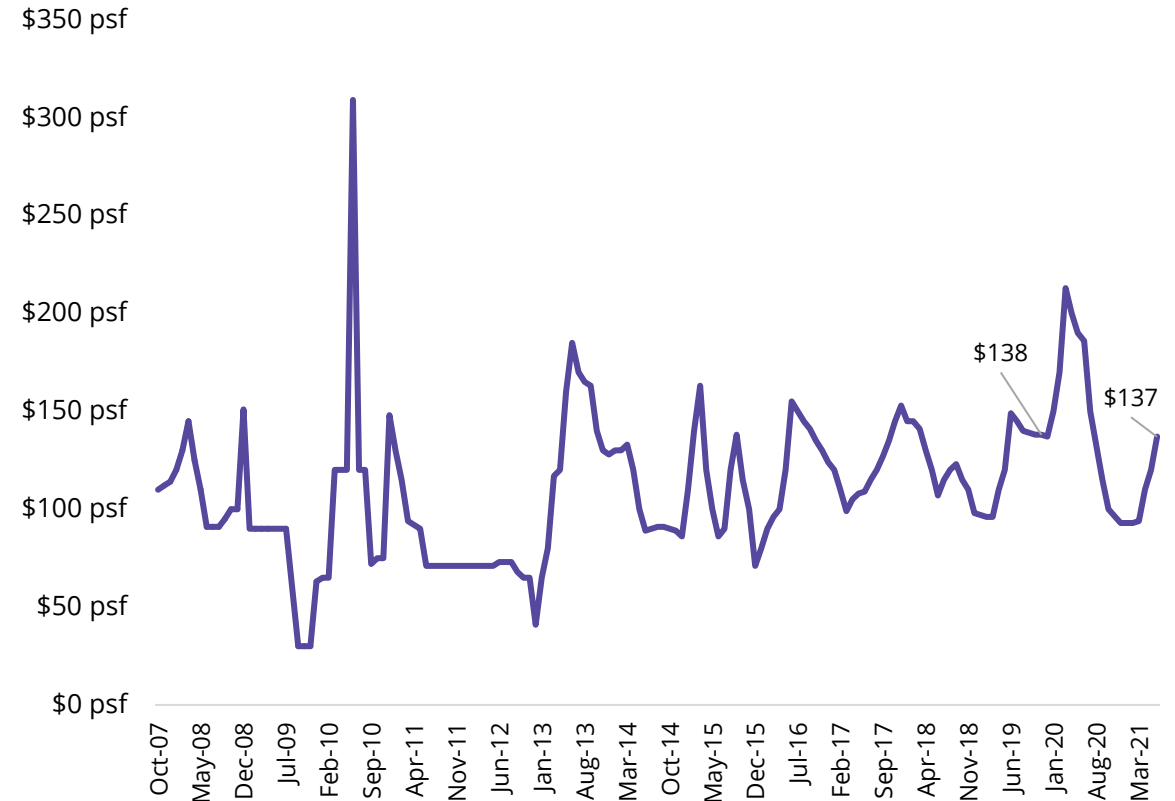
Source: AVANT by Avison Young

Office asset pricing

-0.7%

Jacksonville office pricing from November 2019 to present

Pricing has softened during the pandemic as investors have adopted more conservative underwriting approaches, decreasing from \$138 psf in November 2019 to \$137 psf in June 2021. However, asset pricing has begun to recover in recent months, indicating a potential stabilization.



Source: AVANT by Avison Young

Looking forward



Here's what we can expect

- **More sublease space is likely to hit the market** during 2021 and will adversely, if only temporarily, impact the market as larger users continue to reevaluate their future floor plate needs.
- The passage of Florida Senate Bill 50 will have **positive implications for commercial real estate** as it will dramatically cut the state tax portion of the business rent tax from 5.5% to 2.0% once Florida's Unemployment Compensation Trust Fund is replenished to pre-pandemic levels. While every tenant will save on their overall business costs, considerable cost savings will be realized by larger occupiers in Florida.
- **Office leasing momentum** will build through the end of the year, and the increase in activity will help to offset some of the new space coming to the market. Larger deals will continue to move slowly as companies re-envision their future floor plates, leaving vacant spaces on the market for longer.



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Let's talk

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