

MARKETBEAT

Nashville

Industrial Q3 2017



NASHVILLE INDUSTRIAL

Economic Indicators

	Q3 16	Q3 17	12-Month Forecast
Nashville Employment	956K	980K	▲
Nashville Unemployment	3.8%	2.5%	▼
U.S. Unemployment	4.9%	4.4%	■

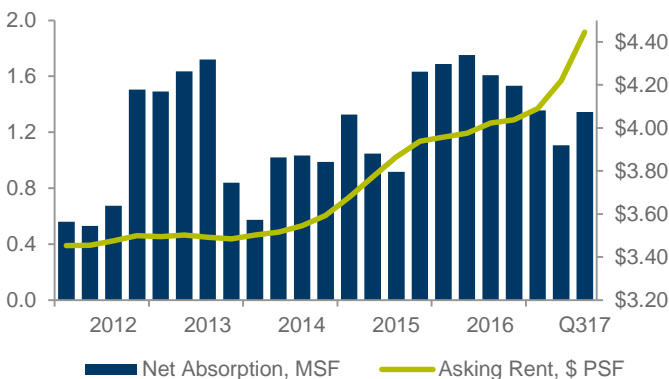
Market Indicators (Overall, All Classes)

	Q3 16	Q3 17	12-Month Forecast
Vacancy	3.2%	3.3%	■
Net Absorption (sf)	563K	1.6M	▲
Under Construction (sf)	7.6M	4.2M	▼
Average Asking Rent*	\$4.13	\$5.03	▲

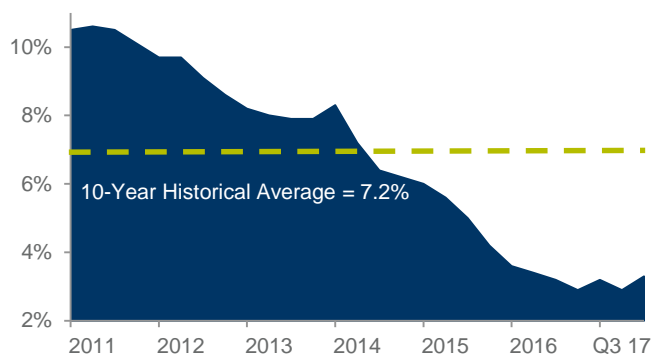
*Rental rates reflect weighted net asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Job growth in the Nashville metropolitan area is sustaining a healthy pace, thanks to stable auto manufacturing, expanding professional services, growing tourism industry, and Nashville's recognition as a top 25 tech city. Unemployment reached a cyclical low of 2.5%. A well-educated workforce and strong entrepreneurship are attractive to businesses entering the area and allowing existing businesses to expand. Payrolls are growing about three times faster than the regional average thanks to a tight labor market and increasing employment in the tech industry. Construction crews are busy with a rapidly growing housing stock, and commercial construction for the office, retail and industrial sectors.

Market Overview

A burst of third quarter activity pushed year-to-date absorption of industrial space to 2.5 million square feet (msf). The third quarter recorded 500,000 square feet (sf) of absorption of manufacturing space and 999,000 sf of warehouse/distribution space. Flex buildings added 56,000 sf to the total. Warehouse/distribution buildings accounted for 90% of space absorbed year-to-date, which occurred primarily in the Southeast submarket, where warehouse/distribution absorption exceeded 0.5 msf in each of the three quarters, totaling 1.8 msf year-to-date. The Southeast also absorbed 290,000 sf of manufacturing space. The East absorbed 500,000 sf of manufacturing space, while absorption of manufacturing space was negative year-to-date in both the North (-462,000 sf) and the Industrial CBD (-209,000 sf). Flex absorption was highest in the Industrial CBD (28,000 sf) and 65-South (42,000 sf) submarkets.

Nashville's industrial market reported new construction completions totaling 4.0 msf through the first three quarters of 2017. With absorption below completions, the vacancy rate increased slightly to 3.3% from 2.9%. Vacancy varied from a low of 1.0% in the West to a high of 5.8% in the North. Southeast, the largest submarket, recorded vacancy at 2.8%. Warehouse/distribution buildings, which account for almost 70% of the metro area's inventory, had a vacancy rate of 3.6%; manufacturing buildings were 2.4% vacant; and flex buildings were 2.9% vacant. Most submarkets had such low vacancy rates for each property type that it inhibits growth.

