

MARKETBEAT

Nashville

Industrial Q4 2017



NASHVILLE INDUSTRIAL

Economic Indicators

	Q4 16	Q4 17	12-Month Forecast
Nashville Employment	964k	988k	▲
Nashville Unemployment	3.9%	2.2%	▼
U.S. Unemployment	4.7%	4.1%	▼

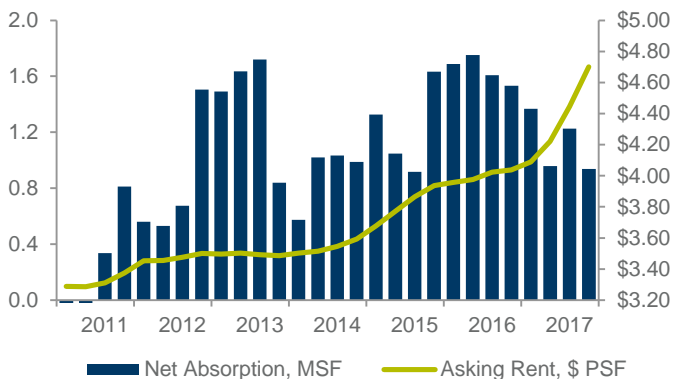
Market Indicators (Overall, All Classes)

	Q4 16	Q4 17	12-Month Forecast
Vacancy	2.9%	3.5%	■
YTD Net Absorption (sf)	5.8M	3.5M	■
Under Construction (sf)	5.3M	4.0M	▼
Average Asking Rent*	\$4.07	\$5.09	▲

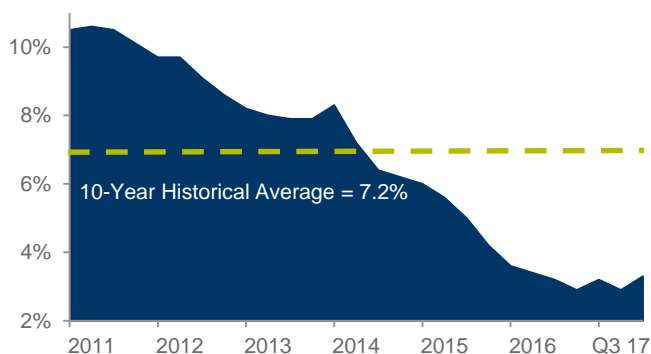
*Rental rates reflect weighted net asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Nashville's increasing employment and population reveal an economy among the healthiest in the U.S. Extremely low unemployment and a tight housing market differentiate Nashville from its regional and national competitors. Projections foresee further growth, with employment topping one million within the next two years, and population exceeding two million within three years. All this translates into booming commercial and residential real estate sectors. Healthcare, technology, entertainment and leisure employment are particularly strong locally, enhancing the diversity of the local economy. Optimism toward Nashville's future is shared by a development community that is confident in introducing speculative construction in traditional and emerging sectors of the metropolitan area.

Market Overview

Nashville's industrial market absorbed more than 3.5 million square feet (msf) in 2017. Warehouse/distribution buildings accounted for almost 80% of that total. The absorbed space was concentrated in the Southeast and East submarkets.

Overall industrial market vacancy finished 2017 at a very tight 3.5%. Vacancy in the two smallest submarkets was below 1%. The West submarket was only 0.4% vacant; 65,000 sf of warehouse/distribution space was the submarket's only vacancy. The North submarket had the highest vacancy rate at 5.6%. That rate reflected Sun Products vacating 504,000 sf. Subsequently, the company began to reoccupy the vacated space and currently leases the entire building on a month-to-month basis. The largest submarket, the Southeast, had a 3.1% overall vacancy rate. Warehouse/distribution buildings in the Southeast were 4.1% vacant; manufacturing buildings had 0.4% vacancy, and office/service center buildings were 3.8% vacant.

New construction was completed on 18 buildings in 2017, with a total of 4.8 msf. This included two expansions. The vast majority of new construction was speculative, as developers turned a corner after vacancy rates reached record lows. Four buildings totaling 672,000 sf were build-to-suit. The largest, with 500,000 sf was completed in the East submarket for The Wonderful Group, a Chinese ceramic tile manufacturing company. Completion of thirteen spec buildings with over 3.6 msf ended the year with just over 1.6 msf or 44% vacant. Nine of the spec buildings are in the Southeast submarket, with a total of about 2.4 msf. Just over a third of the space remains vacant however there is excellent leasing activity on all vacancies.

Projects under construction or planned for 2018 completion total just under 4.0 msf – almost evenly divided between build-to-suit and speculative product. The East and Southeast submarkets will have the majority of the new buildings.

Rental rates are trending upwards. With new speculative buildings coming onto the market, an increase in free rent in early months of new leases is likely. Landlords are expected to maintain the current high rental rate levels. The overall weighted average asking rate is \$5.09 per square foot (psf) net. Highest rates are for office/service center space, at \$9.57 psf, followed by warehouse/distribution space at \$5.01 psf and manufacturing space at \$4.09 psf.

