

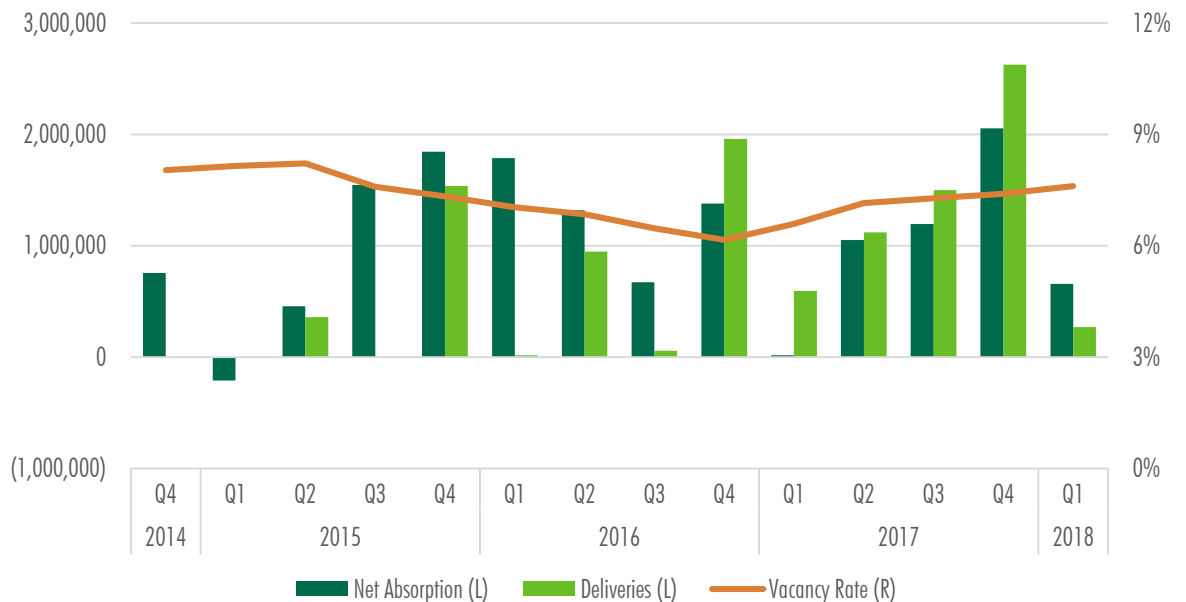
Nashville Industrial & Logistics, Q1 2018

# Vacancy and availabilities expected to increase in 2018 as new speculative product delivers

▲ Vacancy Rate 7.6%
▲ Lease Rate \$4.70 PSF
▼ Net Absorption 656,801 SF
▼ Construction 3,605,462 SF
▼ Deliveries 269,000 SF

\*Arrows indicate change from previous quarter.

Figure 1: Net Absorption, Deliveries, Vacancy Rate



Source: CBRE Research, Q1 2018.

**E-COMMERCE AND OMNICHANNEL SUPPLY CHAIN STRATEGIES ARE SPURRING INDUSTRIAL DEMAND**

The industrial product type has become institutional investors' favorite asset type at both the local and national level. This favorable trend is due to the rise of e-commerce as well as omnichannel supply chain strategies firms are using to respond to the changing "on-demand" service requirements of the consumer. Firms are adapting by carrying increased inventory in a wider scope of locations to provide efficient service, which is generating heavy demand for warehouse and distribution space in major consumer hubs.

**INDUSTRIAL AVAILABILITIES, VACANCY INCREASE**

As Nashville kicks off 2018, the industrial market noted quarterly increases in availability as well as vacancy. Availability and vacancy each rose 20 basis points to 9.6% and 7.6% respectively. These availability and vacancy increases come as tenants and landlords continue to invest in Nashville's industrial market. As would be expected in a market with extensive construction of new speculative product, vacancy is projected to increase over the next three quarters.

The 3.6 million sq. ft. of under construction industrial product, 26% of which is pre-leased, consists of just over 3 million sq. ft. of speculative space and 550,000 sq. ft. of build-to-suit facilities. 2018 is expected to be the second highest year in terms of deliveries on record, indicating developers' confidence in Nashville's industrial market expansion. Of the 3.6 million sq. ft. under construction, 2 million sq. ft. is in the Elm Hill Pike/I-40 submarket, over 1.5 million sq. ft. is in Interchange City, and the remaining 85,500 sq. ft. is in the CBD/Polk Ave submarket.

