

# MARKETBEAT

## Nashville

### Office Q3 2017



#### NASHVILLE OFFICE

##### 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%	▼

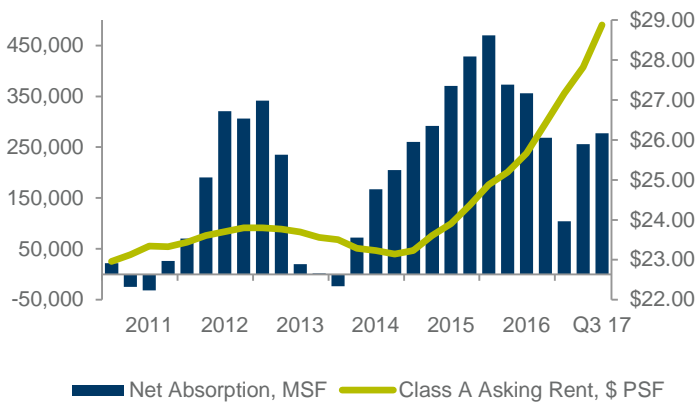
##### Market Indicators (Overall, All Classes)

	Q3 16	Q3 17	12-Month Forecast
Vacancy	4.7%	7.7%	▲
Net Absorption (sf)	390k	476k	■
Under Construction (sf)	3.7M	1.8M	■
Average Asking Rent*	\$23.84	\$26.94	▲

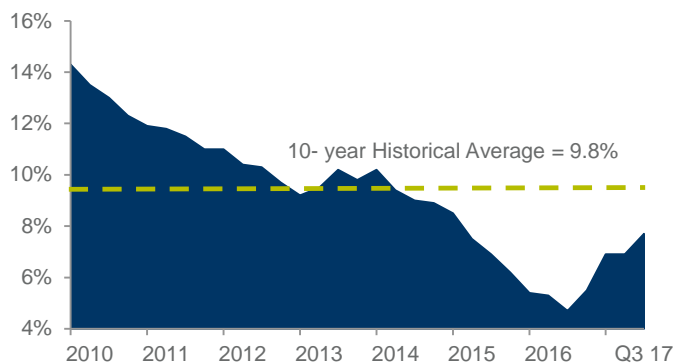
\*Rental rates reflect weighted gross asking \$psf/year

##### Overall Net Absorption/Overall Asking Rent

###### 4-QTR TRAILING AVERAGE



##### Overall Vacancy



## Economy

With an expanding population and an economy driven by professional services and tourism, Nashville is a well-positioned, attractive environment for future growth. Population increased 2% two percent per year and employment 3% to 4% per year, resulting in the unemployment rate dropping to a low of 2.5%. Nashville's rank as a top 25 tech city bodes well for future employment and income gains. The combination of population growth, new and expanding businesses, and increasing tourism has brought construction employment nearly back to its prerecession peak. Commercial office space demand has spurred numerous speculative construction projects.

## Market Overview

Office buildings in the Nashville metropolitan area absorbed 983,000 square feet (sf) throughout the first three quarters of 2017, approximately equal to the same period in 2016. Class A buildings accounted for almost the entire total, absorbing 995,080 sf. Absorption in Class B buildings was negative 17,000 sf. Class A absorption was almost evenly divided between the CBD and the Non-CBD submarkets. Brentwood led the Non-CBD Class A absorption with 301,000 sf absorbed year-to-date. Cool Springs/Franklin absorbed 122,000 sf of Class A space, and Midtown absorbed 87,000 sf year-to-date. Class A absorption for the year was negative in the submarkets of Airport North (-6,000 sf), Green Hills/West Nashville (-30,000 sf), and North Nashville (-11,000 sf). Class B absorption was negative overall, however significant Class B absorption was recorded in the CBD (69,000 sf) and Airport South (136,000 sf).

At the end of third quarter 2017, the overall vacancy rate measured 7.7%, down from 8.6% at the end of 2016. CBD vacancy increased from 11.6% to 12.4% and Non-CBD vacancy decreased from 7.9% to 6.4%. Green Hills/West Nashville ended the third quarter with a 4.7% vacancy rate, the lowest rate in the overall market, followed by Cool Springs/Franklin at 5.6% and Midtown at 5.7%. Class A vacancy in the CBD fell to 11.8%, below the overall CBD vacancy average for third quarter. However, Non-CBD submarkets reported a 6.7% Class A vacancy rate, slightly above the overall Non-CBD rate of 6.4%. Of the larger Non-CBD submarkets, Green Hills/West Nashville recorded the highest Class A vacancy rate at 7.9%, followed by Cool Springs/Franklin with 7.8%.

