Jacksonville Aviation Authority Technical Assistance Panel

January 22-23, 2013
Jacksonville, Florida

JAA
Jacksonville
Aviation
Authority

Urban Land Institute
North Florida

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About ULI

The Urban Land Institute (ULI) is a nonprofit education and research institute supported by its members. Its mission is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. Established in 1936, ULI has nearly 30,000 members worldwide representing all aspects of land use and development disciplines. The North Florida District Council was formed in 2005 and has nearly 300 members in 34 counties including Jacksonville, Gainesville, Tallahassee, Panama City and Pensacola.

What are Technical Assistance Panels (TAPs)?

Technical Assistance Panels (TAPs) are one- to two-day panels convened by the local ULI District Council at the behest of a community, public entity or private enterprise (Sponsor) facing real estate or land-use issues. The District Council assembles a panel composed of highly qualified professionals chosen for their knowledge of the issues facing the Sponsor. The interdisciplinary team of seasoned real estate professionals may include land planners, landscape architects, financiers, developers, appraisers, attorneys and brokers who are well qualified to provide unbiased, pragmatic advice on complex real estate issues. Panel members are not compensated for their time, but they are reimbursed for out-of-pocket expenses, such as overnight lodging and transportation to attend the TAP. To ensure objectivity, panel members cannot be involved in matters pending before the Sponsor, currently work for the Sponsor or solicit work from the Sponsor during the six months following the TAP program.

How do TAPs work?

The District Council works closely with the Sponsor to create a scope of work and convenes a panel of ULI members to address the issues outlined. The Sponsor also provides background information to the TAP panelists prior to the panel sessions. When convened, the TAP members tour the study area, hear from stakeholders, public and private, and then deliberate the issues presented. At the conclusion of its work, the panel presents its findings and recommendations to the Sponsor and then produces a written report for the Sponsor within six weeks.

Sponsor and ULI Participants

Jacksonville Aviation Authority

Steve Grossman
Chief Executive Officer and Executive Director

Urban Land Institute
North Florida District Council

Bruce Johnson
District Council Chair

Carolyn Clark
District Council Coordinator

TAP Committee

Karl Hanson
Chair

Tarik Bateh

Tripp Gulliford

Jennifer Harkleroad

Technical Assistance Panel

M. Lynn Pappas, Esq., Chair
Shareholder
Gunster
Jacksonville, Florida

Timothy D. Edmond
Chief Executive Officer and President
The Edmond Group
Tallahassee, Florida

Michael Heise
Vice President and City Manager
Liberty Property Trust
Jacksonville, Florida

Bruce M. Johnson
Retired Chief Financial Officer and
Executive Vice President
Regency Centers
Jacksonville, Florida

William T. Tunnell
President
Tunnell, Spangler, Walsh & Associates
Atlanta, Georgia

Acknowledgements

On behalf of the Urban Land Institute, the TAP Committee Chair and TAP panelists wish to thank JAA's staff for their assistance in supporting the panel process, especially Jay Cunio, Todd Lindner and Derrick Powder, who were incredibly patient and helpful in answering our questions.

Kim Allerton, president of Environmental Resource Solutions, who met with the panel on short notice to discuss wetlands issues.

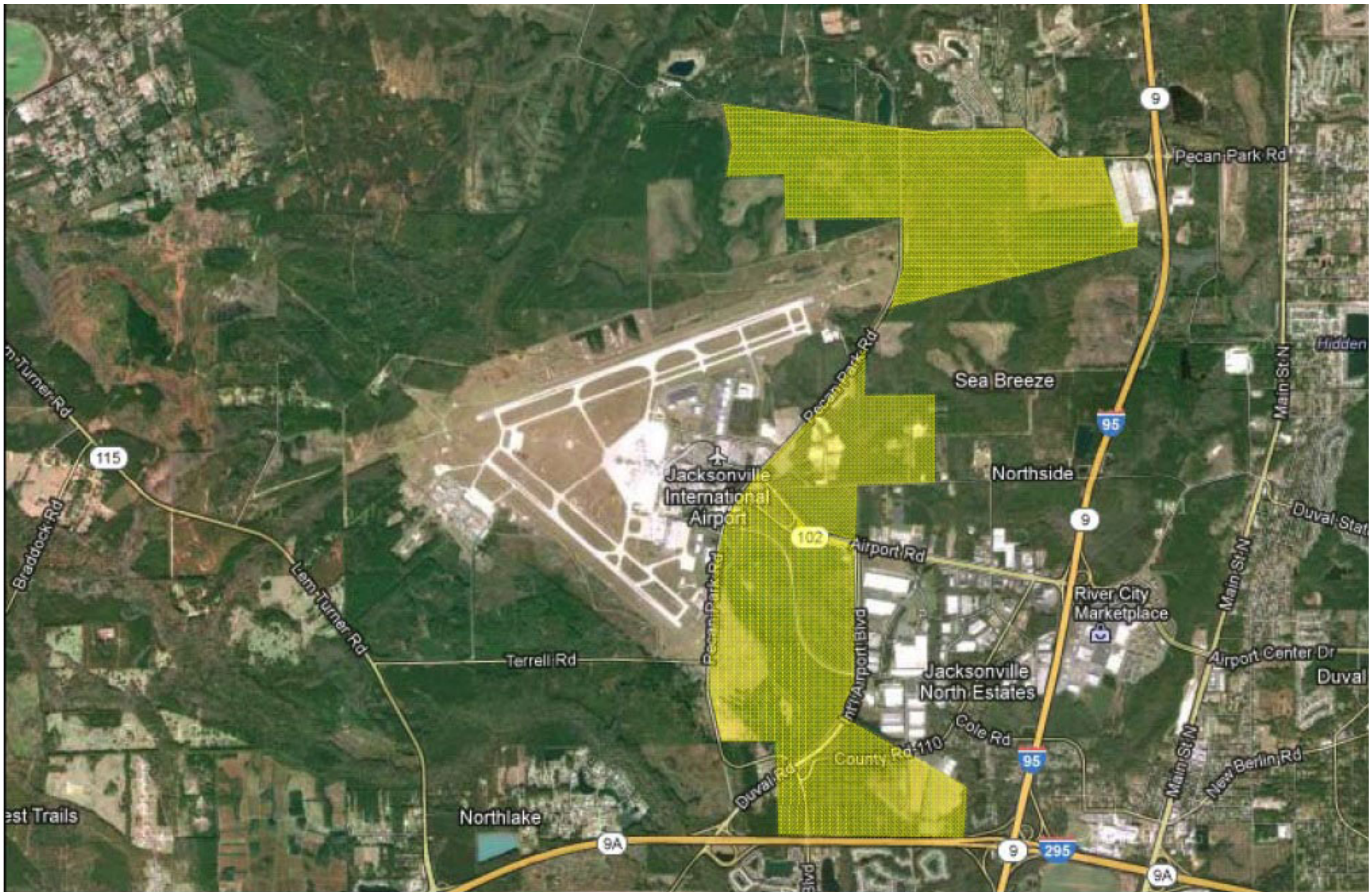
Tarik Bateh, vice president, Jones Lang Lasalle, for providing market information related to the hospitality industry.

Mike Harrell, senior vice president, CB Richard Ellis, for providing market information on the office, industrial and retail sectors.

Jennifer Harkleroad and King Engineering, for providing detailed maps of the City of Jacksonville and its significant real estate developments.

Batey McGraw, Walchle Lear Multifamily Advisors, for providing market information on the multifamily sector.

TAP Scope



TAP study area in yellow

The Jacksonville Aviation Authority (Sponsor or Authority) engaged ULI North Florida to convene a Technical Assistance Panel (TAP) for the purpose of studying its undeveloped land holdings situated east of the of the airport terminal at Jacksonville International Airport. The scope of issues presented to the TAP panel was as follows:

Marketable Property

The panel will focus on the undeveloped land within the Jacksonville International Airport property boundary located on the eastern side of the airport terminal, and will identify which land is most likely to have potential for development within the next 10 to15 years.

Highest and Best Use

The panel will provide recommendations on the highest and best use for the land projected to be marketable within the stated time frame based on location, projected market demand and product supply in the area. Included in this analysis will be the appropriate development density for each parcel.

Property Value

The panel will provide estimates of the value of the parcels once properly entitled, with such valuation including the projections of costs that would need to be incurred to create developable sites. Over the course of the two-day program, the panelists determined that the study area is too broad and has too many development variables unique to each site for the panel to be able to provide meaningful property value estimates to the Sponsor. That issue was modified during the program to request the panel to provide current market information on land values and vertical construction costs. This information is provided in Appendix 1 of this report.

Timing

The panel will provide an estimate of when there is likely to be market demand for the development or sale of those parcels. Over the course of the two-day program, the panelists determined that the study area was too broad and has too many development variables unique to each site for the panel to be able to provide meaningful property value estimates to the Sponsor. That issue was modified during the program to request the panel to provide current market information on land values and vertical construction costs.

Executive Summary

With revenues from passenger traffic down slightly in 2012 and continued uncertainty in that revenue stream due to the economy over the next several years, the Jacksonville Aviation Authority is exploring ways to diversify its revenue base. Perhaps its most significant asset is the Authority's extensive land holdings within the boundaries of Jacksonville International Airport (JIA). Given the Authority's limited past success in attracting real estate development activity to that site, ULI was engaged to study opportunities to extract value from the JIA land holdings.

The Authority is faced with two main challenges to extracting value from its land holdings in the short term: (i) the lack of new development given the weak economic recovery, and (ii) the property's location within one of Jacksonville's least active submarkets for real estate development.

The TAP evaluated the Authority's developable parcels and reviewed real estate market conditions, both current and in the foreseeable future. There is some indication that North Jacksonville could experience increased development in the future on the heels of new projects such as River City Marketplace and the proposed Shands medical campus on Max Leggett Parkway. Taking steps in a soft market to properly position the Authority's property will maximize the likelihood of success when market demand returns.

The TAP's overarching recommendation, therefore, is for the Authority to rebrand the property in order to position it for future development when the economy recovers. The panel suggests creating an identity that is distinct from the vast amount of undeveloped land in North Jacksonville and distinct from airport air travel and cargo operations. A visioning exercise, using a highly graphic approach, can serve to delineate the long-term redevelopment of the property. The goal of the visioning should be to articulate a comprehensive strategy for reinforcing the identity of the entire area as a desirable business address with a unified sense of arrival. For example, creating a signature gateway into the Authority's property as one drives north on International Airport Boulevard from I-295 would signal the entrance into a business park with its own identity.

The panel further recommends a south-to-north strategy for development; that is, marketing those parcels closest to I-295 first, since they are least affected by wetlands, have infrastructure in place and can be developed at the least cost. The southern areas lend themselves to three different market segments—industrial, commercial and mixed-use. Industrial uses provide the best opportunity for development within a five- to 15-year time horizon. There may also be some potential for medical office/institutional uses, as well as commercial and senior housing development, although these are more speculative than industrial due to uncertain drivers.

While most of the southern parcels are suited for industrial use, the property with frontage on I-295 has a natural advantage given its visibility. As such, the Authority may be able to set a premium on that portion of the land, holding it for higher uses and maximizing its value once the economy rebounds fully in three to five years. Ideally, it could be designated for non-industrial use, such as institutional, research and development, and medical.

The Jacksonville Aviation Authority has an opportunity to monetize its land holdings once the economy fully rebounds. Visioning, rebranding and targeting infrastructure investment should well position the Authority's site as a preferred Class A business park in an emerging part of Jacksonville in the longer term.

Background

Sponsor

The Jacksonville Aviation Authority is an independent governmental agency created by the Florida legislature. The Authority operates four airports—Jacksonville International Airport (JIA), Cecil Airport, Jacksonville Executive at Craig Airport and Herlong Recreational Airport. Included within those airports are more than 17,000 acres of land and associated facilities, including runways, hangars, passenger terminal facilities, airport grounds and road connections to the public highway systems.

The Authority is a financially self-sustaining entity and does not use taxpayer dollars to support its operations. Capital construction is funded by bond issues, federal and state grants, and passenger facility charges. Airport revenue comes primarily from pass-through activity that is dependent on airline hub and service patterns, as well as origin-destination passenger traffic. Operating expenses are funded through user fees, such as aircraft landing fees, terminal fees and other rentals, and revenues from concessions.

Sponsor's Objective

The economic downturn during the past five years has dampened air travel and as a result the Authority has experienced revenue declines from its core business. Currently, some 5.2 million passengers go through Jacksonville International Airport, down from 6.3 million passengers in 2007. Projections are for flat to a slight increase in passenger travel for the next 24 to 36 months, with future growth projected to be 2 percent to 4 percent annually.

As a result, the Authority is seeking to expand and diversify its revenue base so as to be less subject to adverse airline decisions and fluctuations in passenger volume. One significant potential source of additional revenue lies in the large tracts of undeveloped land within the Jacksonville International Airport property. Of the 8,393 acres encompassing the airport, some 2,100 acres are situated to the east of the airport terminal and may be available for development.

> "One of the major goals over the next several years is to diversify our revenue base. The more we diversify, the less we are subject to the adverse side of airline decisions and the economy."
> Steve Grossman, Chief Executive Officer and Executive Director

Existing Land Developments

To date, development of land within the TAP study area has been limited and sporadic. Most of the non-aviation parcels remain available for development. The following is a list of some existing developed properties:

A 60,000 square foot flex-office/warehouse building

- Located at the intersection of Woodwings Road and Pecan Park Road South
- Developed by JAA in 1999

Jacksonville Airport Hotel (formerly Clarion Hotel)

- Ground lease of 5.2 acres
- Located adjacent to JAA Offices
- Jax Hotel, LLC is the operator, plans renovations and rebranding to DoubleTree by Hilton in 2013.

