

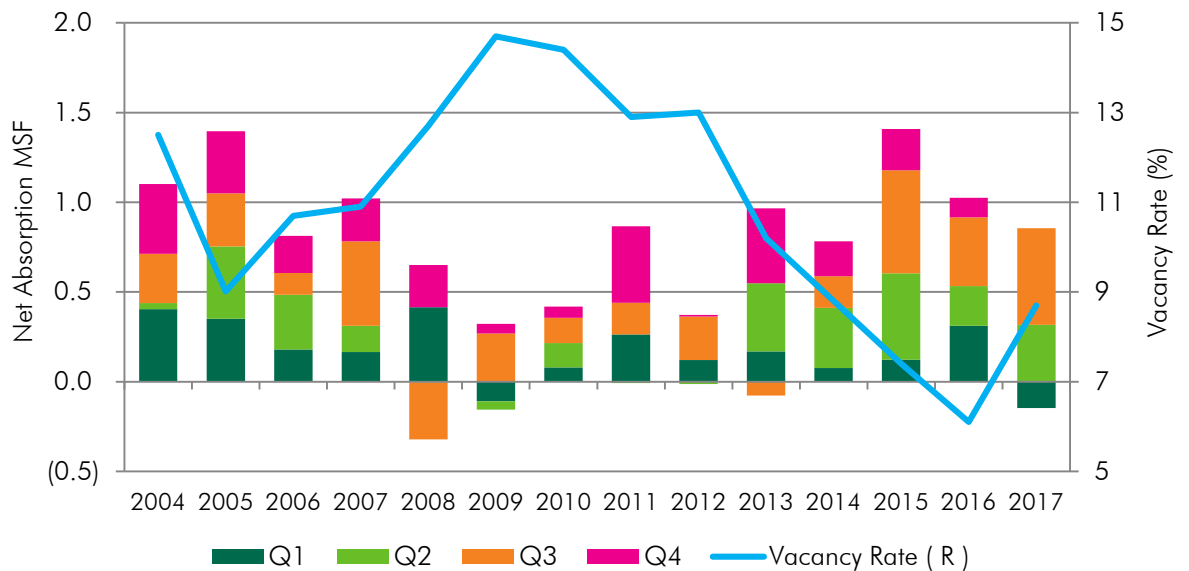
Nashville Office, Q3 2017

Seven developments to deliver by year-end, spurring leasing activity

▼ Vacancy Rate 8.7%
▲ Overall Rate \$24.96 PSF
▲ Class A Rate \$30.84 PSF
▲ Net Absorption 524,221 SF
▼ Construction 2,145,000 SF
▲ Completions 514,000 SF

*Arrows indicate change from previous quarter.

Figure 1: Historical Vacancy Rate and Absorption by Quarter



Source: CBRE Research, Q3 2017.

NASHVILLE OFFICE INVENTORY EXPANDS

Looking back to just one year ago, Nashville’s office development peaked with over 4 million sq. ft. under construction. Despite vacancy hitting a record low of 5.5%, this amount of development inspired concern as to whether Nashville could support this much rapid growth.

In general, lower vacancy rates are viewed as an indicator of a strong economy. However, a lack of availability is a strong disadvantage to a market. In Q3 2016, vacancy hit a low of 5.5%. Since then, approximately 1.3 million sq. ft. has been completed. This new Class A office space brought

the office market back to what is considered healthy vacancy rates, above 8.0% along with steady rental rate growth. So far this year, Nashville has absorbed over 690,000 sq. ft., which is just shy of 2016’s total net absorption. During Q3 2017, absorption activity climbed from the previous two quarters, with more than 524,000 sq. ft. being occupied over the past 90 days. Market fundamentals stayed steady this quarter as the total vacancy fell just 10 basis points to 8.7%.

