

Second Quarter – 2013  
**Jacksonville  
Office Market**

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As a single source provider of **fee development, design build, construction, financing, marketing, sales/leasing, asset/property management and appraisal services**, we succeed in bringing to us, to our partners and to our clients a wide range of experience that completes a full spectrum of all commercial real estate services.

**NAI Hallmark Partners is a group of dynamic and talented professionals** who have worked on behalf of many different, primarily institutional, owners including Chubb Insurance Co., Cigna, Northwestern Mutual, EastGroup Properties Inc., Aegon USA, Wells Real Estate Funds Inc., Prudential Insurance Co. and other private partnerships. In fact, approximately half of the company's daily revenue is derived from providing leasing and management services for other building owners. NAI Hallmark Partners manages each property from an Owner's perspective to maximize value and to enhance owner equity.

All of NAI Hallmark Partners' projects and services reflect insistence on quality and attention to detail. Convinced that an attractive, well-designed work environment translates into more productive associates and a more profitable enterprise, NAI Hallmark Partners is committed to providing a superior level of service and expertise on each and every project. Each phase of the process from conceptual design, planning, financing, value engineering, construction, marketing, sales/leasing and management are all carefully tailored to meet the unique objectives of each client. NAI Hallmark Partners' experienced and professional associates work as a team to provide superior performance with an emphasis on quality—**NAI Hallmark Partners, Building Relationships—one by one, project by project.**

**NAI Hallmark Partners**

Commercial Real Estate Services, Worldwide.

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# The clouds of recession seem to be clearing

It isn't uncommon to hear adjectives such as "encouraged, hopeful, positive" when people are describing the local economy, but it isn't without skepticism. We have four primary categories we can look at when rating the local Jacksonville office market: absorption, vacancy, rental rate and construction activity. Much of the problem is they each tell a slightly different story. Let's take a look at each.



Patrick Thornton

## Vacancy Rate

The vacancy rate is a numerical value calculated as the percentage of unoccupied space. The office vacancy rate in Jacksonville remained at 13.5 percent at the end of the second quarter of 2013, compared to an average of 13.9 percent in 2012. This is an encouraging statistic. In past years the vacancy rate has increased because of businesses closing their doors and/or shrinking the amount of space they need. We anticipate a continued decrease but stabilization over the coming year.

## Absorption

Absorption measures the net change in occupied space. In the second quarter of 2013 we experienced absorption of negative 2,099 square feet compared to positive 116,070 sq. ft. in the fourth quarter of 2012 and positive 236,113 sq. ft. in the third quarter of 2012. We don't believe the recent negative absorption should be looked at as the beginning of a trend. With the limited amount of new construction and increase in leasing activity we are seeing, we expect to see positive absorption in 2013.

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### Quoted Rental Rate

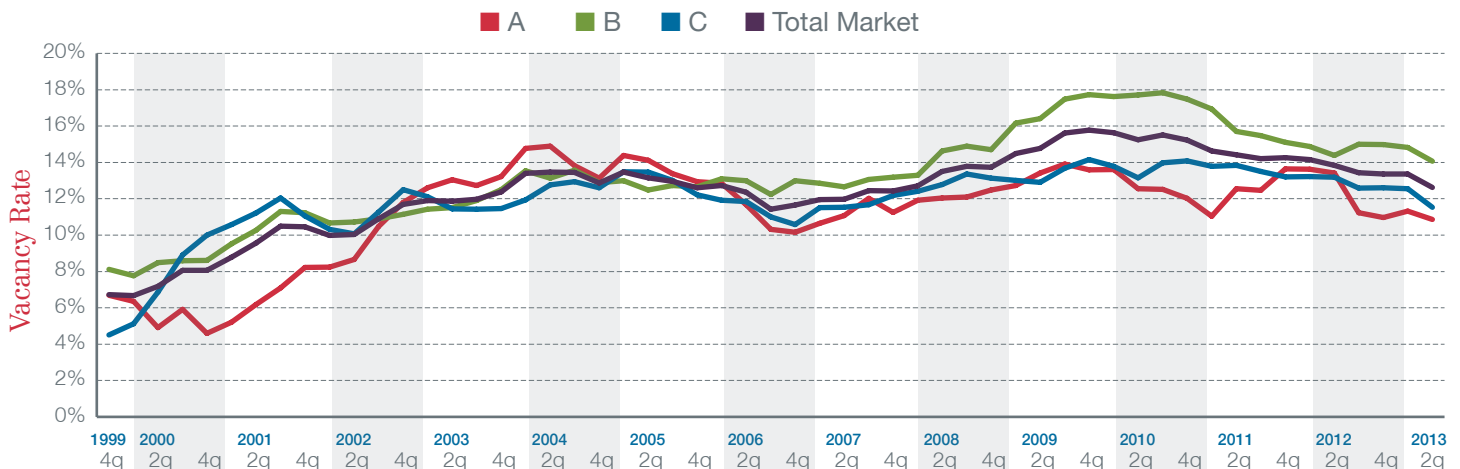
The average quoted asking rental rate for available office space across all classes was \$17.09/sf at the end of the first quarter 2013 (see table above). This represented a 1.4 percent increase in quoted rental rates from the end of the fourth quarter 2012 when rents were reported at \$16.85/sf. We expect rents will continue to increase through the end of the year, which is a healthy sign for the local market.

