

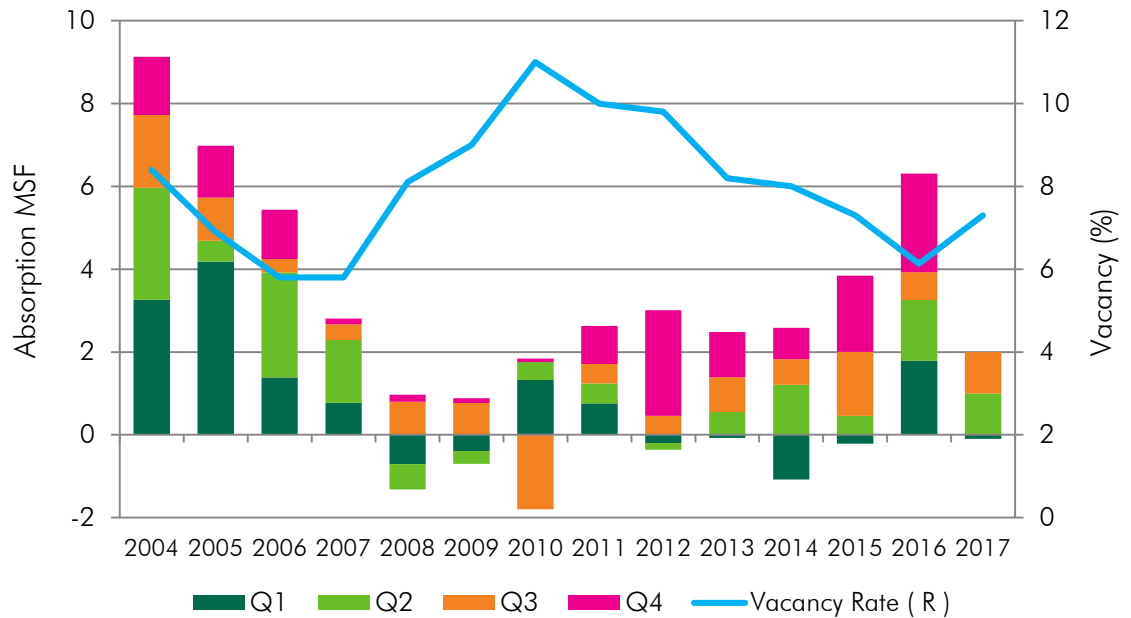
Nashville Industrial & Logistics, Q3 2017

Amid strong absorption, developers speculatively add supply

▲ Vacancy Rate 7.3%
▲ Lease Rate \$4.66 PSF
▲ Net Absorption 1,196,335 SF
▼ Construction 3,074,599 SF
▲ Deliveries 1,500,470 SF

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption vs. Vacancy Rate



Source: CBRE Research, Q3 2017.

NASHVILLE'S INDUSTRIAL DEMAND DRIVERS

The Nashville consumption zone reach is a huge advantage in providing customers next-day or same-day delivery as e-commerce companies are now helping to drive the industrial market. Thirty-nine million people can be reached within a 300-mile radius of Nashville. This number is greater than Memphis, 24 million people, and even Atlanta, 34 million people. Nashville can be reached by three major intersecting interstates, I-24, I-40 and I-65 making it one out of three major cities to have three intersecting interstates.

INDUSTRIAL INVENTORY EXPANDING IN Q3

As Nashville prepares to close the second half of the year, the industrial market maintained another quarter of robust growth. After experiencing declining vacancy, Nashville's industrial inventory has been growing like never before. In Q3 2017, the Nashville industrial market saw over one million sq. ft. of absorption, mirroring Q2's absorption activity. This shift is typical during the expansion phase of the cycle with absorption and vacancy rising as both speculative and preleased

facilities are delivered. More than 1.5 million sq. ft. of new development was delivered this quarter. All of these were warehouse/distribution facilities, one being speculative and fully vacant, therefore adding availability to the market and pushing vacancy by more than 10 basis points to 7.3%. The new industrial deliveries also helped to increase overall asking rates just slightly to \$4.66 per sq. ft. on a triple net basis.