Six industrial buildings totaling 2.0 msf were completed in the third quarter, bringing the year-to-date total to 4.0 msf, which exceeds the 3.8 msf completed in 2016. The Wonderful Group's manufacturing built-to-suit at Cherry Farm (500,000 sf) was built for a Chinese tile maker. One other build-to-suit was delivered at Forrest Park on Brick Church Pike (12,000 sf) for Fresenius. The remaining four new completions were speculative with the largest being HSA Commerce Farms V (652,000 sf) in the East with 57% preleasing to Geodis. In the Southeast, Airport Business Park Building 1 (623,000 sf) was fully leased to NFI. Two warehouses in 3 Oaks Phase III totaling 225,000 sf were delivered. Six buildings are scheduled for completion in the fourth quarter of 2017 totaling 1.2 msf. Three of the six buildings are build-to-suits. The East will deliver, Genesco's expansion (207,000 sf) and Pennant Moldings manufacturing facility (60,000 sf), while in the Southeast Topre works towards completion of its second building phase (107,000 sf). The three speculative buildings are Park 840 West (408,000 sf) in the East and Airport Business Park Building 2 (305,000 sf) and Airport Logistics Park Building 300 (85,000 sf) in the Southeast.

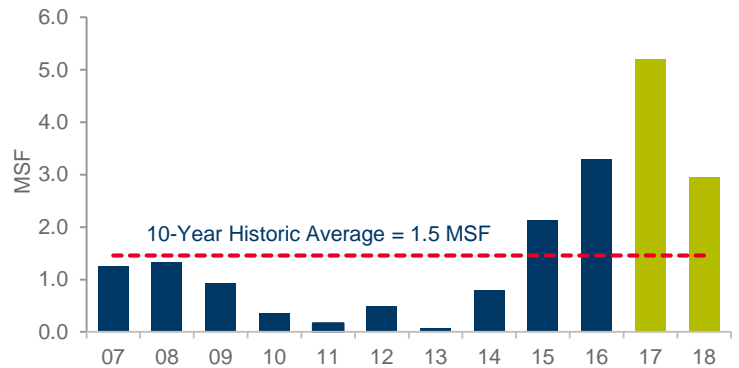
Overall average net rental rates reported \$5.03 per square foot (psf) at the end of the third quarter. Manufacturing properties averaged \$4.06 psf; warehouse/distribution properties averaged \$4.91 psf; and flex properties averaged \$9.20 psf. Submarket averages varied from a low of \$3.42 psf in the North to \$7.46 psf in the Industrial CBD. Manufacturing properties in the Industrial CBD recorded the highest average rate at \$5.78 psf. Warehouse/distribution rates were highest in the Industrial CBD, collecting \$7.74 psf. Flex rates hit their maximum in the Industrial CBD as well at \$10.45 psf.

Large leases in the third quarter included a renewal for Cinram International at Midsouth Logsitec VI (770,000 sf); NFI at Airport Business Park (623,000 sf); USPS at Skyhawk Business Center (451,000 sf) and Ashley Furniture, a renewal, at 225-255 Industrial Blvd. (96,000 sf).

Four investment sales were recorded in July. Dore Frog, LLC purchased 7119 Centennial Blvd. (103,368 sf), fully occupied, for \$3.4 million. Ivanhoe Cambridge acquired Space Park South (1.2 msf) for \$62.8 million and Westchase Partners, LLC bought Elm Hill Pike Business Center (16,760 sf) for \$1.3 million. Lastly, the recently completed Nissan Distribution facility (1.5 msf) located near the Nissan campus sold as part of a three-building portfolio sale prior to quarter end.

