

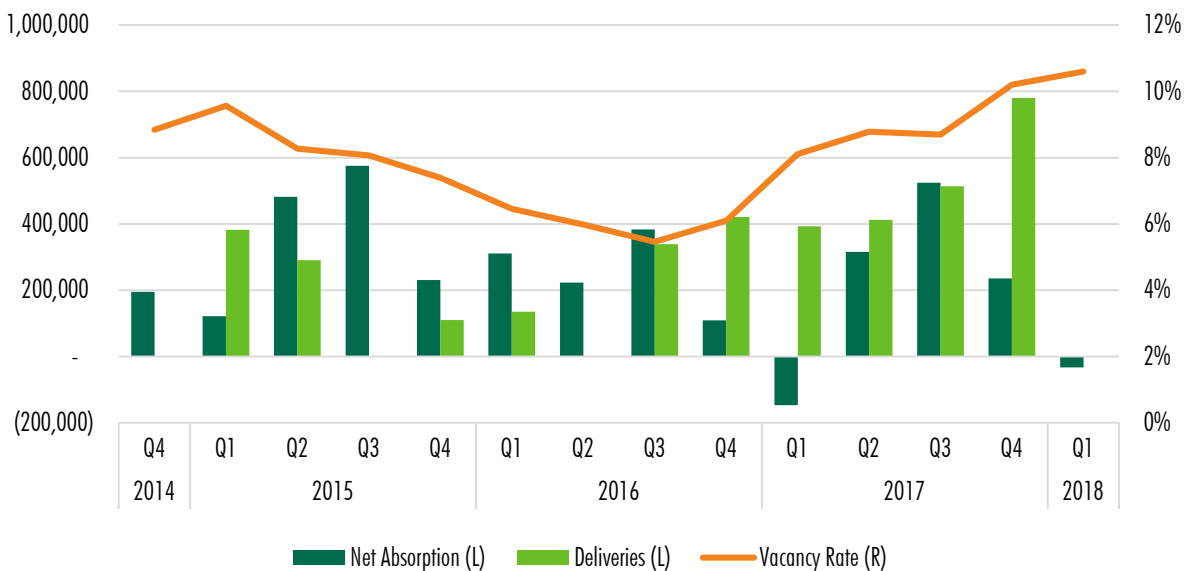
Nashville Office, Q1 2018

# Speculative construction shifts vacancy, allowing tenant expansion

▲ Vacancy Rate 10.6%
▼ Overall Rate \$26.09 PSF
▲ Class A Rate \$32.48 PSF
▼ Net Absorption (32,943) SF
▲ Construction 1,967,916 SF
▼ Completions 0 SF

\*Arrows indicate change from previous quarter.

Figure 1: Vacancy Rate, Deliveries and Net Absorption



Source: CBRE Research, Q1 2018.

**VACANCY PROVIDING AMPLE ROOM TO GROW**

Nashville’s office market is still experiencing an upward shift in vacancy due to last year’s record setting amount of added inventory. Nashville’s office market experienced extraordinary growth throughout 2017 with over 2 million sq. ft. of deliveries. This growth is being driven by Nashville’s rapid job creation, both from tenants expanding within the market and new companies relocating to the area. After record low vacancy in 2016, this new product has helped push Class A rental rates, increase options for tenant expansion and spur leasing activity throughout the market.

Overall vacancy reached 10.6% in Q1 2018 due to an influx of available second generation space as tenants are choosing to upgrade their office space and move to new construction. Historically, this flight from Class B and C space to Class A space has been a trend in the Nashville market. Class B and C space accounted for over 237,000 sq. ft. of negative absorption in Q1 2018 and 55% of Nashville’s Q1 total vacancy. Nashville’s largest healthcare company, HCA, largely contributed to this negative absorption as they vacated the final phase of their office space in the Brentwood submarket. HCA started occupying its downtown office building within the mixed-use development Capitol View in 2017.

New inventory also prompted an increase in Class A rental rates. Over the last year Class A overall asking rents have increased by 33% to \$32.48 per sq. ft. in Q1 2018. New Class A office buildings with high-end finishes, ground floor retail and other various amenities have been achieving lease rates north of \$42.00 per sq. ft. on a full-service basis.

