

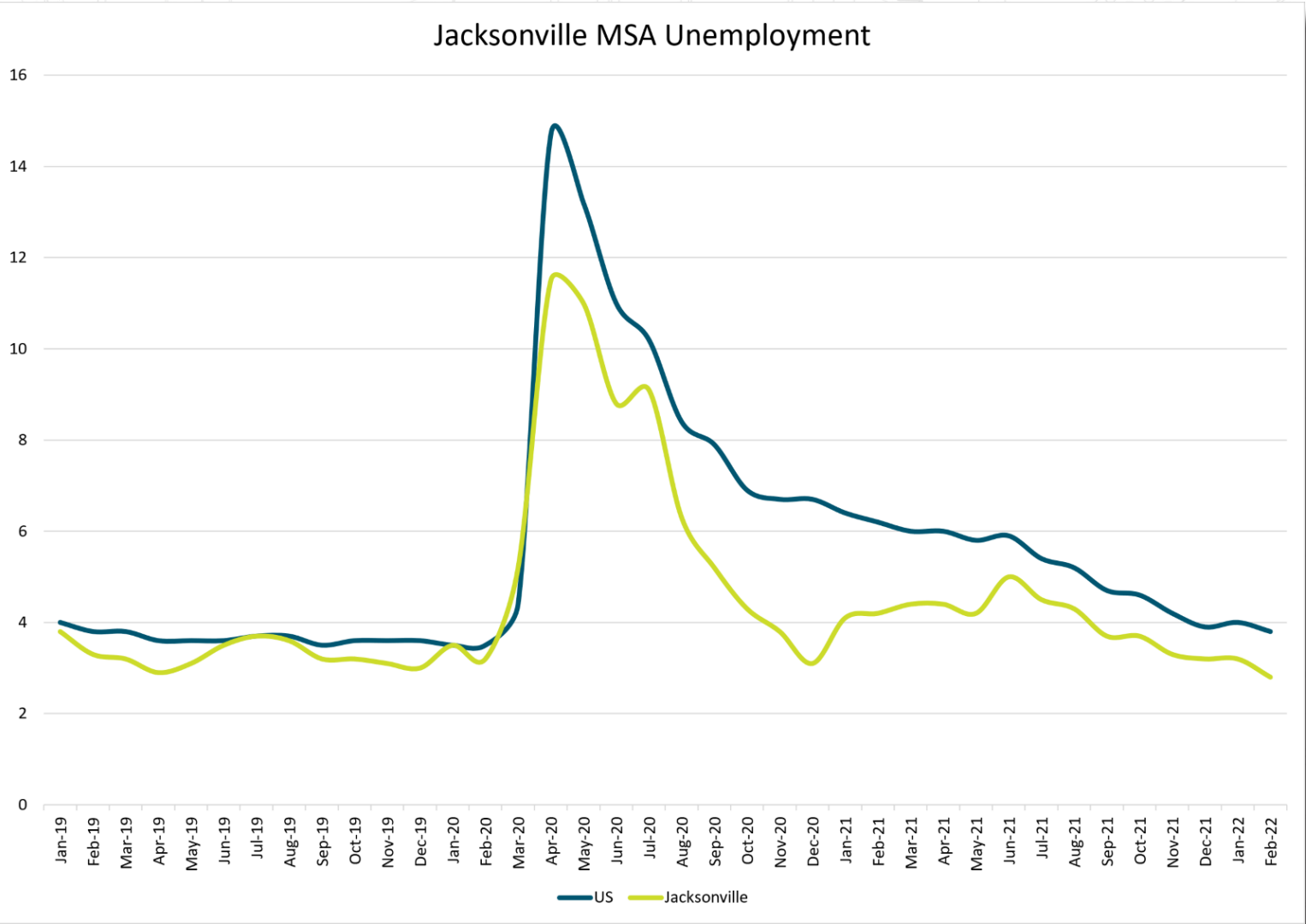
# JACKSONVILLE

Q1-22 Industrial Report

 FranklinStreet

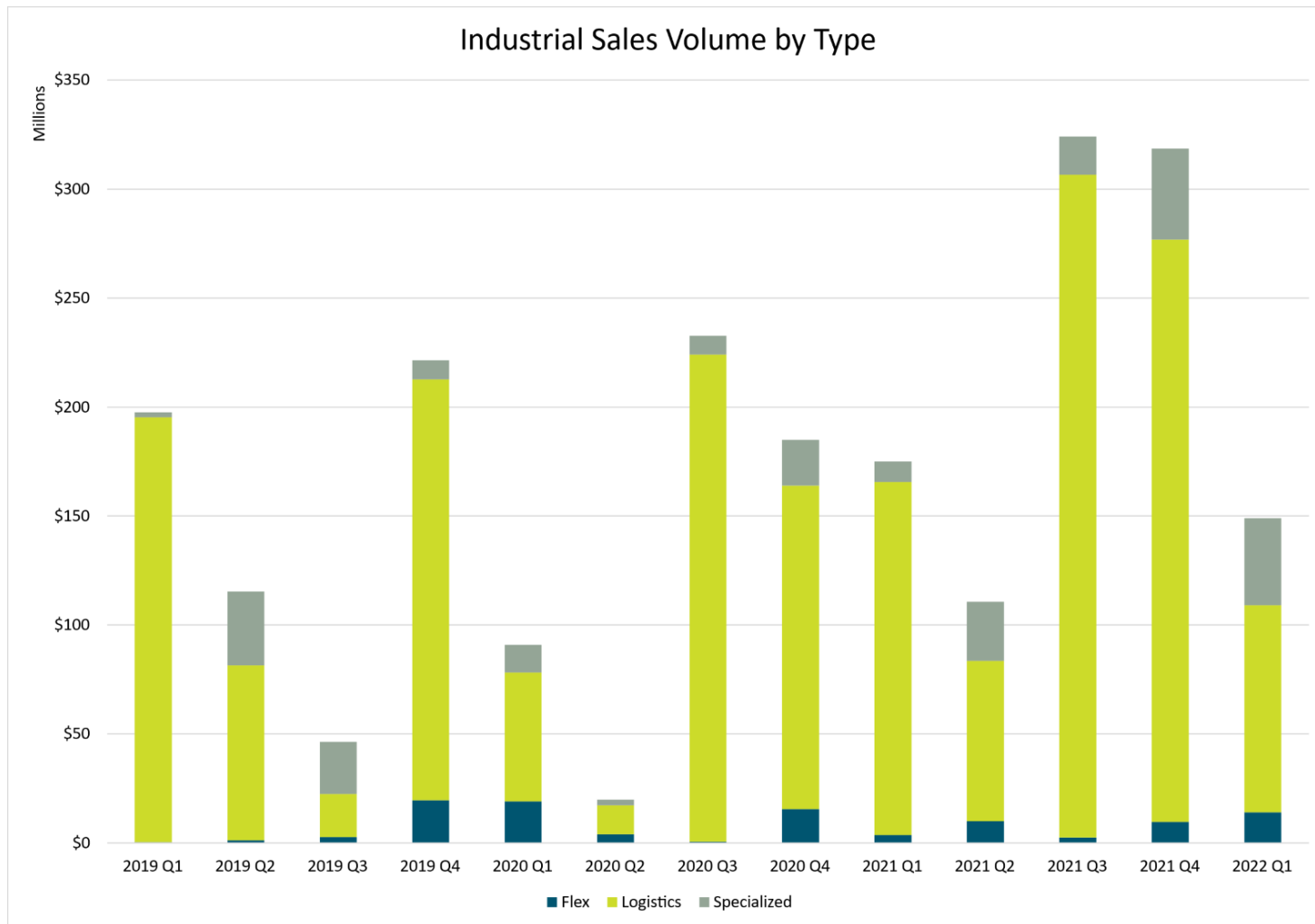
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# MSA Unemployment



Jacksonville is the largest city in the State of Florida and touts itself as “America’s Logistics Capital.” The pandemic caused a surge in unemployment to 11.5%, peaking in April 2020. More recent unemployment trends have shifted, and the labor market has since recovered. The unemployment rate in Jacksonville is now at 2.8% compared to the national unemployment average of 3.8%. The metro quickly stabilized and continues to trend downward. The 100 basis points below the national average immediately reflects the diversification in Jacksonville’s demographics and tapestry segments. We expect unemployment percentages to trend downward as Jacksonville continues to have increased population growth across the region.





