

MARKETBEAT

Nashville

Industrial Q1 2018



NASHVILLE INDUSTRIAL

Economic Indicators

	Q1 17	Q1 18	12-Month Forecast
Nashville Employment	971k	993k	▲
Nashville Unemployment	4.2%	2.6%	▼
U.S. Unemployment	4.7%	4.1%	▼

Numbers above are quarterly averages; Jan 2018 data was used to represent Q1 2018 for Nashville

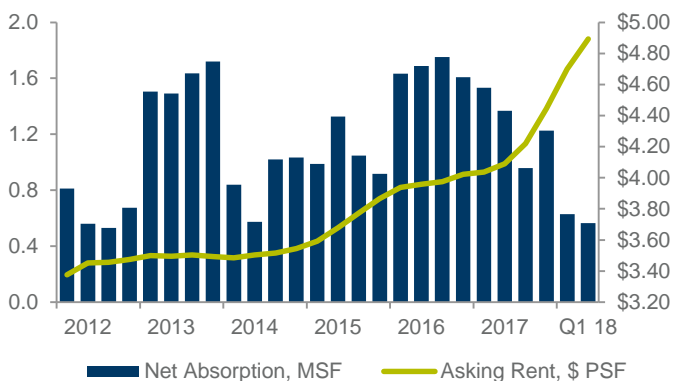
Market Indicators (Overall, All Classes)

	Q1 17	Q1 18	12-Month Forecast
Vacancy	3.2%	3.4%	■
YTD Net Absorption (sf)	625K	364K	■
Under Construction (sf)	0.3M	4.5M	▲
Average Asking Rent*	\$4.78	\$4.95	▲

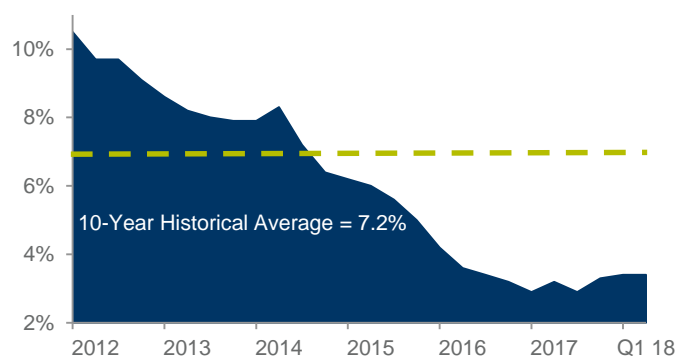
*Rental rates reflect weighted net asking \$psf/year

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 1.0 million within the next two years, and population exceeding 2.0 million within three years. All this translates into booming commercial and residential real estate sectors. Healthcare, technology, entertainment and leisure employment are particularly strong, 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 parts of the metropolitan area.

Market Overview

Nashville's industrial market finished the first quarter with a 3.4% vacancy rate. The two tightest submarkets, West and 65-South, each currently have less than 1.0% vacant at 0.4% and 0.6% respectively. Neither submarket has any vacant space currently under construction which will keep vacancy low. The East submarket has the largest vacancy rate at 5.3% which is expected to increase temporarily with the addition of nearly 1.0 million square feet (msf) of vacant space to the market in 2018.

Although the overall net asking rent was down 2.8% quarter-over-quarter to \$4.95 per square foot (psf), it is still 26.9% higher than the 10-year average. 65-South asks \$8.25 psf, the highest of all industrial submarkets, followed by the West market at \$7.48 psf. Limited availabilities in these two submarkets will keep the rents high. At \$3.36 psf, the North submarket is the most affordable submarket in the greater Nashville area. Office Service buildings continue to demand the highest rents at \$9.48 psf, while warehouse/distribution spaces ask an average of \$4.95 psf. Landlords are expected to keep high rental rates even with the influx of new space.