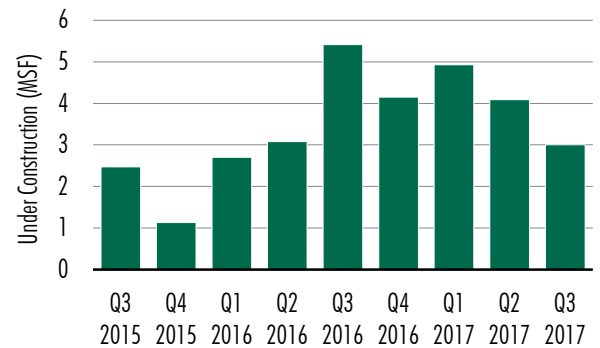
With the abundance of new deliveries this quarter, the active construction pipeline fell to 3 million sq. ft. However, developers are still bullish on market opportunities with over 3.3 million sq. ft. of planned speculative development in the pipeline. While 2017 activity is largely split between manufacturing and warehouse / distribution product, new construction lacks the same sense of balance. Every industrial building under construction is classified as warehouse/distribution. This is an indicator of the type of users looking to expand in the Nashville market.

Of the seven buildings under construction, three are build-to-suit construction including Lowe’s one million sq. ft. distribution center in the North I-65 Corridor submarket. Lowe’s is set to deliver by year-end. Other build-to-suit projects include Medline at Beckwith projected to deliver 269,000 sq. ft. during Q4 2017 and USPS at Skyhawk Business Center, totaling 450,000 sq. ft. Speculative construction makes up for 1.3 million sq. ft. of Nashville’s under construction total.

From the standpoint of building type, warehouse/distribution space remains dominant in the Nashville market with more than 1.2 million sq. ft. of net absorption in Q3 2017. This is largely due to Nashville’s centralized location which is unmatched for distribution, market reach, and affordable transportation costs. A 300-mile radius from Nashville includes access as far north as Indianapolis and as far south as Montgomery, Alabama.

The Interchange City submarket posted the highest absorption of more than 600,000 sq. ft. due to its proximity and access to Interstate 24, Interstate 40, and the Nashville International Airport. One noteworthy absorption in the Interchange City submarket was NFI, which occupied its new 622,000 sq. ft. facility at Airport Business Center I. In addition, Geodis occupied 395,000 sq. ft. of new construction at Commerce Farms V in the Elm Hill Pike/I-40 submarket.

Figure 2: Quarterly Construction Activity



Source: CBRE Research, Q3 2017.

Figure 3: Key Leasing Transactions

Tenant	Location	Size (sq. ft.)	Submarket	Transaction Type
NFI	951 Aviation Parkway	622,830	Interchange City	New
United States Postal Service	McGavock Pike	451,000	Elm Hill Pike/I-40	New
ABC Technology	515 Steam Plant Road	104,700	Northeast/I-65 N	New
Tire Discounters	CentrePointe Distribution Centre Bldg. D	71,000	Interchange City	New
Builders Supply Source	277 Nesbitt Lane Bldg. 3	66,700	Northeast/I-65 N	New
Trane	Three Oaks Bldg. 3	59,460	Interchange City	New

Source: CBRE Research, Q3 2017.

INDUSTRIAL ABSORPTION

The Nashville area posted over 1 million sq. ft. of absorption in Q3, predominately by warehouse/distribution users. Historically, Nashville’s warehouse/distribution inventory has led the market in terms of new occupancies. Furthermore, all construction is currently made up of warehouse/distribution facilities. Interchange City remained the most active submarket with more than 600,000 sq. ft. of absorption, followed by the Elm Hill Pike/I-40 submarket with 199,000 sq. ft. of positive absorption. The Allied Drive/I-65 South submarket recorded absorption of more than 195,000 sq. ft.

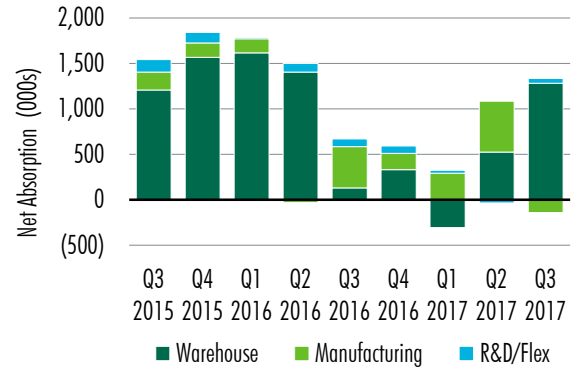
INDUSTRIAL RENTAL RATES

The combination of new construction hitting the market and strong tenant demand has led to steady rent growth since the first of the year. Historically, high demand for modern space, new construction and limited vacancy have applied pressure to industrial lease rates as Nashville has seen rates slightly increase in recent quarters. The Q3 2017 average asking rental rates for all property types increased by just \$0.04 per sq. ft. on a triple net basis to \$4.66 per sq. ft. R&D/Flex registered the largest increase of \$0.13 in Q3 2017.

