

# MARKETBEAT

## Nashville

### Office Q4 2017



#### NASHVILLE OFFICE

##### 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%	▼

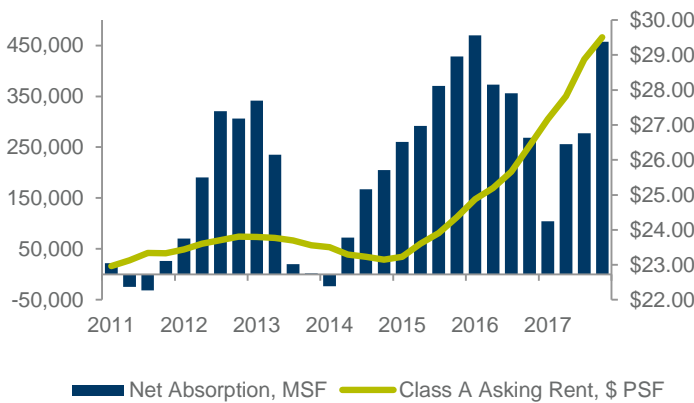
##### Market Indicators (Overall, All Classes)

	Q4 16	Q4 17	12-Month Forecast
Vacancy	5.4%	8.5%	▲
Net Absorption (sf YTD)	191k	910k	▲
Under Construction (sf)	2.8M	1.7M	▲
Average Asking Rent*	\$24.78	\$ 26.99	▲

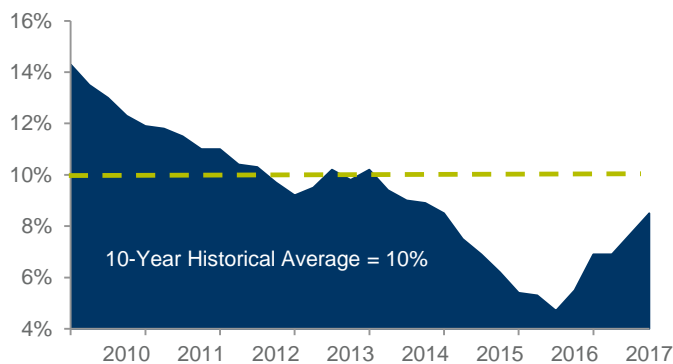
\*Rental rates reflect weighted gross asking \$psf/year

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

###### 4-QTR TRAILING AVERAGE



##### Overall Vacancy



## Economy

By every measure, Nashville's boom rolls on. Nashville's most recent unemployment rate of 2.2% was the lowest of any U.S. metro area of a million or more population. Although total employment is closing in on the one million employment mark, the low unemployment rate makes for intense competition for skilled workers. The National Association of Realtors ranks Nashville among the top 10 housing markets in 2018. Major office construction will bring both spec and build-to-suit buildings to market, even as new projects are announced.

## Market Overview

Nashville's multi-tenant office market absorbed 910,000 sf in 2017, compared to just under 1.1 million square feet (msf) in 2016. Unlike 2016, the 2017 absorption was fully a story of Class A occupancy growth. Almost all of the absorption took place in Class A. Over the past three years, Class A absorption had accounted for as little as 30% of total absorption. The Class A inventory had been so tight, at times dropping below 3% vacancy, that absorption was constrained.

Construction completed in 2017 well exceeded absorption, giving tenants greatly increased opportunities for relocation and expansion. The CBD accounted for 668,000 sf of the total absorption, mostly attributable to Bridgestone's move from the Airport North submarket to its new CBD headquarters. Brentwood and Cool Springs/Franklin each had 240,000 sf of absorption. The suburban absorption total of only 242,000 sf reflected the loss of 302,000 sf in Airport North and of 80,000 sf in MetroCenter.

The multi-tenant inventory increased by more than 2.0 msf. As a result, the overall vacancy rate increased from 5.4% to 8.5% year-over-year. New construction pushed Class A vacancy from 4.7% to 9.6%. Class B vacancy increased from 5.8% to 8.2%, while Class C vacancy decreased from 8.3% to 4.9%.

As Nashville's economic expansion continues to draw businesses and people to the region, this burst puts the office market in a better position to accommodate future growth. CBD completions included the 506,000-sf Bridgestone Tower as well as two speculative buildings, all Class A. Hines completed 362,000 sf at 222 Second Avenue South with 218,000 sf preleased. The 120,000-sf building at 615 Third Avenue South has leased 80,000 sf. Two speculative buildings were completed in the Airport South submarket. The 177,000-sf former Sears at 5244 Hickory Hollow Parkway has 80,000 sf remaining.

