



AVISON  
YOUNG

# Jacksonville Office Insight Report

Q3 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 **4.5%**, although work-from-home strategies still vary widely by company.
- Office-using job losses have totaled **0.5%** compared with job losses of 0.7% for other industries, underscoring the disproportionate impact the pandemic had on the discretionary segments of the local economy. The financial activities sector has been a bright spot, growing by 6.7% since the onset of the pandemic.



## Recovery rate

- As of August 2021, the state of Florida had recovered 974,000 jobs, equivalent to **77.0%** of all job losses incurred due to the pandemic.
- The Biden administration's intention to begin allowing foreign nationals to travel from Europe, China, Brazil, and India as of this November will help propel the Jacksonville economy as the influx of travelers will serve to boost the still-recovering tourism and hospitality sector.



## Office demand

- A majority of current leasing activity is comprised of smaller deals under **10,000 sf**, with a majority of tenant demand for deals under 5,000 sf.
- Sublease opportunities will continue to come on the market for the remainder of the year, coming primarily from corporate users looking to downsize their footprints as they contemplate future hybrid workplace strategies.
- Much of the leasing activity is comprised of in-market movement, although Jacksonville is increasingly on the radar of C-suite executives considering relocation and/or expansion.

# Key takeaways



## Office supply

- Direct and sublease vacancy are at their highest point in 10 years, totaling **18.8%**.
- The current vacant sublease market in Jacksonville totals **710,000 sf** as of the end of the third quarter. A majority of the available sublease space is comprised of mid-sized blocks between 10,000 and 30,000 sf situated in the urban core, Baymeadows, Deerwood Center and Southside submarkets.



## Pricing trends

- Base rents have increased by **1.1%** 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.
- Concessions remain available but the most competitive terms are on larger deals. A recent in-market move in the Southbank just shy of **18,000 sf** offered an attractive concessions package due to the larger floor plate size, lease term and tenant credit.



## Capital markets

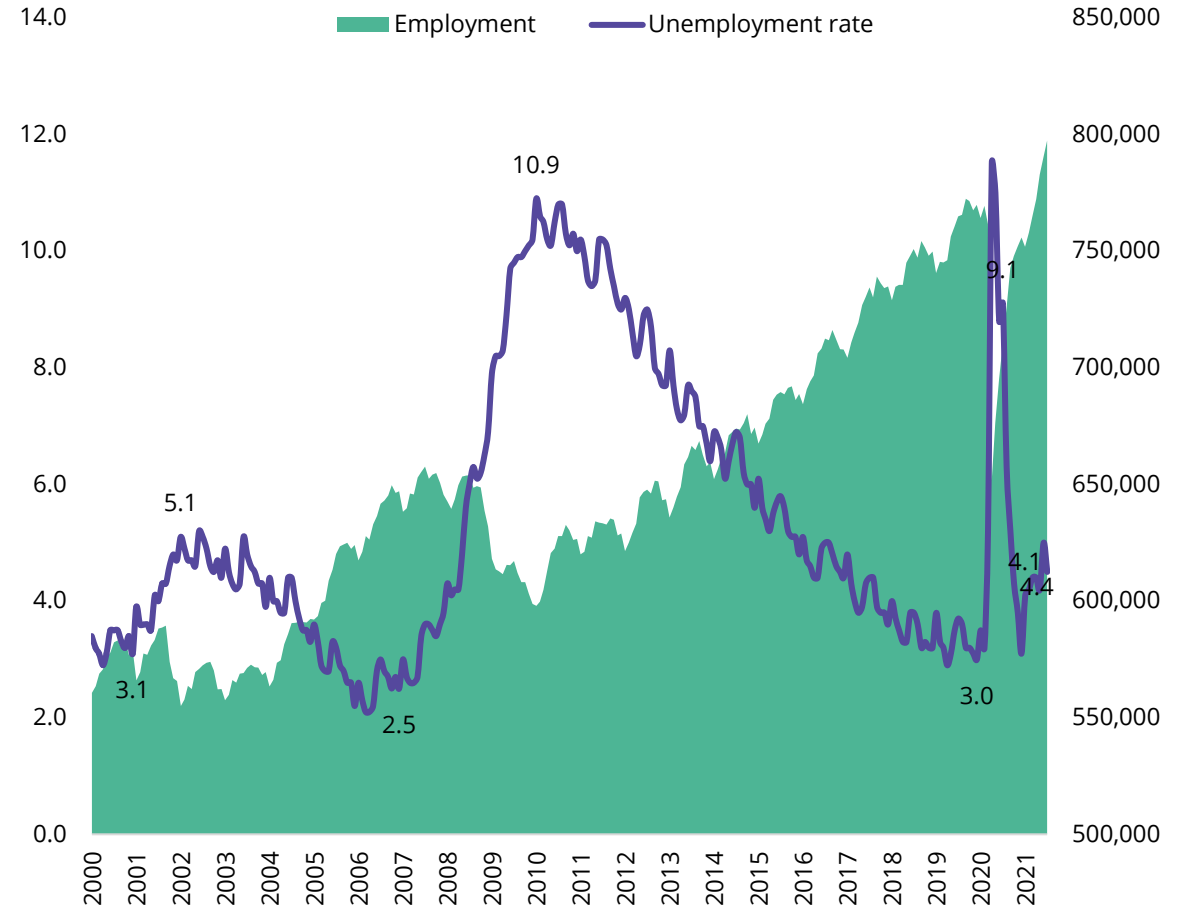
- Office investment activity has been steady in Jacksonville, with total transaction volume of **\$691.5 million** for the period from January 2020 through year-to-date 2021.
- The most prominent sale during Q3 2021 was the acquisition of the Southside Quarter office building at 6651 Gate Pky in Deerwood Park by MG3 REIT LLC, a private real estate company, for \$43.8 million, or **\$364** per sf. Previously owned by Real Capital Solutions, Inc., the building is home to McKesson, which employs 800.