Nashville's overall industrial vacancy levels increased from the previous quarter by approximately 20 basis points to 7.6%. Expect overall vacancy as well as availabilities to increase in 2018 as more speculative projects deliver throughout the year. In terms of asking rental rates, the Allied Drive/I-65 S, CBD/Polk Ave and Northeast/I-65 N Corridor submarkets all posted rent growth for the quarter. Overall asking rates increased to \$4.70 per sq. ft. on a triple-net basis.

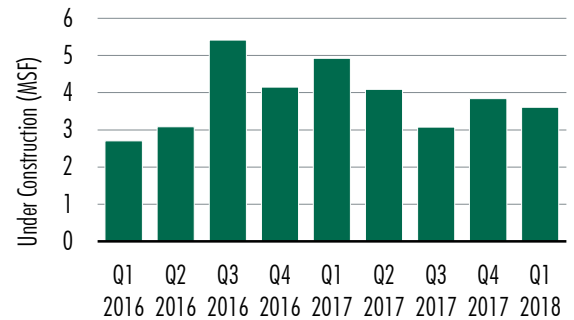
Three projects expected to deliver in Q2 2018 include the build-to-suit 451,000 sq. ft. USPS facility in the Interchange City submarket and the 76% pre-leased 527,100 sq. ft. Panattoni project in the Elm Hill Pike/I-40 submarket. These deliveries along with large tenants such as XPO Logistics occupying 279,000 sq. ft. next quarter also in the Elm Hill Pike/I-40 submarket will likely push absorption numbers higher in Q2.

OPPORTUNITIES ARISING FOR WAREHOUSE MODERNIZATION

A March 2018 *U.S. MarketFlash* report highlights the redevelopment opportunities for aging warehouse inventory not meeting modern-day logistics tenant requirements. The national average warehouse age is 34 years and new product built within the last ten years comprises just 11% of all inventory. Another 1 billion sq. ft., or 10% of U.S. warehouse inventory is aged over 50 years with clear heights under 20 feet, below modern-day logistics tenant requirements. Nashville's average warehouse age of 29 years is five years below the U.S.'s, signifying tenants are more likely to find newer space in the Nashville market to accommodate their evolving needs.

As e-commerce business operations have continued to gain momentum, developers remain bullish on the long-term prospects of Nashville. E-commerce firms occupying space in Q1 included Wayfair taking 67,000 sq. ft. in the Interchange City submarket and AF Outlets occupying 40,000 sq. ft. in the Northeast/I-65 N submarket. BedRug Inc. also occupied 105,000 sq. ft. in the Northeast/I-65 N submarket.

Figure 2: Quarterly Construction Activity



Source: CBRE Research, Q1 2018.

Figure 3: Key Leasing Transactions

Tenant	Location	Size (sq. ft.)	Submarket	Transaction Type
Ceva Logistics	12014 Volunteer Blvd.	480,000	Elm Hill Pike/I-40	Renewal
Ceva Logistics	Beckwith Farms Bldg. 9	399,000	Elm Hill Pike/I-40	New
XPO Logistics	Commerce Farms V	280,000	Elm Hill Pike/I-40	New
Ceva Logistics	12002 Volunteer Blvd.	247,500	Elm Hill Pike/I-40	Renewal
Second Harvest	1962 Almadale Rd.	86,210	Interchange City	New
Wayfair	323 Mason Rd.	66,493	Interchange City	New

Source: CBRE Research, Q1 2018.

**INDUSTRIAL ABSORPTION**

Nashville posted just over 650,000 sq. ft. of positive absorption in Q1 2018. The submarket with the largest net absorption increase for the quarter was Interchange City, posting nearly 425,000 sq. ft. of positive absorption. The Northeast/I-65 N Corridor submarket posted a total of 187,000 sq. ft. of positive absorption, and the CBD/Polk Avenue submarket posted an additional 32,000 sq. ft. of positive absorption. Q1 2018 notably marks the twelfth consecutive quarter Nashville’s industrial market has posted positive absorption figures.

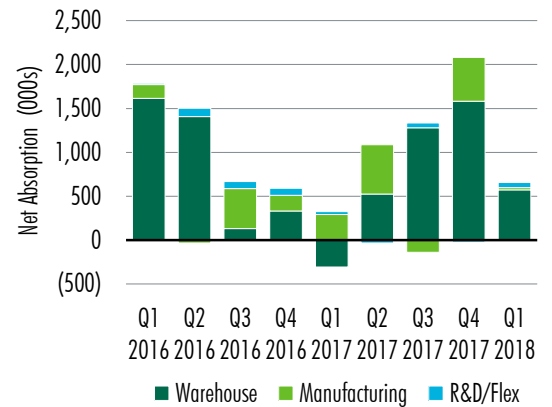
**INDUSTRIAL RENTAL RATES**

Nashville’s overall industrial asking rental rates have grown over the past 12 months by 7.5% to their current levels at \$4.70. This rent growth has been spurred by new Class A projects delivering across all submarkets. With over 6 million sq. ft. of Class A space being delivered since Q1 2017, Nashville’s industrial market has also maintained consistent rent growth across all property types. In the last quarter manufacturing rental rates increased by \$0.16 to \$4.38, R&D/flex rates jumped by \$0.14 to \$8.04, and warehouse/distribution rates saw a \$0.04 increase to \$4.37, all on a triple-net basis.

