CUSHMAN & WAKEFIELD

JACKSONVILLE OFFICE

Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
Jacksonville Employment	708k	782k	▲
Jacksonville Unemployment	3.4%	3.0%	▬
U.S. Unemployment	3.9%	3.6%	▼

*Numbers above are monthly figures, May 2019, FL Dept. Economic OPP

Market Indicators (Overall, All Classes)

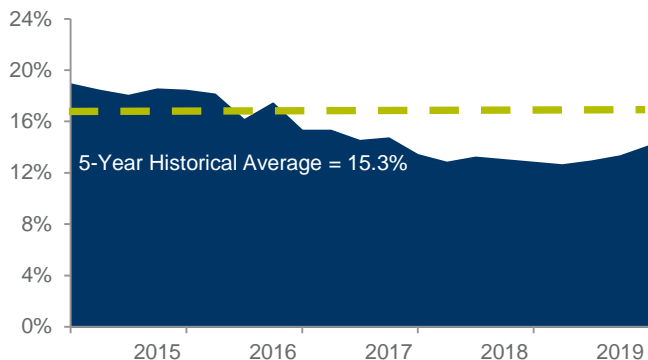|	Q2 18	Q2 19	12-Month Forecast
Vacancy	12.8%	14.1%	▼
YTD Net Absorption (sf)	70k	-259k	▲
Under Construction (sf)	680k	344k	▲
Average Asking Rent*	$19.00	$19.96	▲

*Rental rates reflect gross asking $psf/year

Overall Net Absorption/Overall Asking Rent
4-QTR TRAILING AVERAGE

Legend: ■ Net Absorption, MSF — Asking Rent, $ PSF

Overall Vacancy

5-Year Historical Average = 15.3%
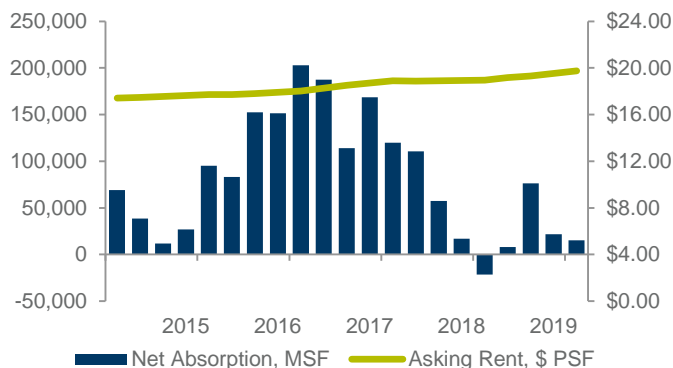
Economy

The Jacksonville region posted solid economic growth throughout the first half of 2019, adding +14,300 jobs over the trailing 12-month period, for a 2.0% growth rate. Expansion by business service firms and the area's growing population pushed the unemployment rate down 30 basis points (bps) to 3.0%, 40 bps less than the national average. The Leisure & Hospitality sector had the second fastest job growth rate compared to all the metro areas in the state adding 5,600 jobs, an increase of 6.5% over last year. Professional & Business Services increased 2.5%, adding 2,700 new jobs. The diversified economy, flourishing housing market and the need for new space options set the pace for continued growth in Jacksonville's office market.

Market Overview

Overall asking rents rose 5.1% in the last 12 months to $19.96 per square foot (psf), full service. Positive office demand throughout Jacksonville was the driver for rental gains in all three office classes. Rents for Class C increased the highest, up 13.8%, followed by Class B with a 5.0% gain and then Class A with a 3.0%bump. Rents soared 7.0% in the suburban market to $19.24 psf, as compared to the CBD where rents only rose by 3.0%. The Southbank of the CBD posting a notable gain of 7.5% to $23.35 psf on 166,000 sf of available space. Higher-quality space and amenities in the Butler/Baymeadows submarket allowed landlords to continue to push asking rents as sustained tenant demand to be in the area continued. In Southpoint, a micro-market within Butler/Baymeadow, rent increased 5.3% to $19.98 psf with Deerwood Park, another micro market of Butler/Baymeadows ahead by 2.2% to $23.89 psf year-over-year (YOY). Mandarin had the highest rental increase for the quarter to $22.15 psf, a 13.2% increase from the same time last year. Throughout the market, landlords were forced to offer enhanced tenant improvement (TI) packages to keep pace with rising rent and construction costs. TI amounts for Class A first-generation space ranged from $6.00-$8.00 psf per year.