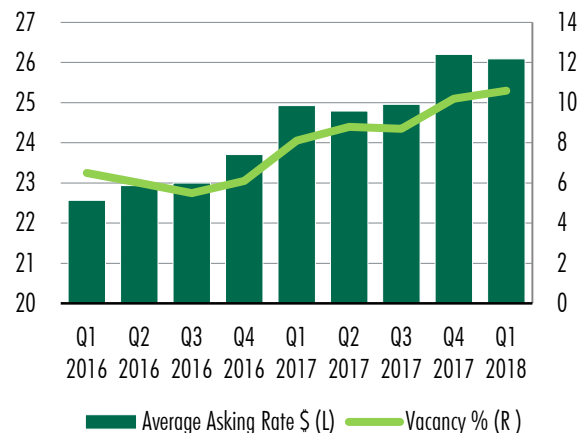
More office product is under construction with 15 buildings totaling 1.9 million sq. ft., 30% of which is preleased. Of these developments, nine are projected to deliver in 2018. The delivery of these buildings, totaling over 700,00 sq. ft., will continue to shift vacancy as unoccupied space is added to the market and tenants leave behind second generation space.

Downtown Nashville is still proving to be the hottest submarket with the highest concentration of new development, leasing activity and both investor and tenant demand. Over 100,000 sq. ft. of tenants, including Bank of America, Silicon Ranch Corporation and Regus Spaces, moved into downtown's newest tower, 222 2<sup>nd</sup> Avenue, during Q1 2018. After delivering in late 2017, 222 2<sup>nd</sup> Avenue is now 75% leased. The redevelopment of Nashville's former convention center site broke ground in Q1 2018. Fifth + Broadway, downtown's newest and largest mixed-use development in Nashville, plans to deliver a 380,000 sq. ft. speculative office building in late 2019.

**NASHVILLE UNEMPLOYMENT AT RECORD LOW**

Unemployment in the Nashville metro area, which includes Williamson, Rutherford and other neighboring counties, stood at 2.8% in January 2018. This historically low unemployment ranks Nashville as a leading metro with the lowest unemployment in the country. In 2017 Forbes ranked Nashville the #1 city for creating the most high-paying jobs, beating out Austin, TX, San Francisco, CA and Dallas, TX. In addition, Nashville was ranked #2 for private sector job growth, behind Austin, TX. Nashville's ability to attract and retain talent is a huge positive for Nashville's top industries which include education and health services, manufacturing and distribution, financial and business services and leisure and hospitality. Nashville's diversified employment is a major contributing factor behind why 100 people are moving to Nashville per day on average.

**Figure 2: Asking Rate and Vacancy**



Source: CBRE Research, Q1 2018.

**Figure 3: Key Leasing Transactions**

Tenant	Location	Size (Sq. Ft.)	Submarket	Transaction Type
Specialty Care	3 Maryland Farms	40,000	Brentwood	New
NaviHealth	210 Westwood	33,000	Brentwood	Renewal/Expansion
Lewis Thomason	424 Church Street	26,000	Downtown	Renewal/Expansion
Omnia Partners	840 Crescent Centre Drive	22,000	Cool Springs	New
Smile Direct Club	414 Union Street	20,000	Downtown	New

Source: CBRE Research, Q1 2018.

**OFFICE ABSORPTION**

Nashville’s Class A office market experienced strong occupancy gains throughout Q1 2018 with over 200,000 sq. ft. of net absorption. Overall, Nashville’s market reported negative absorption due to Class B and C space vacancies. The top absorptions in Q1 were tenants occupying new construction in Nashville’s urban and top suburban submarkets. Tenants on the move included Bank of America, Regus Spaces, Silicon Ranch Corporation and Ardent Health Services. HCA contributed to Q1’s negative absorption by vacating over 188,000 sq. ft. in the Brentwood submarket.