INDUSTRIAL VACANCY RATES

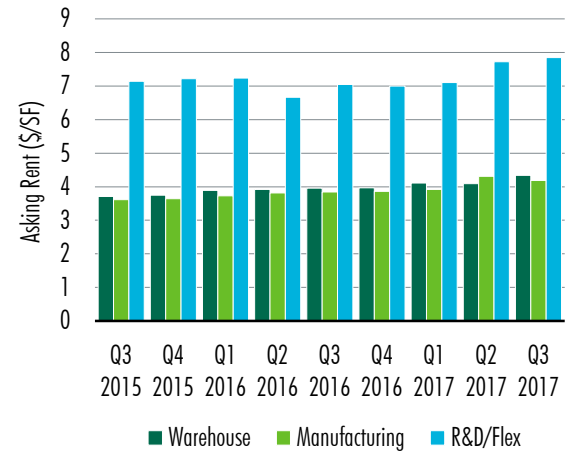
Throughout the last five years, industrial vacancy has declined considerably, from 10.4% to 7.2%, in Nashville across all property types. However, with new speculative deliveries, the market saw another increase in vacancy rates of 10 basis points to 7.3% in Q3 2017. The Nashville industrial market is now experiencing healthy levels of vacancy giving tenants options outside of new construction or build-to-suit opportunities. Warehouse /distribution vacancy rates rose 40 basis points to 8.3% during Q3 2017. Manufacturing recorded vacancy of 5.5% and R&D/Flex stands at 10.1%.

Figure 4: Quarterly Net Absorption



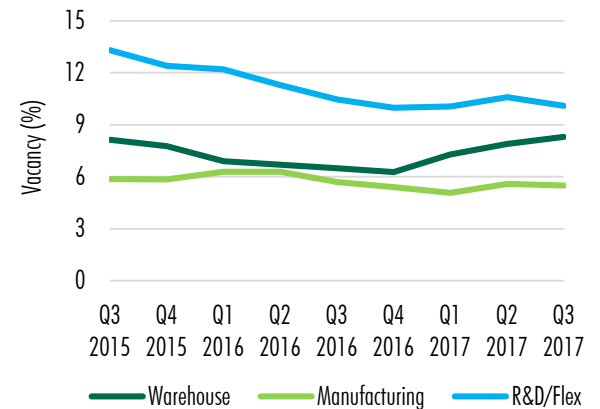
Source: CBRE Research, Q3 2017.

Figure 5: Rental Rates by Property Type



Source: CBRE Research, Q3 2017.

Figure 6: Vacancy by Property Type



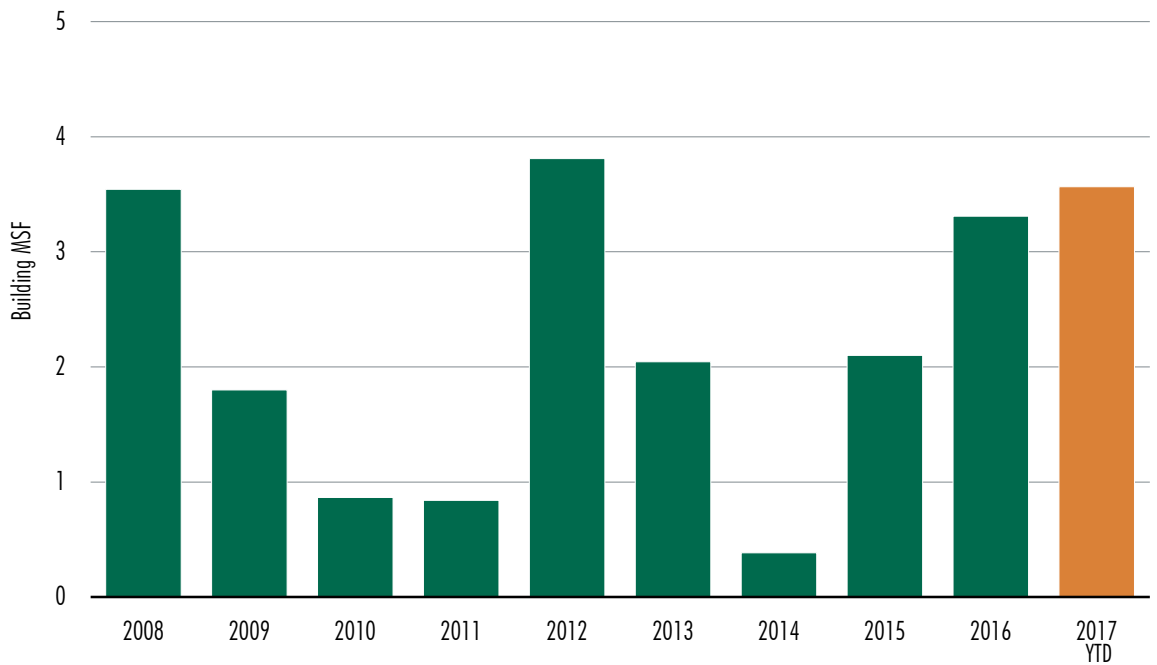
Source: CBRE Research, Q3 2017.