Citi View I at 2305 Kline Avenue with 22,000 sf has 15,000 SF leased. Three speculative Class A buildings in Brentwood were completed in the first half of 2017. Brentwood Commons III and Seven Springs II each have 130,000 sf, with 5,000 sf and 51,000 sf available respectively. The 90,000-sf Hill Center Brentwood – Building A has 2,000 sf remaining. Three Class A completions in Cool Springs/Franklin total 441,000 sf. Dimensions at Mallory Park – Phase II, with 63,000 sf, has 35,000 sf preleased. Two Franklin Park with 278,000 sf has 234,000 sf leased. Wallace Place – Berry Farms has leased 69,000 sf of its 100,000-sf total. Eight buildings totaling 573,000 sf, all speculative, are under construction and scheduled for completion in 2018. An additional five buildings totaling just under 1.1 msf are under construction and scheduled for 2019 completion.

Overall asking lease rates ended the year at \$29.00 per square foot (psf) gross in the CBD and at \$25.73 psf for non-CBD submarkets. Midtown had the highest rate at \$31.92 psf, followed by Cool Springs/Franklin at \$29.45 psf. Midtown also had the highest Class A rate at \$34.40 psf followed by Brentwood at \$31.20 psf.

Some of the largest moves in 2017, in addition to Bridgestone's 506,000 sf, include Bridgestone's occupancy of 88,000 sf at 5244 Hickory Hollow Parkway, Gresham Smith & Partners' relocation into 70,000 sf at 222 2nd Avenue North in the CBD, and Lee Company's occupancy of 69,000 sf at Wallace Place – Berry Farms.

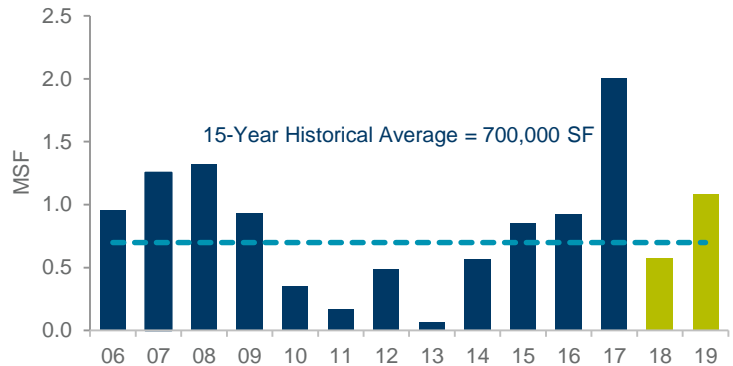
One Century Place, a 26-year old office building of 538,000 sf, sold for \$100 million to an investor from Bahrain. Records show the building, located near the Nashville airport, sold four years ago for \$70 million to an affiliate of Griffin Capital Corp. The sale price of \$186 psf compares to two sales earlier in 2017 in the Airport South submarket. Oak Business Center, a 62,000-sf Class B building, on Sidco Drive sold for \$13.3 million or \$215 psf. 621 Mainstream Drive, with 135,000 sf of Class A space, sold for \$25.0 million or \$185 psf.

Outlook

- With additional speculative new construction completions, the vacancy rate will slowly rise providing opportunities for tenants.
- The increase in available Class A space is expected to drive up overall asking rental rates.