Microtel Hotel Inn and Suites

- A 78-room limited service hotel
- Opened in 2008
- Ground lease of 2.2 acres
- Located at the intersection of International Airport Boulevard and Airport Road

Pet Paradise Resort and Spa

- Lease of 13,700-square-foot facility
- Located near the JIA long-term parking area
- Opened in 2004

PROLOGIS Jax Cargo Center

- 16,562-foot warehouse
- Located on Pecan Park Road
- Built in 1998

Analysis of Study Area

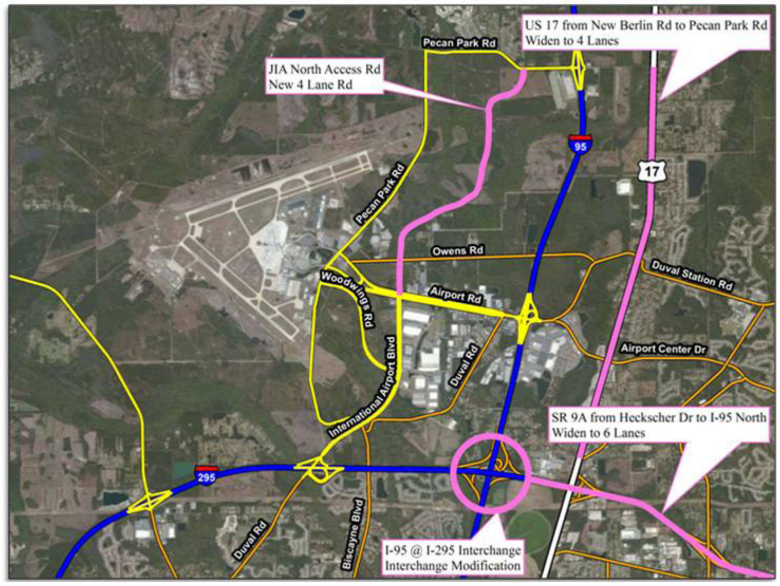
Strengths / Opportunities

Transportation Network / I-295 Frontage

The study area is very well situated within the interstate network of I-95, I-295, I-10 and I-75 for distribution of goods throughout the state of Florida and the rest of the southeastern United States. Immediate access to the study area is provided by I-95 to the east and I-295 to the south. Having two access points to the interstate highways is favorable for development as it facilitates the flow of vehicles to and from the study area with reduced traffic congestion.

An additional point of access to I-95 will be added by the Florida Department of Transportation's (FDOT) planned construction of a new four-lane road extending International Airport Boulevard northward from Airport Road to Pecan Park Road, which like Airport Road has an I-95 interchange. FDOT projects completion of that road construction in 2015-16. In addition to alleviating congestion on Airport Road by providing another means of access via I-95, the north access road will provide access to additional development sites.

The study area also enjoys significant frontage along I-295, which enhances the marketability of the study area by providing greater visibility of the development that ultimately occurs. Interstate frontage is very desirable for destination-oriented developments and for companies that value the exposure for marketing purposes.



Airport Facility and JAA Headquarters

The Jacksonville International Airport terminal is a high quality facility. It has an excellent reputation among locals and other travelers for its attractiveness, efficiency, amenities and the ease of getting in and out of the airport. Additionally, the Authority's corporate headquarters is currently the only Class A office space in North Jacksonville. The Authority's office building projects a quality image upon which to build a new perception of the area.

Jacksonville International Tradeport

Jacksonville International Tradeport is an expansive 425-acre business park. Tradeport is home to national and international companies such as Coach, Mercedes Benz and BAE. It offers single-tenant and multi-tenant warehouse/distribution, manufacturing and flex office/industrial facilities. While Tradeport does serve as some competition for development of the study area, there are also opportunities to build on Tradeport's momentum.

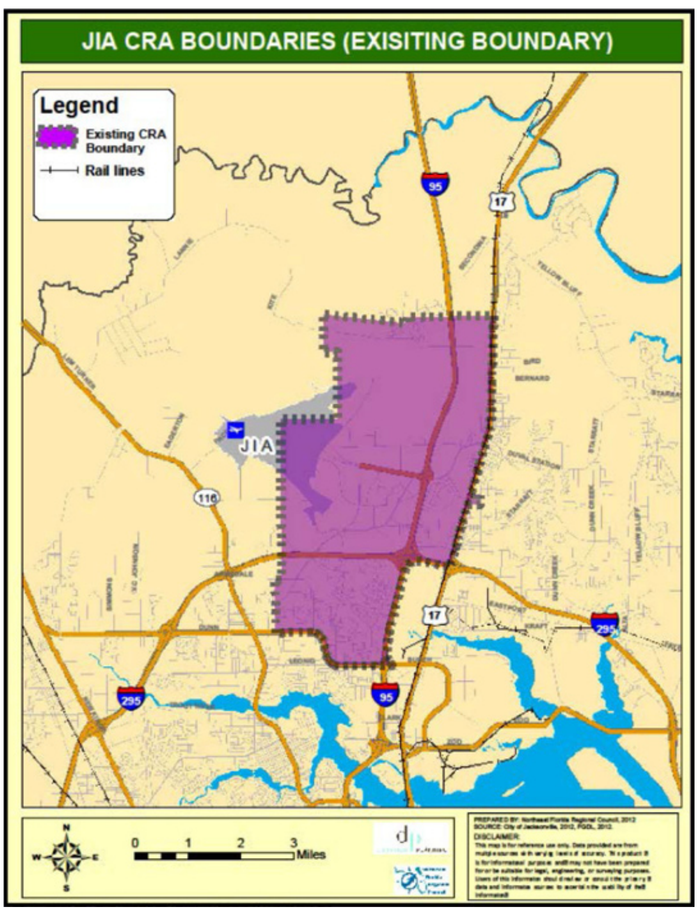
Jacksonville International Airport
"might be America's best airport."
Erin Burnett, CNN - January 27, 2012

River City Marketplace

River City Marketplace is a destination retail center, strategically located at the interchange of I-95 and Airport Road, just north of I-295. It is the largest shopping complex in the North Jacksonville market and sends a positive message about the area in general.

The shopping center opened in 2006 and today features 12 national anchor tenants and encompasses more than 850,000 square feet. Because it is the first commercial exit along I-95 entering Florida from Georgia, River City draws shoppers from a wide swath, stretching from southern Georgia to Fernandina Beach and Amelia Island to residents throughout the North Jacksonville area. It also benefits from tourists and travelers driving along I-95.

Another retail center, the Parkway Shops, is under construction along Airport Center Drive and Duval Road. Dick's Sporting Goods and Marshall's will anchor the first phase of the project. The center will also include 19,000 square feet of retail shops and another seven acres of outparcels for sale or lease. The opening is planned for spring 2013.



JIA Community Redevelopment Area (CRA)

The CRA consists of approximately 14,245 acres encompassing the eastern portion of JIA, the entire TAP study area and surrounding parcels of land to the north, east and south. The CRA's stated goal is "to increase the city's tax base by creating employment opportunities and recruiting businesses that enhance the image of the area." Specifically, the CRA is "a mechanism to stimulate development and fund infrastructure improvements." A plan amendment dated November 2012 addressed a 2009 proposal to expand the CRA's boundary to include a Pecan Park Road North Parcel. CRA funds are proposed to fund the north access road construction. The CRA provides an excellent opportunity in the long run to fund additional needed improvements for the area that would help to attract users to the Authority's property.

Long-term North Jacksonville Growth

While density in North Jacksonville is relatively low, Environmental Systems Research Institute, Inc. (ESRI) data suggest that between 2012 and 2017 the population within three miles of the Jacksonville International Airport will grow at nearly double the nation's growth rate and that of the state of Florida. Additionally, the percentage of households at the 3-, 5- and 10-mile radii earning under $50,000 will decrease, while those earning $50,000 or more will increase. Projections are for North Jacksonville population to increase to 141,642 by 2031 from 73,081 in 2007.

Ad Valorem Tax Exemption on Leaseholds

The Authority has an exemption from ad valorem taxes on land it owns, including on leasehold improvements. While this provides an economic advantage favoring the study area over privately held land, this exemption may, under the direction of city's tax assessor, be subject to future modification or elimination which should be considered when looking at its long term economic benifit to a development project.

Existing Infrastructure

Water, sewer and electric infrastructure have been in place since 2003 along Woodwings Road, and the infrastructure can be extended to other areas to provide service.

Weaknesses / Challenges

Development of Regional Impact (DRI) Stoppers

The Development of Regional Impact (DRI) encompassing the study area, which was implemented in 1990, is the governing document for the types and quantity of development that may occur within the study area. A key element of the DRI is the requirement for construction of substantial transportation improvements if traffic on nearby roads exceeds certain level of service thresholds as a condition to further development.

Those thresholds, sometimes referred to as "development stoppers," have the potential to preclude further development if the cost of making the necessary transportation improvements, such as constructing additional lanes on the interstate to increase traffic capacity, are so great that they render proposed developments financially infeasible.

Airport Road Appearance / Weak Sense of Arrival

From an aesthetics standpoint, the approach to the airport from I-95 along Airport Road is not up to the standard of the airport property, and particularly the airport terminal. Additionally, there is no sense of arrival for drivers entering from I-95 or from I-295. Entering from I-95, drivers encounter a negative first impression with an awkward multi-road intersection and some unattractive offsite parking lots along Airport Road.

From I-295, there is a lack of signage and sense of arrival at International Airport Boulevard. There is also no clear indication on I-95 northbound that airport access is available via I-295.

Underutilized CRA

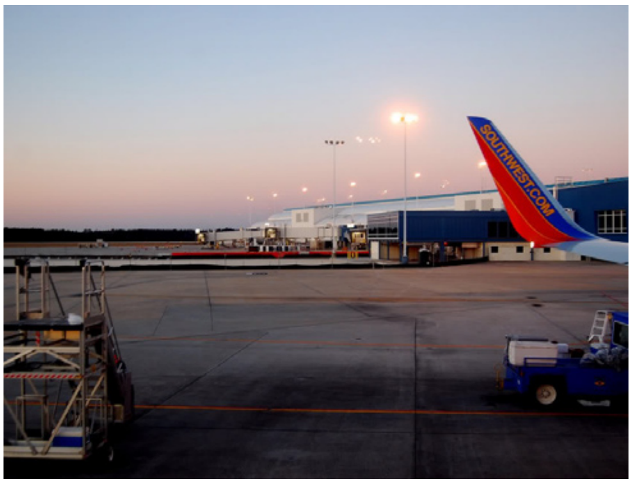
Although the CRA has been in place since 1993, CRA tax revenue has not been utilized to make infrastructure improvements. Instead, due to City budgetary pressures the funds have been swept into the City of Jacksonville's general fund each year. The City of Jacksonville City Council must approve how CRA funds will be used to make improvements.

Ground Lease vs. Sale

The Authority advises that the FAA prefers that airport authorities ground lease rather than sell land. The FAA will authorize a sale "for a use which is compatible to the airport if such disposal will produce an equal or greater benefit to the airport than its continued retention." While ground leases may serve landowners well, they can complicate the development process for the developer or tenant, are harder to execute, and reduce the number of viable land prospects.

Inconsistent Development Standards

No covenants, conditions, restrictions or design guidelines exist offsite or onsite to govern development and foster a consistent level of quality construction and maintenance within the Authority's property or on adjacent properties such as along Airport Road.



Mediocre Onsite Hotel

The Jacksonville Airport Hotel (formerly the Clarion) is a six-story, 220-room hotel built in 1973. It is dated and does not offer the cachet needed for an upscale experience. Additionally, it is not an airport-connected hotel accessible through airport gates. It also lacks a substantial conference center and cannot accommodate large events compared to airport hotels in other similar-sized cities. However, a $10 million renovation is planned to turn the hotel into a four-star DoubleTree by Hilton beginning this summer.

Wetlands

The 2,100-acre property is relatively low and flat, containing extensive wetlands. The Woodwings area is the only portion that has wetlands delineation. However, the Authority believes they can use mitigation bank credits to impact wetlands when necessary for development based on a conceptual permit. The Environmental Resource Permit (ERP) approved in 2001 provides for a 1,347-acre conservation area, with areas set aside for a wetland mitigation bank located in the northwest corner of the airport. This mitigation bank is intended to provide mitigation for the planned extension of International Airport Boulevard from Airport Road to the I-95/Pecan Park Road interchange (north access road), Woodwings sites (Parcels 1, 2 and 3) and general aviation areas.

Lack of Master Stormwater System

The need for a developer to address stormwater management issues inhibits marketability of the property. Developers, and particularly end users, prefer a turnkey site—one that is fully permitted in which they do not have to contend with drainage issues.

FAA Constraints

The Authority advises that there are mandated height restraints along runway approaches. Additionally, the FAA must approve any changes regarding land development. The FAA requires that leases for non-aeronautical uses “be established at the fair market rental rate to maximize the revenue for the airport. The fair market rental rate shall be determined by obtaining a competent independent appraisal and/or by direct comparison with prevailing rentals of comparable property.” Likewise, any sale of property must be at fair market value for the FAA to approve the deal.

Of special concern to the FAA are wet detention ponds. The FAA requires dry ponds within two miles of any runway, so as not to attract birds. As noted in a Highest and Best Use study conducted in 2010 by Environmental Resource Solutions, Inc. (ERS), portions of the developable airport property have been filled to elevate the land above the poor drainage characteristics of the soil. It remains to be seen what impact forthcoming Florida Department of Environmental Protection rules covering numeric nutrient standards will have on retention capacity on the Authority’s property.

Northside Stigma

While there is increasing residential development north of the airport and to the east of I-95 as well as retail with the River City Market Place and Parkway Shops, North Jacksonville still suffers from some negative image based on its industrial history and the perception that it is largely a blue collar/rural area lacking amenities expected by higher-income earners. While a number of large-scale, higher-end residential communities were envisioned prior to 2008, the real estate recession has stalled execution of those projects.