The Nashville skyline is still filled with cranes building the city up even further. With 2.1 million sq. ft. under construction, developers are working diligently to fill demand, forever expanding

Nashville’s office landscape. Office construction is steady with 14 buildings totaling 2.1 million sq. ft. under construction, 54% of which is preleased. Of these developments, seven are projected to deliver by year-end 2017. Both build-to-suit and spec office space contribute to this figure. Three of the buildings currently under construction are owner-occupied and will not be added to Nashville’s tracked inventory. However, the delivery of these buildings will affect vacancy as tenants vacate second generation space in the market.

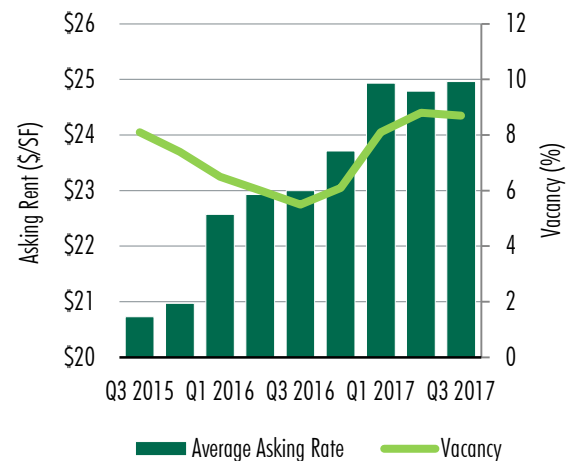
The most noteworthy absorption of the quarter was Bridgestone Americas occupying its new 514,000 sq. ft. headquarters in the heart of downtown Nashville, located between Nashville’s Music City Center and the Pinnacle Building. After two years of construction, Bridgestone’s Class A tower cannot be missed in downtown’s skyline. Bridgestone will be giving back approximately 250,000 sq. ft. of Class A space in Airport North as they fully vacate the Highland Ridge Tower during Q4 2017.

Additionally, Lipscomb University moved into its newly renovated downtown campus office space, “Spark”, in downtown Nashville. Former ground floor parking garage space, Lipscomb occupied 30,000 sq. ft. at the corner of 4th Avenue and Commerce. Furthermore, accounting firm Rubin Brown and JP Morgan occupied Class A office space at 1201 Demonbreun in the Gulch.

TENNESSEE UNEMPLOYMENT AT RECORD LOW

Unemployment has never been lower in the Volunteer State. In June 2017, Tennessee’s unemployment rate was the lowest in state history at 3.6%. Tennessee’s previous low for unemployment was 3.7% in March 2000. This milestone also seems to be the story in Nashville. The Nashville unemployment rate decreased by 10 bps in August 2017 to 3.2%. Nashville’s appeal to young professionals is a key part of maintaining the city’s low unemployment. According to a study by SmartAsset, Nashville ranked third most attractive city for college graduates in 2017. College graduates are looking to Nashville for its diverse job opportunities and lower cost of living than many other cities that attract college graduates. Nashville’s unemployment rate for bachelor degree holders is a low of 1.5%, the sixth lowest in the U.S.

Figure 2: Asking Rate and Vacancy



Source: CBRE Research, Q3 2017.

Figure 3: Key Leasing Transactions

Tenant	Location	Size (Sq. Ft.)	Submarket	Transaction Type
Ford Motor Credit	9009 Carothers Parkway	196,821	Cool Springs	Renewal
Envision Healthcare	20 Burton Hills Blvd.	22,061	Green Hills/Music Row	New
Silicon Ranch Corporation	222 2 nd Avenue South	18,966	Downtown	New
Houzz	315 Deaderick	18,675	Downtown	Expansion
Tuck-Hinton Architects	510 Houston	12,540	Airport South	New

Source: CBRE Research, Q3 2017.

OFFICE ABSORPTION

Nashville’s office market experienced strong occupancy growth during Q3 2017 with over 524,000 sq. ft. of absorption. Bridgestone Americas occupied its new headquarters in downtown Nashville during Q3 2017 sending Class A absorption to over 530,000 sq. ft. First Tennessee Bank contributed to Q3’s positive absorption as they occupied Hill Center Brentwood Building F, a multi-tenant office building. Additionally, Lipscomb occupied its newly renovated downtown campus, which resulted in 30,000 sq. ft. of absorption. Accredo Health Group accounted for 20,000 sq. ft. of Class B positive absorption as they occupied 41 Rachel Drive in Airport North.