# Employment and unemployment rate

# 4.5%

## Jacksonville unemployment rate as of July 2021

Historically tightened labor market conditions were halted by the pandemic with nearly 117,753 job losses between February and April 2020. However, reopening efforts and a strong financial activities sector have enabled the economy to add back nearly 146,000 jobs since April 2020.



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

# Office-using job gains and losses

# -0.5%

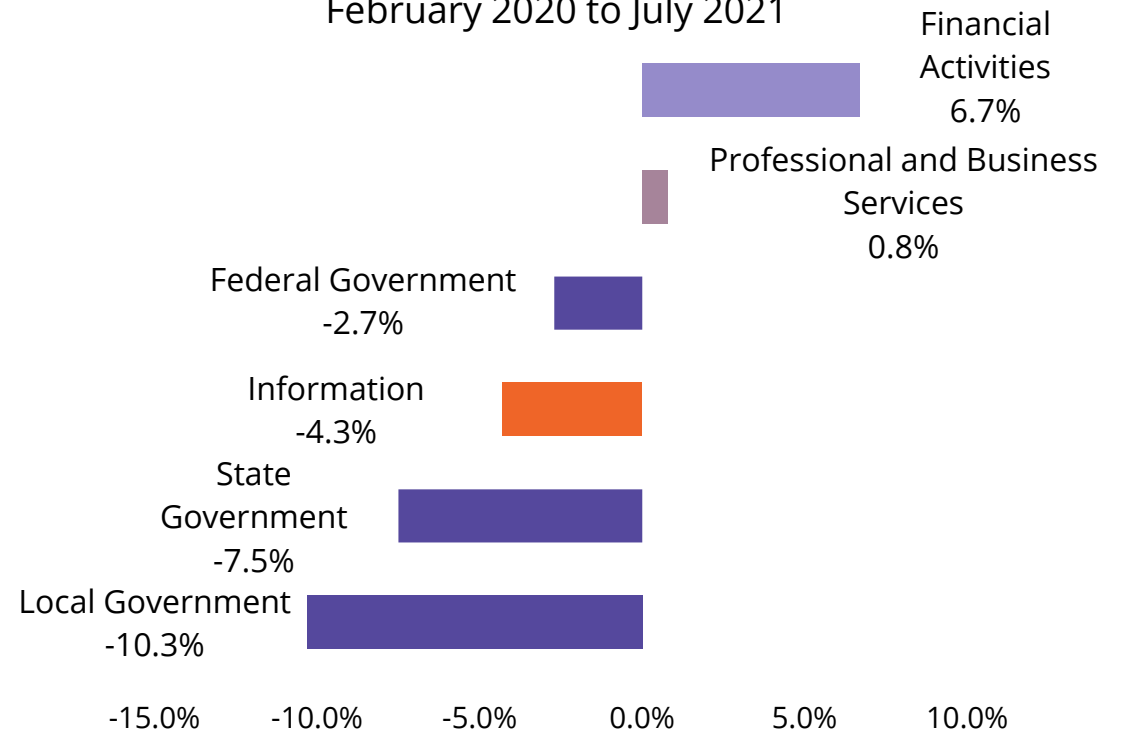
## Change in office-using employment during the pandemic

Jacksonville MSA job losses have declined by 0.7% since the start of the pandemic, though office-using jobs contracted by just 0.5%. This recession's impact on the office-using labor market has been less severe than the global financial crisis, when financial activities job losses totaled 8.8%.

[VIEW DASHBOARD](#)