Market Sector Analysis

Hotel

Today's Strengths

Airport Proximity
Opportunity to influence Double Tree renovations

Future Strengths

More hotel rooms needed in a stable travel market

Today's Weaknesses

Oversupply of rooms
Rate constrained market
No recognizable anchor
No conference facility / limited demand

Future Weaknesses

Rate constrained market

Proximity to the airport and interstate highways are generally advantages for hotels. However, currently the area surrounding the airport suffers from an oversupply of rooms. While recent declines in airport passenger traffic do not help, the oversupply existed prior to the downturn. Recent construction of the Aloft hotel at River City Marketplace only exacerbated the situation.

The challenges in the hospitality sector are not unique to the airport area. The September 2012 edition of Hotel Horizons published by PKF Hospitality Research, LLC identified Jacksonville as one of only 12 markets across the country still renting fewer rooms than they did prior to the recession. As well, the overall Jacksonville hotel market historically has been limited by a low Average Daily Rate ceiling, which has regulated supply growth marketwide—particularly in terms of full-service hotels, with no purpose-built, ground-up full-service hotels having been delivered in the metro area over the past decade. The few hotels developed or redeveloped in recent years in the Jacksonville market have typically been plagued by over-capitalization issues, as sales of suburban hotels have continued to be priced far below replacement cost in almost all sunbelt markets.

The Airport submarket has historically trailed the other major hotel submarkets in the metro area in terms of rate, as one would expect given the transient guest segment that dominates the business mix of hotels in the Airport submarket.

On a positive note, the new owner/operator of the Jacksonville Airport Hotel (formerly the Clarion) plans to invest approximately $10 million to renovate the hotel facilities and rebrand the property as a DoubleTree by Hilton. The new DoubleTree will benefit JIA immensely by offering a new full-service lodging option from one of the five major hotel franchise companies. The hotel renovations and rebranding also are expected to improve the overall appearance of the airport property entrance and to enhance the study area property.

Industrial

Today's Strengths

Growth from Port
Right-to-work state
Airport proximity

Future Strengths

Expanding residential could spur production / construction / small distributors
Rents attractive in stable market

Today's Weaknesses

Weak demand
Oversupply of warehouse space
Weak demographics

Future Weaknesses

Low population compared to other major Florida cities
Weak demographics

The Airport is situated in the Northside industrial submarket, which has experienced significant growth over the past decade due in large part to the projected growth of JaxPort and its container traffic in particular. Jacksonville's largest and strongest industrial submarket is the Westside submarket, which is home to 38.9 million square feet of Jacksonville's 97.6 million square feet of industrial space.

Historically, Jacksonville's industrial market has had occupancy levels in the range of 93 percent to 94 percent, which is reflective of responsible development that has maintained a good supply-demand balance. Currently, occupancy rates are lower than the historical norm at 88.9 percent. Demand for warehouse space is weak due to the stagnant economy and the resulting reduction in consumer spending, which in turn leads to reduced consumable goods shipments. The increased vacancy levels have depressed rents marketwide and have brought a halt to new development. Low rents deter developers from constructing new facilities, since return on investment is correspondingly low or non-existent.

According to CBRE Global Research and Consulting, some 22 projects have been proposed but not built in the North, West and South submarkets due to lack of demand. If constructed, they would add more than 4.3 million square feet to the market. A detailed industrial market report with information on vacancy rates, absorption, rental rates and construction is provided in Appendix 2.

Jacksonville's industrial market is constrained by market demographics; specifically, lower population than Florida's other major cities. There are two kinds of distribution—regional and local. Warehouse facilities for local distribution serve the indigenous population with needed supplies, such as retail goods, car parts and construction materials. Compared to South Florida's 5.6 million residents, Tampa Bay's 4.3 million and Greater Orlando's 2.2 million, Jacksonville's 1.3 million people require fewer local distribution facilities to serve its consumption needs.

In Jacksonville's favor is the potential growth of containers shipped through JaxPort. The construction of TraPac's new container shipping facility at Dames Point positions JaxPort well to capture additional container traffic. Working with JaxPort, the Authority could pursue approval as a U.S. Foreign Trade Zone magnet site. The property's location offers easy access to an interstate transportation network and the airport itself.

Proximity to the airport also offers an advantage to not only delivery and fulfillment centers but exporters and biomedical manufacturers, among others. The panelists also discussed the potential impact of Embraer coming to the airport. The Defense Department awarded the Brazilian jet manufacturer a $427 million contract for its A-29 Super Tucano, which will be assembled at the airport's former Piedmont hangar. The addition of Embraer may spur the need for suppliers and have a spin-off effect on the private real estate market.

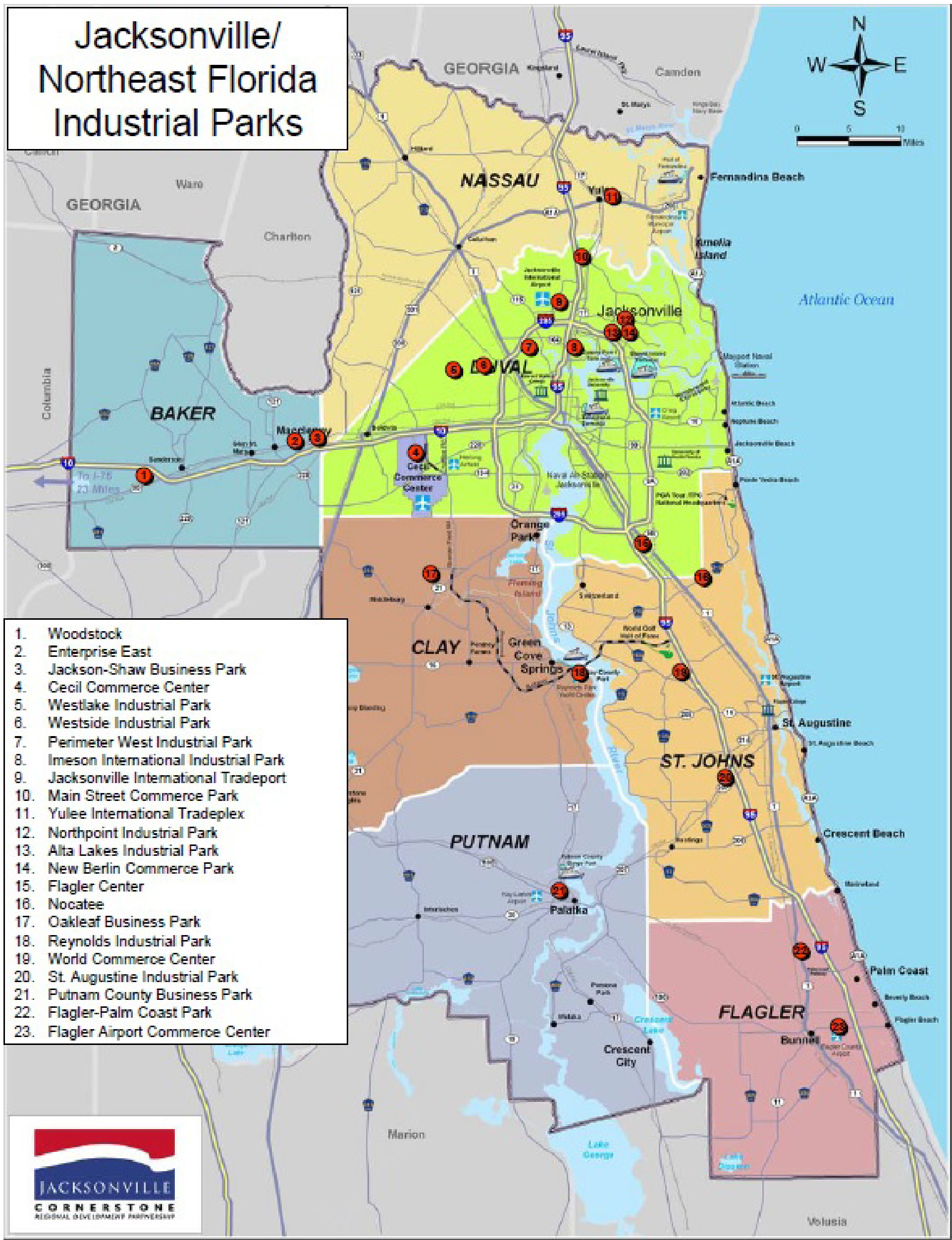
The TAP considered the effects of a housing market rebound and concluded that it could stimulate construction-related manufacturing and a need for 10,000 square foot to 30,000 square foot use facilities.

Florida is a right-to-work state for manufacturing purposes, which tends to increase business and economic development. The TAP predicted that in three to five years, as the economy rebounds, the population grows and Port activity increases, the Jacksonville industrial market should once again be attractive to developers.

Industrial Competitors

Jacksonville's industrial market is very competitive with many sophisticated companies having presences in the market. Following is a list of industrial competitors currently operating in Jacksonville's Northside and Westside submarkets. There are also a host of private landowners and smaller players who own buildings, some of whom are quite sophisticated.

In addition, there are multiple land tracts in North Jacksonville ranging from 100 to 900 acres that are held for future industrial development. Those tracts are shaded purple, as are the currently operating industrial parks, on the map above.



Land Only
Benderson Development
Liberty Property Trust
Norfolk Southern

Product Only
Cabot Properties
Oakmont Industrial Group
Flagler

Product and Land
Hillwood Development Company
Jackson-Shaw
Johnson Development Associates
Pattillo Industrial Real Estate
Prologis, Inc.
Republic Property Co.
Trammell Crow Company
Webb International, Inc.

Office

Today's Strengths

Rental rates are low
Adjacent to the airport
Strong back-office workforce in Jacksonville

Future Strengths

Anchors to create additional demand (e.g. Shands)

Today's Weaknesses

No local demand
Distant from established office submarkets
Removed from executive housing
Trend toward home office use is shrinking demand
Limited financing

Future Weaknesses

Same as above

Jacksonville offers a strong back-office workforce for companies like Blue Cross and Blue Shield of Florida, Prudential, J.P. Morgan Chase, Citicorp, Aetna, Bank of America and Merrill Lynch. Generally speaking, however, executive housing drives office location decision-making. Hence, the trend for office development has been toward the J. Turner Butler corridor and points south, supported by high-income housing and a strong desire to be in St. Johns County, which boasts the highest-rated school system in the state.

Proximity to JIA can be a draw for corporate, governmental or institutional users who want or need to be near an airport. As the residential market expands in North Jacksonville over the long term, companies employing local residents may consider relocating to the area. Historically, however, there has been little demand for office space due to the area's distance from the established market and from executive housing. As of third quarter 2012, the office vacancy rate in North/Northwest Jacksonville was 48.8 percent compared with 19.7 percent in the Central Business District and 18.6 percent in the Butler/Baymeadows area.

Nationally, office demand is shrinking as more people work from home. At the same time, the economic slump has put pressure on rents. While today's low rents are attractive for tenants, they deter development because of the relatively high cost of construction and poor return on investment. Also, credit is tight, limiting financing available for office construction.

The $125 million, 110-bed community hospital and medical complex that Shands Jacksonville plans to construct on the northeast corner of I-95 and Duval Road provides significant investment opportunities for medical office construction. At present the proposed hospital construction is stalled in litigation but, if approved, may provide a strong catalyst for this sector in this location. Office space near a hospital campus enables physicians to leverage hospital services and increase traffic to their practices. The need for additional health services for newly insured patients is also expected due to the Affordable Care Act.

Other than a potential for medical office space, the North Jacksonville office market is very likely to remain weak for the foreseeable future. A detailed office market report with information on vacancy rates, absorption, and rental rates is provided in Appendix 3.

Residential

Today's Strengths

Growing senior housing market
Multi-family growth
Some growth mid-range / single family homes

Future Strengths

Other Northside residential growth

Today's Weaknesses

Recovering from excess inventory
Proximity to airport (noise)

Future Weaknesses

Population growth numbers

Overall, the Jacksonville market is enjoying a recovery in the single family residential market as inventory is shrinking and average sales prices are rising. In the multifamily sector, there are currently over 2,000 apartment units under construction with the majority of those situated in the St. Johns Town Center-Deerwood area. However, North Jacksonville is not faring quite as well. In the 32218 zip code there are currently 706 foreclosures for sale, and there are no apartment complexes under construction.

A major drawback for residential development on the Authority's property is proximity to the airport. Many people prefer not to live near an airport due to the perception of noise from planes taking off and landing, as well as traffic associated with passengers arriving or departing the airport. Add to that the industrial nature of much of the surrounding area, and opportunities for residential development dwindle.

Nevertheless, southern growth in Jacksonville and its surrounds eventually will hit a wall, and long commutes may make North Jacksonville and Nassau County more attractive in the long-term. The one segment of the residential market with development potential within the TAP study area is senior housing. The fundamentals are strong, as baby boomers continue to reach retirement age and people live longer. Jacksonville boasts a healthy retirement population, particularly with military retirees who choose to stay or return here for their golden years. Another factor favoring senior housing is the close location of the forthcoming Shands Hospital and the medical office complex it will spawn.

Retiring northerners have traditionally fed migration to Florida, with New Yorkers in the lead. Florida's population growth rate has begun to rebound, after being stalled by the recession. Last year more than 59,000 New Yorkers moved to Florida, the largest migration from one state to another, according to the U.S. Census Bureau. New residents coming from the north, however, tend to want to live near the water and/or points south, panelists noted, so that the North Jacksonville location may not be a draw.

Retail

Today's Strengths

River City Marketplace

Future Strengths

River City Marketplace expansion
Residential expansion

Today's Weaknesses

Low demand outside of River City Marketplace

Future Weaknesses

Demographics don't support future development

Generally, there is a lack of synergy between the airport and retail outside the terminal. That said, River City Marketplace is a retail phenomenon, filling a need in a market that has been underserved in North Jacksonville, Nassau and southern Georgia. National retailers at the center include Ashley Furniture HomeStore, Bed Bath & Beyond, Best Buy, Gander Mountain, Michaels, OfficeMax, PetSmart, Ross Dress for Less, Lowe's and Wal-Mart Supercenter and large chain restaurants like Applebee's, Buffalo Wild Wings, Cracker Barrel, Olive Garden and Sticky Fingers Smokehouse, among others. The center boasts a 98.8% occupancy rate and commands above market rents with average rates of $16.34 per square foot compared with $13.52 for the Jacksonville market as a whole.