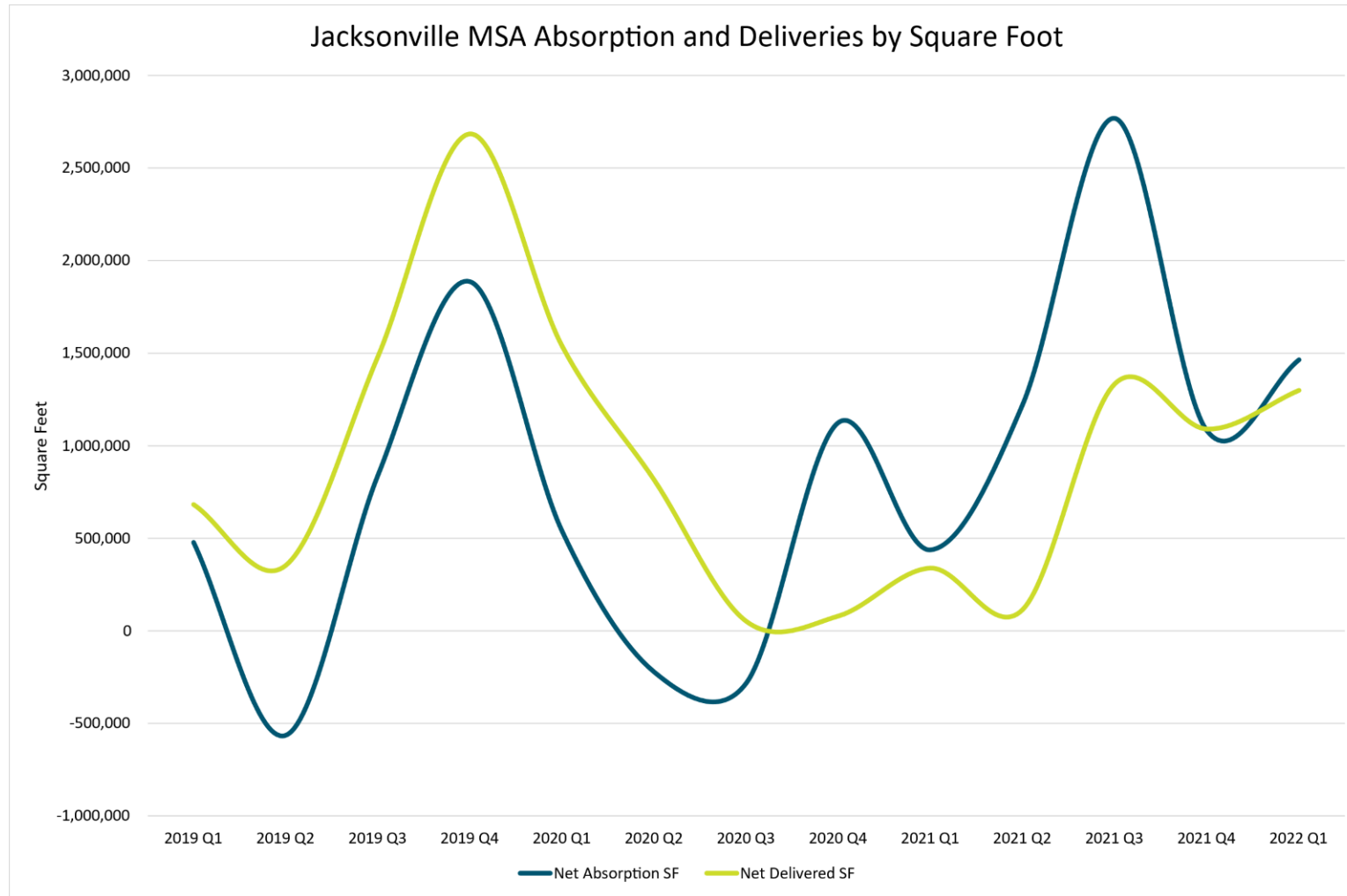
## Industrial Sales Volume by Type

First quarter sales volume started off at a healthy level for flex, logistics and specialized industrial in Q1 2022 despite headwinds from inflationary forces and a supply chain that has yet to recover. The breakdown of the \$148 million in sales reflected flex space at \$14 million, over \$94 million for logistics space, and just over \$40 million for specialized space.