Renewals were the primary driver of leasing activity for the quarter, accounting for 69.6% of activity. CEVA Logistics completed the largest renewal and new deal of the quarter. The freight management solutions company renewed its 480,000-square-foot (sf) space at Beckwith Farms 3. It also signed a 399,063-sf deal at Beckwith Farms 9 and plans to expand in the building upon its completion during second quarter. Bridgestone Tire renewed its 332,000-sf space at 488 Bridgestone Parkway.

Interline Brands Inc. also renewed its 317,085-sf space at 50 Teledyne Place. New leases were primarily concentrated in the mid-range size during the first quarter with 26 deals under 100,000 sf. Wayfair took 66,493 sf at 323 Mason Road, while medical equipment company AllParts Medical inked a deal for 55,000 sf at Skyline Distribution Park Bldg B. During first quarter, Sumitomo occupied its 312,000-sf space at 1042 Fred White Boulevard, leaving 124,000 sf vacant at 104 Challenger Drive. In March Nissan occupied 120,000 sf at 609 Enon Springs Road E.

Nashville currently has 4.5 msf of new warehouse/distribution space under construction, 47.9% of which is preleased. 1.0 msf of speculative vacant space is anticipated to deliver during second quarter which could drive up vacancy in the short-term. Park 840 East is set to complete 558,600 sf of speculative warehouse space in June. Buildings set to complete later in 2018 include the 1.0 msf Lowes Fulfillment Center build-to-suit and a 517,500 sf speculative warehouse at Colonial Pipeline Interchange Center A. Development activity shows little sign of slowing with an additional 5.1 msf of new space already slated to come online through 2020. Almost half of the new space is speculative indicating confidence by developers that the market will continue to attract new tenants.

Recent significant sales include the purchase of 3851 Industrial Parkway by McLane Food Services for \$10.2 million. The food services supply chain company paid \$72 psf for the 141,000 sf building. Additionally, 660 Massman was purchased by Glen Una Management Company for \$9.95 million, or \$58 psf.

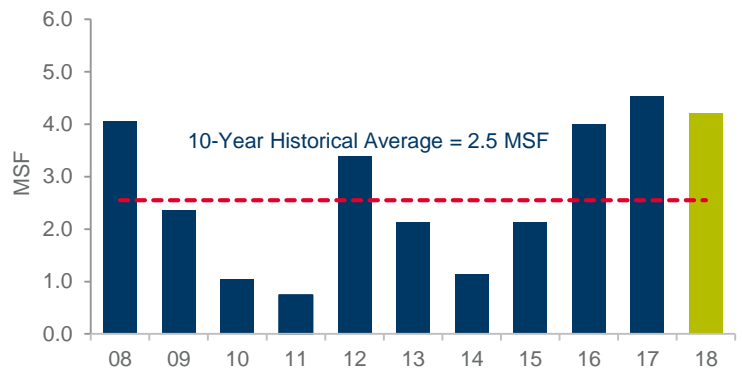
Overall absorption was positive for the third consecutive quarter, reaching 363,767 sf. Several tenants are expected to occupy space later in 2018, which should keep the number in the black, despite an influx of newly-constructed vacant space.

Outlook

- Rental rates should remain high as new, higher-priced space hits the market
- Strong preleasing activity in under construction speculative buildings will keep vacancy low while keeping developer confidence high