The soon-to-open Parkway Shops solidifies River City's dominance in North Jacksonville now and in the foreseeable future as they continue to add nationally known retailers to the tenant lineup. This precludes development of any new large-scale retail center on Authority property in the near-term that could compete with this behemoth.

The success of River City may spur some additional convenience retail on the west end of Airport Road. Long-term residential growth could drive additional demand for retailers. Panelists discussed the potential for auto dealerships, as an example. Currently, a majority of Jacksonville's car dealers are consolidated in the Southside, Westside and Orange Park areas of Jacksonville. Most are relatively new facilities in these areas, so it is unlikely to expect much new building in the short term. Until there is more robust, high-end residential development in North Jacksonville, the demand for additional retail development outside of the River City Marketplace area will be weak. Consumer trends towards increased internet shopping also pose an uncertain future for retail development. A detailed retail market report with information on vacancy rates, absorption, rental rates and construction is provided in Appendix 3.

Panel Recommendations

1. Create a new identity for the study area

The TAP's overarching recommendation is for the Authority to create a new identity for the study area separate from the airport. This will distinguish the property from established developments and other vacant land in the vicinity and improve marketing of the property to prospective users, developers and brokers. The Authority should develop a concept for the visual elements of the area to be developed and the types of occupants that it seeks to attract. The visual elements should extend beyond the Authority's property to the interstates, encompassing Airport Road to I-95 and International Airport Boulevard to I-295. Think in broad terms of community in order to reposition the airport area as "the new place to be." Building on the success of River City Marketplace is an excellent starting point.

Vision

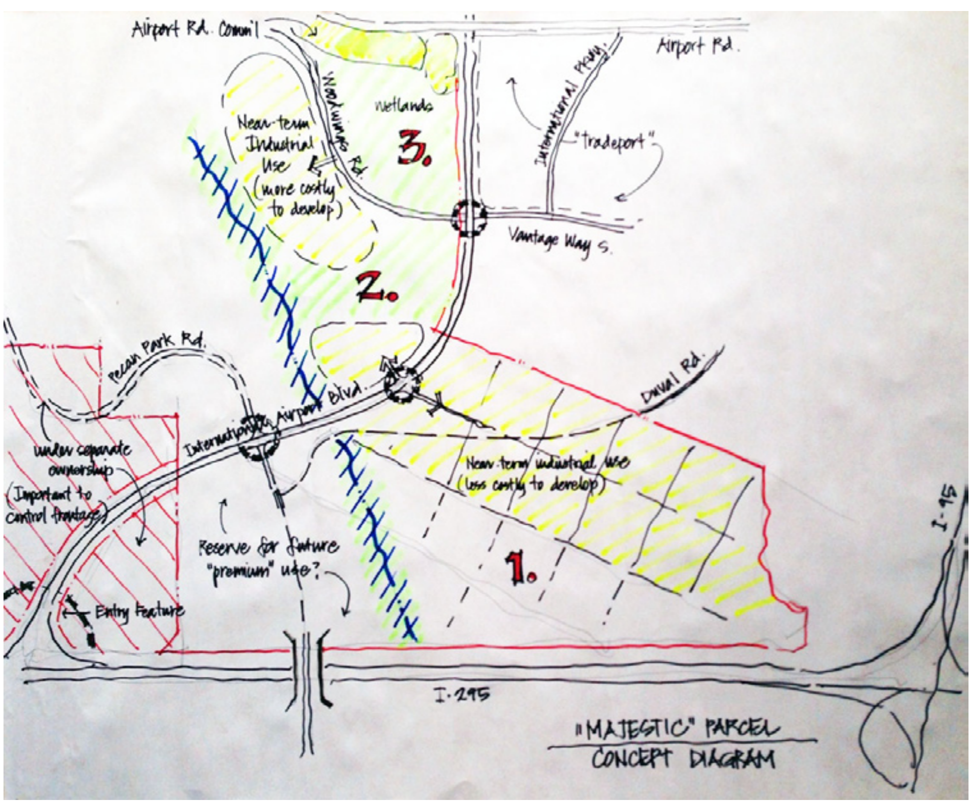
Creating a framework plan will delineate an aspirational vision for the long-term redevelopment of the study area using general land-use categories in the Authority's various parcels. This entails more than just "bubbles," but a configuration of sample pad sites, infrastructure, names of roads based on potential uses, landscaping, design guidelines, covenants and restrictions. Such a plan would enable the Authority to exert control over how the property and its surroundings are developed to ensure the vision is realized. In terms of marketing, showing prospects the potential of a property goes a long way in getting them to understand why they should consider the site.

Rebrand

The property and its surrounding areas need to be rebranded in order to create a desirable "address" and overcome the trailing Northside stigma. The goal is to differentiate the Authority property from the competition and create an activity center and mixed-use hub. Unless properly branded, the land is simply a commodity. Rebranding requires time, effort and resources. However, getting the groundwork done now will ensure the Authority is ready when the market recovers and appetite for new construction returns.

I-295 Entrance

The branding effort should begin at the I-295/Duval Road interchange with an entry feature that makes a statement. The idea is to define the environs immediately so that it is clear one has arrived at a destination after exiting the interstate. CRA funding could be used to improve the roadway configuration, intersection, streetlights and signage and to enhance the landscaping along the median and roadsides. The TAP also discussed other ways the Authority might gain greater leverage over that corridor, including purchasing properties if possible or creating a special Business Improvement District with other willing property owners. Under the latter, property owners within a designated area impose a self-tax that is collected by the taxing authority and administered by a board of directors elected by the district's property owners. The funds are then used to pay for common/public improvements.



> A vision without a plan is just a dream.
> A plan without a vision is just drudgery.
> But a vision with a plan can change the world.
>
> Old Proverb

The Authority does not own the land immediately off I-295 along Duval Road until International Airport Boulevard intersects Pecan Park Road and Biscayne Boulevard. Since that portion of Duval Road would lead to the new business park's entrance, the TAP believes it is critical for the Authority to influence frontage along that stretch of roadway to ensure, when developed, it is in keeping with the vision for the area. The Florida Department of Transportation may own some of the land. There may be an opportunity for the Authority to purchase property or enter into some sort of development agreement to protect the frontage so the property is not cannibalized like Airport Road. There also may be a way to create some control through the CRA.

Airport Road

The TAP believes a rebranding effort must include the Airport Road corridor. Having River City Marketplace to the east and Jacksonville International Airport to the west creates a barbell with two strong destinations. However, there is no sense of arrival as one exits I-95 heading west. The western service road between the interstate and airport is littered with private economy parking lots, and the environment does not match the first-rate quality of the airport itself.

The CRA is a potential funding mechanism for the rebranding effort. The TAP recommends positioning the endeavor as enhancing not only the Authority's property but adjacent parcels and the area in general. CRA funding could support new signage, streetscapes, roadway improvements, sidewalks, plantings, etc. Additionally, the Authority should work with the CRA board to leverage public funds with private dollars to encourage development and recruit businesses to the area. A Business Improvement District could be created on top of the CRA and could provide leverage and an incentive for business owners to improve their properties. The City of Jacksonville also has a Business Improvement District in Downtown Jacksonville, so the Downtown Investment Authority and Downtown Vision are potential resources as to these structures.

Signature Gateway

The TAP recommends creating a signature gateway to the new business park at the south access road (International Airport Boulevard off I-295). Everything from signage to landscaping should reinforce the notion that this is the front door, and the property's name should suggest that this is a Class A mixed-use development. The TAP also believes International Airport Boulevard's name should be changed to reflect the image of the business hub.

Marketing Signage

The most visible use of commercial real estate brand identity is signage. The Authority's new business park would benefit from signage on I-295. Additionally, signage is needed inside the property along the various roadways to let interested parties know land is available for development and providing a phone number to call.

2. Identify and Market the Differentiators

Potential JAA Bonding

The capital market today is very constrained and panel members do not see it softening in the near term. The Authority has an opportunity to facilitate development by structuring bond deals that can provide prospects with capital at a lower cost than is available in the normal equity markets.

CRA Financial Rescources

The fact that the Authority can tap into CRA funding provides additional support for recruiting businesses and funding needed infrastructure improvements.

Ground Lease Incentives / Rent Escalation

Ground leases can be a challenge for some prospects. However, the Authority can turn ground leases into an attractive opportunity. The TAP recommends offering flexible lease terms. These can be structured so that the developer/tenant enjoys reduced rents upfront with an escalator so that the rental stream is adjusted periodically. The Authority will benefit from a growing income stream as inflation and the value of the property rises. Such a lease structure will separate the Authority from most lessors.

Ad Valorem Tax Exemption

Although the continuation of this exemption is tenuous based on the tax assessor, it still provides some advantage to the lessee that other landlords can't provide.

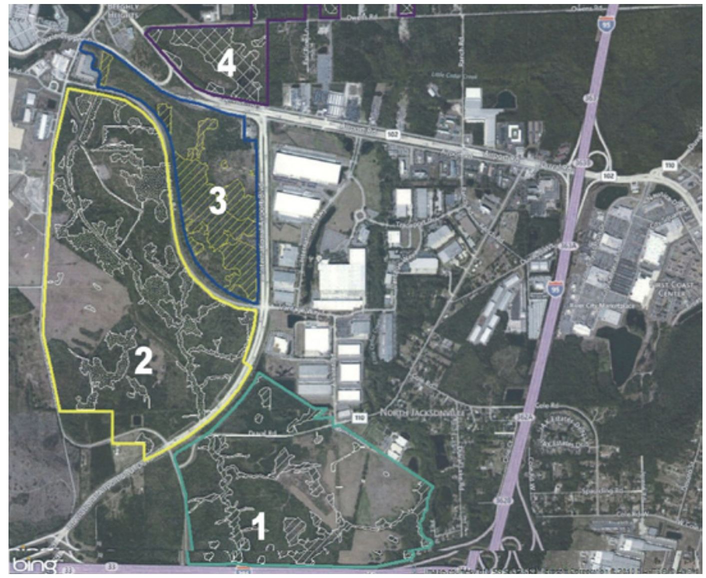
Master Infrastructure / Turnkey

The Authority has the ability to develop some of the property's infrastructure and provide a turnkey facility. Among other things, they can create a master plan of wetlands mitigation, which would eliminate the need for a lessee to determine wetland impacts. The marketplace isn't receptive to complexity. By providing a fully entitled site in an oversupplied market, the Authority's product can stand out.

3. Establish Development Priorities

In order to best position the study area to capture opportunities, the Authority should identify the sites with the most immediate development potential. That potential is driven primarily by the location of sites with respect to existing infrastructure, the sites' physical characteristics and the market drivers currently in play. The Authority should then implement steps to address the permitting and infrastructure issues necessary to be able to deliver sites that will allow developers or users to proceed immediately to design and permitting of their projects.

In the short term, it appears that industrial development is the most likely opportunity within the study area. There may also be some potential for medical office and institutional uses, as well as commercial and senior housing development, although these are more speculative given that there is no proven market for such uses in North Jacksonville to date. The following is an analysis of the TAP panel's recommendations for a south-to-north development strategy along International Airport Boulevard with a focus on capturing opportunities with that strategy.



South Parcels 1-4

A south-to-north strategy....provides the best opportunity for development.
ULI Technical Assistance Panel

International Airport Boulevard: South-to-North

Good development practice leverages existing assets to minimize the capital investment necessary to produce the desired development. In the case of the study area, that drives us to look for sites that have the necessary infrastructure already in place. The southernmost portion of the study area has roads and utilities in place and is the least affected by wetlands. As a result, it is the most development-ready part of the study area. For that reason, it is sensible to start south and work north.

The southern areas lend themselves to three different market segments—industrial, commercial and mixed-use. Panel members suggested the Authority market to these segments simultaneously, so as not to preclude any one segment.

Following are the TAP's recommendations for land use by parcel:

Parcel 1

Parcel 1 consists of approximately 328 acres with roughly 85 percent of that, or 280 acres, being uplands. Since the wetlands have been delineated, the cost of developing Parcel 1 is more quantifiable. The parcel also has the advantage of significant I-295 frontage. Visibility from the interstate makes it a prime location and the most easily branded as a new and independent opportunity. The site is well beyond the 60-decibel noise level from the airport and is unlikely to be affected by height restrictions imposed by landing flight paths.

Given that this parcel is the best property for development, the Authority may be able to set a premium on the land along I-295, holding it for higher uses and maximizing its value once the economy rebounds fully in three to five years.

Potential Uses

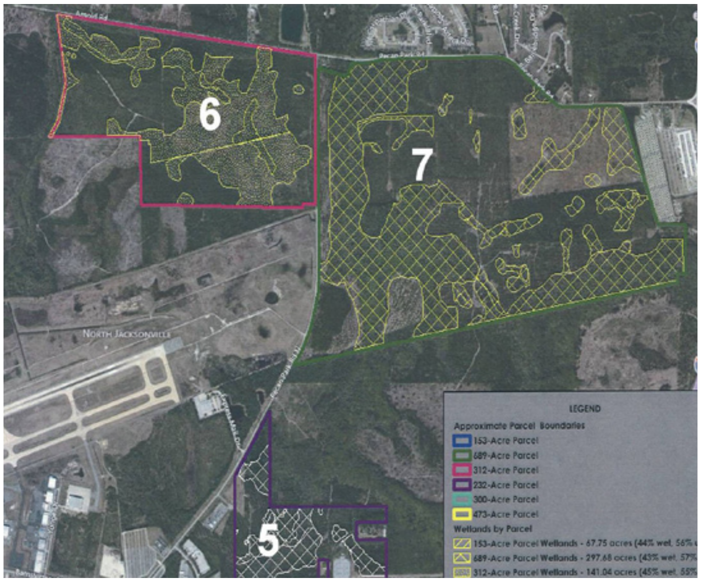
- Institutional – educational campus or technical school (e.g., flight school)
- Research and Development
- Medical – surgery centers, imaging centers and doctors' offices seeking to locate near the planned Shands Hospital
- Industrial – good access to I-295
- Senior housing/assisted living – proximity to new Shands medical campus is a plus.