Construction completions in the first three quarters of 2017 totaled 2.1 million square feet (msf) in 11 buildings. The Bridgestone Tower (514,000 sf) and 222 Second Avenue (350,000 sf), were the only CBD completions. Three Non-CBD submarkets, Brentwood, Cool Springs/Franklin and Airport South, each recorded three deliveries. Seven were speculative projects totaling 893,000 sf. Build-to-suit construction included the Tennessee Baptist Convention (105,000 sf) in Cool Springs and CHS Antioch (240,000 sf) in Airport South. Fifteen buildings under construction total 1.8 msf. Of these developments six are due for completion in the fourth quarter of 2017, one of which is a build-to-suit for Lifeway (250,000 sf) in Midtown. The remaining five projects are speculative buildings totaling 420,000 sf. Completions scheduled for 2018 total 540,000 sf in six buildings, with only one build-to-suit for Ramsey Solutions (150,000 sf) in Berry Farms. Three buildings scheduled for 2019 completion total 630,000 sf. One development is a build-to-suit for Mars Petcare (224,000 sf). The remaining two buildings are 50% preleased.

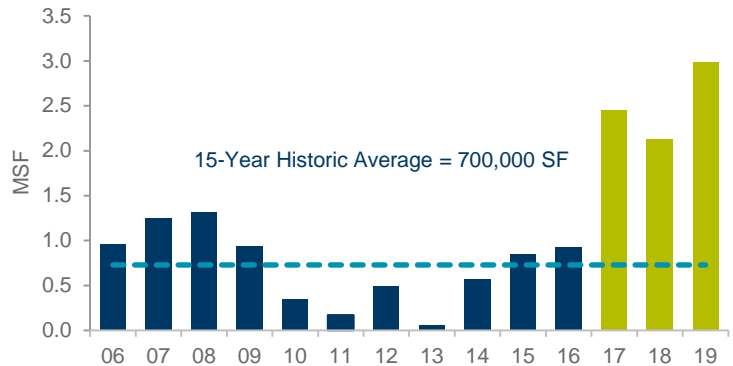
Overall gross lease rates reported \$29.22 per square foot (psf) in the CBD and \$25.65 psf for Non-CBD submarkets at the end of third quarter. Midtown recorded the highest rate at \$32.32 psf, followed by Green Hills/West Nashville at \$30.10 psf, Cool Springs/Franklin at \$29.51 psf, and Brentwood at \$27.96 psf. Midtown had the highest Class A rate at \$34.56 psf, followed by the CBD at \$33.88 psf and Brentwood at \$31.43 psf.

Recent significant leases include Bank of America (65,000 sf) at 222 2nd Avenue North in the CBD and HealthStream (65,000 sf) at Capitol View- Block E, both currently under construction. Houzz expanded to another full floor at the UBS tower, bringing the company's total to 56,000 sf within the building. Envision Health signed a lease for 26,000 sf at Burton Hills III in Green Hills/West Nashville.

The third quarter reported several notable investment sales of Nashville office properties. Sheds on Charlotte (86,000 sf) in Midtown sold for the largest sum, \$28.3 million, or \$329 psf to Stoltz Real Estate Partners. Also in Midtown, 54-60 Music Square East (41,000 sf) sold for \$11.4 million, or \$276 psf to OakPoint Properties. Oaks Business Center (62,000 sf) in Airport South sold for \$13.3 million, or \$215 psf to Forstone Capital. In Brentwood, Parklane sold to the RMR Group for \$18.2 million, or \$165 psf.