## Total change in Jacksonville MSA\* job gains/(losses)

February 2020 to July 2021



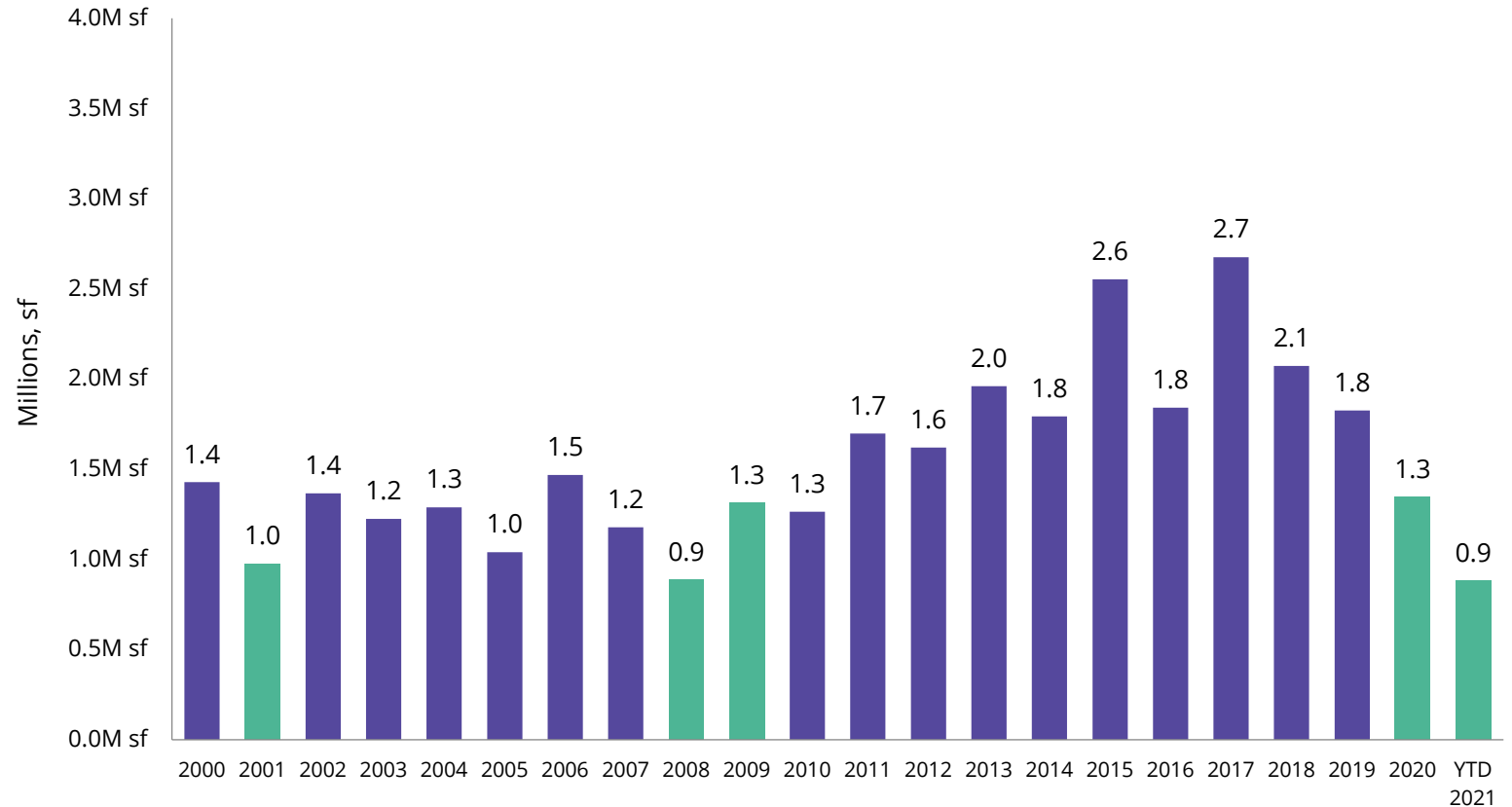
Note: Not seasonally adjusted data. Metropolitan statistical area.  
Source: Bureau of Labor Statistics

# Office leasing activity

**-34.6%**

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

There is no modern precedent for the post-COVID slowdown in leasing activity—not 2001 nor 2008—due to the sudden change in office occupiers’ future workplace strategies and the 2020 recession.



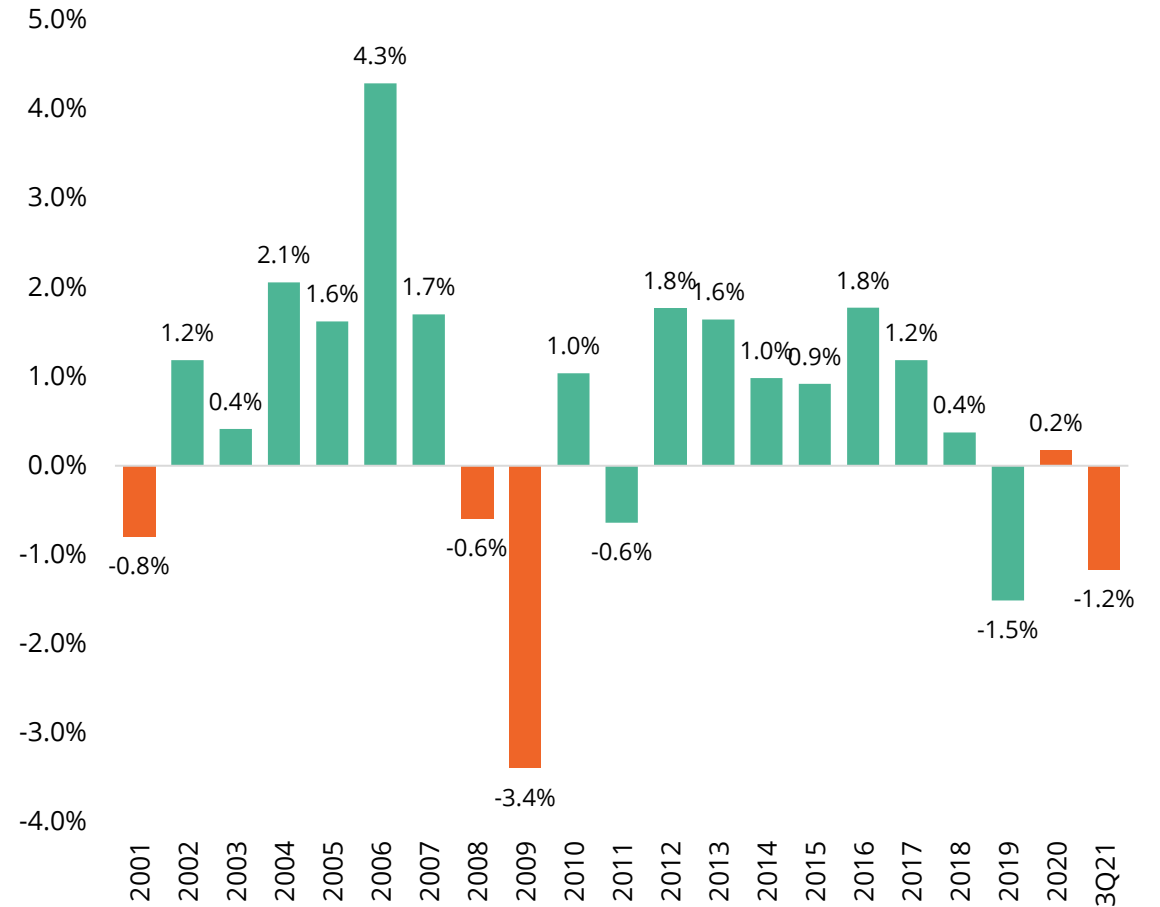
Source: AVANT by Avison Young

# Absorption

# -1.0%

**Net absorption as a percentage of inventory, 2020 through Q3 2021**

Negative absorption from 2020 to 3Q21 has totaled 263,435 sf, totaling -1.0% of the existing stock. This negative absorption has not yet reached the low of the global financial crisis (-3.4%) or of the early 2000s recession (-0.8%).