Parcel 2

This parcel is the next most attractive site for development. The 473-acre parcel includes roughly 375 acres of uplands. While more expensive to develop than Parcel 1 due to the significant amount of wetlands and their dispersion throughout the parcel, it is located adjacent to Tradeport and, therefore, shares a positive synergy for industrial use.

Parcel 3

Much of Parcel 3's 153 acres (44 percent) is wetlands, particularly in the southern portion. The developable property fronts Dixie Clipper Drive, providing an opportunity for viable office/commercial development, given its visibility and proximity to the Tradeport.



North Parcels 5-7

Parcel 4

A majority of Parcel 4 is wetlands. It encompasses about 58 acres in the heart of the airport environment. However, there is potential for office/mixed use development along Yankee Clipper Drive. Situated near the airport entry with nice visibility and close to the Authority's headquarters, the parcel could attract a corporate office. The TAP viewed this site as having more value over a longer term, dependent on the ability to improve Airport Road.

Parcels 5, 6 & 7

The northern parcels are a longer-term play. They are remote locations with wetland constraints. Parcel 5 is hampered by an odd property configuration not particularly conducive to industrial use, since industrial developers seek open areas rather than properties nestled between wetlands.

The north access road to be constructed from International Airport Road to Pecan Park Road will run through Parcels 5 and 7 and could create demand for some development. However, realization would be long-term.

Some airports around the country are successfully leasing land for solar panel farms, which is a potential option. The TAP also noted that there is some residential development north of Pecan Park Road. As the area population grows, there also could be the potential for residential development along the Pecan Park Road frontage in Parcel 7, provided that the Authority is willing and able to sell fee simple title to these lands rather than ground lease.

4. Consider Alternative Deal Structures

Historically, the Authority has limited its land development deal structures to ground leases. In order to increase the number of opportunities for development, the Authority should consider alternative deal structures. There are two distinct reasons for the Authority to do so: (i) to encourage more development activity by structuring deals in ways that facilitate the transaction; and (ii) to give the Authority the opportunity to be fully compensated for the value of its land assets that are developed. The following are examples of potential deal structures, but by no means is the list exhaustive as deal structures are constantly evolving due to market forces and governmental regulations. The panel recommends that the Authority review its economic, legal and business goals with its advisors in order to frame deal structures that it might include as part of its marketing strategies.

Fee Simple Land Sales

Most private development involves the developer's fee simple acquisition of the development site. There are various investment strategy and tax-driven reasons for the preference for fee simple acquisition, but at the end of the day it is simply the norm in the industry. Recognizing that there are limitations imposed by the FAA on the fee simple sale of parcels that may have future aviation-related use potential, perhaps the Authority could determine which portion of the study area has no such long-term potential and evaluate whether fee simple land sales are feasible and, if so, desirable in certain circumstances. Until the Authority establishes the Airport area as a location where businesses "have to be," making it as easy as possible for developers to make deals is essential to creating momentum.

Profit-Sharing Deal Structures

Competition for developers/tenants is stiff. Given squeezed profit margins in the current environment, structuring a deal including the Authority's economic participation would likely be a significant challenge for the build-and-hold developers, who are taking all the construction and market risk. Transaction-oriented developers that build and flip to investors immediately may be more willing, but they are constrained by an inability to secure financing in the current market. The Authority advises that there are significant legal constraints in deal structuring any participation by the Authority.

Following are typical development deal structures that include profit-sharing with the landowner. These structures work in both sales and ground lease deals, but there may be some adjustments on the percentage of cash flow with the latter. While these are industry examples, they may not be conducive to the Authority's limitations on deal structure.

Back-End Participation

This structure is typically used when the developer is not assuming significant predevelopment costs or some level of entitlement risk. The developer pays the landowner for land based on the residual land value approach assuming an agreed upon return-on-cost (ROC) yield. Today, this yield for most non-residential developments would be around 9 percent.

At the back-end (project stabilization) when the development is fully leased and all costs have been incurred, the actual ROC yield is calculated. This yield is the stabilized net operating income (NOI) divided by the total project costs. If this return is greater than the agreed-upon ROC yield, the landowner shares in the excess value created upon sale or in the cash flow after capital expenses and debt service. The sharing percentage is negotiable, but it may be the percentage of land "value" determined up front or an agreed-upon amount between 20 percent and 50 percent.

The landowner generally is responsible for some share of cost overruns during the development phase, as well as negative cash flow during the stabilized operating phase. If the landowner does not participate in cost overruns or negative cash flow, there are likely to be preferences in favor of the developer.

If there is a cash-out provision for the landowner outside of a sale, the above methodology applies.

Preference-Based Model

The developer typically assumes the responsibility for predevelopment costs and entitlement risk. The developer is also responsible for funding all development costs—even those costs above or outside of the agreed pro forma development cost. Cost (value) of land is negotiated and is included in development costs.

The developer receives a preference return on its investment during the stabilized operating period. This is negotiated, and on most commercial projects today is in the 8.5 percent to 9 percent range. Cash flow after the return preference, capital expenses, debt service and accrued preference return are split on a negotiated percentage basis. The landowner's split is typically between 25 percent and 50 percent.

Upon sale, the developer frequently has a preference based on a profit margin of, say, 20 percent. The profit is calculated as the net sales price after sales costs, less total project costs. The profit margin is the profit divided by total project costs. After the profit margin preference is paid, the landowner typically receives 25 percent to 50 percent of the remainder.

If there is a cash-out provision for the landowner outside of a sale, the profit margin preference methodology applies.

Action Steps

The Authority is strongly encouraged to consider taking the following steps immediately in order to lay the groundwork for a successful marketing endeavor.

1. Create an inventory of mitigation capacity

The Authority has a mitigation plan but needs an implementation plan in order to provide a turnkey site. Most industrial developers do not want to create wetlands. The Authority has permitted for construction just over 11 acres for creation. The TAP recommends the Authority create more capacity to accommodate a 20-acre user if they plan to offer turnkey sites.

2. Review stormwater master system vs. individual ponds

Before marketing its properties, the Authority must determine if it is going to create a master system to eliminate the need for users to deal with individual drainage permitting and construction issues.

3. Review stormwater permitting as to new Environmental Resource Permit (ERP) rules

The Florida Department of Environmental Protection is replacing the current five ERP rules with one statewide rule. The proposed rule, which is expected to be finalized this spring, may impact retention capacity on the Authority's property. While conceptual permits could possibly be grandfathered, the Authority must keep track of ERP developments.

4. Pursue CRA funding opportunities / public land acquisition, land planning, construction

The Authority should examine what opportunities exist under the CRA to determine if a long-term revenue stream is available for I-295/ International Airport Boulevard and Airport Road improvements. This is a key element in funding the rebranding of the area.

5. Modify DRI to remove stoppers

The political climate appears such that the Authority may be able to get transportation stoppers removed from the DRI. This modification is needed to level the playing field and remove risk for potential developers and lenders. New development in Jacksonville is not presently subject to any DRI regulatory review. The entire DRI plan for the airport should be reviewed to determine the value it represents.

6. Create covenants, conditions and restrictions / design guidelines

Class A industrial parks can be attractive when designed with the right landscaping and interesting elements like ponds and waterfalls. In order to ensure development maintains the vision the Authority seeks to create for its property, the Authority needs to implement not only quality standards but policing mechanisms to ensure the standards are enforced.

7. Conduct site selector vetting

Site selectors offer a different perspective on the unique aspects of a property. Having them vet the site can provide guidance in terms of marketing and packaging the property to a variety of users.

8. Consolidate data / map overlays

The Authority has an abundance of useful data that is scattered among various maps. Consolidating the information through a Geographic Information System (GIS) overlay would be a useful exercise. A databank map showing development constraints offers a realistic picture of what can be developed and can be useful in presentations to prospects..

9. Review deal structures

Consult with economic, legal and business advisors to determine marketing strategies and target audience.

10. Develop communication / outreach

The rebranding effort will require the development of new marketing materials. As previously suggested, visioning is as much a marketing exercise as anything else. Define the vision for the land, illustrate its potential and showcase that in collateral material and on your website. In fact, consider creating a separate website to market the new brand and land available for development. It needs to be closely associated with the Airport address while being thought of as independent of the Authority's core business of moving passengers through the Airport.

The TAP commended the fact that the Authority is developing a broker policy and outreach. Intuitively, brokers do not think of real estate development in connection with an airport. Additionally, the Authority does participate in stakeholder meetings. The TAP urged the Authority to strengthen the relationships with the stakeholders along Airport Road, create consensus on a rebranded vision, and establish a good dialog with the River City Marketplace folks, who have a great deal of market information that can be of significant help in developing this area.

Finally, the Authority's position as a governmental entity provides a natural affinity with other city, state and federal government agencies. Fostering such relationships can help to keep the Authority apprised should governmental project opportunities arise in the future.

The above actions taken together with a visioning exercise, rebranding and establishing development priorities should enable the Jacksonville Aviation Authority to best position its land for marketing and capture future demand.

About the Panelists

Timothy D. Edmond
CEO & President - The Edmond Group

Tim Edmond is a 38-year veteran of the real estate industry with a national reputation in master planned community development. He is CEO of The Edmond Group, LLC, a diversified real estate development, consulting and brokerage firm. Previously, Edmond served as president of the CNL Real Estate Development Corp.; regional president of the St. Joe Company; and president of Town & Country Homes, where he began a home building company at Celebration, Disney's hallmark community in Orlando, Fla.

Michael Heise
Vice President & City Manager - Liberty Property Trust

Michael Heise has 26 years of commercial real estate experience. As vice president and city manager of Liberty Property Trust's Jacksonville region, Heise is responsible for managing nearly 2.5 million square feet of office and industrial properties. Liberty is the nation's largest publicly-traded office and industrial REIT (by market capitalization). The company's 81 million-square-foot portfolio consists of 680 properties providing office, distribution and light manufacturing facilities to 1,800 tenants.

Prior to joining Liberty in May of 2005, Heise served as director of leasing for Highwood Properties, as partner and co-founder of Newport Partners/Carter & Associates, and as a leasing agent with Trammell Crow Company. A former U.S. Naval Officer, he served seven years of active duty as a pilot.

Bruce M. Johnson
Retired Executive Vice President & CFO - Regency Centers

Bruce Johnson has more than 30 years' experience with Regency Centers and its predecessors. With an asset value in excess of $6 billion, the company is the leading national owner, operator and developer of grocery-anchored, neighborhood and community retail centers.

Before retiring in December 2012, Johnson was executive vice president and chief financial officer for the company and served on its board of directors. During his tenure at Regency Centers, he was responsible for commercial office development, acquisitions, new investment underwriting and due diligence, project and entity financing, joint venture relationships, corporate and property level accounting and information technology.

Presently, Johnson is chairman of the board of Brooks Rehabilitation Hospital. He also serves as vice chairman of the board and chairman of the Executive Committee of the hospital's parent company, Brooks Health Systems. Johnson was a director of Columbia Equity Trust, Inc., an owner and operator of commercial office properties in the greater Washington, D.C. area, until its merger with a private company in February 2007.

M. Lynn Pappas, Esq.
Shareholder - Gunster

Lynn Pappas is a shareholder in Gunster, a full-service commercial law firm with 10 offices throughout Florida. Admitted to the Florida Bar in 1976, she specializes in the areas of real estate and environmental and land use law. Prior to joining Gunster, Pappas was a shareholder in the law firm of Pappas Metcalf Jenks & Miller, P.A.

Her work has been recognized with numerous honors, including being named Best Lawyers' Lawyer of the Year for both environmental and real estate law; Florida Trends' Legal Elite for environmental law; Chambers & Partners' Leaders in Their Field, Real Estate; and Florida Super Lawyers, among others. She was inducted into the First Coast Business Hall of Fame in 2006.

Pappas is a member of the Florida, Jacksonville and American Bar Associations. She has served on various boards and currently is a director of SunTrust Bank North Florida, N.A. Additionally, Pappas is a member of the Jacksonville Civic Council and the Political Leadership Institute, which she chaired in 2009. She has also chaired the Jacksonville Regional Chamber of Commerce and has been a member of the Chamber's board of trustees since 2001 and the board of governors since 1998.

William T. Tunnell
President - Tunnell, Spangler, Walsh & Associates

Bill Tunnell brings over 30 years of professional experience in planning and architecture. As principal-in-charge of Tunnell, Spangler, Walsh & Associates' Planning Studio, Tunnell directs projects ranging from the planning of new towns and resorts to the detailed design of clubs and recreational facilities. His focus is the application of smart growth and new urbanism principles across a broad range of urban and rural settings.

He formally began his land planning career in 1980, in collaboration with the design team of Robert B. Hull and James W. Mozley. As an architect and planner, Tunnell has designed residential, commercial, and golf projects in 14 states, Europe and the Caribbean.

Appendix 1

The Technical Assistance Panel provides the following information on land values and project construction costs based on their experiences in the Jacksonville market. The information should not be construed as an estimate that should be relied upon with respect to any individual parcel as each parcel has unique site characteristics that will affect the value of the land and the cost of development thereon. Note also that the land acquisition values listed below reflect typical land values in Jacksonville when market demand supports speculative development.

Hotel

The following cost estimates reflect the approximate cost to construct a premium branded select service hotel such as a Marriott Spring Hill Suites.