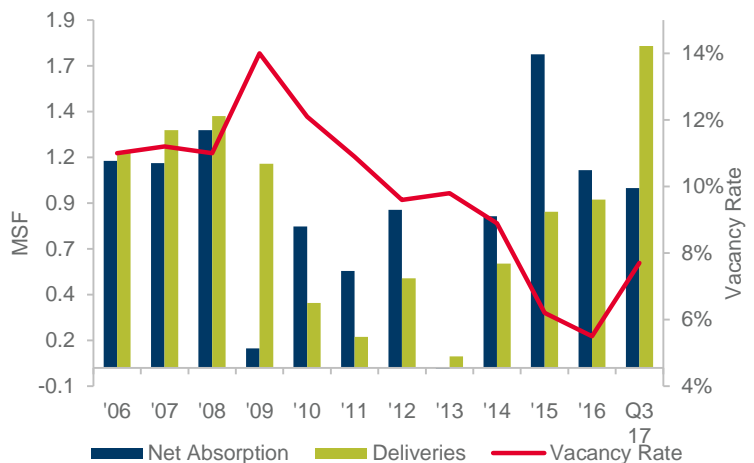
**New Supply**

NEW SUPPLY CONTINUES TO STAY ABOVE HISTORIC AVERAGE



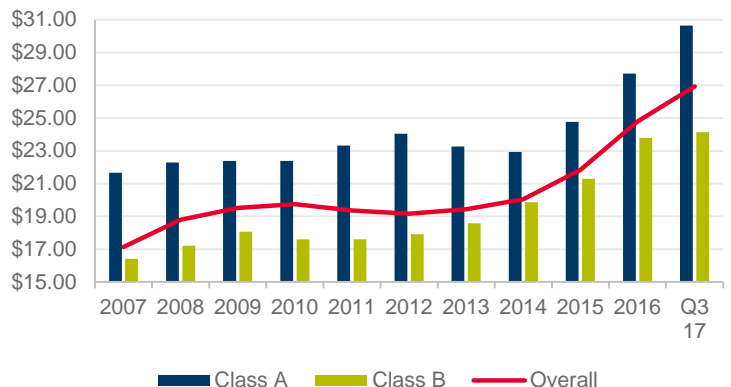
**Net Absorption-Deliveries-Vacancy**

DELIVERIES OUTPACED ABSORPTION



**Rental Rate Growth**

CLASS A RENT HAS SEEN A 29% GROWTH IN THE PAST 10 YEARS



**MARKETBEAT**  
**Nashville**  
Office Q3 2017



Submarket	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q3 17 OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD DELIVERIES (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	CLASS A AVERAGE ASKING RENT*	CLASS B AVERAGE ASKING RENT*
Airport North	4,087,585	262,218	6.4%	-13,933	-91,826	0	0	\$21.65	\$22.81	\$20.63
Airport South	3,608,003	304,309	8.4%	-11,393	160,364	198,819	0	\$18.25	\$25.67	\$18.42
Brentwood	5,606,745	359,465	6.4%	-18,778	251,029	350,018	0	\$27.96	\$31.43	\$26.14
CBD	8,316,485	1,032,044	12.4%	548,146	638,270	868,000	120,000	\$29.22	\$33.88	\$26.01
Cool Springs	7,483,024	420,128	5.6%	70,026	147,445	341,473	773,000	\$29.51	\$29.90	\$26.36
Green Hills/West Nashville	1,947,648	91,644	4.7%	-50,237	-24,854	0	99,655	\$30.10	\$30.80	\$24.68
MetroCenter	1,871,717	149,638	8.0%	-7,159	-79,919	0	0	\$21.80	\$21.96	\$21.75
Midtown	4,483,197	256,350	5.7%	-11,571	12,082	0	821,980	\$32.32	\$34.56	\$30.31
North Nashville	595,544	61,804	10.4%	-29,362	-29,362	0	25,000	\$20.44	\$22.04	\$19.06
<b>TOTALS</b>	<b>37,999,948</b>	<b>2,937,600</b>	<b>7.7%</b>	<b>475,739</b>	<b>983,229</b>	<b>1,758,310</b>	<b>1,839,635</b>	<b>\$26.94</b>	<b>\$30.64</b>	<b>\$24.15</b>

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

By Class	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q3 17 ABSORPTION	YTD NET ABSORPTION (SF)	YTD DELIVERIES (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT
Class A	18,221,140	1,421,000	7.8%	578,213	995,080	1,581,326	1,839,635	\$30.64
Class B	16,796,051	1,374,222	8.2%	-80,001	-16,895	176,984	0	\$24.15
Class C	2,982,757	142,378	4.8%	-22,473	5,044	0	0	\$18.68