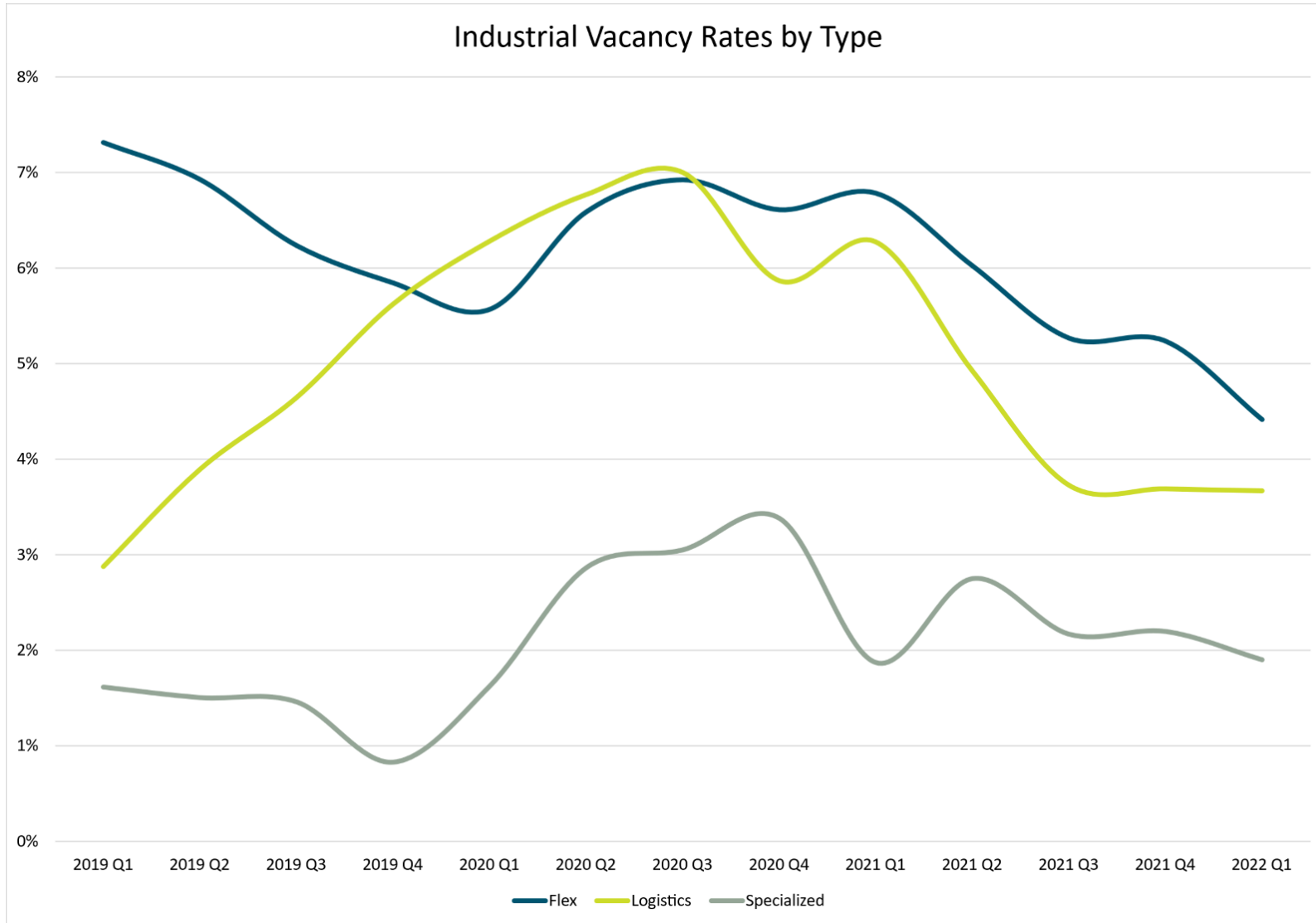
Owner-users are fueling demand for Class B and C assets that are 10,000 square feet. On the opposite end of the spectrum, institutional owners are hungry for properties 75,000 square feet and above and are typically interested in acquiring entire portfolios when available. We expect sales volume in Jacksonville to continue to increase as the year progresses, however, most likely not at the rate it grew throughout 2021.

## MSA Absorption and Deliveries by Square Foot

As of Q1-22, absorption and deliveries have increased slightly. Delivery levels normally outpace absorption rates in industrial real estate, as space needs are built and delivered to the market before occupancy. Since 2019, there has been over 11.8 million total square feet delivered to the Jacksonville MSA; with 1.2 million delivered in the first quarter alone. Over the same period, 10.65 million of that space has been absorbed by the market. In Q1-22, 1.4 million square feet was absorbed.

