

## Mixed reviews on outlook for Jacksonville; suburbs continue to outperform downtown

### Economy

Jacksonville ranked dead last in terms of economic confidence in the latest Gallup poll of the largest 50 metropolitan areas. Fifty-nine percent of the cities residents who took the poll felt the city was getting worse. That being said, there are numerous positive statistical indicators that the economy is headed in the right direction. The market's unemployment rate is down to 6.1 percent, a 140 basis points decline over the past 12 months. The growing tech scene in Jacksonville has raised levels of investor interest. As result of this, multiple incubator spaces are popping up throughout the market such as the old library in downtown that was recently purchased by the Jesse DuPont fund. Lastly, residential construction is back on the rise. Over 600 units are being constructed in the Brooklyn, just outside of downtown, that is expected to help fuel growth in the core.

### Market conditions

The greater Jacksonville area has seen an abnormally-high level of disposition and acquisition taking place over the past six months with more poised to take place in the second quarter of 2014. With these transactions taking place in both downtown and in the suburbs, there is a new source of capital coming into multiple submarkets from these new building/portfolio owners. One of the rumored goals for new owners in downtown is to solve the parking issues that currently exist. Owners are looking at how they can subsidize parking for tenants in order to make downtown an more attractable option compared to the suburbs, which often times has free parking.

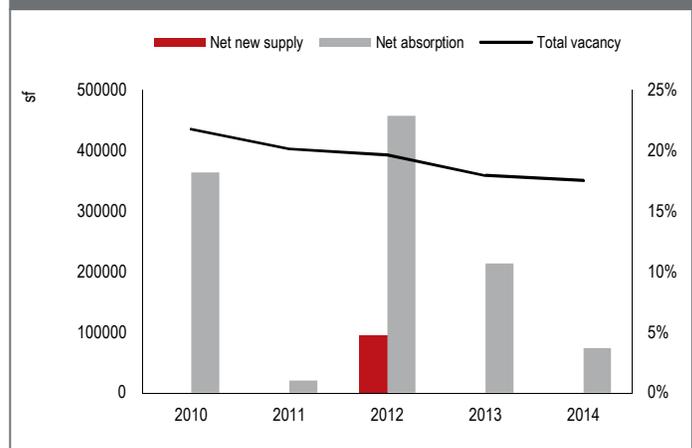
Another positive sign for the market is the increased level of touring activity. As the economy strengthens and revenues increase, companies have the ability to grow their operations and thus have the need to expand their real estate footprint. If their current location cannot accommodate their expansion needs, tenants are forced to look elsewhere. Luckily, it is not only companies from within the market that are touring. Firms like the Adecco Group recently announced it will be moving its North American headquarters to Jacksonville from Melville, New York.

### Outlook

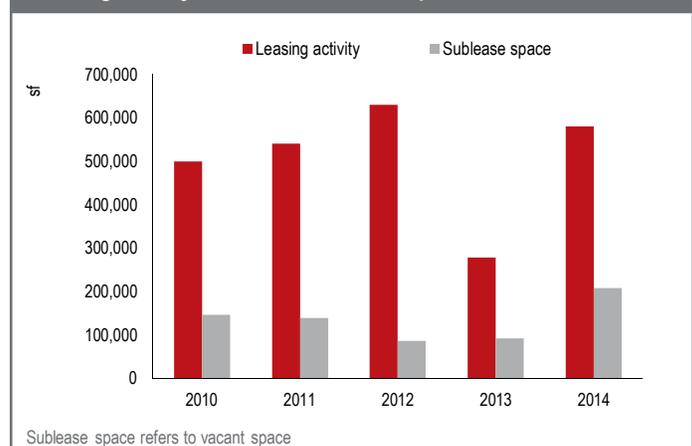
We expect that office market conditions will continue to tighten alongside of the strengthening local economy. In theory, increased revenues for firms will translate into larger real estate needs and increase net absorption. The market still has over a dollar, or the equivalent of 5.5 percent, of rent appreciation to obtain to match pre-recession levels and we expect Jacksonville to accomplish this feat in 2015.