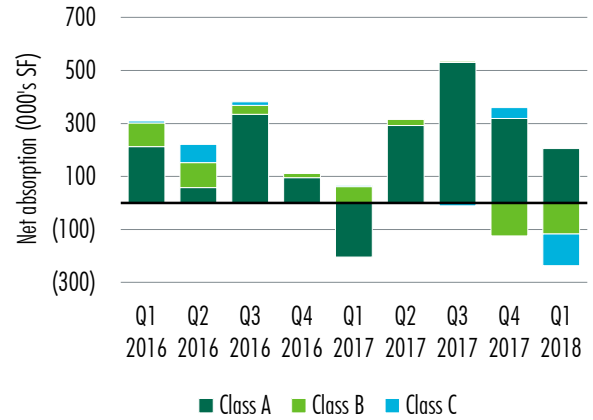
**OFFICE RENTAL RATES**

The combination of new construction hitting the market and tenant demand led to substantial Class A rental rate growth during Q1 2018. Average Class A asking rates, which have reached a new record high of \$32.48 per sq. ft. on a full service basis, have been quickly rising. In the last five quarters, Nashville Class A asking rates have risen by 41%. Class B and Class C product has been steady rising with a Class B average of \$22.59 per sq. ft. and Class C at \$18.86 per sq. ft. The Nashville market is likely to see rising rate trends throughout 2018 as Class A vacancy continues to tighten and new construction delivers.

**OFFICE VACANCY RATES**

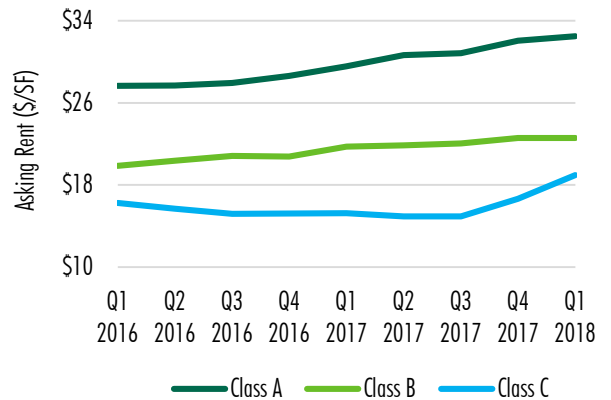
As predicted, the delivery of new office space during 2017 resulted in temporary vacancy increases during leasing activity. Tenants vacating second generation space and new unoccupied construction hitting the market resulted in a 40 basis point increase to 10.6% vacancy in Q1. As would be expected in 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.

Figure 4: Quarterly Net Absorption



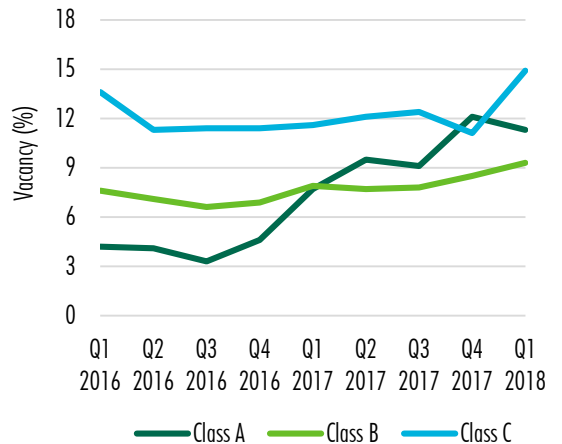
Source: CBRE Research, Q1 2018.

Figure 5: Rental Rates by Property Type



Source: CBRE Research, Q1 2018.