Land Acquisition	$9.00 - $12.00 per land square foot
Sitework	$7,000 - $9,000 per room key
Building	$93,000 - $106,000 per room key

Industrial

The following cost estimates reflect the approximate cost to construct warehouses ranging from 50,000 square feet to 1,000,000 square feet. The estimates assume tilt wall construction or a 30-foot clear warehouse with 5%-10% office buildout.

Land Acquisition:	$1.00 - $2.00 per land square foot
Sitework	$10.00 - $12.00 per square foot
Building Shell	$28.00 - $31.00 per square foot
Tenant Improvements	$4.00 - $6.00 per square foot

Office

The following cost estimates reflect the approximate cost to construct multi-story office buildings not exceeding five floors ranging from approximately 20,000 square feet to 200,000 square feet. The estimates assume tilt wall or pre-cast concrete panel construction with a single bank of restrooms and elevators on each floor.

Land Acquisition	$5.00 - $7.00 per land square foot
Sitework	$20.00 - $25.00 per building square foot
Building Shell	$110.00 - $120.00 per building square foot
Tenant Improvements	$30.00 - $35.00 per building square foot

Multifamily

The following cost estimates reflect the approximate cost to construct a Class A garden style apartment building with an average unit size of 1,000 sf and a density of 15 to 20 units per acre.

Land Acquisition	$6.00 - $8.00 per land square foot
Sitework	$8,000 - $10,000 per unit
Building	$60,000 - $65,000 per unit

Retail

The following cost estimates reflect the approximate cost to construct a grocery anchored retail center.

Land Acquisition	$9.00 - $11.00 per land square foot
Site work	$20.00 - $25.00 per building square foot
Building shell	$90.00 to $100.00 per building square foot
Tenant improvements	$20.00 to $25.00 per building square foot

Appendix 2

Jacksonville Industrial MarketView

Q1 2013

CBRE Global Research and Consulting

VACANCY	ASKING RATE	ABSORPTION	CONSTRUCTION	COMPLETIONS	UNEMPLOYMENT
10.8%	$3.87	245 K	0	0	7.0%

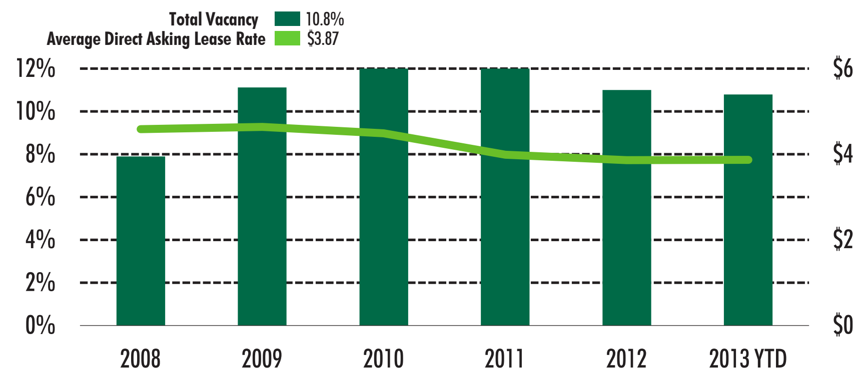
Arrows indicate change from previous year.

THE START OF 2013 SHOWS HEALTHY INDICATORS OF POSITIVE INDUSTRIAL GROWTH

Hot Topics

- Additional jobs are expected through JAXPORT as other companies continue relocating and expanding businesses.
- Positive absorption was posted for the seventh consecutive quarter.
- Vacancy rates declined 150 basis points since first quarter 2012.
- The Jacksonville unemployment rate closed February 2013 at 7%, a 190 basis point decrease from February 2012.

Total Vacancy -vs- Average Direct Asking Lease Rate (NNN)



Source: CBRE Research Q1 2013.

Leasing Activity

The Jacksonville industrial market is off to a strong start in 2013 with positive indicators of recovery. The overall vacancy rate is the lowest it's been since 2009, closing first quarter 2013 at 10.8%. The Westside submarket offers the highest number of industrial product with approximately 39 MSF but recorded the lowest vacancy rate of the entire Jacksonville industrial market, closing first quarter 2013 at 6.0%. This is a 250 basis point decrease from its peak in 2009.

Absorption was just under 245,000 SF. Much of this absorption occurred in the Northside submarket. Sam's Club moved into a 129,500-SF warehouse at Alta Lakes that has stood vacant since completion. Also contributing to the positive absorption in the Northside submarket was Samsonite, which relocated its 200,000-SF warehouse/distribution facility from 1 Imeson Center and expanded into a 240,000-SF warehouse/distribution center at 10089 N Main.

St. Johns County was the only submarket to experience negative absorption, as Palm Coast Data moved outside of the Jacksonville market, vacating 83,920 SF of warehouse space.

The average asking rental rate continued to hold steady over the last year at $3.87 PSF NNN. However, there has been a $0.75 PSF NNN decrease since 2010. This decrease is due in large part to buildings left vacant for an extended period of time. Analyst's project that asking lease rates will gradually increase as the industrial economy continues to strengthen.

CBRE

Market Statistics

Submarket	Building SF	Total Vacancy (%)	Total Availability (%)	Qtrly Net Absorption	Under Construction	Avg Dir Asking Lse Rate (NNN)
Downtown	2,875,375	9.7	12.8	0	0	$2.33
Beaches	128,547	17.7	17.7	0	0	$10.54
Northside	29,666,969	14.7	22.1	203,007	0	$3.35
Southside	21,135,425	13.6	18.3	58,345	0	$5.33
Westside	38,961,264	6.0	13.9	63,573	0	$3.47
Clay County	2,916,433	10.3	26.6	3,950	0	$3.83
St. Johns County	1,558,946	18.3	23.2	(83,920)	0	$4.13
Jacksonville Market	**97,242,959**	**10.8**	**17.9**	**244,955**	**0**	**$3.87**
Manufacturing	18,671,076	3.8	7.1	0	0	$3.15
Warehouse/Distribution	66,084,981	12.6	21.2	217,895	0	$3.48
R&D/Flex	8,218,449	16.5	20.1	27,060	0	$7.36
Other Industrial	4,267,953	1.7	9.2	0	0	$3.37

Source: CBRE Research Q1 2013.

Sales Activity

Sales activity slowed during first quarter 2013, with no investment sales and only three transactions with users totaling 65,000 SF of warehouse/distribution space.

The average sale price decreased from $36.33 PSF in first quarter 2012 to $33.51 PSF in first quarter 2013. Manufacturing buildings averaged $49.52 PSF; warehouse/distribution buildings averaged $30.18 PSF; and R&D/Flex buildings, with the highest average price in the Jacksonville industrial market, averaged $71.48 PSF. Currently, there is 7.3 MSF of industrial product for sale in the Jacksonville market. Warehouse/Distribution properties constitute the majority of the industrial product for sale with 6.2 MSF.

Economic Influence

Jacksonville's non-seasonally adjusted unemployment rate dropped to 7.0%, a 190 basis point decrease from the February 2012 rate of 8.9%. The state of Florida remains consistent with the declining rates, closing February 2013 at 7.5%, a 150 basis point decrease year-over-year. On a national level, the unemployment rate continues o follow the same trend, falling 60 basis points from this time last year to end February 2013 at 8.1%.

According to the Florida Governor's Press Office, the Jacksonville MSA ranked second in the state for job growth in financial activities, professional and business services, and leisure and hospitality. The financial activities job sector has grown in the Jacksonville MSA for 31 consecutive months.

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County	Labor Force	Employment	Unemployment	Unemply %
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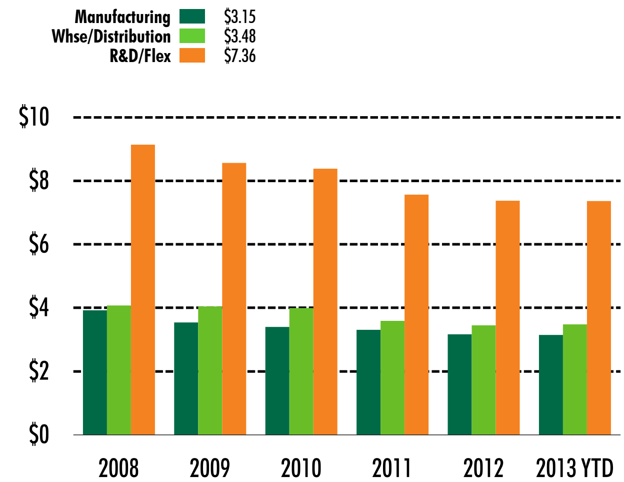
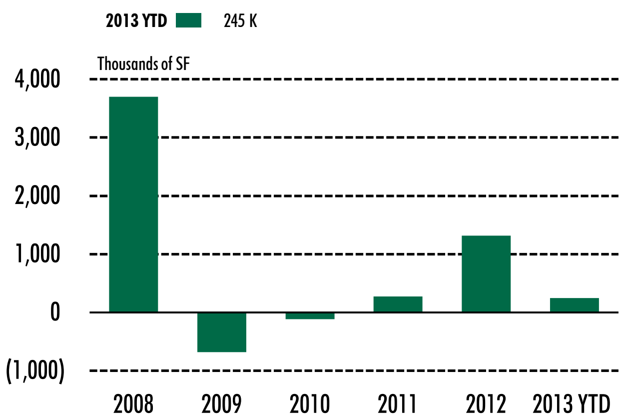
Average Dir Asking Lease Rates (NNN)



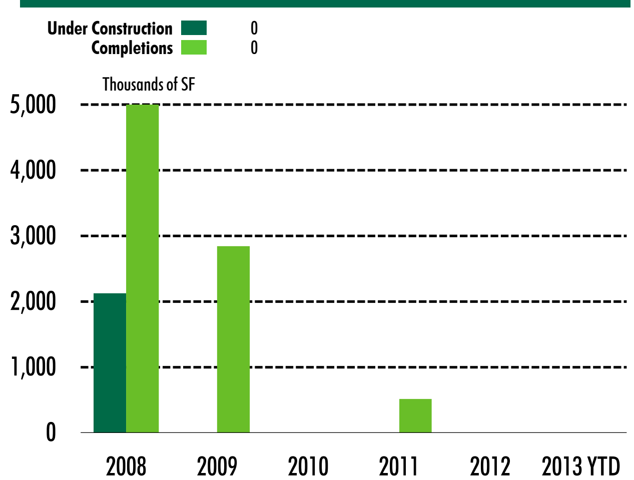
Source: CBRE Research Q1 2013.

Net Absorption



Source: CBRE Research Q1 2013.

Under Construction and Completions



Source: CBRE Research Q1 2013.

Development

At the market's height in 2007, more than 4.5 MSF of industrial product was under construction, contributing over 9.5 MSF from 2007-2009. However, there has been little product delivered since the recession due to the high vacancy rates and economic uncertainty.

Currently, there is no construction underway in the Jacksonville industrial market and no signs of imminent construction starts or product deliveries. There are 22 buildings proposed in the Northside, Westside and Southside submarkets, which could add more than 4.3 MSF to the market. However, construction on these buildings remains stalled until vacancy rates decline and builders see signs of an economic recovery strong enough to create sufficient demand to meet or exceed existing supply.

Outlook

The state of Florida announced that they would fund $36 million to fix the navigational issues at the JAXPORT Mile Point shipping passageway. This navigational hazard restricts large ships from entering the Jacksonville Port Authority for nearly two-thirds of the day due to strong currents. The project could take 12-18 months to complete. Once dredging is finished, large vessels will be able to travel up the river any time of day, creating an additional 3,500 port-related jobs.

Although Hanjin Shipping Company announced they will not be building the anticipated $300 million container shipping terminal at JAXPORT due to the slow economic recovery, they will continue to bring container ships to Jacksonville, with over 15 shipping lines coming into the port by summer 2013.

Another positive indicator of industrial growth, manufacturing that was previously sent overseas is now returning to the United States. Jacksonville is expected to take full advantage of this expected growth due to the high number of manufacturing facilities and improving housing market.

Body Central Corp. announced plans to expand its company headquarters in Jacksonville, creating an estimated 52 new jobs. Also, Hoegh Autoliners, Inc., a global provider of vehicular transportation services, is moving its headquarters to Jacksonville and will add jobs.

Due to increased activity at JAXPORT and announcements from companies intending to expand and create additional jobs, it is expected that the Jacksonville industrial market will continue its positive momentum throughout the year.

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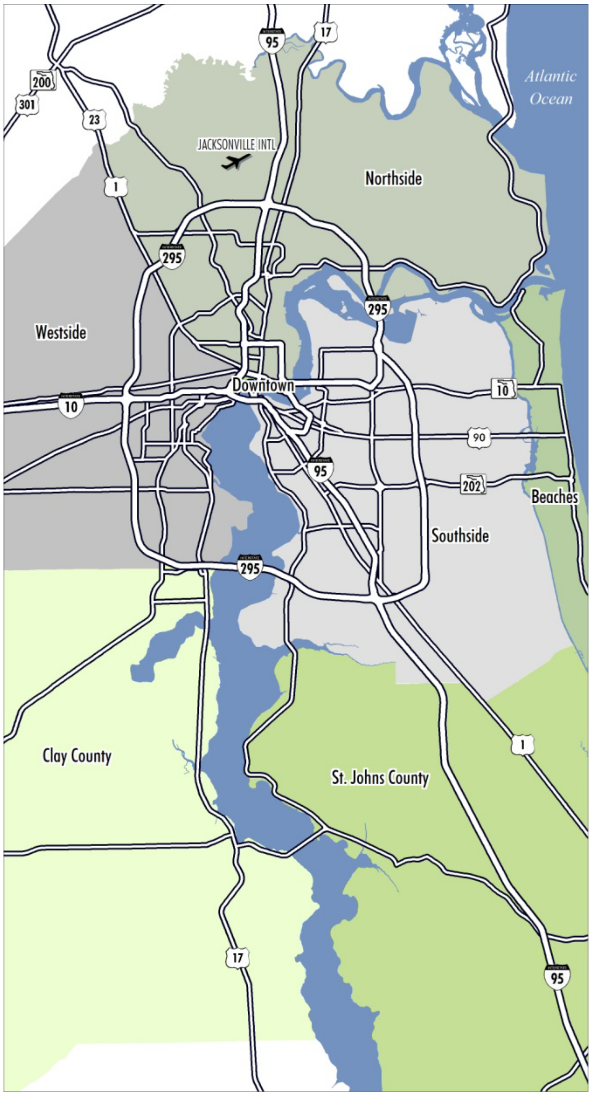

Market Coverage: Includes all competitive industrial buildings 10,000 square feet and greater in size in Clay, Duval and St. Johns counties.