Key market indicators		12-month forecast	
Supply	Supply	➡	20,672,671 sf
	Direct vacancy rate	▼	16.6%
	Total vacancy rate	▼	17.3%
	Under construction	➡	0 SF
Demand	Leasing activity 12 mo. % change	▲	0.5%
	YTD net absorption	➡	73,985 sf
Pricing	12-month overall rent % change	▲	2.8%
	Class A overall asking rent	▲	\$20.21 psf
	Class B overall asking rent	▲	\$16.08 psf

### Net new supply, net absorption and total vacancy (YTD)



### Leasing activity vs. sublease vacant space



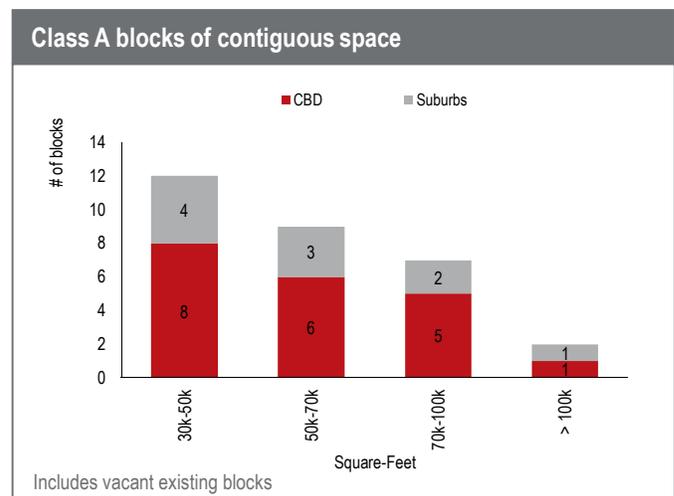
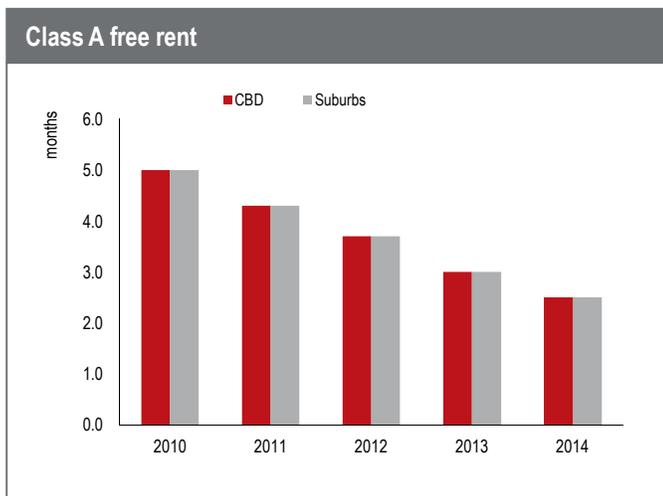
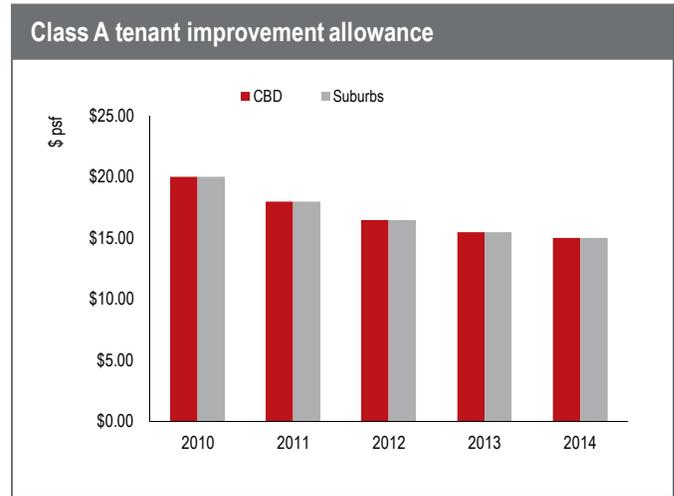
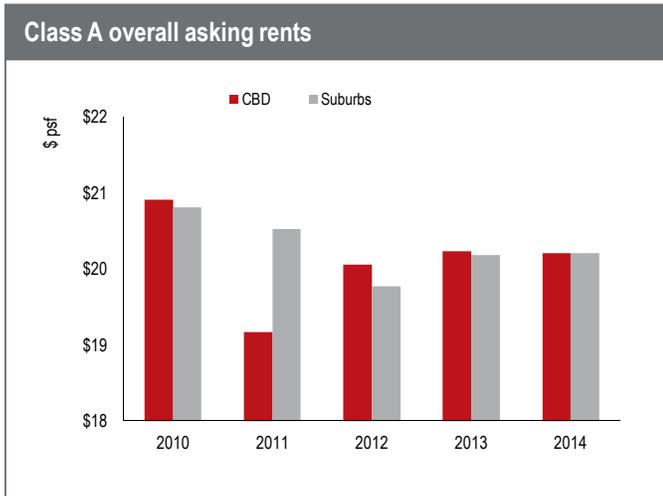
### Tenant perspective