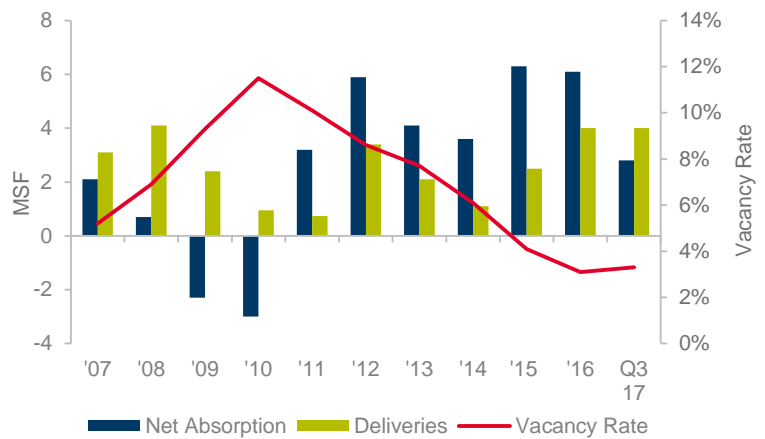
New Supply

NEW SUPPLY CONTINUES TO BE WELL ABOVE HISTORIC AVERAGES



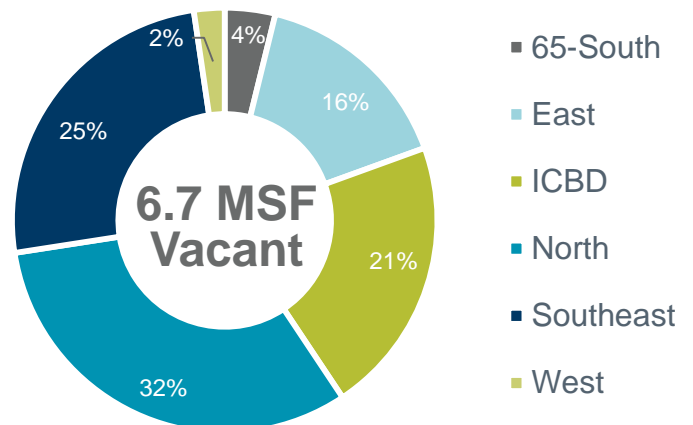
Net Absorption – Deliveries - Vacancy

CONSTRUCTION BEGINS TO OUTPACE ABSORPTION



Vacant Space by Submarket

PERCENTAGE OF TOTAL VACANT SPACE Q3 17



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SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q3 17 OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTRUC (SF)	Q3 17 CNSTRUC COMPLETIONS (SF)	OVERALL WEIGHTED AVG. NET RENT
65-South	12,871,162	259,162	2.0%	-48,056	41,117	0	0	\$6.53
East	26,714,054	1,054,476	3.9%	821,851	807,351	1,443,135	1,152,000	\$6.96
ICBD	51,021,802	1,429,351	2.8%	40,911	-12,588	0	12,000	\$5.03
North	37,354,957	2,153,364	5.8%	57,150	-458,801	1,829,000	0	\$3.42
Southeast	61,591,301	1,694,445	2.8%	683,400	2,079,612	948,540	848,470	\$5.25
West	16,199,080	157,542	1.0%	0	26,868	0	0	\$5.87
TOTALS	205,752,356	6,748,340	3.3%	1,555,256	2,483,559	4,220,675	2,012,470	\$5.03

PROPERTY TYPE	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q3 17 OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTRUC (SF)	Q3 17 CNSTRUC COMPLETIONS (SF)	OVERALL WEIGHTED AVG. NET RENT
Warehouse/Distribution	143,004,118	5,192,011	3.6%	999,123	2,250,222	3,224,675	1,512,470	\$4.91
Manufacturing	52,710,080	1,268,341	2.4%	500,000	167,043	996,000	500,000	\$4.06
Flex/R&D	10,038,158	287,988	2.9%	56,133	66,294	0	0	\$9.20