In the first half of 2019, Class C suburban assets had the highest occupancy gains, where the overall vacancy rate fell by 170 bps to 14.4% at the end of the second quarter. The overall vacancy rate for all asset classes rose 120 bps YOY to 14.1%, due to several move outs in Class B assets, where rates increased 350 bps to 16.6% YOY. Vacancy inched higher in the Butler/Baymeadows submarket as over 154,000 square feet (sf) of space became vacant during the first half of the year, pushing the vacancy rate 350 bps to 14.9% YOY. Since the submarket was very active with tenants seeking high-end space the new availabilities should be absorbed during the rest of 2019. Vacancy levels in the CBD dropped 150 bps YOY to 11.7%. Several tenant move-outs in the CBD and select suburban submarkets caused year-to-date (YTD) overall absorption to turn negative adding over -259,000 sf of space back to the market. Based on YTD leasing activity and pipeline for move ins, part of the new space available should be absorbed in the major submarkets.

Overall leasing activity remained steady with over 480,000 sf of space leased YTD. Over 270,000 sf of office space was leased in the Butler/Baymeadows submarket where Southpoint and Deerwood Park drove the bulk of leasing activity, followed by more than 100,000 sf of space leased in the Mandarin submarket. Space continued to dwindle in the Jacksonville CBD, with approximately 50,000 sf of space leased YTD, leaving less than 850,000 sf of available space in the submarket.

Investment sales remained active in the first half of the year with most of the sales occurring in the second quarter. Second quarter's 1.7 million square feet (msf) of investment sales was approximately 96.0% of the total sales volume for all of 2019 YTD. Approximately, 91.0% of sales were for Class A assets and nearly 157,000 sf for Class B and C buildings. 2019 marked a 21.5% increase in sales volume over the same period in 2018. A majority of this investment activity occurred outside of the CBD, as investors looked to capitalize on healthy office properties in suburban submarkets.
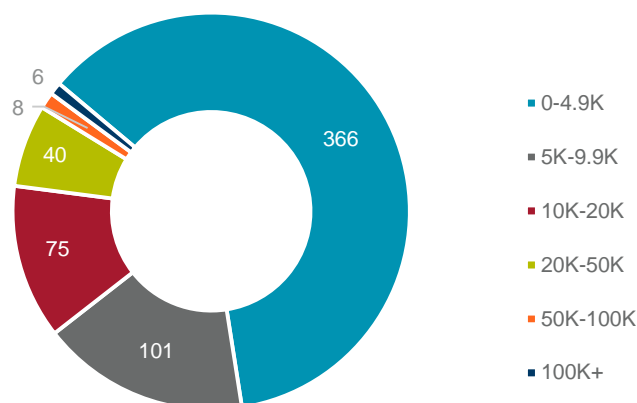
In the Southbank portion of the CBD, rents posted a gain of 7.5% to $23.35 psf, full service.

The Jacksonville region's outstanding geographical location made it a haven for global companies, in addition to small office, mid-sized startups, law-firms, technology, and business services firms, all of which dove office demand. At the end of the second quarter, over 323,000 sf of office space was under construction in two build-to-suit projects in Deerwood Park scheduled to deliver in 2020. Building owners in existing properties undertook remodeling and renovating strategies to attract and retain tenants. Tenants with large square foot requirements found options in the Butler/Baymeadows submarket further limiting the supply of large contiguous and unencumbered blocks of vacant space in the market.
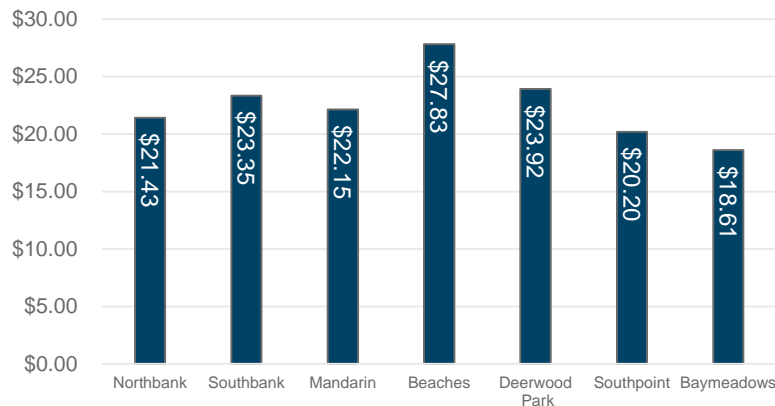
Market Highlights

- Cushman & Wakefield forecasts growth in office market occupancies on strengthening tenant demand which will feed into rental rate gains in both Class A and B assets.

