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Economy drives strong commercial real estate market

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Jacksonville's commercial real estate market remained strong through the second quarter of 2016.

With a stable area economy, job growth and the benefits of being part of Florida's continued attraction for business, tourists and new residents, Jacksonville saw higher occupancy rates as well as higher rents.

Retail, apartment and industrial properties experienced construction growth, while office development waits for stronger demand.

An analysis of real estate market reports found generally positive tones throughout the April-June quarter and for the first half of the year.

Avison Young, CBRE, Colliers International North Florida, Cushman & Wakefield, Franklin Street Real Estate Services Inc. and JLL, also known as Jones Lang LaSalle, analyzed the time frame.

Those reports covered the apartment, industrial, office and retail markets.

While their market definitions, research methods and detailed findings differed, their summaries, analyses and conclusions were largely in agreement.

Office market tightens, spec building at bay

Jacksonville's office market benefited from a strengthening economy as job creation continued, unemployment declined and companies relocated both into and within the area.

However, new speculative construction remained constrained, although there are some spec buildings in the pipeline.

Vacancy rates dropped, averaging 9.4 percent to 15.8 percent, while average asking lease rates rose to between $18 and a little higher than $19 a square foot.

Downtown and suburban vacancy rates closed the gap in several of the reports.

For example, Cushman & Wakefield found the overall metro vacancy rate was 15.4 percent, its lowest since the Great Recession.

While the suburban rate was 15.6 percent, the Central Business District was 14.9 percent, thanks to tightness on the Southbank.

Among the reports, the Beaches area had the lowest vacancy rate, while Arlington and North Jacksonville posted the highest.

Similarly, the highest rental rates were found at the Beaches and East Butler and the lowest in Arlington and North Jacksonville.

CBRE, Cushman & Wakefield, Colliers, Avison Young and JLL all issued second-quarter office reports.

Major activity included the Southeastern Grocers move to Baymeadows and the rebranding of the Bank of America office park to Gramercy Woods, where Aetna will relocate from the Downtown Southbank.

“With a growing population and a strengthening economy, both national and local businesses look to Jacksonville as a top-tier market for operations,” said Colliers, which represented Gramercy Woods in the Aetna transaction.

CBRE said the largest office market is the Interstate 95 and I-295 corridor, which comprises almost half of the total office market inventory. Rental rates there rose 6.5 percent over the year.

JLL said multiple large blocks of space remain available across the market, including 16 of more than 50,000 square feet each.

It said landlords will hold onto those blocks rather than split into smaller spaces so they can compete for larger tenants.

“Jacksonville has proven to be a successful location for back office operations for Fortune 500 companies and hopes to lure more groups to the area,” said JLL.

CBRE predicts more construction is on the way.

“Tightening demand for large blocks of space and steadily increasing rental rates should motivate developers to contemplate new office projects in the market,” said the CBRE report.

Cushman & Wakefield said sentiment remains positive into the third quarter.

“With steady gains in employment driving market growth, Cushman and Wakefield forecasts continued strength in leasing activity and rent growth,” it said.

Retail ‘as hot as it has ever been’

Jacksonville’s strong retail market could have been even stronger had there been space available for lease in the most sought-after markets.

The area’s average retail vacancy rate was 6 to 6.5 percent, according to CBRE and Colliers.

CBRE’s report covered the second quarter while the Colliers report was from the first quarter.

Vacancy rates in St. Johns County were the lowest in the metro area, at 2.6 to 2.8 percent, among the two reports.

Mandarin, Butler and Baymeadows rates were tight markets, too, with vacancy rates below the average.

Average asking rents were $12.40 to $12.65 a square foot metro-wide, with higher rates, topping $16, at the Beaches and on the Southbank.

“We are seeing some of the highest rents we have seen in a long time and it continues to be a landlord’s market,” said Katy Figg, director of real estate services for Franklin Street Real Estate Services.

With new construction deals not delivering until 2017-18, demand for space increases, as do rents.

Large projects under construction or announced include The Strand and The Crossing at St. Johns Town Center, Town Center Promenade and, in St. Johns County, the large Durbin Park center.