Key Lease Transactions Q3 17

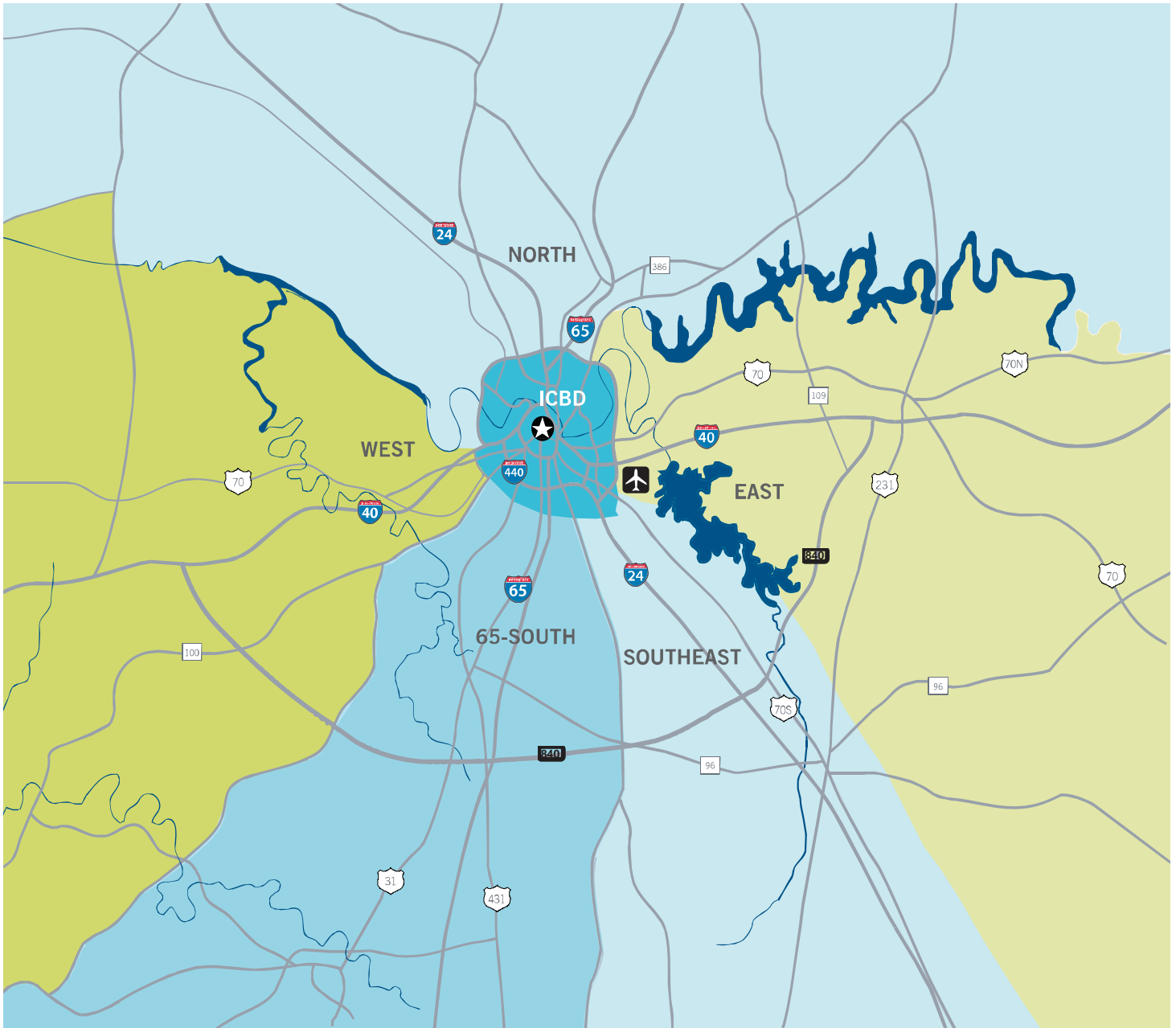
Property	SF	Tenant	Transaction Type	Submarket
MidSouth Logistec VI	770,000	Cinram International	Renewal	Southeast
Airport Business Park, Bldg. 1	622,830	NFI	New Lease	Southeast
Skyhawk Business Center	451,000	USPS	New Lease	Southeast
225-255 Industrial Blvd.	96,000	Ashley Furniture	Renewal	Southeast

Anticipated Future Deliveries over 500,000 SF

Property	SF	Type of Construction	Submarket	Target Quarter
Lowes Distribution Facility	1,000,000	Built-to-suit	North	Q3 18
LG Electronics	829,000	Built-to-suit	North	Q2 19
Beckwith North, Bldg. 9	528,079	Speculative	East	Q1 18

INDUSTRIAL SUBMARKETS

NASHVILLE



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