### Construction Activity

During the second quarter of 2013 one building totaling 6,390 square feet was completed. This compares to five buildings totaling 73,423 sq. ft. completed in the fourth quarter of 2012, one building totaling 13,000 sq. ft. in third quarter of 2012 and 6,285 sq. ft. in two buildings in the second quarter of 2012.

We are also seeing continued interest in office space in Jacksonville's downtown core market. Our city's economy relies heavily on government outlays and incentive programs when making business decisions. Mayor Alvin Brown has made it clear he is focused on downtown, which has contributed to the positivity recently associated with it.

### Vacancy Rates by Class



Source: CoStar Property\*

## Jacksonville's vacancy decreases to 12.6 percent

### Market Overview

The Jacksonville Office market ended the second quarter of 2013 with a vacancy rate of 12.6 percent. The vacancy rate was down over the previous quarter, with net absorption totaling positive 498,759 sq. ft. Vacant sublease space decreased ending the quarter at 133,207 sq. ft. Rental rates ended the quarter at \$17.05, a decrease over the previous quarter. A total of three buildings delivered to the market in the quarter totaling 51,211 sq. ft., with 14,902 sq. ft. still under construction.

### Vacancy

The office vacancy rate in the **Jacksonville market area** decreased to 12.6 percent at the end of the second quarter of 2013, the vacancy rate was 13.4 percent at the end of the first quarter. The overall vacancy rate in **Jacksonville's central business district** at the end of the second quarter of 2013 increased to 14.4 percent,

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the vacancy rate was 14.3 percent at the end of the first quarter. The vacancy rate in the **suburban markets** decreased to 12 percent in the second quarter 2013, the vacancy rate was 13 percent at the end of the first quarter.

## Net Absorption

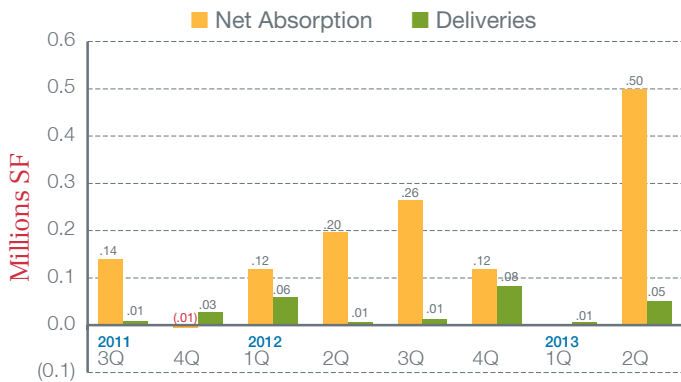
Net absorption for the overall **Jacksonville office market** was positive 498,759 sq. ft. in the second quarter of 2013. That compares to positive 2,771 sq. ft. in the first quarter. Net absorption for

**Jacksonville's central business district** was negative 11,035 sq. ft. in the second quarter of 2013. That compares to negative 8,879 sq. ft. in the first quarter. Net absorption for the **suburban markets** was positive 509,794 sq. ft. in the second quarter of 2013. That compares to positive 11,650 sq. ft. in the first quarter.

### Net Absorptions by building type

Class A	71,913 sf
Class B	280,164 sf
Class C	146,682 sf

## Absorption & Deliveries



Source: CoStar Property\*

## Construction Activity

During the second quarter of 2013, three buildings totaling 51,211 sq. ft. were completed in the Jacksonville market area. This compares to one building totaling 6,390 sq. ft. completed in the first quarter. There were 14,902 sq. ft. of office space under construction at the end of the second quarter. The largest projects underway were 13794 Beach Boulevard, a 6,295 sq. ft. building with 100 percent of its space pre-leased and 5921 Collins Road, a 6,000 sq. ft. facility that is 50 percent pre-leased.