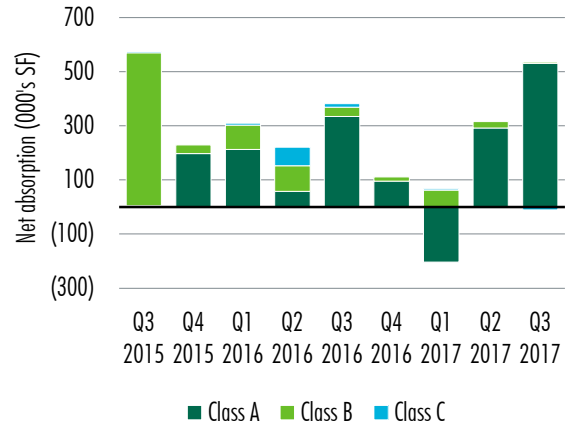
OFFICE RENTAL RATES

The combination of new construction hitting the market and strong tenant demand led to Class A rental rate growth during Q3 2017. Average Class A asking rates, which have reached a new record high of \$30.84 per sq. ft. on a full service basis, have been steadily rising. In the last five quarters, Nashville Class A asking rates have risen by 35%. However, the most recent rise was offset by a decline in asking rates for Class C office product, resulting in a modest decline of \$0.14 per sq. ft. to \$14.95. The Nashville market is likely to see increasing rate trends throughout 2017 and into 2018 as Class A vacancy continues to tighten and new construction delivers.

OFFICE VACANCY RATES

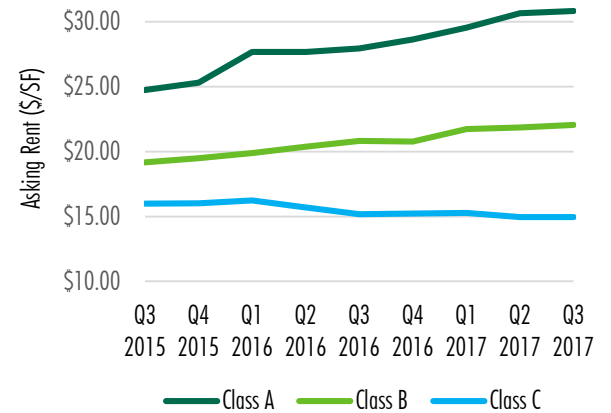
Tenants occupying new construction or previously vacant space resulted in a 10 basis point decrease in vacancy to 8.7%. As would be expected in a market with extensive new construction, rising vacancy has been concentrated among Class A product in past quarters, as developers rarely deliver Class B or Class C product. The delivery of new office space in the remainder of 2017 may result in temporary vacancy increases while leasing activity occurs.

Figure 4: Quarterly Net Absorption



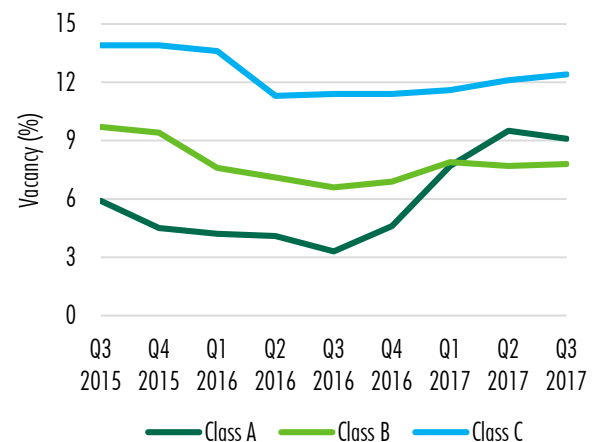
Source: CBRE Research, Q3 2017.

Figure 5: Rental Rates by Property Type



Source: CBRE Research, Q3 2017.