CONTACTS

For more information about this Local MarketView, please contact:

Jacksonville Research

Elizabeth Pippin
Research Coordinator
Jacksonville Research
CBRE
225 Water St
Suite 110
Jacksonville, FL 32202
t: +1 904 630 6382
e: elizabeth.pippin@cbre.com

James P. Citrano
Senior Managing Director
Jacksonville
CBRE
225 Water St
Suite 110
Jacksonville, FL 32202
t: +1 904 630 6344
e: james.citrano@cbre.com

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Appendix 3

Jacksonville Office MarketView

Q1 2013

CBRE Global Research and Consulting

VACANCY 21.8%	ASKING RATE $17.10	ABSORPTION 158K	CONSTRUCTION 0	COMPLETIONS 0	UNEMPLOYMENT 7.0%

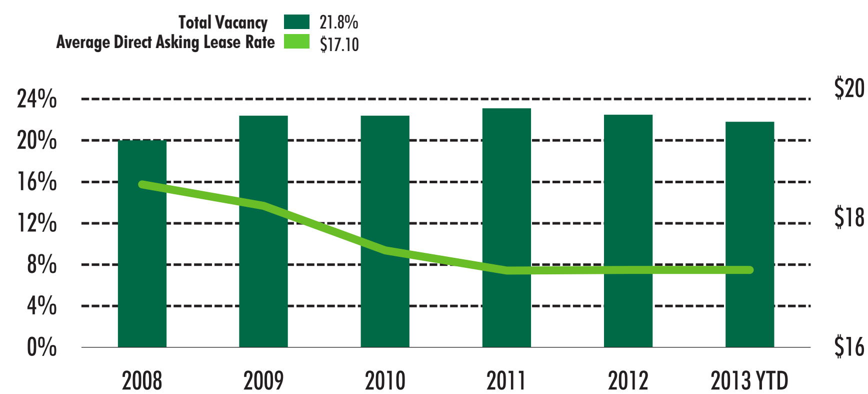
Arrows indicate change from previous year.

INVESTOR INTEREST IS EVIDENT IN THE JACKSONVILLE OFFICE MARKET WITH OVER 1.2 MSF OF OFFICE PRODUCT SOLD FIRST QUARTER 2013

Hot Topics

- Companies are looking to expand space, providing professionals with a renewed confidence in a recovering economy.
- Positive absorption was posted for the fourth consecutive quarter.
- Jacksonville ranked second in the state for job growth in financial activities, professional and business services, and leisure and hospitality.
- The Jacksonville unemployment rate of 7% is 70 basis points less than the state of Florida's unemployment rate.
- Plans have been proposed to build the first multi-tenant office building in five years.

Total Vacancy -vs- Average Direct Asking Lease Rate (FSG)



Source: CBRE Research, Q1 2013.

Sales Activity

The Jacksonville office market showed positive indicators in investment sale activity in the first quarter of 2013 with over 1.2 MSF of office product sold. Two significant transactions of Class A portfolios sold in the I-95/9A Corridor, creating increased investor interest in the Jacksonville market.

Flagler Development Group sold Deerwood North and Deerwood South in the Deerwood Park district of the I-95/9A Corridor to Parkway Properties for $130 PSF. The portfolio consists of eight buildings totaling 1 MSF and were 94% occupied at the time of the transaction. The two parks, located in the heart of the suburban core, sold with a cap rate of 9% and offers some of the highest commercial rents in the Jacksonville office market.

In the Southpoint district of the I-95/9A Corridor, Northwestern Mutual sold Concourse to Rosemont Realty for approximately $110 PSF. This 288,000 SF portfolio comprised of three-buildings were 89% occupied at the time of the transaction and sold with a cap rate of 7.3%.

The I-95/9A Corridor commands the highest sale price of Class A product in the Jacksonville market at $154.01 PSF. St. Johns County, another highly desirable location, is the only other submarket in Jacksonville to offer any Class A product for sale with an asking rate of $125.64 PSF.

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Market Statistics

Submarket	Building SF	Direct Vacancy (%)	Total Vacancy (%)	Qtrly Net Absorption	Under Construction	Avg Dir Asking Lse Rate (FSG)
Downtown CBD	7,335,804	23.0	23.1	21,893	0	$18.45
Arlington	984,122	43.6	43.9	0	0	$12.91
Beaches	793,775	15.1	15.7	(2,561)	0	$24.66
Clay County	538,369	18.6	18.6	7,889	0	$15.50
East Butler	206,876	16.4	16.4	1,975	0	$23.09
I-95 / 9A Corridor	10,816,701	19.3	19.5	77,451	0	$16.76
Baymeadows	3,029,374	31.9	32.1	(3,502)	0	$16.40
Deerwood Park	3,470,547	9.7	9.7	530	0	$19.44
South 95 Corridor	1,100,183	22.1	22.6	10,825	0	$16.18
Southpoint	3,216,597	16.8	17.0	69,598	0	$16.25
Mandarin	544,543	12.2	12.2	2,078	0	$14.21
Northside	95,600	34.8	34.8	0	0	$10.00
St. Johns County	527,480	31.8	31.8	48,094	0	$17.69
Southside	1,771,694	22.6	23.4	1,607	0	$14.41
Westside	371,435	17.0	17.0	0	0	$16.25
Suburban Total	**16,650,595**	**21.0**	**21.3**	**136,533**	**0**	**$16.37**
Jacksonville Market	**23,986,399**	**21.6**	**21.8**	**158,426**	**0**	**$17.10**
Class A	11,133,341	15.9	16.0	47,401	0	$19.11
Class B	9,590,948	24.7	24.9	97,146	0	$16.28
Class C	3,262,110	32.5	32.7	13,879	0	$13.65

Source: CBRE Research, Q1 2013.

With office vacancy rates declining 150 basis points from first quarter 2012 to the current rate of 21.8%, investor interest should continue to grow in the Jacksonville office market, boosting confidence in a recovering economy.

Leasing Activity

Minimal leasing activity occurred in the first quarter of 2013 with approximately 30,000 SF of lease transactions signed. However, leasing activity is expected to increase with tenants currently looking for more than 1 MSF of office space in the Jacksonville market. Several companies, such as Rock Tenn, Digital Risk, SunGard, Fanatics, and Deutsche Bank, announced plans to expand in the market.

There was 158,426 SF of positive absorption. Much of this absorption occurred in the I-95/9A Corridor as Step Up for Schools, Plaza Home Mortgage, Ocenture, XORAIL and Sunshine State Insurance moved into a combined total of approximately 98,000 SF. Also contributing to the positive absorption, MSC Group expanded by 25,647 SF at 841 Prudential Dr in the Downtown CBD and Advanced Disposal relocated and expanded its headquarters from the Baymeadows district of the I-95/9A Corridor to the St. Johns County submarket, occupying approximately 56,000 SF.

Due to limited supply of Class A space in the I-95/9A Corridor, landlords are holding firm to the asking rate. The average asking lease rate in the I-95/9A Corridor of Class A space is $17.76 PSF FSG. Overall, the average asking lease rate in the Jacksonville market decreased from $17.22 PSF FSG in first quarter 2012 to $17.10 PSF FSG in first quarter 2013.

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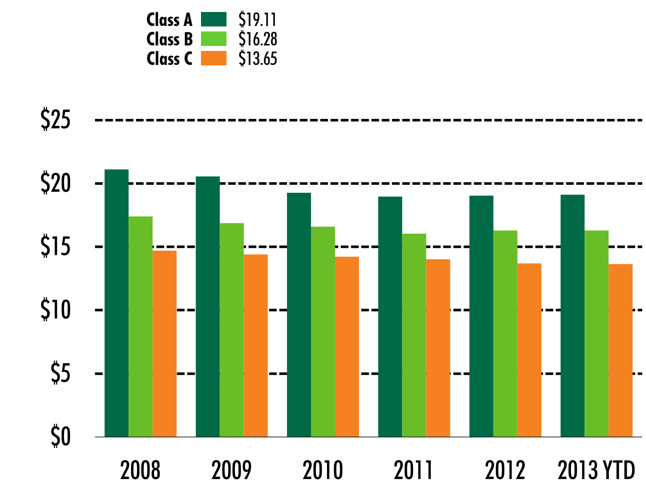
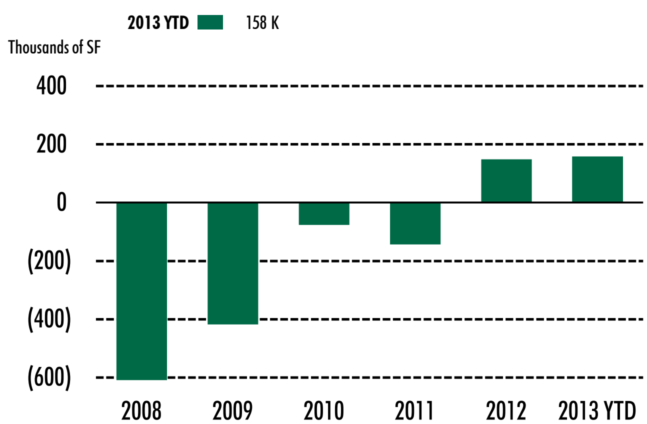
Average Dir Asking Lease Rates (FSG)



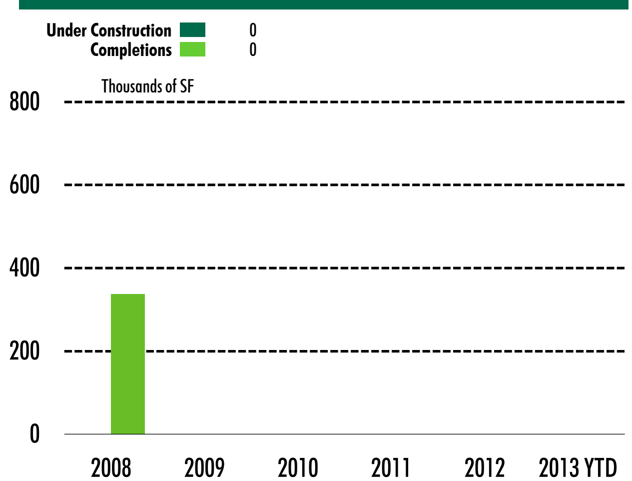
Source: CBRE Research, Q1 2013.

Net Absorption



Source: CBRE Research, Q1 2013.

Under Construction and Completions



Source: CBRE Research, Q1 2013.

Development

Due to increased housing demand, The Silverfield Group Inc. announced plans to build a 12,000-SF multi-tenant office building in the St. Johns County submarket. Once construction begins, this will be the first multi tenant office building in the Jacksonville office market since 2008 to go under construction.

Additional development activity is not anticipated to occur until vacancy rates decline and asking lease rates increase. There are two buildings that have been proposed, which include a 130,000-SF Class A building at Sutton Place in the Southside submarket and a 60,000-SF building on A.C. Skinner Parkway in the I-95/9A Corridor.

Economic Influence

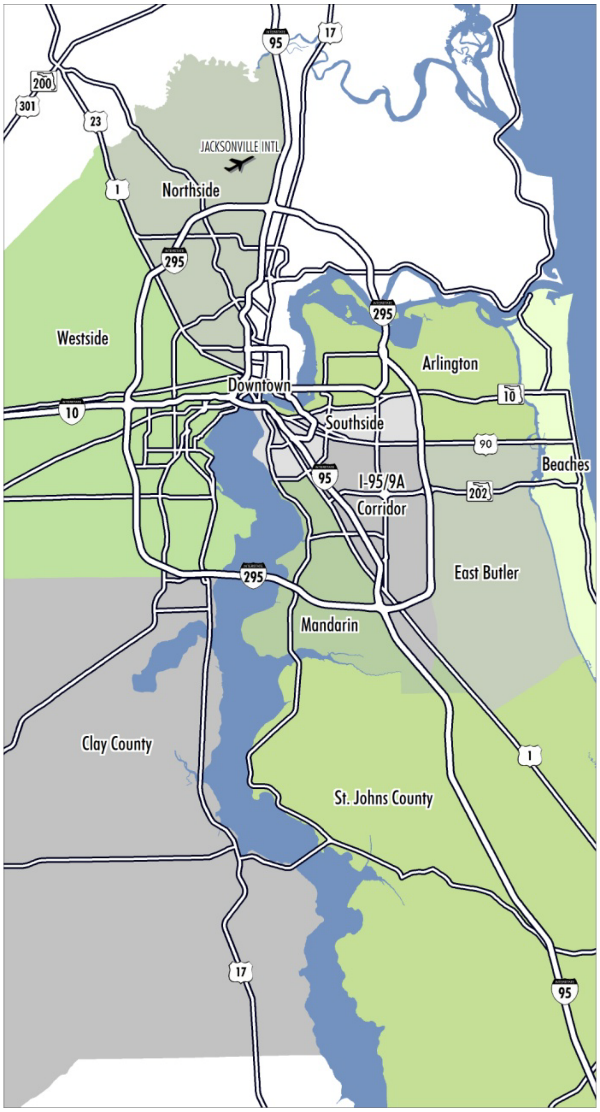
Jacksonville's non-seasonally adjusted unemployment rate dropped to 7.0%, a 190 basis point decrease from the February 2012 rate of 8.9%. The state of Florida has demonstrated consistently declining rates, closing February 2013 at 7.5%, a 150 basis point decrease year-over-year. On a national level, the unemployment rate has followed the same trend, falling 60 basis points from this time last year to end February 2013 at 8.1%

Jacksonville MS Counties breakout as follows:

County	Labor Force	Employment	Unemployment	Unemply %
Clay	97,587	91,300	6,287	6.4
Duval	447,183	413,828	33,355	7.5
Nassau	37,594	35,182	2,412	6.4
St. Johns	101,079	95,257	5,822	5.8

Outlook

The Jacksonville office market is expected to recover in line with the nation. Unemployment figures continue to improve causing vacancy rates to decline. The increasing occupancy rates and announcements of companies to expand is anticipated to generate increased interest from commercial real estate investors.