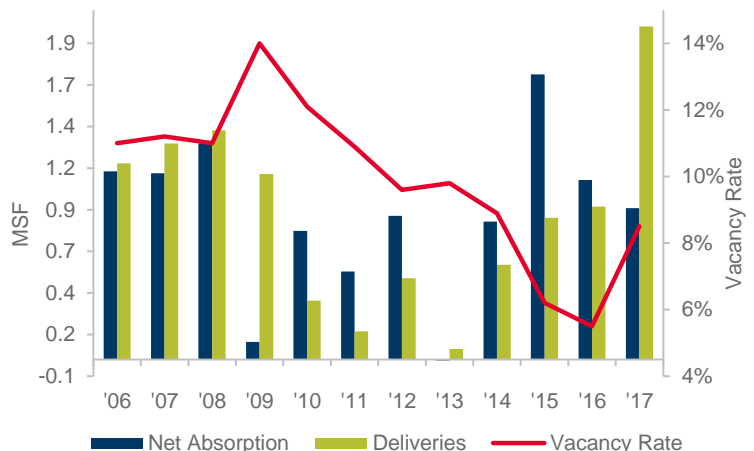
New Supply

NEW SUPPLY EXPECTED TO STAY AROUND HISTORIC AVERAGE



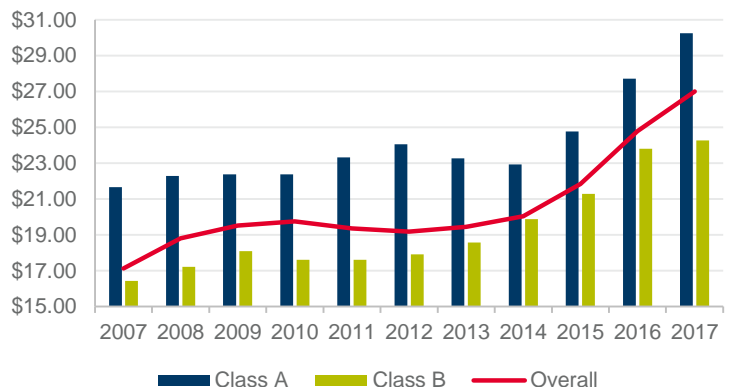
Net Absorption-Deliveries-Vacancy

DELIVERIES OUTPACED ABSORPTION



Rental Rate Growth

CLASS A RENT HAS SEEN A 38.5%-GROWTH IN THE PAST 10 YEARS



**MARKETBEAT**  
**Nashville**  
Office Q4 2017



SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q4 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	4,255,752	454,518	10.7%	-207,473	-301,612	0	0	\$21.44	\$22.38	\$20.76
Airport South	3,608,932	289,006	8.0%	-1,001	114,472	198,819	24,286	\$18.06	\$25.67	\$18.14
Brentwood	5,606,745	370,578	6.6%	-15,596	239,916	350,018	0	\$27.81	\$31.20	\$26.10
CBD	8,384,224	1,122,070	13.4%	33,017	668,244	988,000	451,398	\$29.00	\$32.79	\$26.00
Cool Springs	7,738,386	547,479	7.1%	92,047	239,482	441,473	520,638	\$29.45	\$29.74	\$26.52
Green Hills/West Nashville	1,947,648	69,428	3.6%	18,821	-2,638	0	91,000	\$26.45	\$27.41	\$21.21
MetroCenter	1,871,717	144,091	7.7%	0	-79,919	0	0	\$21.80	\$21.96	\$21.74
Midtown	4,486,554	230,065	5.1%	26,150	38,232	0	570,328	\$31.92	\$34.40	\$30.27
North Nashville	620,544	63,788	10.3%	23,016	-6,346	25,000	0	\$20.47	\$22.00	\$19.06
<b>NASHVILLE TOTALS</b>	<b>38,520,502</b>	<b>3,291,023</b>	<b>8.5%</b>	<b>-31,019</b>	<b>909,831</b>	<b>2,003,310</b>	<b>1,657,650</b>	<b>\$26.99</b>	<b>\$30.25</b>	<b>\$24.27</b>

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

	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q4 17 OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD DELIVERIES (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT*
Class A	18,655,179	1,763,652	9.5%	4,490	999,548	1,826,326	1,657,650	\$30.25
Class B	16,980,121	1,386,645	8.2%	-37,161	-96,413	176,984	0	\$24.27
Class C	2,885,202	140,726	4.9%	1,652	6,696	0	0	\$19.08