Figure 7: Market Statistics

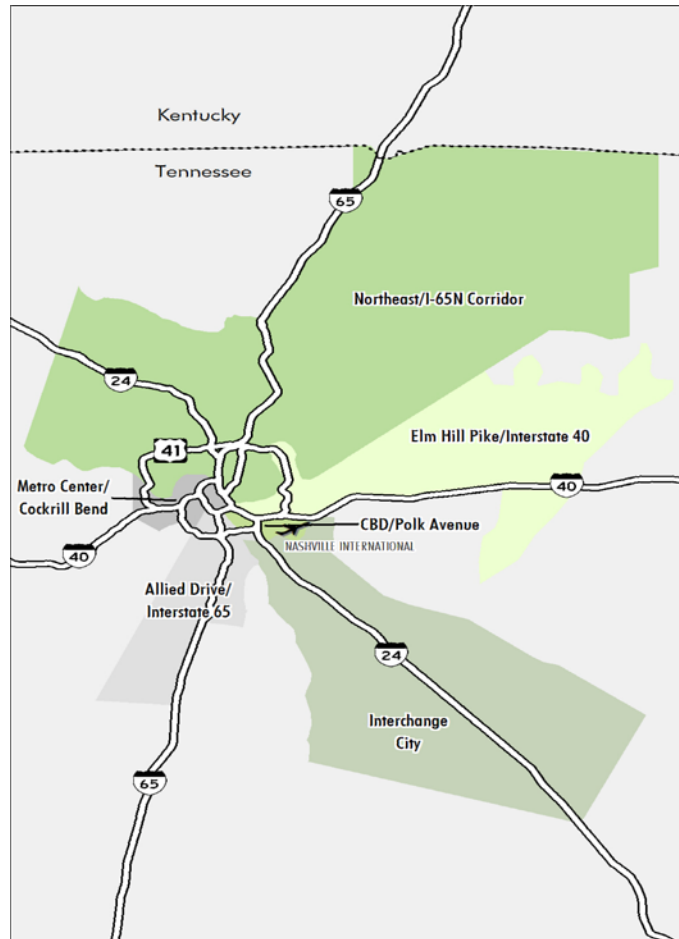
Submarket	Market Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Avail. Rate (%)	Q3 2017 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Avg. NNN Asking Lease Rate (\$/SF/yr)
Allied Drive/I-65	19,402,864	5.4	5.5	8.8	195,531	224,592	0	6.01
CBD/Polk Avenue	14,088,148	5.8	5.8	9.8	0	(10,830)	85,500	5.17
Elm Hill Pike/I-40	32,629,517	8.6	8.7	9.9	199,280	119,052	936,079	4.83
Interchange City	60,387,134	6.8	7.0	8.7	606,919	2,247,156	1,020,495	4.72
MetroCenter/Cockrill Bend	13,242,391	2.3	2.3	4.4	170,905	180,176	0	5.42
Northeast/I-65N Corridor	39,060,676	9.6	9.6	12.0	23,700	(494,320)	1,032,525	3.75
Warehouse/Distribution	96,498,530	7.9	8.3	10.6	1,281,298	1,436,094	3,074,599	4.11
Manufacturing	68,177,409	5.4	5.5	7.2	(139,731)	714,269	0	3.92
R&D/Flex	11,069,660	10.1	10.3	13.6	54,768	(52,481)	0	7.10
NASHVILLE	178,810,730	7.2	7.3	9.4	1,196,335	2,265,844	3,074,599	4.66

Source: CBRE Research, Q3 2017.

Figure 8: Annual Deliveries



Source: CBRE Research, Q3 2017.



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