**Key Lease Transactions Q3 17**

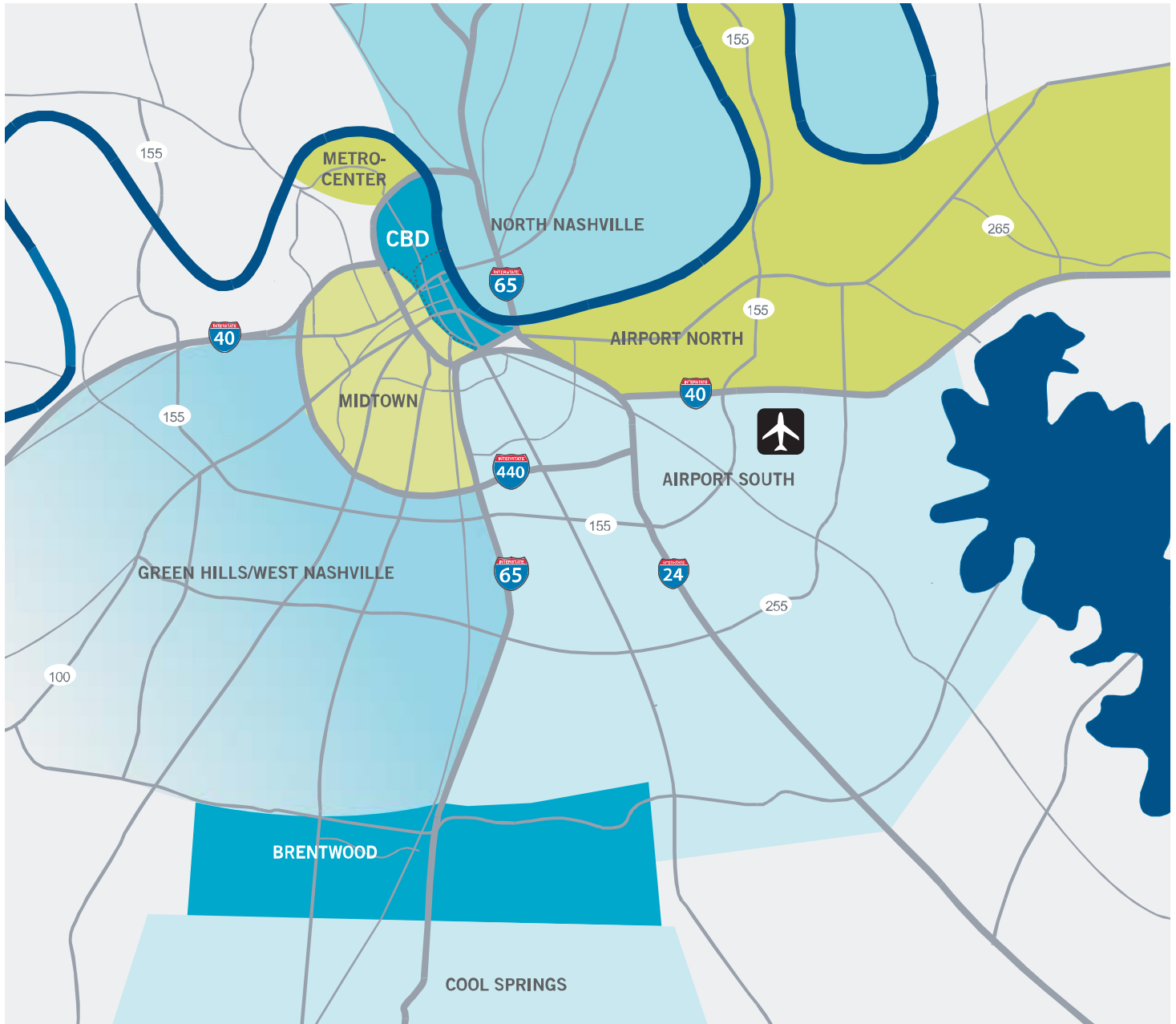
PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Capitol View - Block E	65,584	HealthStream	New Lease	Midtown
222 Second Ave	65,000	Bank of America	New Lease	CBD
Burton Hills III	26,466	Envision Health	New Lease	Green Hills/ West Nashville
UBS Tower	18,675	Houzz	New Lease/ Expansion	CBD

**Key Under Construction Projects Q3 17**

PROPERTY	SF	TARGET QUARTER	TYPE OF CONSTRUCTION	SUBMARKET
Lifeway - Capitol View	250,000	Q4 17	Build-to-Suit	Midtown
Mallory Green I	175,000	Q2 18	Speculative	Cool Springs/Franklin
The Chet Building	121,500	Q3 18	Speculative	Midtown
615 3 <sup>rd</sup> Avenue S.	120,000	Q4 17	Speculative	CBD

## OFFICE SUBMARKETS

### NASHVILLE



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