**INDUSTRIAL VACANCY RATES**

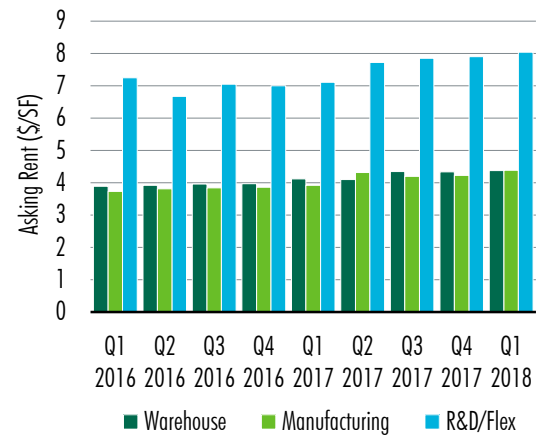
Over the past two years, Nashville’s overall industrial vacancy has risen by 60 basis points from 7.0% in Q1 2016 to to 7.6% in Q1 2018. It is important to note that the warehouse/distribution vacancy has grown by nearly 300 basis points from Q4 2016 to Q1 2018 as new speculative product has been delivered consistently in the last six quarters. In terms of property type, warehouse/distribution vacancy rates rose 15 basis points from the previous quarter to 8.8%, R&D/flex saw a 100 basis point decrease to 9.2%, and manufacturing had a 50 basis point vacancy rate increase to 5.7%.

Figure 4: Quarterly Net Absorption



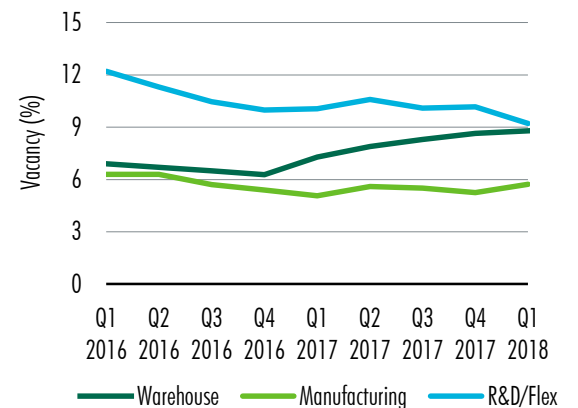
Source: CBRE Research, Q1 2018.

Figure 5: Asking Rental Rates by Property Type



Source: CBRE Research, Q1 2018.

Figure 6: Vacancy by Property Type



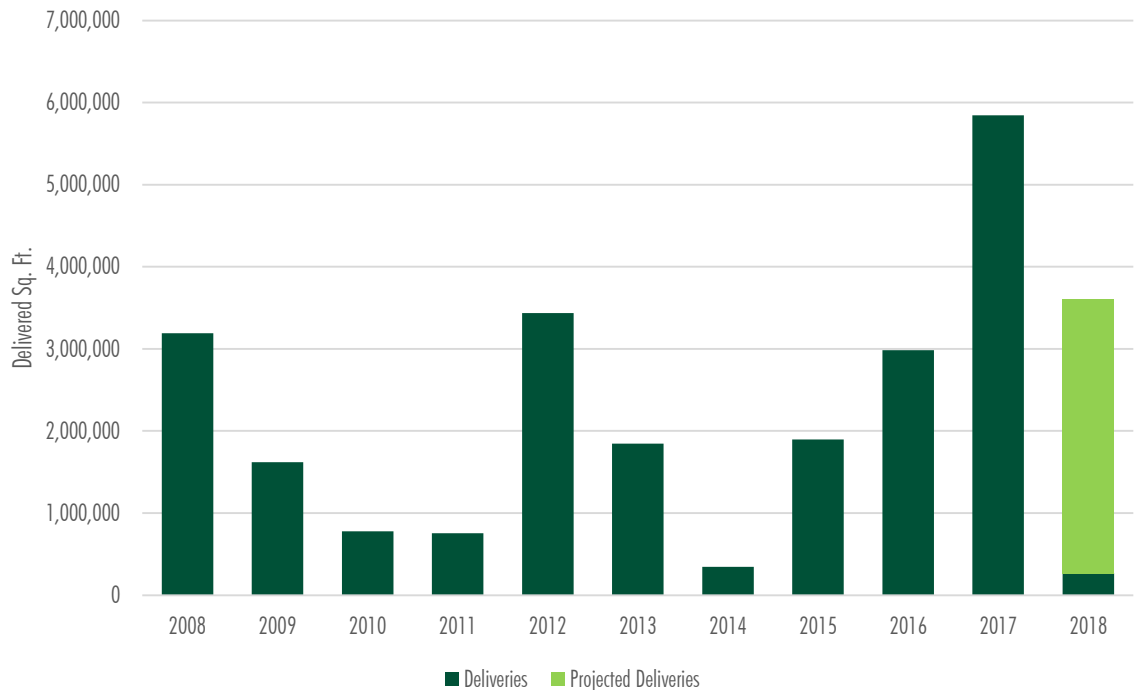
Source: CBRE Research, Q1 2018.