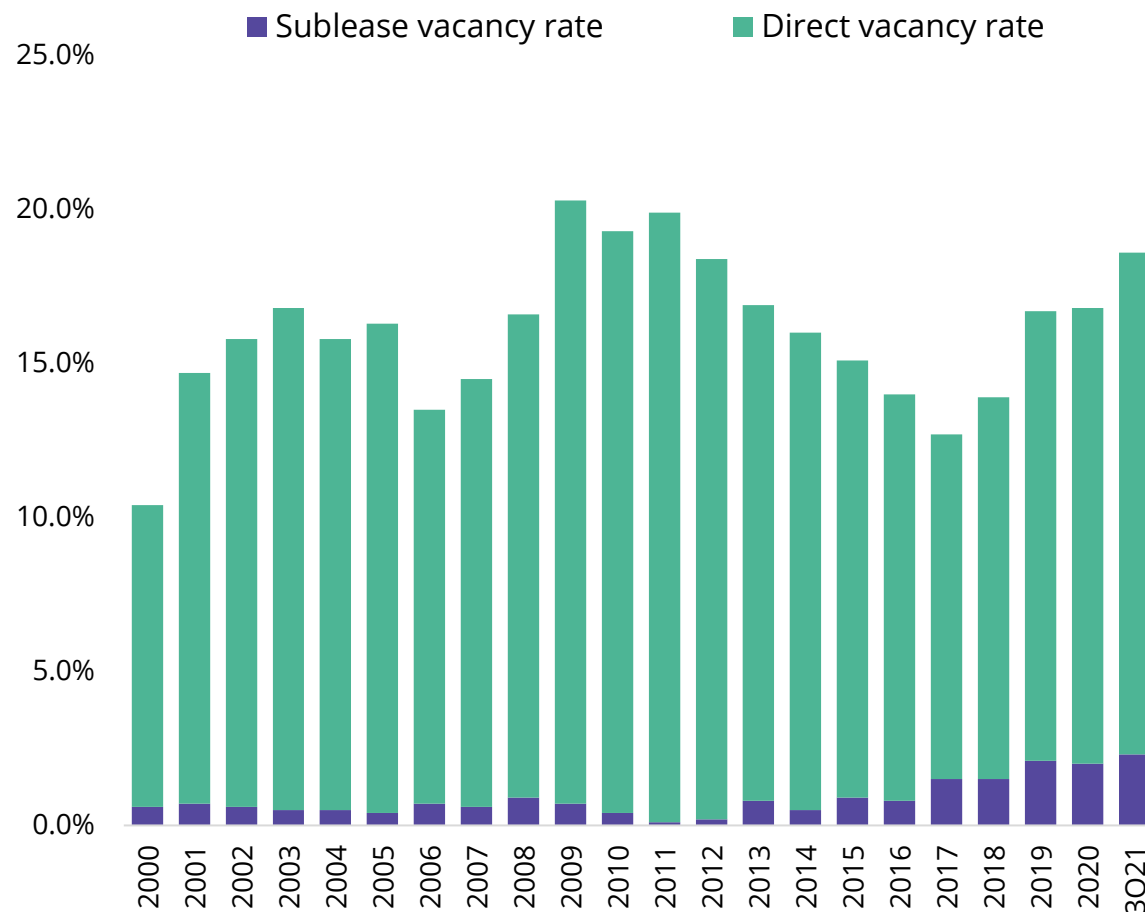
Source: AVANT by Avison Young

# Vacancy rate

# 18.6%

**Current vacancy at the highest level in 10 years**

The Q3 2021 vacancy rate is at its highest point since 2011 but remains well below the 20.3% recorded in 2009, the highest rate in the previous 20-year period. Overall rents for the current quarter have increased by 0.2% year-over-year.