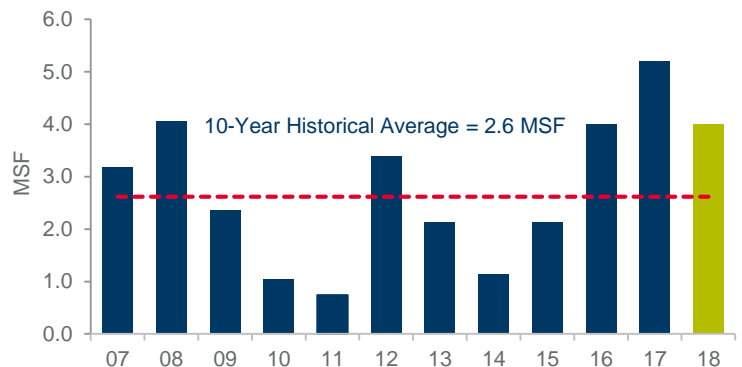
NEW LEASING ACTIVITY WILL BE DOMINATED BY MID-SIZED DEMAND IN 2018

Leasing has been concentrated in the mid-range size, after a slowdown in large deals. Significant new leases in the fourth quarter include Sumitomo Rubber North America with 312,000 sf, and Bedrug, Inc. with 105,000 sf, both in the North submarket. Completing renewals in the Southeast submarket were Asurion, LLC with 240,000 sf, Essendant Co. with 191,000 sf. Cardinal Health 105 Inc. signed two leases of 178,000 sf and 162,000 sf. Mayer Electric subleased 43,000 sf, also in the Southeast submarket.

Recent sales have seen a compression in cap rates. Among recent significant building sales, Clarion Partners sold the just over 406,000-sf 323 Mason Rd. building in La Vergne, TN to Gateway Industrial Properties as part of a larger southeastern regional portfolio sale. In addition, Prologis sold a four-building portfolio of 1.3 msf in Portland, TN to Equus Capital Partners. Prologis is also purchasing approximately 37 acres in La Vergne on I-24 and plans to construct a 400,000-sf building.

New Supply

NEW SUPPLY CONTINUES TO BE WELL ABOVE HISTORIC AVERAGES



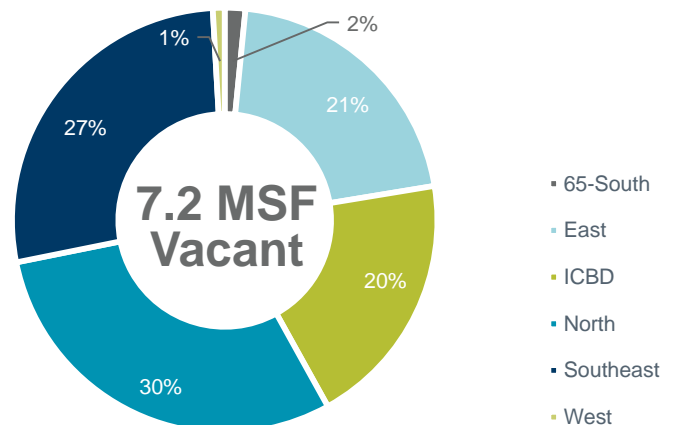
Net Absorption – Deliveries – Vacancy

CONSTRUCTION BEGINS TO OUTPACE ABSORPTION



Vacant Space by Submarket

PERCENTAGE OF TOTAL VACANT SPACE Q4 17



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SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q4 17 OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	2017 CNSTRUC COMPLETIONS (SF)	OVERALL WEIGHTED AVG. NET RENT
65-South	12,910,684	112,833	0.9%	-48,056	307,446	0	0	\$6.73
East	27,964,953	1,500,756	5.4%	421,851	467,351	975,135	1,620,00	\$7.18
Industrial CBD	50,421,385	1,407,074	2.8%	40,911	-29,876	0	107,700	\$5.56
North	38,118,941	2,153,364	5.6%	125,866	-290,085	1,000,000	107,000	\$3.42
Southeast	62,529,816	1,963,659	3.1%	1,112,400	2,988,992	1,991,000	2,970,942	\$5.09
West	16,050,008	64,748	0.4%	0	56,452	30,000	0	\$5.87
TOTALS	207,995,787	7,202,434	3.5%	1,652,972	3,500,280	3,996,135	4,805,642	\$5.09

PROPERTY TYPE	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q4 17 OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	2017 CNSTRUC COMPLETIONS (SF)	OVERALL WEIGHTED AVG. NET RENT
Warehouse/Distribution	144,613,057	6,245,260	4.3%	1,568,876	2,714,137	3,859,135	4,145,642	\$5.01
Manufacturing	53,336,362	1,230,221	2.3%	-18,880	748,163	107,000	660,000	\$4.09
Flex/R&D	10,046,368	270,106	2.7%	102,976	37,980	30,000	0	\$9.57