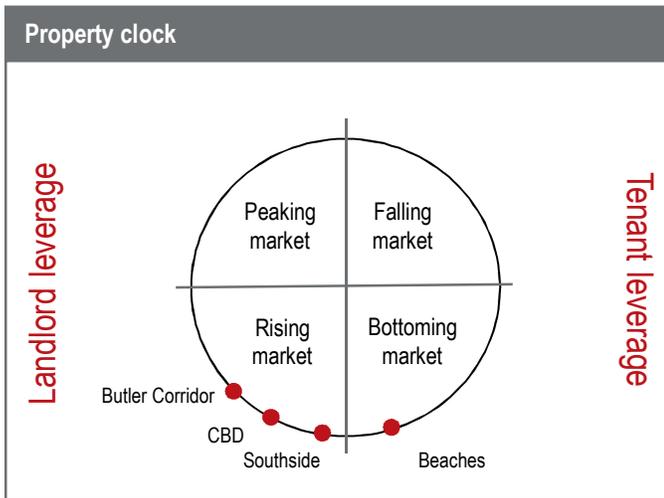
Regardless of where a tenant is located, whether downtown or in the 'burbs, tenants are being faced with market conditions that are not extremely favorable. Lease options are becoming less flexible in the eyes of tenants as features such as giveback options are becoming more rare. On renewals, tenants are unable to secure one month of free rent per year of term. Due to these challenges, and the writing on the wall that the market will not become more favorable for tenants in the near future, firms are now trying to lock in deals five- to seven-year leases instead of the three- to five-year term that has been common in the recent past.

In the suburbs, as vacancy is extremely low, tenants are experiencing rapidly increasing rents; some owners have pushed their rents upwards of 7.0 percent in the last year alone. With low vacancy and increasing costs, discussions of build-to-suits are happening once again. Although nothing has officially been announced, this option is likely to be more viable if the suburban submarkets continue on this path.

### Landlord perspective

Focusing on downtown, the challenges are more difficult here for landlords than in the suburbs, which is largely due to the amount of vacancy that still exists. Although landlords are trying to push net effective rents by raising asking rents, true rent appreciation is not occurring. In order to fix the vacancy problem and to drive rents, landlords are focused on what may be looked at as rebranding downtown. The creation of a live, work, play environment that has proven successful in other cities across the country is being pursued in Jacksonville's urban core. For example, Hemming Plaza, the city's primary park, just underwent a massive landscaping renovation that is bringing new color to the core. Other events are becoming more popular in downtown as well which will help landlords in attracting tenants. Events such as One Spark, known as the World's Crowdfunding Festival, and an event held by PGA's The Players Championship are taking place in downtown. The goal is to have many of the amenities that are commonplace for the Beaches submarket to be more prevalent in or around downtown.





**Submarket leverage**

Submarket	2013	2014	2015	2016	2017
CBD	Balanced	Balanced	Balanced	Landlord-favorable	Landlord-favorable
Beaches	Tenant-favorable	Tenant-favorable	Tenant-favorable	Balanced	Balanced
Butler Corridor	Tenant-favorable	Tenant-favorable	Landlord-favorable	Landlord-favorable	Landlord-favorable
Southside	Tenant-favorable	Tenant-favorable	Balanced	Landlord-favorable	Landlord-favorable

■ Landlord-favorable conditions    
 ■ Balanced conditions    
 ■ Tenant-favorable conditions

**Completed lease transactions**

Tenant	Building Name	Submarket	SF	Type
Deutsche Bank	Butler Plaza II	Butler Corridor	30,000	New
Communities and Schools	Riverplace South	CBD	30,000	New
ITT	Office Centre at Southpoint	Southside	28,909	New
Yellow Pages	Quadrant	Southside	20,000	Expansion
Progressive	Gran Park	Butler Corridor	16,455	Relocation

**Construction activity**

Address/Building Name	Submarket	Developer	SF	Anticipated Delivery
No construction activity occurring at this time				



### About Jones Lang LaSalle

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