STRONG LEASING ACTIVITY AND IMPROVING FUNDAMENTALS PROVIDE A STABLE OUTLOOK FOR THE JACKSONVILLE INDUSTRIAL MARKET

Hot Topics

- The Port of Fernandina announced a new shipper that will begin break-bulk service to San Juan, Puerto Rico once a month.

- The Jacksonville market will benefit from the Q3 2014 lease of 510,000 sq. ft. to GE Oil & Gas at Alliance Florida at Cecil Commerce Center.

- Embraer, a jet manufacturer, expanded by 16,000 sq. ft. in the Northside submarket near the Jacksonville International Airport.

- Over 741,000 sq. ft. of new leases were signed in the Jacksonville industrial market throughout Q3 2014, including three leases greater than 100,000 sq. ft.

- According to the National Oceanic and Atmospheric Administration (NOAA), the Port of Jacksonville is the top vehicle export port in the nation, as well as the number one container port in Florida.

Leasing Activity

The Jacksonville industrial market experienced muted net absorption in Q3 2014, with only 115,580 sq. ft. of net absorption occurring compared to 266,968 sq. ft. in Q2 2014 and 520,713 sq. ft. in Q1 2014. The Westside submarket posted the highest net absorption due to Sy-Klone occupying 63,000 sq. ft. at Westside Industrial Park. Although net absorption figures did not show signs of improvement, several notable leases were signed that will contribute to positive absorption in future quarters.

In the Westside submarket, Fanatics signed a lease for 212,000 sq. ft. at Westside Industrial Park to accommodate its manufacturing operations and will take occupancy in Q4 2014. This space will be an expansion of the 500,000-sq.-ft. distribution center that the sports apparel company currently occupies.

Mercedes Benz currently occupies 400,000 sq. ft. at Majestic International Tradeport in the Northside submarket and in Q3 2014 this group leased the remaining 120,000 sq. ft.

In Q4 2014, we anticipate continued positive leasing activity. A contributing transaction is the 510,000-sq.-ft. lease signed for an under-construction building at Alliance Florida at Cecil Commerce Center. GE Oil & Gas, a subsidiary of General Electric that is rapidly expanding into the Jacksonville market, will occupy the entire building upon completion. A transaction of this magnitude will boost the industrial market and have a positive impact on Jacksonville’s job market as 500 employees will be hired at the manufacturing facility by the end of 2016. The project received $10 million in incentives from the City of Jacksonville as well as $5.4 million from the State of Florida.
Vacancy rates at the close of Q3 2014 stood at 9.4%, an 80 bps improvement over the Q3 2013 rate of 10.2%. The Westside submarket held the lowest vacancy rate of 4.9% at the close of the quarter with a 100 bps improvement year over year. The CBD closed the quarter with virtually the same vacancy of 5.0%. Q3 2014 ended with an average asking lease rate of $4.04 per sq. ft. (NNN), which is $0.03 above the rate in Q2 2014 and $0.15 above Q3 2013.

**Development**

Several projects are under construction in the Jacksonville industrial market as of Q3 2014, with one new project breaking ground. In the Westside submarket, construction is progressing on two large projects. A 300,000-sq.-ft. warehouse/distribution center, which will be fully occupied by FedEx, is moving forward and is expected to deliver by 2016. The 510,000-sq.-ft., Alliance Florida at Cecil Commerce Center Building A, is expected to be completed during Q4 2014 and will serve as a manufacturing plant for GE Oil & Gas.

In the Northside submarket, development continues on two speculative warehouses at Port Jax Trade Center: a 70,300-sq.-ft. warehouse expected to deliver Q4 2014 and a 29,000-sq.-ft. warehouse expected to deliver Q1 2015. Jax Green Industrial, the developer of both buildings, plans to further develop the center once space in the newly completed buildings becomes occupied.