## Quoted Rental Rates

The average quoted asking rental rate for available office space was \$17.05 psf per year at the end of the second quarter of 2013 in the Jacksonville market area. This represented a 0.2 percent decrease in quoted rental rates from the end of first quarter, when rents were reported at \$17.09 psf.

The average quoted rate within the Class A sector was \$19.59 psf at the end of the second quarter of 2013, while Class B rates stood at \$16.71 psf and Class C rates at \$14.63 psf. At the end of the first quarter, Class A rates were \$19.66 psf, Class B rates were \$16.60 psf and Class C rates were \$14.99 psf.

The average quoted asking rental rate in Jacksonville's CBD was \$18.67 psf at the end of the second quarter of 2013 and \$16.59 psf in the suburban markets. In the first quarter, quoted rates were \$18.56 psf in the CBD and \$16.66 psf in the suburbs.

Source: CoStar Property\*

# Total Jacksonville Office Market Statistics

SECOND QUARTER 2013

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Bldgs	Total RBA	Direct SF	Total SF	Vac %				
Arlington	194	1,509,210	193,730	193,730	12.8%	6	0	0	\$13.97
Baker County	10	54,507	7,336	7,336	13.5%	(7,336)	0	0	\$0.00
Beaches	352	2,942,980	257,046	257,046	8.7%	31,497	0	0	\$21.86
Butler/Baymeadows	255	9,735,364	1,389,642	1,485,135	15.3%	282,447	31,650	0	\$16.46
Downtown Northbank	364	12,982,860	1,988,916	1,998,916	15.4%	(11,131)	0	0	\$18.45
Downtown Southbank	137	3,139,222	322,808	324,846	10.3%	(8,783)	0	0	\$19.59
Mandarin	252	2,283,185	358,255	358,255	15.7%	33,301	0	0	\$15.44
Nassau County	225	1,133,734	102,602	102,602	9%	19,840	11,300	0	\$21.09
Northeast Jacksonville	64	549,814	84,269	84,269	15.3%	(639)	0	0	\$11.80
Northwest Jacksonville	170	1,102,752	34,576	34,576	3.1%	1,159	0	2,607	\$13.39
Orange Park/Clay County	347	2,672,488	350,114	350,114	13.1%	5,654	0	0	\$19.72
Riverside	585	2,837,808	217,629	217,629	7.7%	12,359	6,390	6,000	\$15.24
San Marco	242	1,992,119	344,183	344,183	17.3%	9,633	0	0	\$14.62
Southside	687	15,938,559	1,682,491	1,708,167	10.7%	125,182	0	6,295	\$15.90
St. Johns County	422	2,909,028	327,375	327,375	11.3%	(30,239)	8,261	0	\$18.37
<b>Totals</b>	<b>4,306</b>	<b>61,783,630</b>	<b>7,660,972</b>	<b>7,794,179</b>	<b>12.6%</b>	<b>501,530</b>	<b>57,601</b>	<b>14,902</b>	<b>\$17.05</b>

## Class "A" Statistics

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Bldgs	Total RBA	Direct SF	Total SF	Vac %				
Arlington	0	0	0	0	0.0%	0	0	0	\$0.00
Baker County	0	0	0	0	0.0%	0	0	0	\$0.00
Beaches	6	381,000	103,205	103,205	27.1%	(1,842)	0	0	\$22.59
Butler/Baymeadows	13	1,882,950	215,108	221,022	11.7%	23,501	0	0	\$18.28
Downtown Northbank	12	4,855,161	772,055	772,055	15.9%	(8,776)	0	0	\$19.78
Downtown Southbank	6	1,991,663	258,487	260,525	13.1%	(1,533)	0	0	\$20.26
Mandarin	0	0	0	0	0.0%	0	0	0	\$0.00
Nassau County	0	0	0	0	0.0%	0	0	0	\$0.00
Northeast Jacksonville	0	0	0	0	0.0%	0	0	0	\$0.00
Northwest Jacksonville	0	0	0	0	0.0%	0	0	0	\$0.00
Orange Park/Clay County	1	85,000	0	0	0.0%	0	0	0	\$0.00
Riverside	0	0	0	0	0.0%	0	0	0	\$0.00
San Marco	0	0	0	0	0.0%	0	0	0	\$0.00
Southside	50	6,543,407	277,922	294,076	4.5%	25,841	0	0	\$19.58
St. Johns County	4	297,003	91,860	91,860	30.9%	(20,026)	0	0	\$18.50
<b>Totals</b>	<b>92</b>	<b>16,036,184</b>	<b>1,718,637</b>	<b>1,742,743</b>	<b>10.9%</b>	<b>17,165</b>	<b>0</b>	<b>0</b>	<b>\$19.59</b>