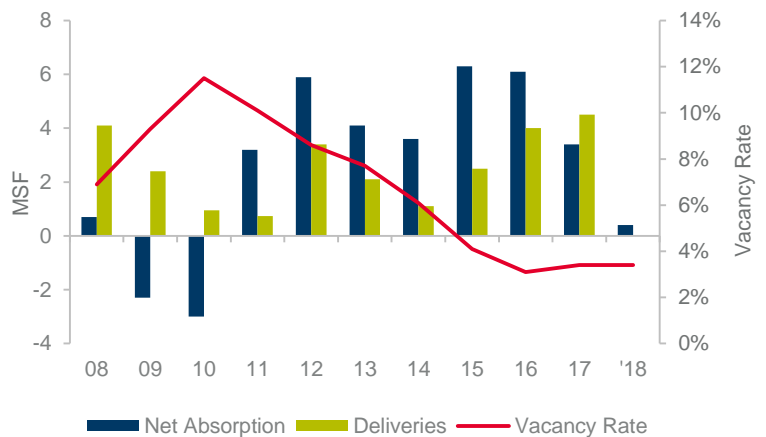
New Supply

NEW SUPPLY CONTINUES TO BE WELL ABOVE HISTORIC AVERAGES



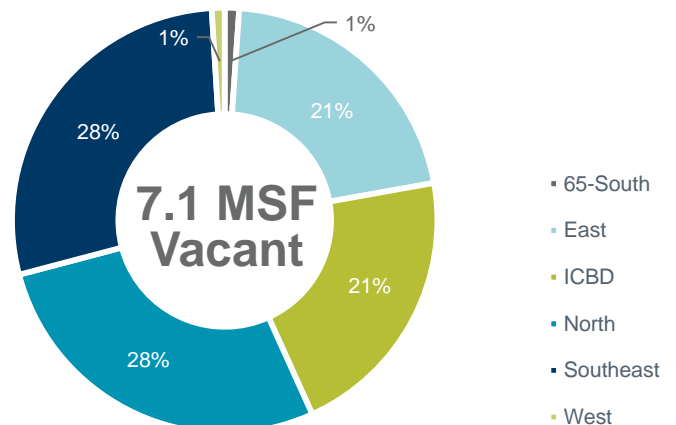
Net Absorption – Deliveries – Vacancy

CONSTRUCTION BEGINS TO OUTPACE ABSORPTION



Vacant Space by Submarket

PERCENTAGE OF TOTAL VACANT SPACE Q4 2017



7.1 MSF Vacant

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SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q1 18 OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	2018 CNSTRUC COMPLETIONS (SF)	OVERALL WEIGHTED AVG. NET RENT
65-South	12,660,684	77,833	0.6%	10,340	10,340	0	0	\$8.25
East	28,171,953	1,500,756	5.3%	0	0	1,621,896	0	\$7.18
Industrial CBD	50,063,876	1,499,479	3.0%	(103,309)	(103,309)	0	0	\$6.86
North	38,118,941	1,967,964	5.2%	187,000	187,000	1,000,000	0	\$3.36
Southeast	62,636,816	2,002,124	3.2%	269,736	269,736	1,884,000	0	\$5.18
West	16,080,008	69,748	0.4%	0	0	0	0	\$7.48
NASHVILLE TOTALS	207,732,278	7,117,904	3.4%	363,767	363,767	4,505,896	0	\$4.95

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

PROPERTY TYPE	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q1 18 OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	2018 CNSTRUC COMPLETIONS (SF)	OVERALL WEIGHTED AVG. NET RENT
Warehouse/Distribution	143,931,561	5,698,832	3.9%	346,979	346,979	4,505,896	0	\$4.95
Manufacturing	53,795,964	1,188,699	2.2%	0	0	0	0	\$3.65
Flex/R&D	9,974,753	225,373	2.3%	16,788	16,788	0	0	\$9.48