Key Lease Transactions 2017

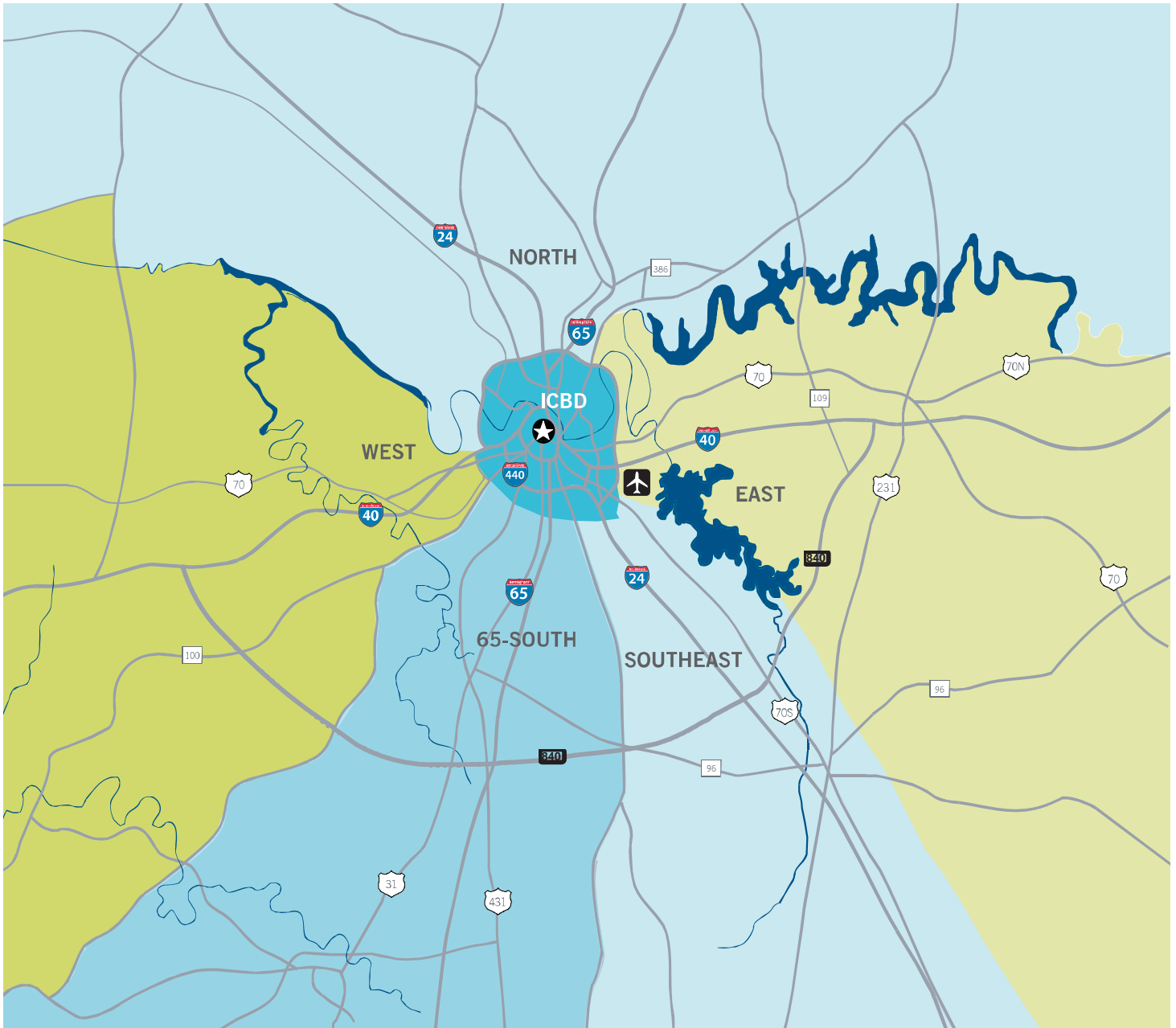
Property	SF	Tenant	Transaction Type	Submarket
MidSouth Logistec VI, LaVergne	770,000	Cinram International	Renewal	Southeast
Airport Business Park, Bldg. 1, Smyrna	622,830	NFI	New Lease	Southeast
Nissan Integrated Logistics Center, Smyrna	500,000	Nissan	Expansion	Southeast
Skyhawk Business Center	451,000	USPS	New Lease	Southeast

Anticipated Future Deliveries over 500,000 SF

Property	SF	Type of Construction	Submarket	Target Quarter
Lowe's Distribution Facility	1,000,000	Built-to-suit	North	Q3 2018
Old Murfreesboro Pk / Airport Logistics Park	830,000	Speculative	Southeast	Q4 2018
Beckwith North, Bldg. 9	528,079	Speculative	East	Q1 2018

INDUSTRIAL SUBMARKETS

NASHVILLE



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