Ja-Ru, a toy company headquartered in Jacksonville, broke ground on a 353,000-sq.-ft. headquarters and distribution center at Flagler Center in the Southside submarket. Upon completion, the project will consist of two phases and total approximately 490,000 sq. ft. Ja-Ru will use the new facility to consolidate their current office/warehouse operations.

Plans were announced for a 237,000-sq.-ft. speculative building at Westside Industrial Park, which will be designed for a single tenant. Due to uncertainty in the future of the industrial market, there is no definite commencement date for development, but it could start as early at Q1 2015.

**Sales Activity**

Sales activity in the Jacksonville industrial market remained strong throughout Q3 2014, as several notable transactions were completed. The average asking sale price for industrial product was $39.32 per sq. ft., which is slightly higher than the figure of $36.34 posted in Q2 2014.

Creekside Distribution Center, which consists of three buildings totaling approximately 335,000 sq. ft., was purchased as an investment by Thackeray Partners for approximately $20.7 million or $61.95 per sq. ft. The three-building warehouse and distribution center is located within the Jacksonville International Tradeport in the Northside submarket.

The Jacksonville market saw two portfolio sales occur during the quarter. A 283,801-sq.-ft. warehouse in the Clay County submarket was acquired by TPG Capital through the purchase of the 25-building ProLogis portfolio for $7.5 million or $26.47 per sq. ft. The three-building warehouse and distribution center is located within the Jacksonville International Tradeport in the Northside submarket.

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Economic Influence

Florida’s unemployment rates are up slightly in the second half of the year after seeing improvement in the first half of 2014. The non-seasonally adjusted unemployment rate remained at 6.3% through the first two months of 2014 and rose 10 bps in March before falling to 5.7% in April. This rate increased to 6.1% in May and rose to 6.7% in August. Unemployment in the Jacksonville MSA followed a similar trend, increasing from 5.8% in May 2014 to 6.6% in July and August. Despite this slight setback, unemployment in the Jacksonville MSA fell 50 bps year over year. As of August 2014, unemployment rates in both Florida and the Jacksonville MSA sit higher than the National rate of 6.3%.

The port of Jacksonville will benefit from new technology installed along in the St. Johns River called Physical Oceanographic Real-Time System (PORTS), which could have a positive outcome for activity at JaxPort and translate into growth of the Jacksonville industrial market. The system increases the safety of ports by providing real-time data such as water levels, density and currents; and when augmented by current tracking methods, eliminates uncertainty for larger ships entering the port. Improvements such as the PORTS technology and the dredging project that would allow deep-draft, post-Panamax ships to access the port, will give the Port of Jacksonville a more competitive edge. These capabilities have the potential to increase industrial activity and bring more jobs to the market.

Jacksonville MSA counties break out as follows:

<table>
<thead>
<tr>
<th>County</th>
<th>Labor Force</th>
<th>Employment</th>
<th>Unemployment</th>
<th>Unemply %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clay</td>
<td>102,762</td>
<td>96,707</td>
<td>6,055</td>
<td>5.9%</td>
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<tr>
<td>Duval</td>
<td>471,712</td>
<td>438,315</td>
<td>33,397</td>
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<tr>
<td>Nassau</td>
<td>39,424</td>
<td>37,103</td>
<td>2,321</td>
<td>5.9%</td>
</tr>
<tr>
<td>St. Johns</td>
<td>108,873</td>
<td>103,120</td>
<td>5,753</td>
<td>5.3%</td>
</tr>
</tbody>
</table>


Outlook

The Jacksonville industrial market is showing signs of improving fundamentals. Stable sale activity is a sign of investors’ confidence in the future of the market. While Q3 2014 posted the lowest absorption figure year to date, the 741,000 sq. ft. of newly executed leases exhibit a growing demand for industrial space. As of Q3 2014, there were at least nine active users in the market, each with space requirements of 100,000 sq. ft. or more. If demand persists, vacancy rates will continue to decline, in turn promoting new speculative development.
Market Coverage: Includes all competitive industrial buildings 10,000 sq. ft. and greater in size in Clay, Duval and St. Johns counties.

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