Figure 7: Market Statistics

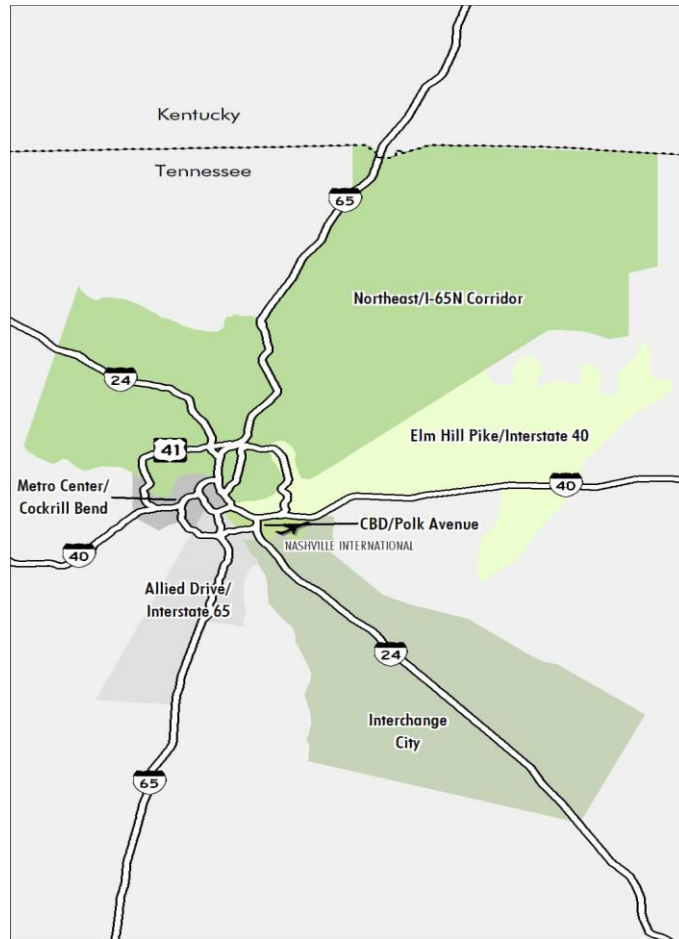
Submarket	Market Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Avail. Rate (%)	Q1 2018 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Avg. NNN Asking Lease Rate (\$/SF/yr)
Allied Drive/I-65	19,404,476	5.5	5.5	8.5	(3,612)	(3,612)	0	6.25
CBD/Polk Avenue	14,100,148	7.1	7.1	11.0	32,000	32,000	85,500	5.24
Elm Hill Pike/I-40	33,037,517	8.1	8.2	9.4	(899)	(899)	1,988,085	4.65
Interchange City	61,865,254	6.8	8.0	9.5	424,033	424,033	1,532,377	4.74
MetroCenter/Cockrill Bend	13,231,024	2.5	2.5	4.5	18,208	18,208	0	5.99
Northeast/I-65N Corridor	40,205,081	9.4	9.4	11.7	187,071	187,071	0	3.83
Warehouse/Distribution	98,857,942	8.2	8.8	10.9	572,171	572,171	3,605,962	4.37
Manufacturing	68,801,289	5.6	5.7	7.4	28,212	28,212	0	4.38
R&D/Flex	11,119,138	8.9	9.2	12.0	56,148	56,418	0	8.04
<b>NASHVILLE</b>	<b>181,843,500</b>	<b>7.2</b>	<b>7.6</b>	<b>9.6</b>	<b>656,801</b>	<b>656,801</b>	<b>3,605,962</b>	<b>4.70</b>

Source: CBRE Research, Q1 2018.

Figure 8: Annual Deliveries



Source: CBRE Research, Q1 2018.



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