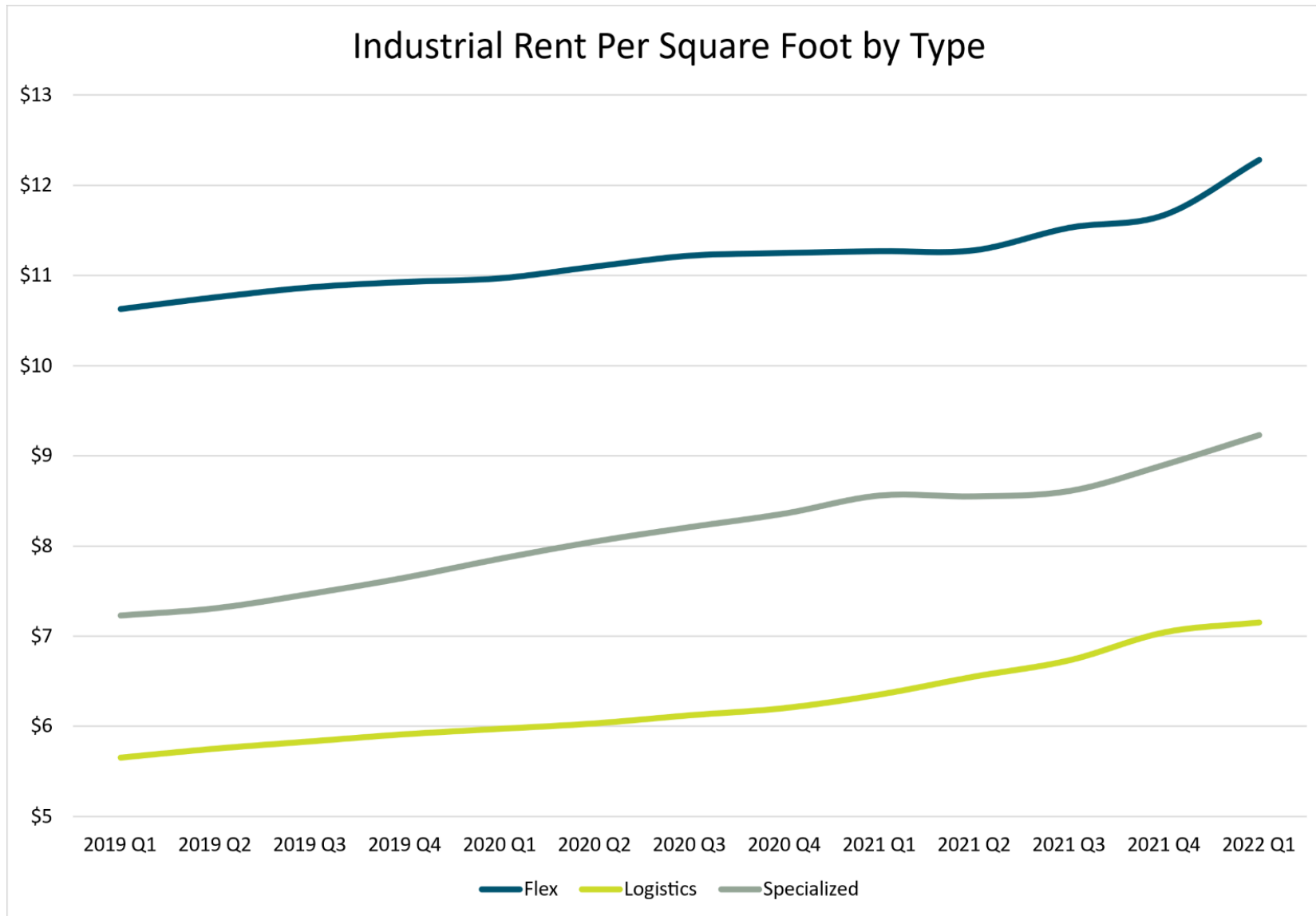


## Industrial Vacancy Rates by Type



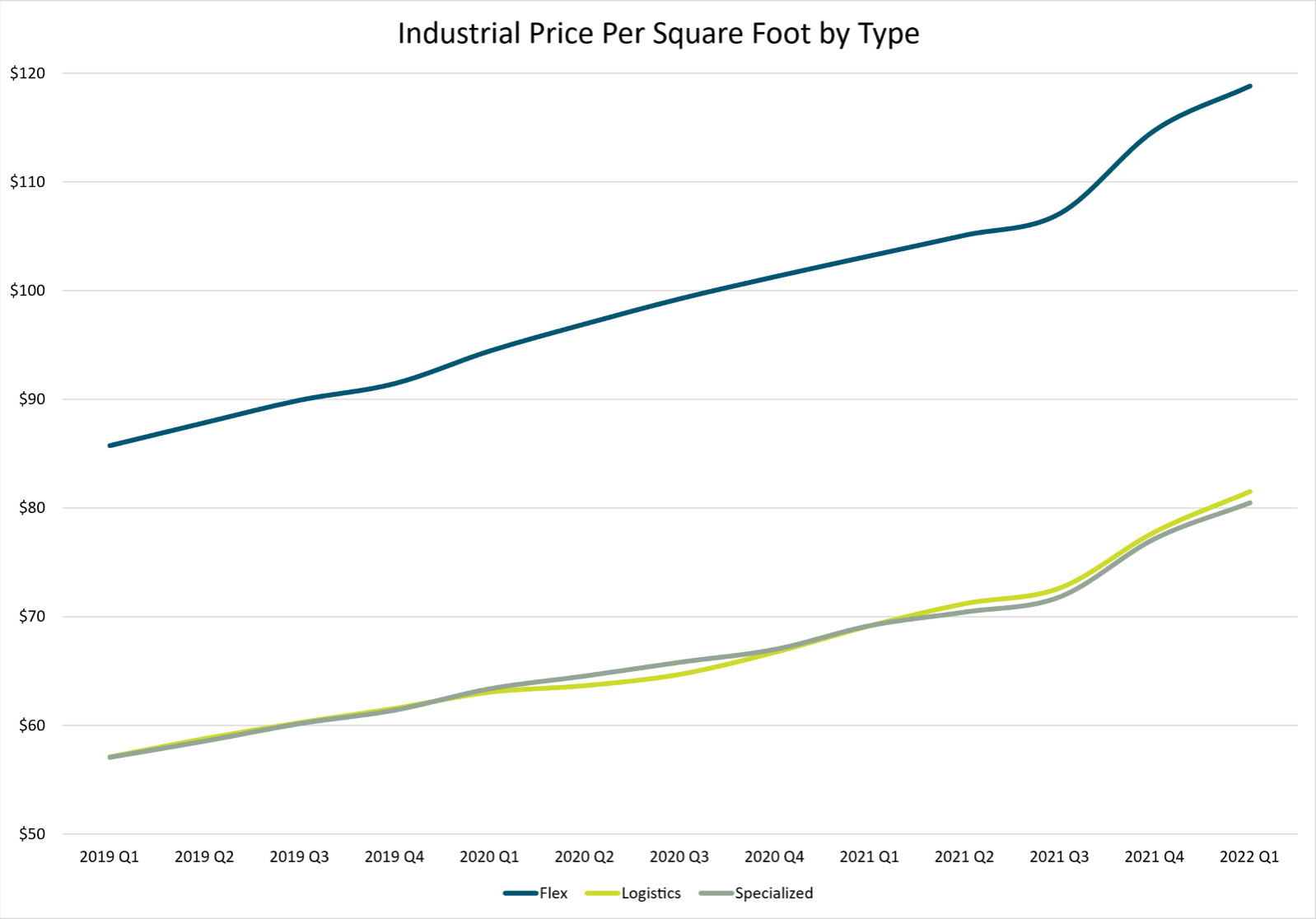
Industrial vacancies are at an all-time low. Jacksonville's geographic location is a strategic advantage for distribution and shipping throughout the Southeast United States. Specialized space has only 1.9% total vacancy. Logistics space has the next lowest total vacancy at 3.7%, while flex space has 4.4% total vacancy. We expect vacancy rates to remain at a low level throughout 2022 and into 2023, as demand for industrial space is still very high.