## Class "B" Statistics

SECOND QUARTER 2013

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Bldgs	Total RBA	Direct SF	Total SF	Vac %				
Arlington	29	665,193	133,744	133,744	20.1%	13,622	0	0	\$13.61
Baker County	2	7,015	0	0	0.0%	0	0	0	\$0.00
Beaches	155	1,667,269	111,969	111,969	6.7%	13,984	0	0	\$22.88
Butler/Baymeadows	165	6,881,841	1,061,102	1,150,681	16.7%	135,723	31,650	0	\$16.16
Downtown Northbank	111	6,356,152	1,008,103	1,018,103	16.0%	17,588	0	0	\$16.54
Downtown Southbank	16	705,652	12,880	12,880	1.8%	(4,600)	0	0	\$17.93
Mandarin	142	1,599,342	276,959	276,959	17.3%	25,373	0	0	\$15.76
Nassau County	94	481,937	67,358	67,358	14.0%	11,200	11,300	0	\$21.67
Northeast Jacksonville	26	279,622	27,344	27,344	9.8%	(1,591)	0	0	\$15.10
Northwest Jacksonville	21	570,506	6,220	6,220	1.1%	31	0	2,607	\$11.25
Orange Park/Clay County	166	1,586,541	276,140	276,140	17.4%	4,918	0	0	\$21.03
Riverside	134	978,923	82,537	82,537	8.4%	5,581	6,390	6,000	\$17.26
San Marco	53	991,690	126,329	126,329	12.7%	9,902	0	0	\$14.75
Southside	257	5,747,445	815,195	820,595	14.3%	111,319	0	6,295	\$15.33
St. Johns County	307	2,155,285	201,533	201,533	9.4%	(13,222)	8,261	0	\$18.47
<b>Totals</b>	<b>1,678</b>	<b>30,674,413</b>	<b>4,207,413</b>	<b>4,312,392</b>	<b>14.1%</b>	<b>329,828</b>	<b>57,601</b>	<b>14,902</b>	<b>\$16.71</b>

## Class "C" Statistics

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Bldgs	Total RBA	Direct SF	Total SF	Vac %				
Arlington	165	844,017	59,986	59,986	7.1%	24,964	0	0	\$14.65
Baker County	8	47,492	7,336	7,336	15.4%	(7,336)	0	0	\$0.00
Beaches	191	894,711	41,872	41,872	4.7%	19,355	0	0	\$18.01
Butler/Baymeadows	77	970,573	113,432	113,432	11.7%	123,223	0	0	\$15.16
Downtown Northbank	241	1,771,547	208,758	208,758	11.8%	(19,943)	0	0	\$14.84
Downtown Southbank	115	441,907	51,441	51,441	11.6%	(2,650)	0	0	\$16.75
Mandarin	110	683,843	81,296	81,296	11.9%	7,928	0	0	\$14.46
Nassau County	131	651,797	35,244	35,244	5.4%	8,640	0	0	\$20.18
Northeast Jacksonville	38	270,192	56,925	56,925	21.1%	952	0	0	\$10.40
Northwest Jacksonville	149	532,246	28,356	28,356	5.3%	1,128	0	0	\$13.84
Orange Park/Clay County	180	1,000,947	73,974	73,974	7.4%	736	0	0	\$16.47
Riverside	451	1,858,885	135,092	135,092	7.3%	6,778	0	0	\$14.38
San Marco	189	1,000,429	217,854	217,854	21.8%	(269)	0	0	\$14.53
Southside	380	3,647,707	589,374	593,496	16.3%	(11,978)	0	0	\$13.19
St. Johns County	111	456,740	33,982	33,982	7.4%	3,009	0	0	\$17.35
<b>Totals</b>	<b>2,536</b>	<b>15,073,033</b>	<b>1,734,922</b>	<b>1,739,044</b>	<b>11.5%</b>	<b>154,537</b>	<b>0</b>	<b>0</b>	<b>\$14.63</b>

Source: CoStar Property\*



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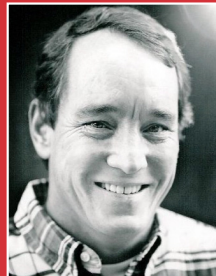
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