Figure 6: Vacancy by Property Type



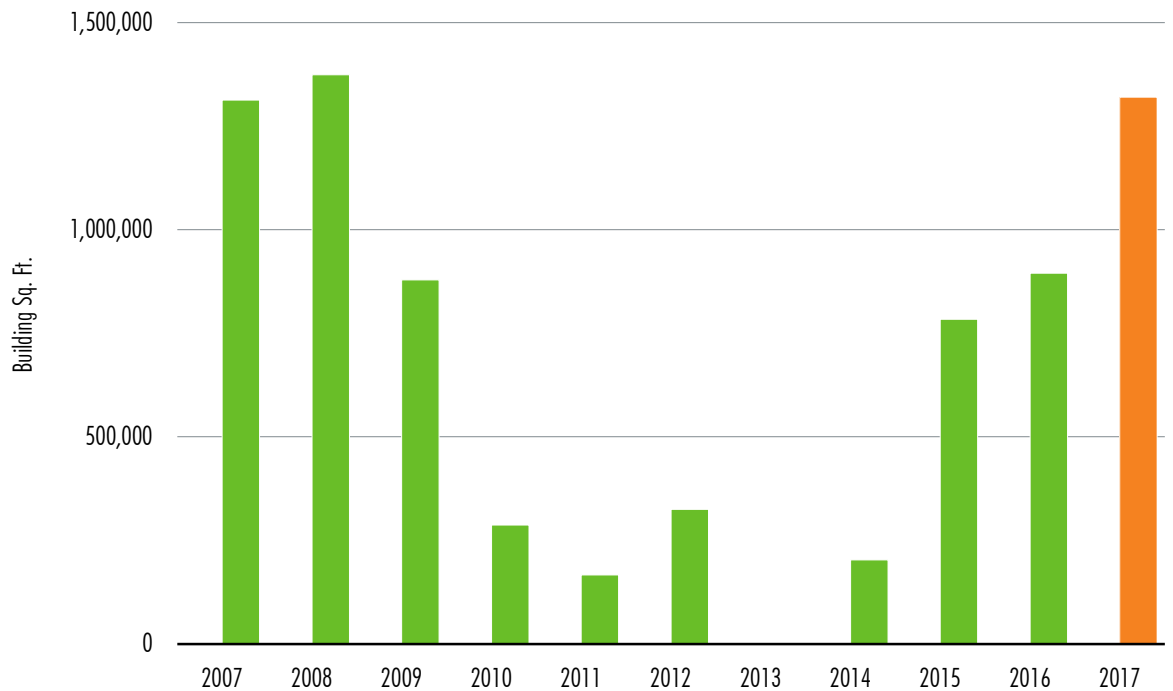
Source: CBRE Research, Q3 2017.

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. Gross Asking Lease Rate (\$/SF/Yr)
Airport North	3,929,610	5.8	5.8	17.7	(36,729)	(89,728)	0	23.53
Airport South	3,620,902	11.5	12.2	17.2	(5,777)	77,762	0	15.43
Brentwood	6,283,806	7.2	7.3	11.5	23,547	357,270	0	27.44
Cool Springs	5,724,041	10.3	11.3	15.8	14,289	(120,317)	755,000	31.01
Downtown	8,875,257	9.5	9.9	14.5	521,249	648,726	1,064,000	26.25
Green Hills/21 st Ave/Music Row	2,428,665	5.5	5.7	8.2	6,861	(2,593)	326,000	27.34
MetroCenter	1,756,346	10.1	10.7	12.8	3,502	(68,541)	0	19.19
North Nashville	816,840	9.5	9.5	12.0	0	0	0	16.23
West End/Belle Meade	3,841,878	4.7	4.7	6.1	36,084	(103,624)	0	29.50
NASHVILLE	37,277,345	8.3	8.7	13.4	524,221	735,039	2,145,000	24.96

Source: CBRE Research, Q3 2017.

Figure 9: Annual Completions Sq. Ft.



Source: CBRE Research, Q3 2017.

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