## Industrial Rent Per Square Foot by Type



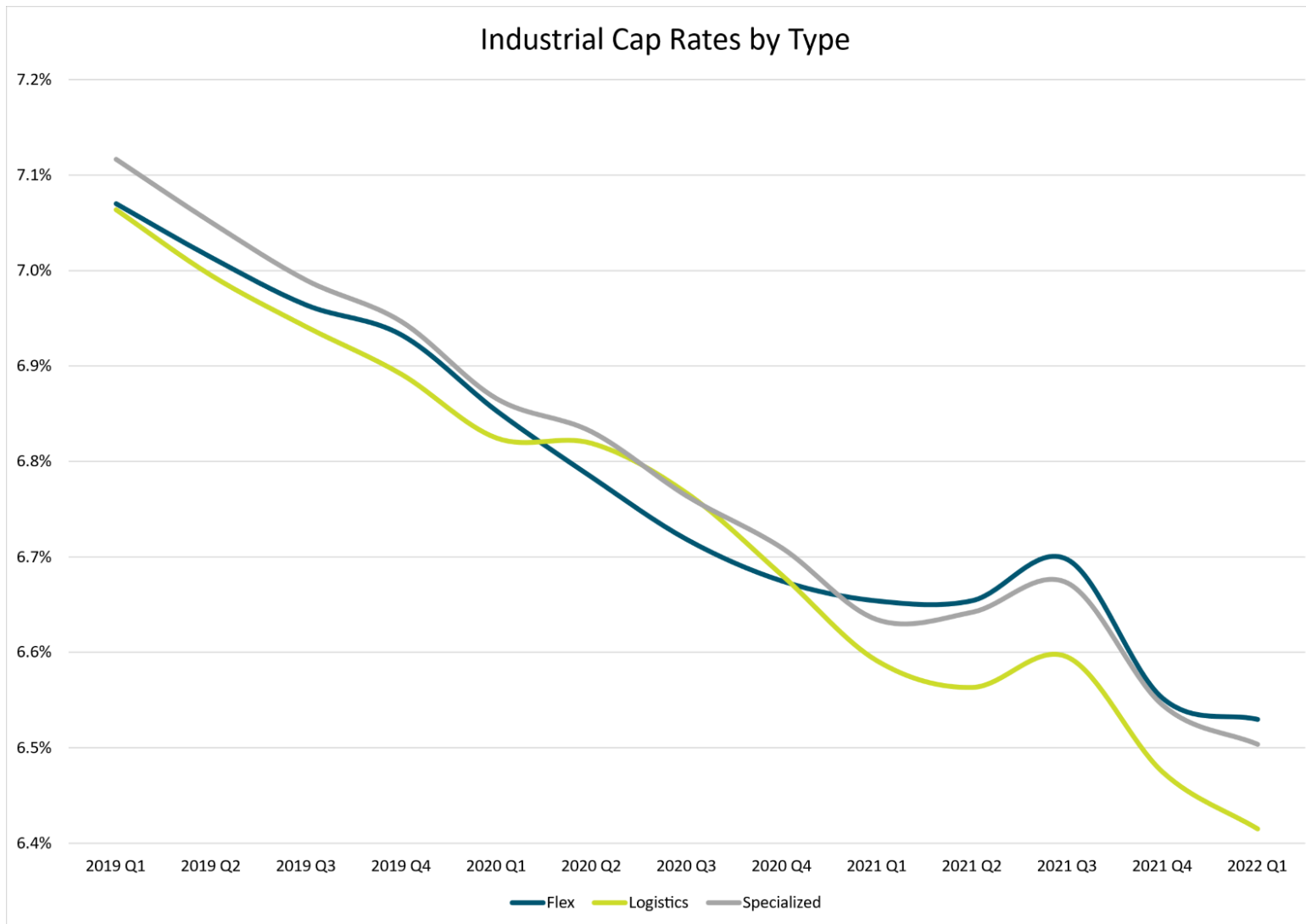
With the vacancy rates for industrial space at historic lows, rental rates are increasing significantly and grew by approximately 10% year over year. Rent for flex space is currently the most expensive at \$12.28 per square foot, followed by specialized space at \$9.23 per square foot, and logistics space at \$7.15 per square foot. This market rent growth is expected to continue as demand for industrial space continues to increase.