Source: AVANT by Avison Young

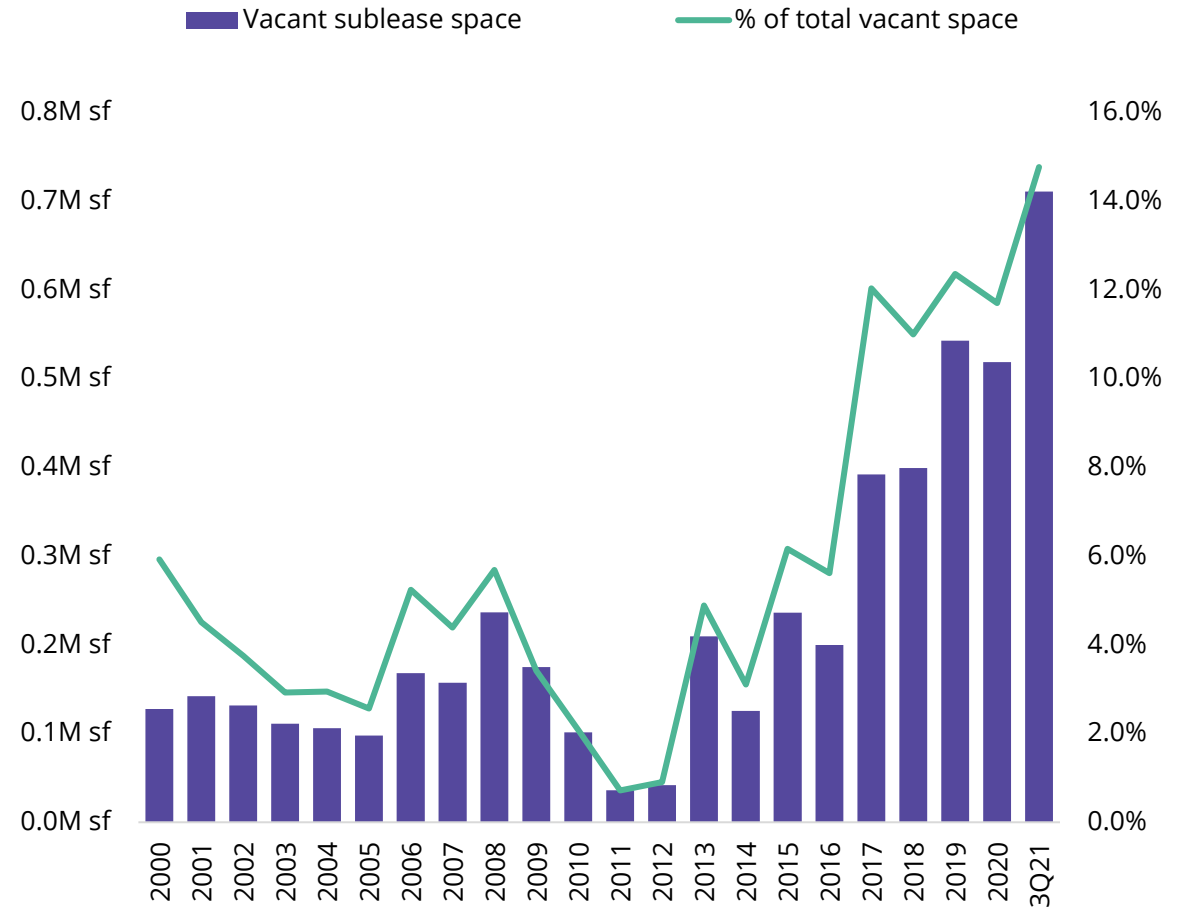


# Vacant sublease space

# 0.7 msf

## Record levels of sublease vacant space

The share of sublease-to-total vacant space of 14.8% has surpassed the peak of 5.7% from the global financial crisis and 5.9% from the early 2000s recession, however it is primarily comprised of a few large blocks of space.