**Key Lease Transactions Q4 2017**

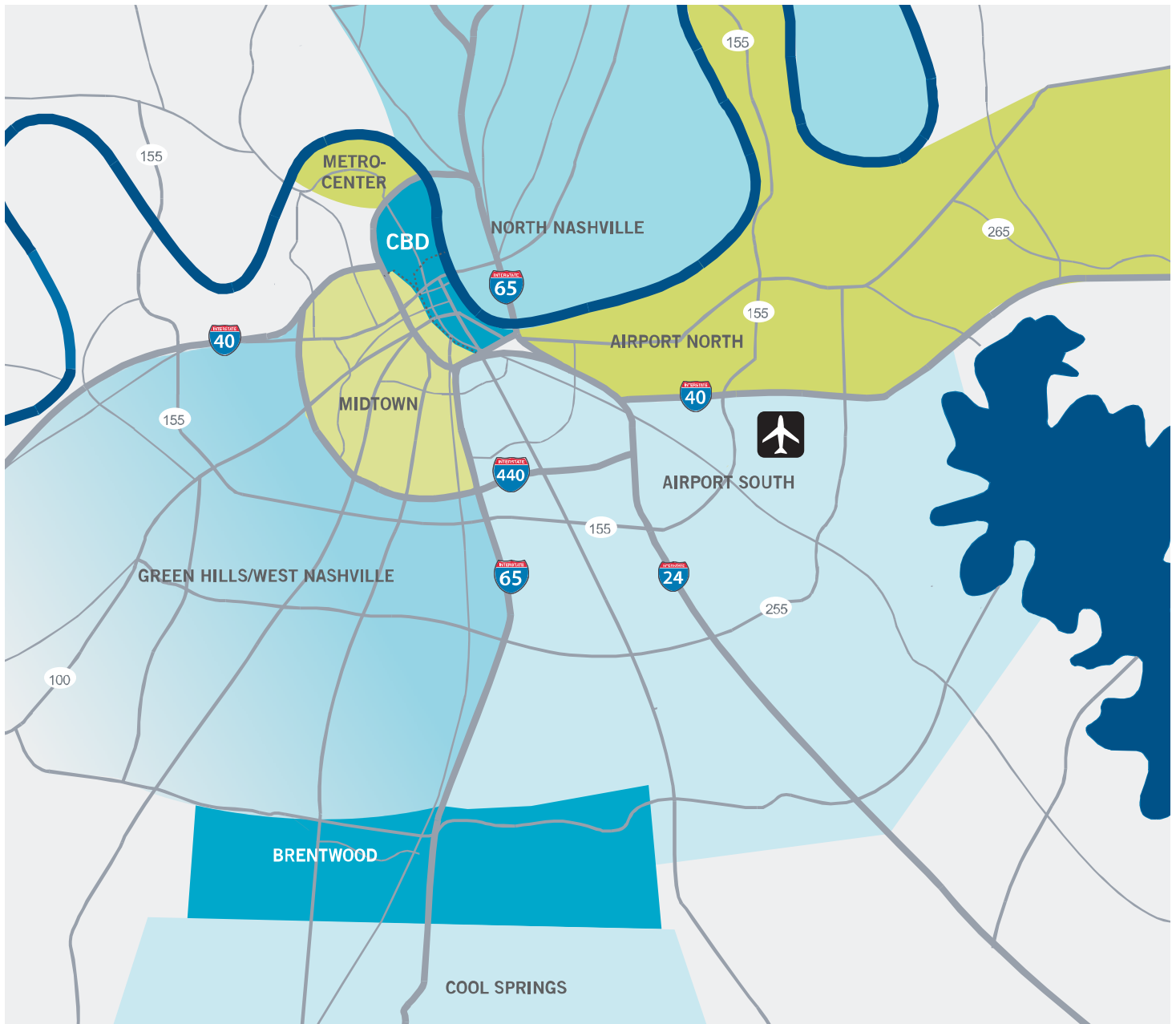
PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
4057 Rural Plains Circle	69,000	Lee Company	New Lease	Cool Springs / Franklin
4037 Rural Plains Circle	65,000	Alfa Insurance	New Lease	Cool Springs / Franklin
222 Second Avenue South	26,000	Spaces	New Lease	CBD

**Key Under Construction Projects Q4 2017**

PROPERTY	SF	TARGET COMPLETION	TYPE	SUBMARKET
501 Commerce St	385,000	Q4 2019	Speculative	CBD
500 Eleventh Ave N	302,000	Q1 2019	Speculative	Midtown
McEwen & Carothers Blvd, SE Corner	224,000	Q2 2019	BTS	Cool Springs / Franklin
Mallory Green I	175,000	Q4 2018	Speculative	Cool Springs / Franklin
18 <sup>th</sup> & Chet	121,500	Q3 2018	Speculative	Midtown

## OFFICE SUBMARKETS

### NASHVILLE



Cushman & Wakefield  
1033 Demonbreun, Ste. 600  
Nashville, TN 37203

For more information, contact:  
Doug Brandon, Managing Principal  
Tel: +1 615 301 2836  
doug.brandon@cushwake.com

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