# Industrial Price Per Square Foot by Type



Price per square foot for industrial space is at an all-time high. Flex space is by far the most expensive at \$118.83 per square foot, while logistics and specialized space are \$81.52 and \$80.46 per square foot, respectively. As mentioned, competition to occupy industrial space is very high. This will continue to put upward pressure on the market in terms of prices. Until a large amount of new inventory is delivered to the market, the price for current available space will remain elevated.

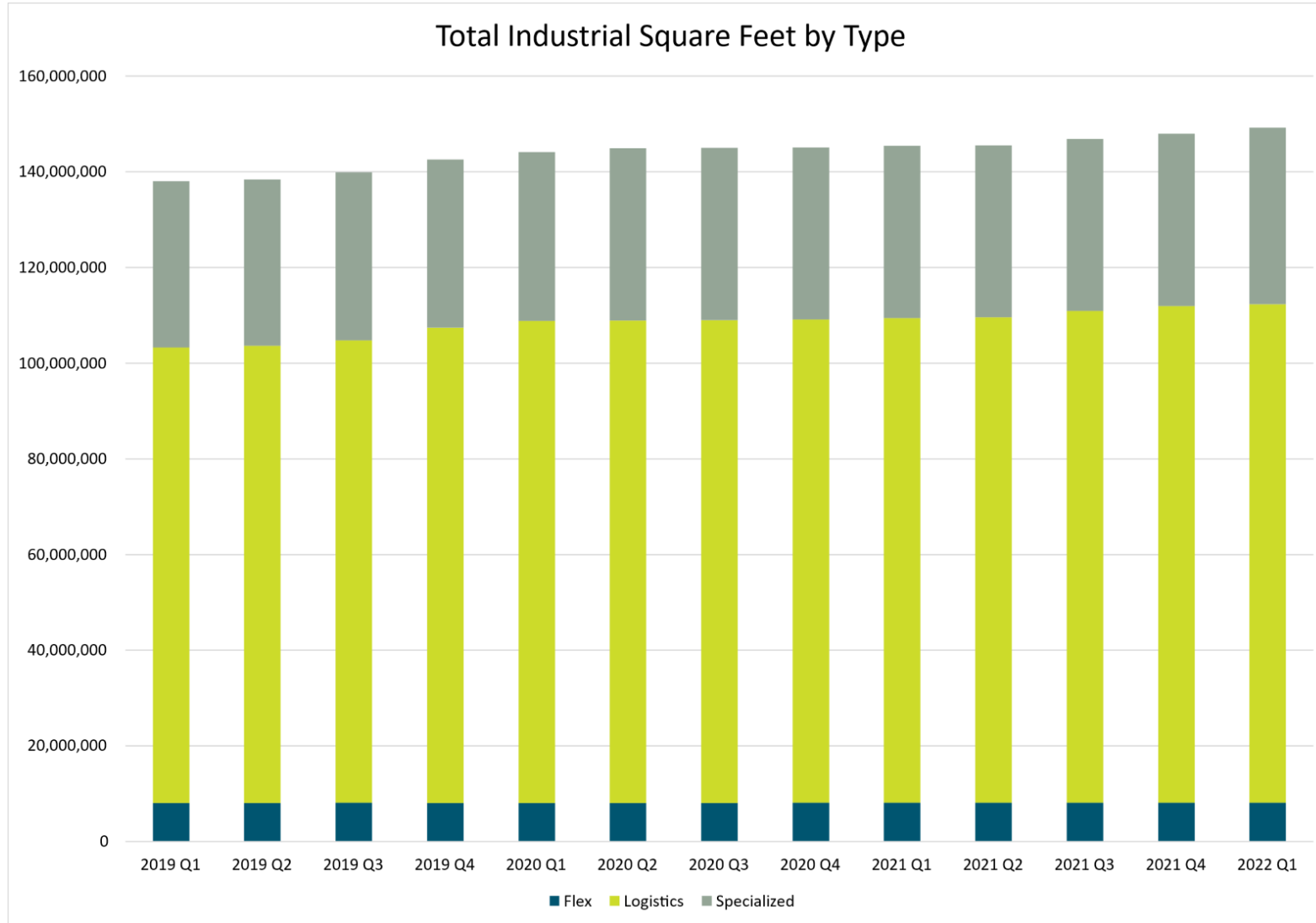
## Industrial Cap Rates by Type



Since, price per cap rates and prices share an inverse relationship, the upward pressure on prices has put downward pressure on cap rates. All three types of industrial spaces are at historic lows. Flex space is at 6.53%, logistics space is 6.41% and specialized space is at 6.50%. Although cap rates are lower than ever, we anticipate positive investor sentiment regarding the industrial asset class to continue.



## Total Industrial Square Feet by Type



Total inventory for industrial space in Jacksonville has been steady since 2019, with only small increases across all three types. This quarter, there was a total of 8.1 million square feet of flex space, 104 million square feet of logistics space, and 36 million square feet of specialized space. The slow growth in total square feet is indicative of the challenges cradle to grave development is currently working through, but throwing in the supply chain issue, inflation, and labor shortages, all combined can redirect an industrial development quickly. We believe this slow growth trend will continue for the next 18-24 months, and are hopeful the construction market can stabilize.

Submarket	Rent SF	Sale Price SF	Cap Rate	Annual Rent Growth	Vacancy Rate	12 Mo Sales Vol
Beaches	\$15.34	\$163	6.21%	10.12%	0.51%	\$4,500,929
South Side	\$11.55	\$121	6.71%	10.17%	0.23%	\$7,172,268
Mandarin	\$11.36	\$109	6.70%	11.23%	0.98%	\$5,598,000
Arlington	\$10.99	\$103	6.92%	10.44%	2.07%	\$5,278,130
St Johns	\$10.68	\$106	6.61%	11.73%	0.82%	\$42,585,000
Butler Corridor	\$10.00	\$106	6.43%	10.64%	4.35%	\$103,137,971
San Marco	\$8.91	\$87	6.71%	10.80%	2.83%	\$19,230,000