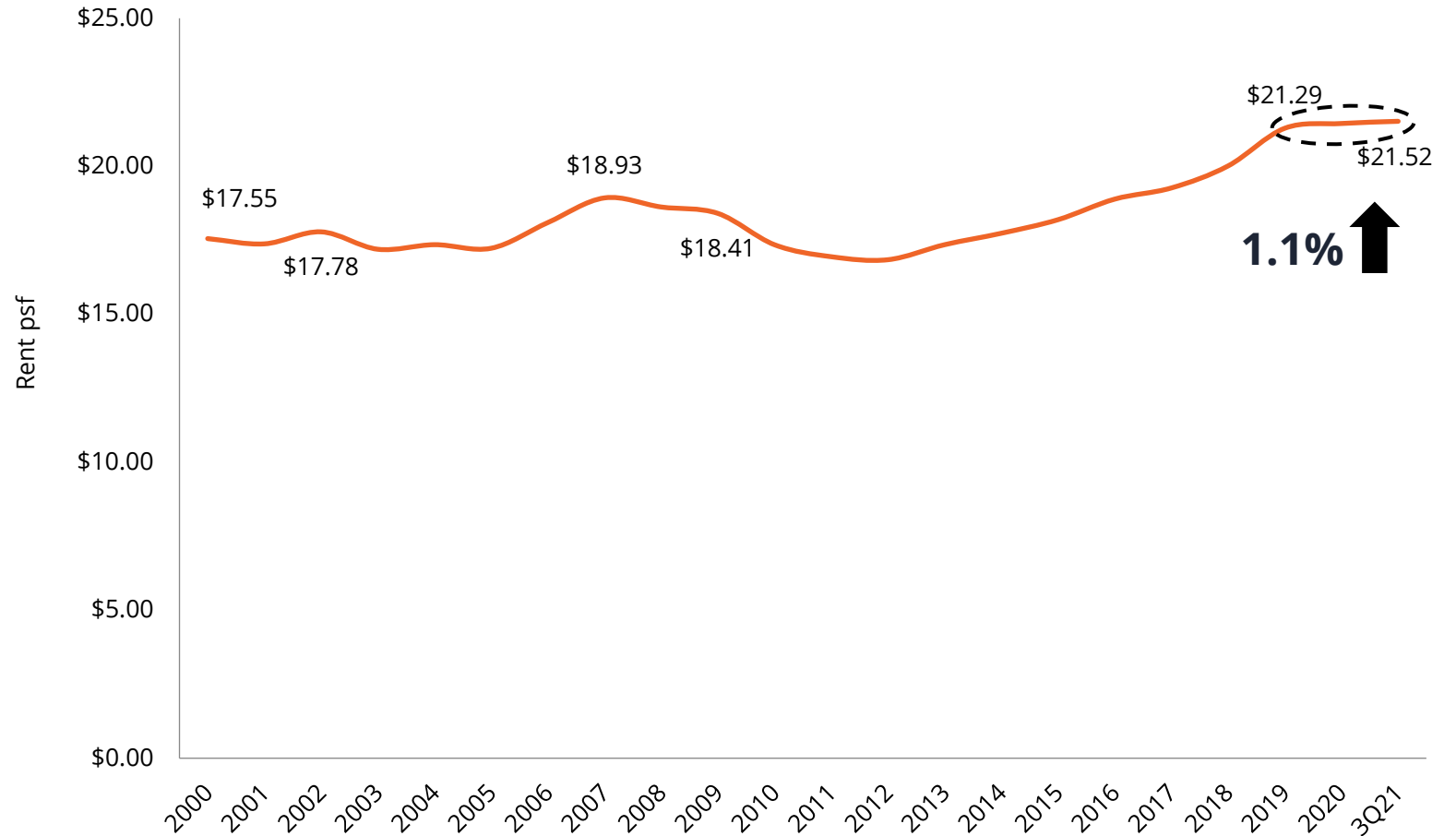
Source: AVANT by Avison Young

# Base rents

# 1.1%

**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, and many landlords have been holding rates steady.



Source: AVANT by Avison Young

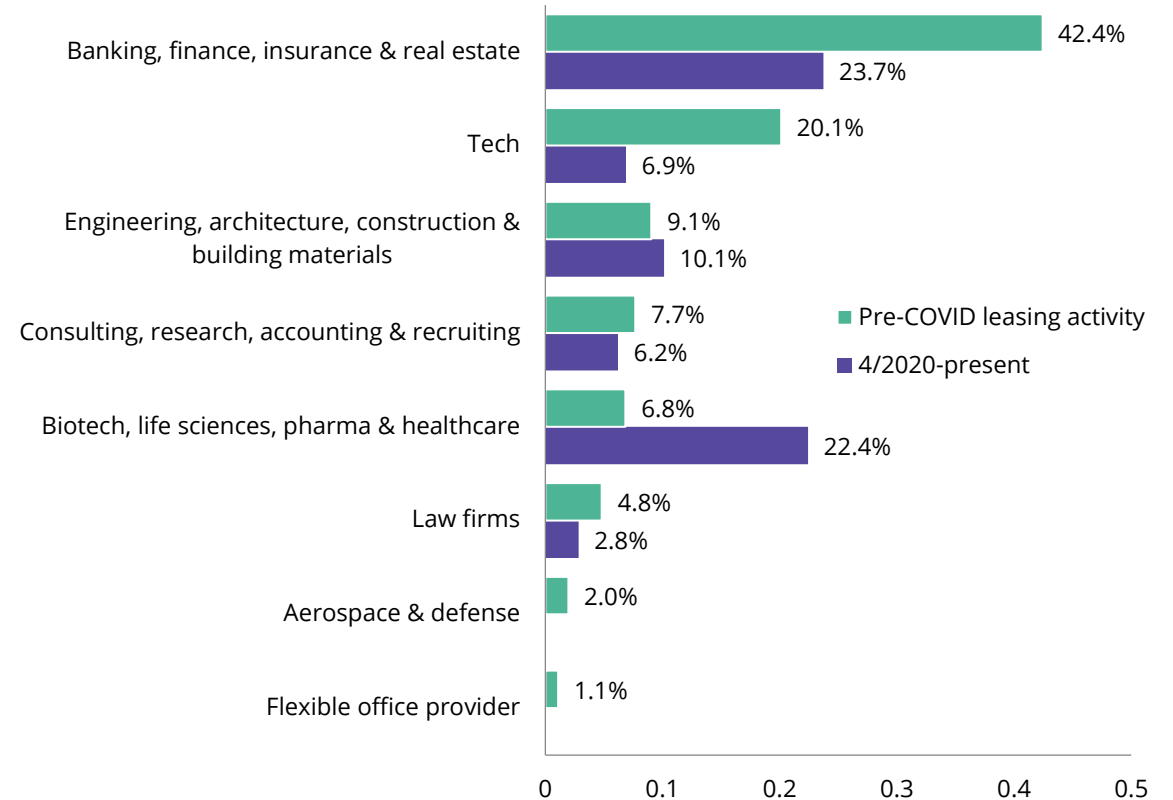
# Leasing activity trends

# 22.4%

**of post-COVID leasing activity has been from biotech, life sciences, pharmaceutical & healthcare tenants**

Jacksonville is also increasingly landing on the radar of companies in the finance, insurance and real estate (FIRE) and banking sectors and there has been an uptick in leasing to engineering, architecture, construction and building materials companies.