- The tight labor market showed that the region remained a job generator which had a positive impact on office demand, especially in the Professional & Business Services sector.
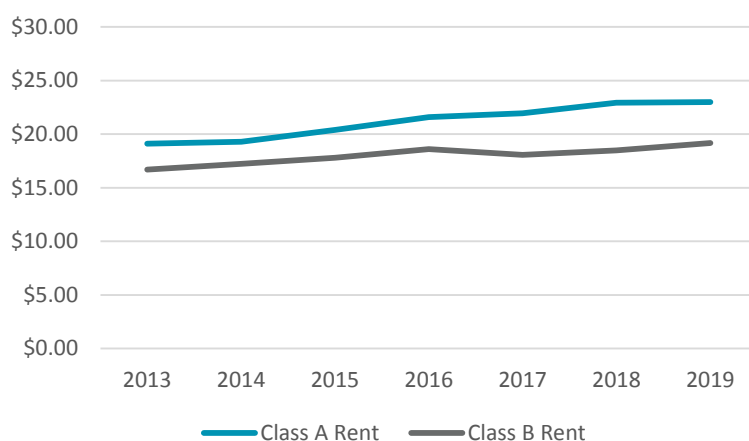
Availability by Size Segment
OVERALL VACANCIES IN ONE SUITE

- 0-4.9K
- 5K-9.9K
- 10K-20K
- 20K-50K
- 50K-100K
- 100K+

Full Service Asking Rents by Submarket

Northbank	$21.43
Southbank	$23.35
Mandarin	$22.15
Beaches	$27.83
Deerwood Park	$23.92
Southpoint	$20.20
Baymeadows	$18.61

CLASS A & B Asking Rent Trend

Class A Rent — Class B Rent

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
North Bank	5,164,900	-	693,054	13.4%	-17,381	-30,241	41,962	0	$21.43	$22.28
South Bank	2,154,674	-	166,416	7.7%	2,741	-15,331	9,509	0	$23.35	$23.82
CBD	**7,319,574**	**-**	**859,470**	**11.7%**	**-14,640**	**-45,572**	**51,471**	**-**	**$21.80**	**$22.61**
Arlington	983,527	7,190	277,670	29.0%	-15,001	-15,846	4,880	0	$14.47	$0.00
Southside	1,863,196	-	278,901	15.0%	-5,439	-37,157	10,343	0	$16.02	$0.00
Beaches	470,346	-	37,433	8.0%	13,082	8,841	8,605	0	$27.83	$28.00
Northside	30,000	-	3,360	11.2%	0	0	0	0	$12.00	$0.00
Mandarin	1,500,254	-	188,246	12.5%	-54,284	-34,868	118,441	0	$22.15	$27.50
St. John's County	348,901	-	96,351	27.6%	9,802	9,640	8,605	0	$18.47	$0.00
Clay County	490,077	3,328	7,399	2.2%	0	9,898	4,250	0	$19.24	$0.00
Westside	121,249	-	-	0.0%	0	0	0	0	$0.00	$0.00
Butler/Baymeadows	10,769,700	65,109	1,534,966	14.9%	34,613	-154,101	277,221	343,700	$20.32	$23.00
Deerwood Park	3,752,899	5,074	365,745	9.9%	28,902	32,232	87,884	343,700	$23.89	$23.56
Southpoint	3,177,170	31,881	549,642	18.3%	12,994	-82,548	129,997	0	$19.98	$23.00
Baymeadows	3,839,631	28,154	619,579	16.9%	-7,283	-103,785	59,340	0	$18.72	$21.50
Suburbs	**16,577,250**	**75,627**	**2,424,326**	**15.1%**	**-17,227**	**-213,593**	**432,345**	**343,700**	**$19.24**	**$23.77**
JACKSONVILLE TOTALS	**23,896,824**	**75,627**	**3,283,796**	**14.1%**	**-31,867**	**-259,165**	**483,816**	**343,700**	**$19.96**	**$23.00**

*Rental rates reflect gross asking $psf/year   **Does not include renewals

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	YTD CNSTR COMPLETIONS (SF)	DIRECT AVERAGE ASKING RENT*
Class A	10,134,634	5,074	1,139,776	11.3%	56,385	24,048	237,866	343,700	0	$23.01
Class B	10,763,899	70,553	1,711,971	16.6%	-80,209	-231,670	213,537	0	0	$19.20
Class C	2,998,291	0	432,049	14.4%	-8,043	-51,543	32,413	0	0	$15.09

Key Lease Transactions Q2 2019

| PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
12808 Gran Bay Parkway West	112, 306	Webb.com	New Lease	Mandarin
8171 Baymeadows Way West	66,202	AmeriHealth Caritas Health	New Lease	Baymeadows
6735 S Southpoint Drive	34,704	Intuition, LLC	New Lease	Southpoint