But there was plenty of retail space available on the Northbank, with vacancies at 10.3 to 11.4 percent and in Arlington, at 7.8 to 9.5 percent.

Northbank lease rates averaged just under $8. Arlington rates were, on average, almost $9 to $10.

“The new construction in sought-after markets is welcomed by retailers who cannot find space they want in desirable locations and markets,” said Whitney Kantor, director of retail leasing with Franklin Street.

She said retailers remain very interested in markets that include Southside, St. Johns County, San Marco near the Southbank and in the Brooklyn, Riverside and Five Points markets on the western edge of the Northbank area.

The Northbank market has different characteristics, split between the urban core business district and the more residential Brooklyn, Riverside and Five Points areas that are in resurgence.

“Northeast Florida’s retail market is as hot as it has ever been, which is leading to the first wide-scale development the area has seen in six years,” said the Colliers report.

CBRE said retail development in St. Johns County is at an all-time high and will go higher with the impending 2.4 million square feet of retail space to be built over the long-term at Durbin Park.

For now, “with over 800,000 square feet of retail space currently under construction, the Jacksonville retail market is poised for significant growth,” CBRE said.

CBRE noted the state’s consumer economy has been expanding rapidly because of strong population growth and tourism.

As consumers increasingly turn to the internet, however, shopping center owners are reinventing their properties as leisure and entertainment destinations to offer services that cannot be provided online.

That includes restaurants; hair, nail and spa salons; and fitness clubs. Grocery stores also remain dependable tenants.

Another example in the Brooklyn area would be the cryogenics tenant, a service not available by keyboard or keypad.

“Retail markets throughout the state will benefit from strong economic fundamentals and we expect to see new and creative retail space come to life as retailers navigate the dynamic world of changing consumer spending and shopping practices,” said CBRE.

Kantor said shopping-center owners that continue to be aggressive and forward-thinking through redevelopment, unique use and space design will be sought by retailers and restaurants.

Industrial market sets positive trends

Jacksonville's industrial market ended the first half of the year on a strong note, summarized Cushman & Wakefield.

Overall market vacancy rates among reports by the major real estate firms ranged up to 7.2 percent and average asking lease rates were about $4 a square foot or slightly higher.

Cushman & Wakefield said vacancy rates fell to their lowest levels since the recession. Heading into the third quarter, it expected the market to continue to trend positively.

"The region's overall growth and economic stability coupled with the logistical benefits of our central location and low tax structure has made Jacksonville a competitive location for various companies," said Colliers.

Colliers, Cushman & Wakefield and CBRE noted the large deals of the quarter.

They also pointed out those on the way, including BMW of North America's 450,000-square-foot Westside Industrial Park distribution center; Hillwood Investment Properties' 400,000-square-foot speculative building at AllianceFlorida at Cecil Commerce Center; and Amazon.com's 2.4 million-square-foot North Jacksonville fulfillment center.

Hillwood also proposes a 1 million-square-foot regional package center at AllianceFlorida.

The largest industrial submarkets are Westside, North Jacksonville and Southside.

Apartment

demand continues

Colliers' midyear multifamily report found vacancy rates dropped below 5 percent and rent growth outpaced inflation at 4.4 percent.

Colliers measured the first half of the year rather than specifically the second quarter.

The average monthly rental rate rose to $940, or 96 cents a square foot.

Yet Jacksonville remained "an affordable alternative" to other large markets in the Southeast, such as Orlando and Atlanta, Colliers said.

Demand for apartments remained high the past three years, although Colliers said it appeared to have peaked in mid-2015.

Demand is highest in the urban core and in Baymeadows and Southside, all nearest the area’s major job centers.

Colliers said supply remains strong but developers continue to be cautious of overbuilding in the market.

About 2,500 units are “in queue” with 1,500 expected to be completed in the next year.

Occupancy is high in the newer Class A apartments and is strengthening among the older Class B and C properties as renovations help make them attractive.

Older properties with maintenance issues still struggle with stable occupancy rates, Colliers said.

From January through July, which stretches into the third quarter, 27 apartment communities were sold at an average unit cost of almost $95,500.

A record was set with the July sale of The Strand on the Downtown Southbank at $219,000 a unit.

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