Key Lease Transactions 2018

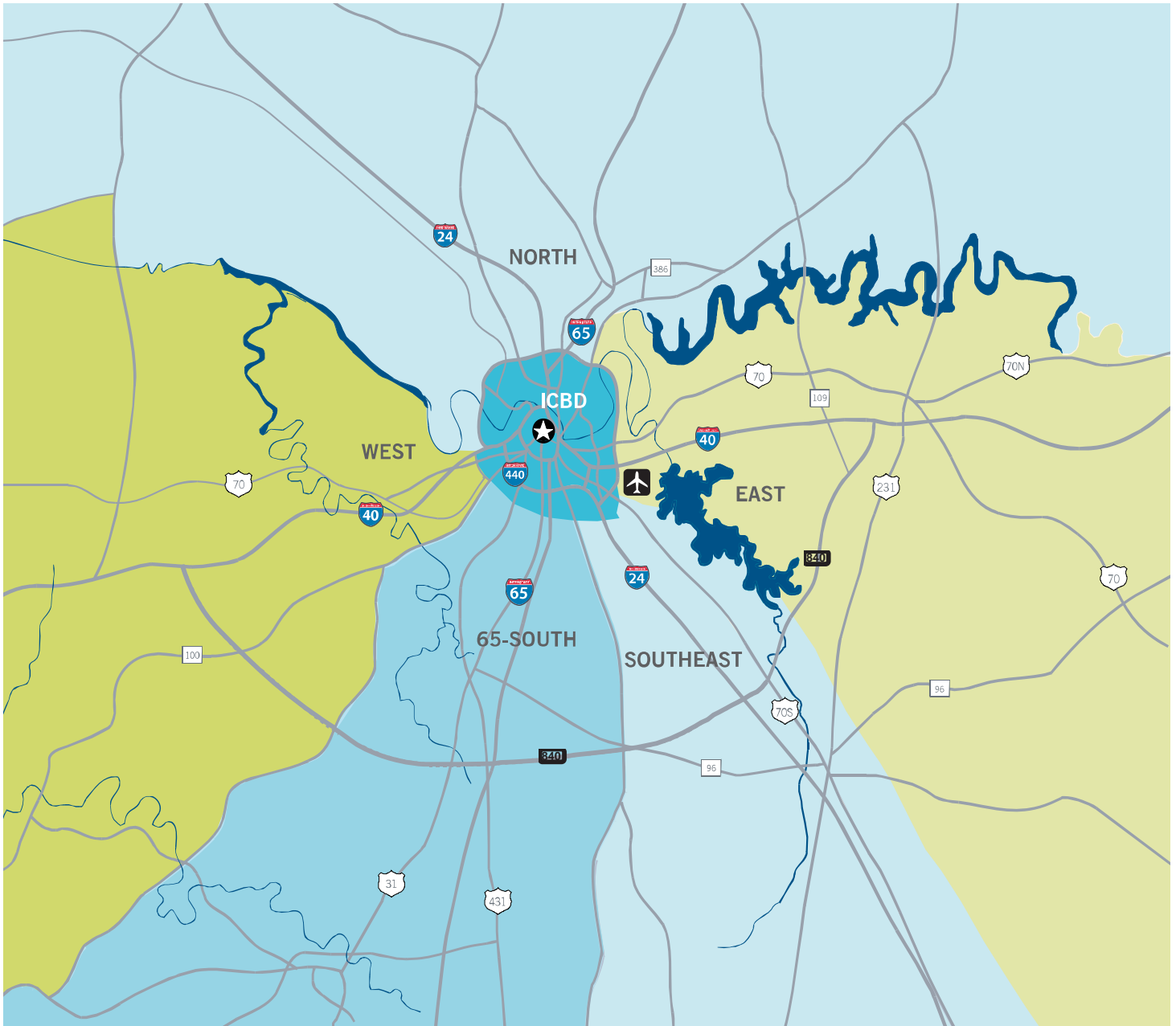
PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Beckwith Farms Bldg. 3	480,000	CEVA Logistics, Inc	Renewal	East
Beckwith Farms North Bldg. 9	399,063	CEVA Logistics, Inc	New Lease	East
488 Bridgestone Parkway	332,000	Bridgestone Americas Tire Operations, LLC	Renewal	East
Interline National Distribution Center	317,085	Interline Brands, Inc.	Renewal	Southeast

Anticipated Future Deliveries over 500,000 SF

PROPERTY	SF	TYPE OF CONSTRUCTION	SUBMARKET	TARGET QUARTER
Lowes Distribution Facility	1,000,000	Built-to-suit	North	Q3 2018
Old Murfreesboro Pk / Airport Logistics Park	830,000	Speculative	Southeast	Q4 2018
Park 840 East Bldg. 100	558,600	Speculative	East	Q2 2018

INDUSTRIAL SUBMARKETS

NASHVILLE



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