**Leasing activity**



Source: AVANT by Avison Young

# Jacksonville's construction pipeline

**6 properties**

proposed or under construction

**1.7 msf**

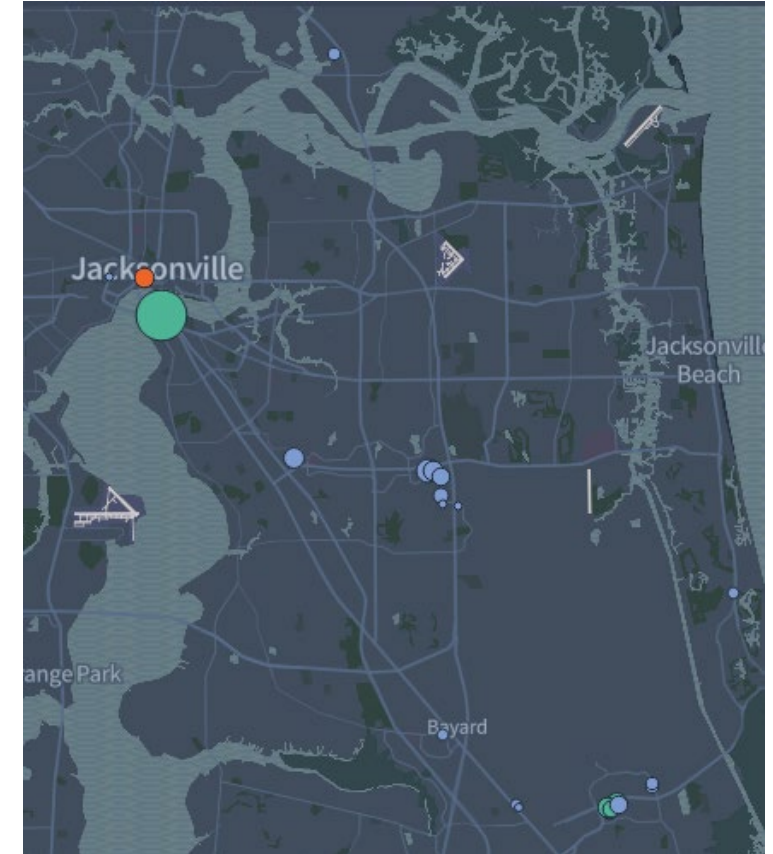
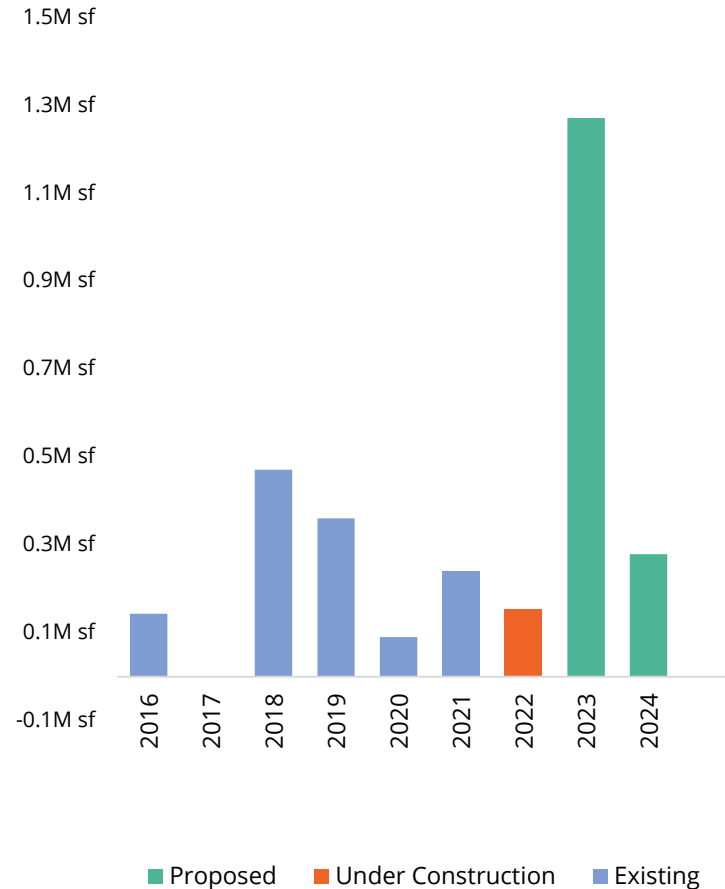
proposed or under construction