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e: elizabeth.pippin@cbre.com

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Senior Managing Director
Jacksonville
CBRE
225 Water St
Suite 110
Jacksonville, FL 32202
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e: james.citrano@cbre.com

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Appendix 4

Jacksonville Retail MarketView

Q1 2013 CBRE Global Research and Consulting

VACANCY 10.9% | ASKING RATE $14.71 | ABSORPTION 16 K | CONSTRUCTION 124 K | COMPLETIONS 0 K | UNEMPLOYMENT 7.0%

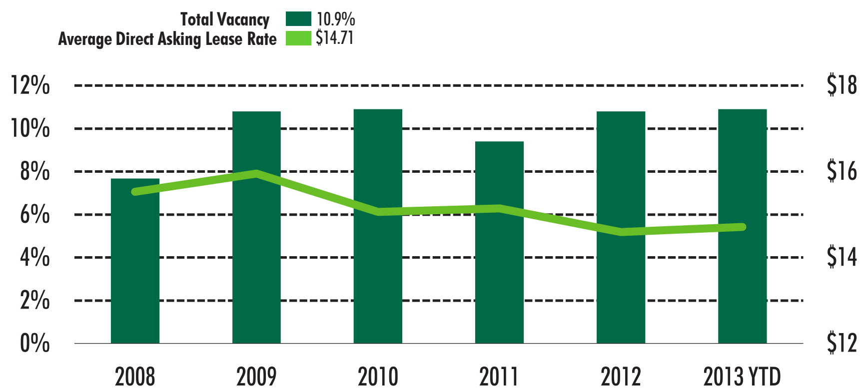
Arrows indicate change from previous year.

PLANS HAVE BEEN ANNOUNCED FOR NEW RETAILERS TO ENTER THE JACKSONVILLE MARKET PROMPTING OPTIMISM FOR POSITIVE GROWTH IN 2013

Hot Topics

- REI opened a 24,000-SF location at the Markets at Town Center. This is the first location in Florida.
- Bass Pro Shops announced plans to open a 104,000-SF free-standing store in the St. Augustine submarket.
- L.A. Fitness announced plans to open a fifth location. This fitness facility will be located in the Orange Park submarket.
- Kmart closed a 100,000 SF freestanding center in the Westside submarket.
- The average asking lease rate increased to $14.71 PSF NNN from $14.59 PSF NNN in fourth quarter 2012.

Total Vacancy -vs.- Average Direct Asking Lease Rate (NNN)



Source: CBRE Research, Q1 2013.

Leasing Activity

The Jacksonville retail market remained virtually unchanged from fourth quarter 2012 with a current direct vacancy rate of 10.9%. As vacancy rates remained stable, the average asking rates for the entire market inched upward by $0.12 from fourth quarter 2012 to the current rate of $14.71 PSF NNN.

There was a total of 15,891 SF of positive absorption in first quarter 2013. REI, an outdoor recreation retailer, opened its first store in Florida, occupying 23,491 SF of retail space in the Southside submarket. World of Thrift expanded as well, occupying 28,600 SF. Also new to the market, The Tile Shop opened a 24,000-SF store in the Baymeadows/Avenues submarket. A variety of small businesses contributed the rest of the new absorption. However, much of this positive absorption was negated by Kmart vacating 100,000 SF at 4645 Blanding Blvd in the Westside submarket.

Leasing activity slowed first quarter 2013. Walmart Neighborhood Market signed two new leases to backfill former Food Lion spaces left vacant early in 2012. These discount grocery stores owned by Walmart will occupy 35,736 SF in the Mandarin submarket and 37,947 SF in the Orange Park submarket in second quarter 2013. To date, Walmart has signed four leases, with plans to open a total of at least nine Neighborhood Markets in Northeast Florida.

CBRE

Market Statistics

Submarket	Building SF	Direct Vacancy (%)	Occupancy (%)	Qtrly Net Absorption	Under Construction	Avg Dir Asking Lse Rate (NNN)
Arlington	2,126,348	13.0	87.0	13,065	0	$10.96
Baymeadows/Avenues	1,844,842	9.6	90.4	22,500	0	$15.42
Beaches	2,511,640	12.7	87.3	2,900	0	$17.68
Intracoastal West	2,513,466	10.1	89.9	8,832	0	$14.94
Mandarin	3,337,271	9.1	90.9	(4,886)	0	$19.45
Northside	5,329,747	10.2	89.8	(2,900)	88,720	$11.59
Orange Park	4,538,753	12.3	87.7	2,550	0	$14.32
Regency	2,049,796	13.2	86.8	(743)	0	$14.14
Southside	5,155,051	11.1	88.9	55,063	35,000	$15.97
St. Augustine	2,921,064	8.0	92.0	(2,394)	0	$15.72
Westside	5,533,776	10.8	89.2	(78,096)	0	$13.02
Jacksonville Market	**37,861,754**	**10.8**	**89.2**	**15,891**	**123,720**	**$14.71**
Total Before Free-Standing	**33,383,003**	**12.0**	**88.0**	**115,891**	**123,720**	**$14.71**
Shopping Centers	31,883,003	12.5	87.5	115,891	123,720	$14.59
Mixed-Use	1,500,000	1.8	98.2	0	0	$31.50
Free-Standing	4,478,751	2.3	97.7	(100,000)	0	N/A

Source: CBRE Research, Q1 2013.

Development

Bass Pro Shops announced plans to open its first location in Northeast Florida. The 104,000-SF free-standing store is expected to be complete in spring 2014. It will be located in the St. Augustine submarket and will create an additional 250 jobs.

Nordstrom Rack, the discount retailer for Nordstrom, went under construction first quarter 2013 to open a 35,000-SF location in the Southside submarket. Construction is expected to be complete by fall 2013 at the Markets at Town Center.

Also under construction, the first phase of Parkway Shops in the Northside submarket is well underway and expected to open at the beginning of the second quarter 2013. The 88,720-SF extension of River City Marketplace is 100% pre-leased and will be anchored by Dicks Sporting Goods and Marshalls along with 20,000 SF of small shop space.

Accompanied by the discount retailer, the Nordstrom Department Store is expected to go under construction in the summer of 2013 at the St. Johns Town Center. The 124,000-SF location adjacent to the Markets at Town Center will be complete in 2014.

With only two construction projects underway, the Beaches submarket began redevelopment of Sawgrass Village, which was initially built in 1985. The redevelopment started first quarter 2013 and is expected to be complete by spring 2014. It will include an additional 16,000 SF of small shop space, an expansion of the current anchor Publix, and easier access to the center.

Investment Sale Activity

There was no sale activity that occurred in first quarter 2013, however, the volume of centers being marketed is expected to increase throughout the year leading professionals to anticipate an increase in investment sales.

There were 24 multi-tenant properties sold in North Florida in 2012. The highest quality assets traded in the mid 6% cap rate range.

In 2013, the Jacksonville retail market will remain a stable environment for investors ranging from private REIT's to private partnerships.

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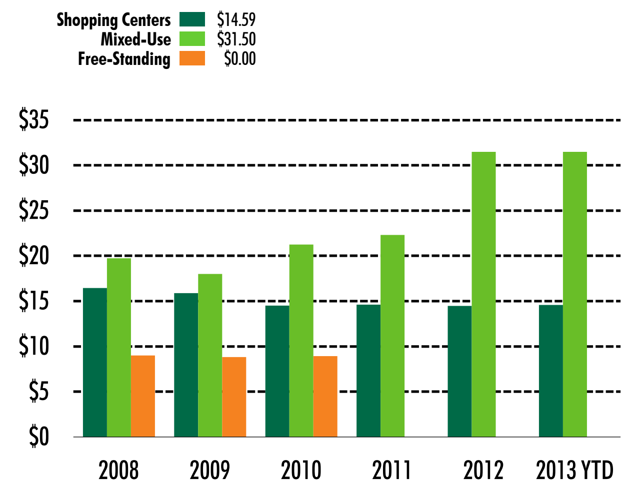
Average Dir Asking Lease Rates (NNN)



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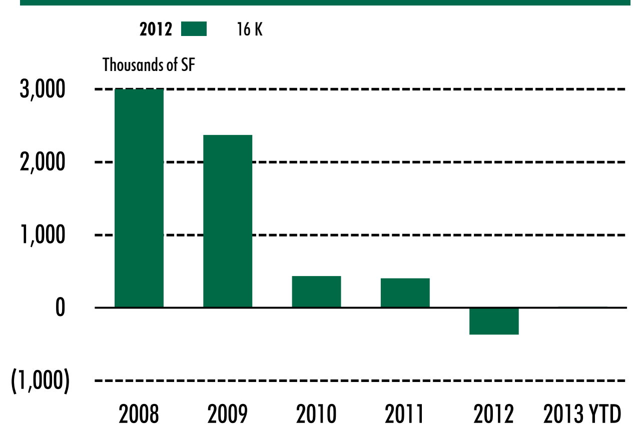

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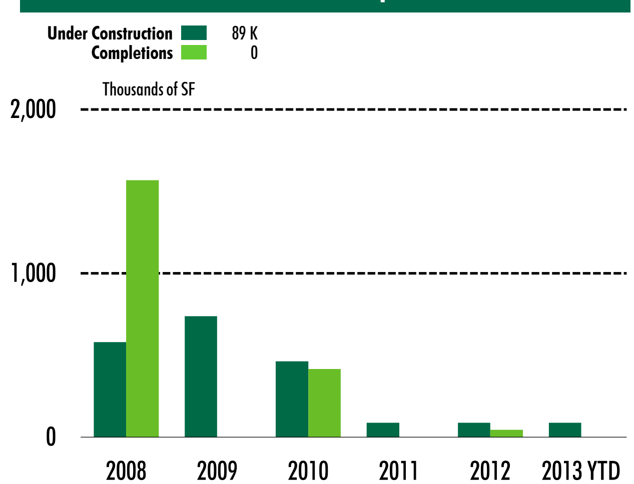

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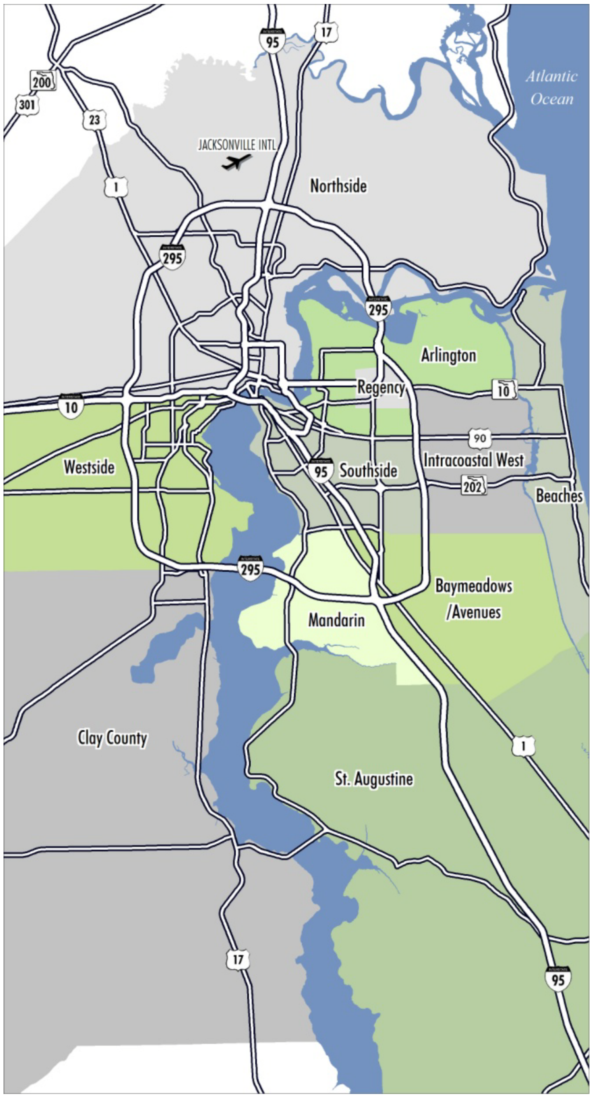
Outlook

The first quarter of 2013 started off slow. However, as the housing market continues to show encouraging signs of positive growth, the retail sector is likely to closely follow this trend. Decreasing unemployment rates, increasing occupancy rates and construction completions are all factors that bode well for a recovery in Jacksonville's retail market. According to the Institute for Economic Competitiveness at the University of Central Florida, personal income is forecasted to rise 5% this year in Northeast Florida, and total employment is expected to rise by 2% - the largest increase since the recession.



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Elizabeth Pippin
Research Coordinator
Jacksonville Research
CBRE
225 Water St
Suite 110
Jacksonville, FL 32202
t: +1 904 630 6382
e: elizabeth.pippin@cbre.com

James P. Citrano
Senior Managing Director
Jacksonville
CBRE
225 Water St
Suite 110
Jacksonville, FL 32202
t: +1 904 630 6344
e: james.citrano@cbre.com

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ULI North Florida
Serving Jacksonville, Gainesville, Tallahassee, Panama City and Pensacola
www.northflorida.uli.org
www.uli.org
904.486.8256 office
northflorida@uli.org