Orange Park/Clay County	\$8.64	\$76	6.89%	10.14%	0.25%	\$36,172,483
Ocean Way	\$8.30	\$79	6.05%	9.99%	8.62%	\$210,037,825
Nassau County	\$7.73	\$99	6.10%	9.07%	1.02%	\$37,840,500
Northeast	\$7.55	\$92	5.84%	10.89%	0.20%	\$0
Riverside	\$7.26	\$82	6.60%	10.53%	1.62%	\$65,826,668
North Side	\$6.87	\$69	6.36%	11.01%	3.30%	\$58,555,000
West Side	\$6.54	\$75	6.36%	10.66%	4.45%	\$314,296,182
Baker County	\$6.52	\$99	5.94%	10.83%	3.06%	\$3,677,000
Downtown	\$6.37	\$61	6.94%	9.80%	1.71%	\$20,092,791

# JACKSONVILLE INDUSTRIAL MARKET TRENDS TO WATCH

## **JAXPORT DREDGING TO SPUR DEMAND:**

JAXPORT's multi-year dredging project is set to be finalized in May 2022. This will take the depth of the federal channel from its current depth of 40 feet to a depth of 47 feet allowing for larger ships and vastly increased shipping volume. Implications for the Jacksonville market include increased demand for all subtypes of industrial real estate as well as other asset classes. JAXPORT is a 24/7 operation and the ability to use the air cargo, railways, interstate commerce trucking all have uses through our port.

## **LOW AVAILABILITY TO KEEP MARKET TIGHT:**

Availability of supply is the No. 1 challenge in Jacksonville's industrial market today. Even with 3.8 million square feet forecasted to be delivered in the next 12 months, demand is expected to outpace supply. This is ultimately a good sign for the market, but it will create challenges for tenants seeking new space.

## **SOUTHSIDE AND BEACHES REMAIN HOT:**

Currently, the Southside and beaches submarkets are top performers in the market, with vacancy rates of 0.2% and 0.5% respectively, as well as rents of \$15.34 per square foot and \$11.36 per square foot. With no additional space under construction in either submarket, vacancy rates are expected to remain some of the lowest in the market.

## **ATTRACTIVE AFFORDABILITY:**

Jacksonville's relative affordability is one of its biggest differentiators. The market's sale prices per square foot of \$84 is notably lower than Tampa's, at \$114 and Orlando's, at \$121. Rental rates are also generally more affordable, which combined with Jacksonville's numerous other advantages, will keep demand strong.

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