Key Sales Transactions Q2 2019

PROPERTY	SF	BUYER	PRICE / $PSF	SUBMARKET
4600 Touchton Road	1,313,190	Starwood Real Estate Income Trust, Inc	$231,000,000/ $176	Deerwood Park
9000 Southside Boulevard (4-property portfolio)	430,816	Glenfield Capital	$53,000,000/ $123	Baymeadows
6620 S Southpoint Drive	66,346	Realife Real Estate Group	$4,332,500/ $65	Southpoint
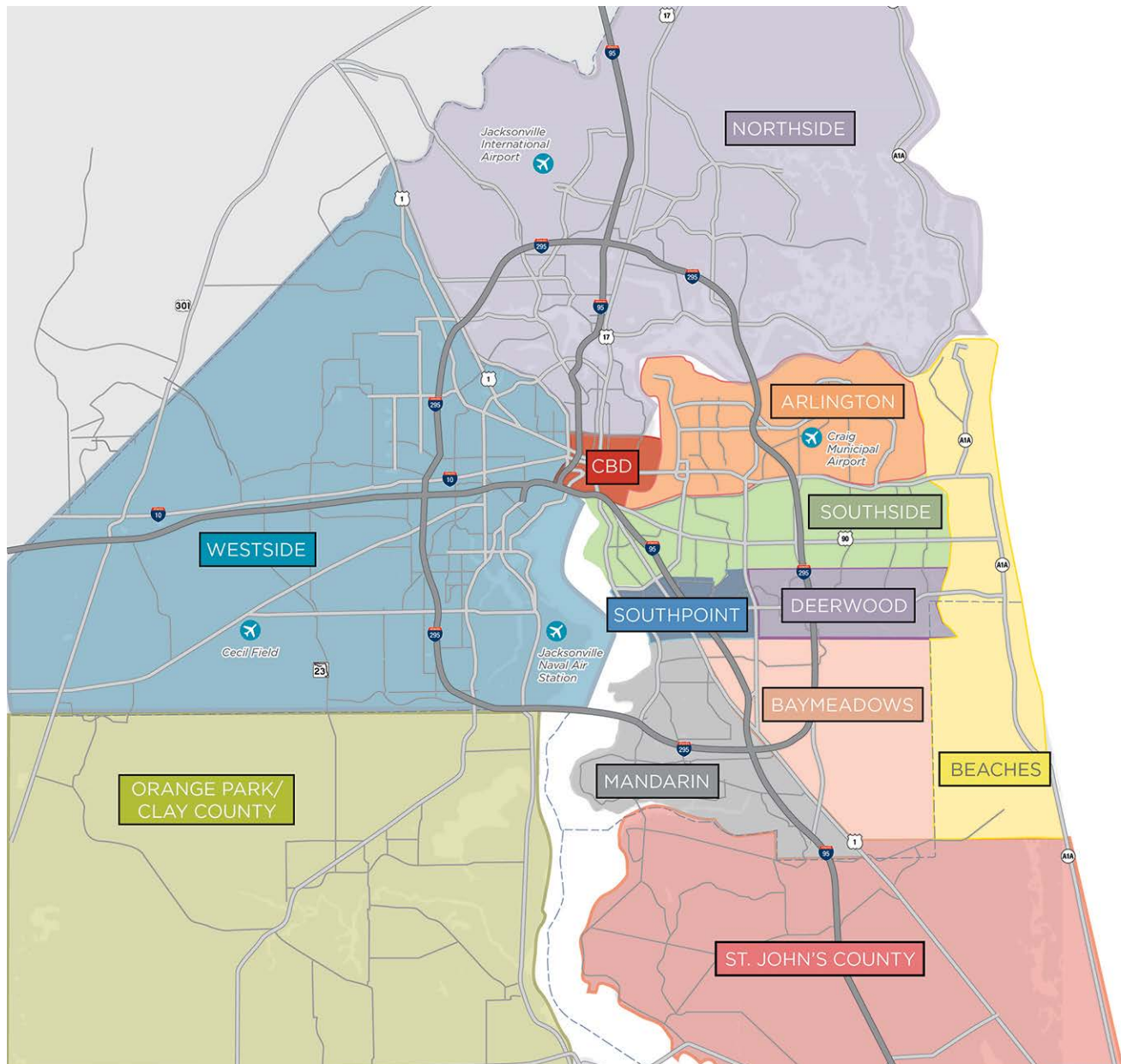
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