Figure 6: Vacancy by Property Type



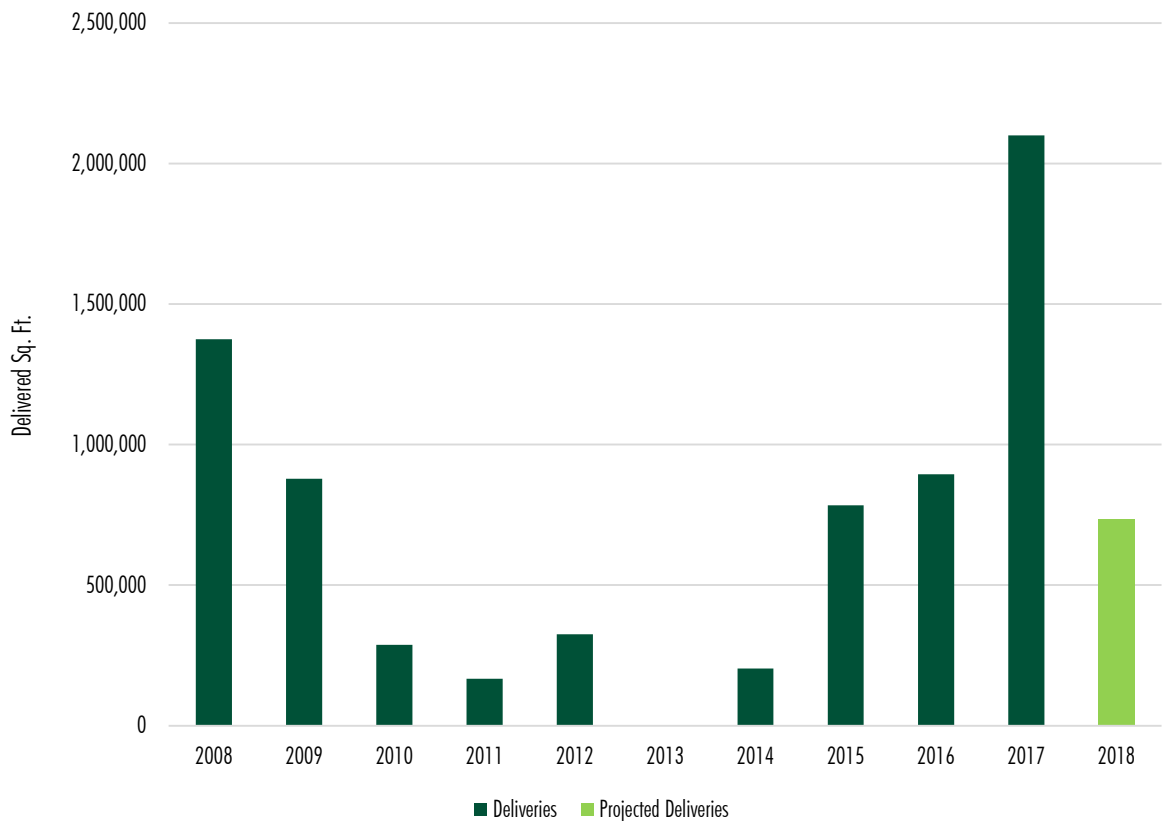
Source: CBRE Research, Q1 2018.

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. Gross Asking Lease Rate (\$/SF/Yr)
Airport North	3,929,610	10.5	10.5	14.8	58,912	58,912	0	24.24
Airport South	3,642,737	12.2	13.0	17.5	(60,458)	(60,458)	127,286	17.62
Brentwood	6,278,233	10.3	12.9	14.7	(244,932)	(244,932)	106,000	28.01
Cool Springs	5,934,742	9.1	12.3	15.0	8,732	8,732	617,000	29.67
Downtown	9,401,758	10.8	11.3	15.1	154,877	154,877	790,150	28.74
Green Hills/21 <sup>st</sup> Ave/Music Row	2,428,665	4.8	4.8	6.1	0	0	327,480	27.72
MetroCenter	1,756,346	8.4	8.9	10.8	12,086	12,086	0	20.65
North Nashville	857,840	8.5	8.5	10.9	7,111	7,111	0	17.67
West End/Belle Meade	3,841,878	5.3	5.3	5.9	30,729	30,729	0	30.03
<b>NASHVILLE</b>	<b>38,071,809</b>	<b>9.5</b>	<b>10.6</b>	<b>13.6</b>	<b>(32,943)</b>	<b>(32,943)</b>	<b>1,967,916</b>	<b>26.09</b>

Source: CBRE Research, Q1 2018.

Figure 9: Annual Deliveries Sq. Ft.



Source: CBRE Research, Q1 2018.


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