**4.6%**

share of office inventory

**1.3 msf**

new construction deliveries in Jacksonville since 2016



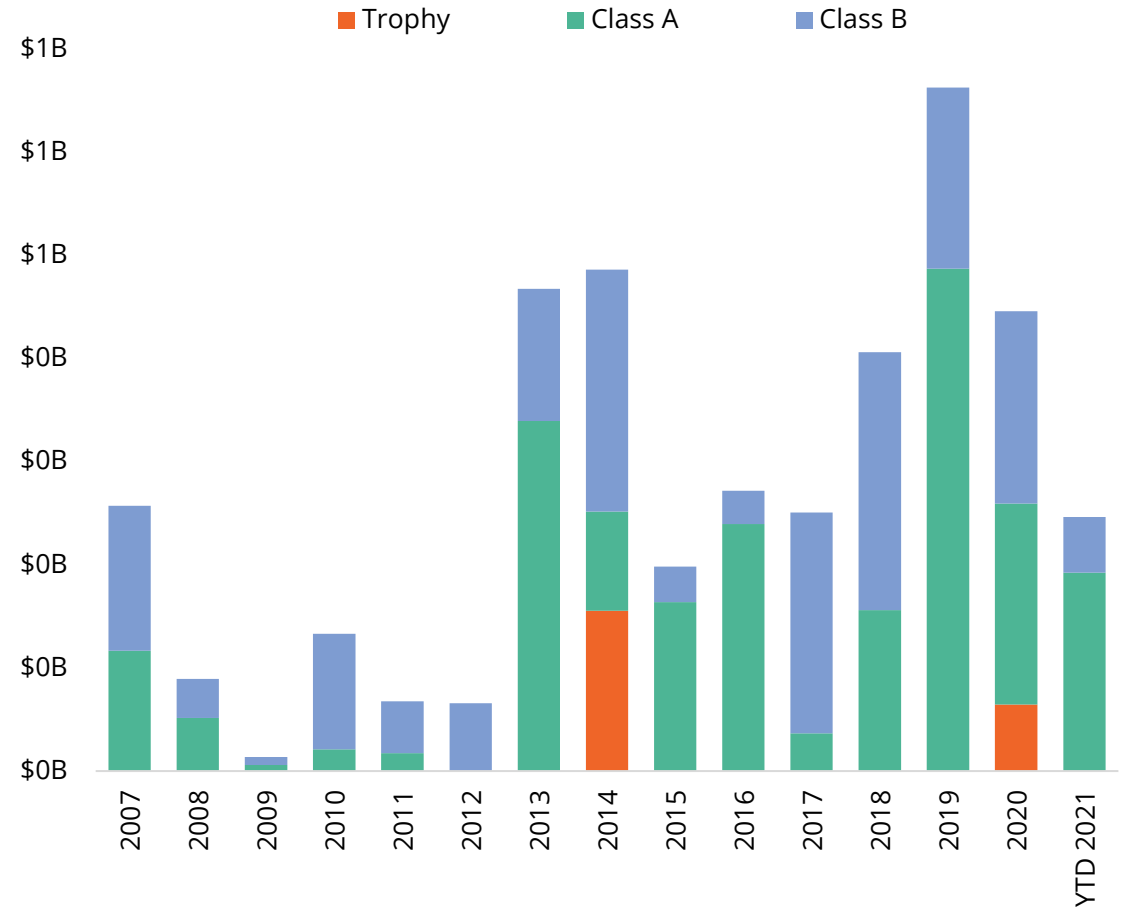
Source: AVANT by Avison Young

# Office investment dollar volume

# \$691.5M

## Jacksonville office dollar volume 2020 to present

Office sales activity has been fairly steady during the pandemic and total sales volume from 2020 through year-to-date 2021 is up 93.3% compared to the prior five-year average dollar volume.



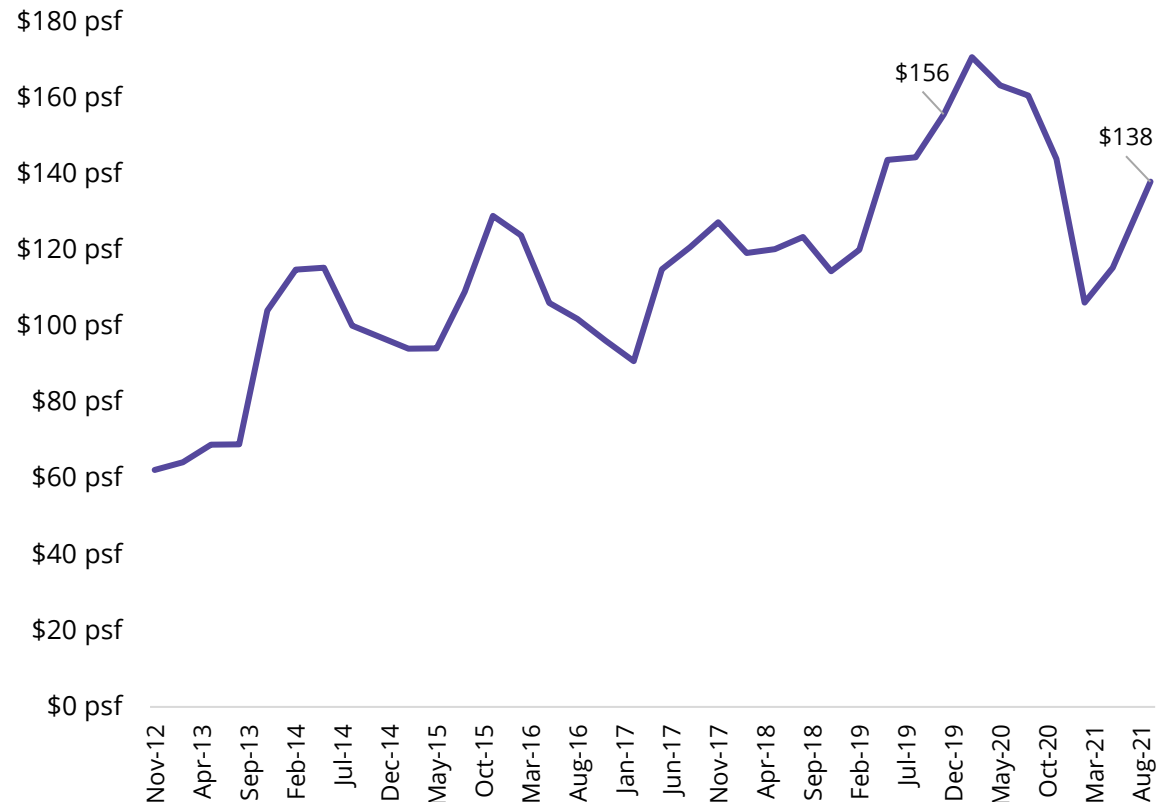
Source: AVANT by Avison Young, RCA

# Office asset pricing

**-11.4%**

## Jacksonville office pricing from November 2019 to present

Pricing has softened during the pandemic as investors have adopted more conservative underwriting approaches, decreasing from \$156 psf in November 2019 to \$138 psf in August 2021.



Source: AVANT by Avison Young

# Looking forward



## Here's what we can expect

- As companies realign their hybrid workplace strategies, the trend of **hoteling has begun to emerge**, offering alternative officing arrangements for those workers largely working from home. With employees split on sharing workspaces due to concerns over germs, there will certainly be obstacles to overcome, but other than hoteling office space plans have not yet begun to change in a meaningful way.
- Office **leasing momentum** will continue to build alongside a **flight to quality** heading toward year-end, with a stronger fourth quarter expected as available sublease space is further absorbed.
- Downtown Vision's recently released 2020-2021 State of Downtown Report found that the number of visitors, new retail establishments and hotel occupancy are at or above pre-pandemic levels, and that the number of downtown residents has grown by 40.0% over the trailing five years. That positive momentum will prove critical in **revitalizing the urban core** and bringing additional services downtown.
- Moving forward, an increasing number of institutional owners will begin incorporating **ESG initiatives** into their portfolios with a focus on reducing carbon footprints and improving overall wellness for occupiers, although the trend will likely be slow to adapt.



# Get in touch



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# Let's talk

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