

MARKETBEAT

Nashville

Office Q1 2018



NASHVILLE OFFICE

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	5.4%	8.5%	▲
Net Absorption (sf YTD)	-58k	53k	■
Under Construction (sf)	2.4M	1.8M	■
Average Asking Rent*	\$26.37	\$26.45	▲

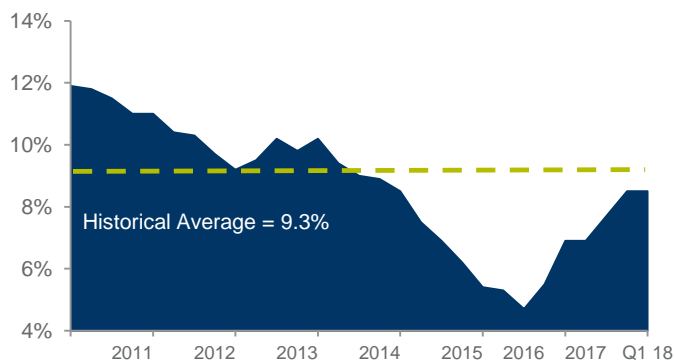
*Rental rates reflect weighted gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Over the last 10 years Nashville has experienced a boom that shows little sign of slowing. Nashville's most recent unemployment rate of 2.6% was the lowest of any U.S. metro area with more than a million people. Employment numbers continue to rise toward the one million employment mark which will make for intense competition amongst companies 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 office vacancy rate stabilized at 8.5% quarter-over-quarter following a 160 basis point (bps) increase during 2017. Although the CBD rate decreased 140 bps quarter-over-quarter to 12.1%, it remains the highest submarket vacancy in Nashville due to the addition of over 900,000 square feet (sf) in 2017. North Nashville and Airport North follow with 11.5% and 10.3% respectively, while Green Hills/West Nashville is the lowest at 2.6%. Class A overall vacancy was up 230 bps year-over-year to 9.3% due in large part to the addition of over 2.0 million square feet (msf) of new construction during 2017. Vacancy is expected to continue to rise as more than 1.8 msf of newly constructed Class A space is set to deliver over the next two years.

Asking rents decreased across all classes during first quarter. Class A spaces dropped 3.2% to \$29.27 per square foot (psf) gross, bringing the overall rate to \$26.45 psf. Midtown continues to demand the highest rents in Nashville asking \$31.74 psf overall and \$33.74 psf for Class A space. CBD is the only other market with average asking rents above \$30 psf for Class A space, however quarter-over-quarter rents in the market decreased \$1.81. Airport South is the most affordable market, asking \$18.01 psf overall while MetroCenter and North Nashville only ask \$22.00 psf for Class A space.

Nashville leasing activity was sluggish to start 2018 with just under 243,000 sf of new deals completed. Class B space comprised more than half of all the activity and 64.9% of deals completed were below 10,000 sf. The largest deal occurred at 100 Centerview Drive, where HireRight, LLC renewed its 85,564-sf space. Tech company Inovalon took 40,615 sf at 443 Donelson Pike for the largest new deal. Meanwhile, William Morris Endeavor Entertainment expanded its footprint at 1201 Demonbreun Street by 11,202 sf, bringing its total to 37,202 sf.

Cool Springs/Franklin accounted for nearly one quarter of new leasing activity during first quarter with 58,797 sf, followed closely by Airport North with 58,339 sf.

Caterpillar Inc. completed the largest sale of the quarter with the \$90-million purchase of 2120 West End Avenue from Piedmont REIT. The financial wing of the construction machinery company paid \$290.88 psf for the building it has occupied since it was built in 1999. Meanwhile, 300 Innovation Drive was purchased by its occupant, Jackson National Life, for \$42.5-million, a \$274.66 psf investment. The sale resolved a troubled situation with the bankrupt former owner OBP Partners. Additionally, AmCorp Realty completed a \$15.3-million, or \$217.92 psf, investment sale at 214 Overlook Circle, a 70,210-sf building in Brentwood.

Construction activity remains strong in the Nashville market. While there were no major completions during the first quarter, over 1.8 msf is expected to deliver in the next two years, including 485,055 sf of vacant space in 2018. Currently 18.2% of under construction space is preleased. 55.3% of the 2018 anticipated space is set to come online during the second quarter which will drive up Class A vacancy in the short term. Overall asking rents in Nashville are set to rise as the new spaces ask higher-than-average rents due to rising construction and land costs along with healthy demand. Current under construction projects are primarily concentrated in Cool Springs/Franklin and Midtown which account for 79.9% of new square footage.

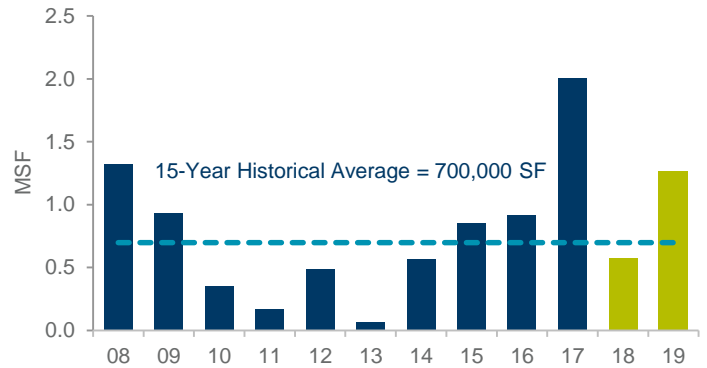
Absorption was positive 53,118 sf during the first quarter, led primarily by strong activity in the CBD market. Silicon Ranch moved into its 18,966 sf space at 222 Second Avenue South in January. Interior design website Houzz occupied 18,675 sf on the 26th floor of 315 Deaderick Street. An additional 600,000 sf is already expected to be occupied during 2018, however the newly-constructed, unoccupied space coming online could push absorption into the red.

Outlook

- With additional speculative new construction completions, the vacancy rate will slowly rise providing opportunities for tenants.
- The upcoming deliveries of new Class A space are expected to drive up overall asking rental rates.

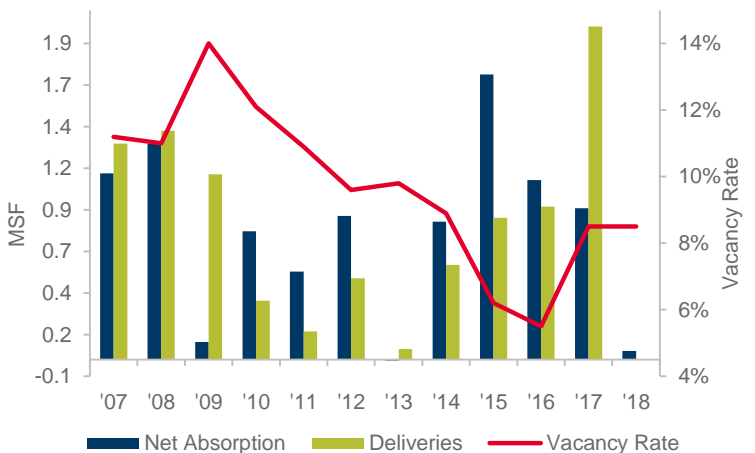
New Supply

NEW SUPPLY EXPECTED TO STAY AROUND HISTORICAL AVERAGE



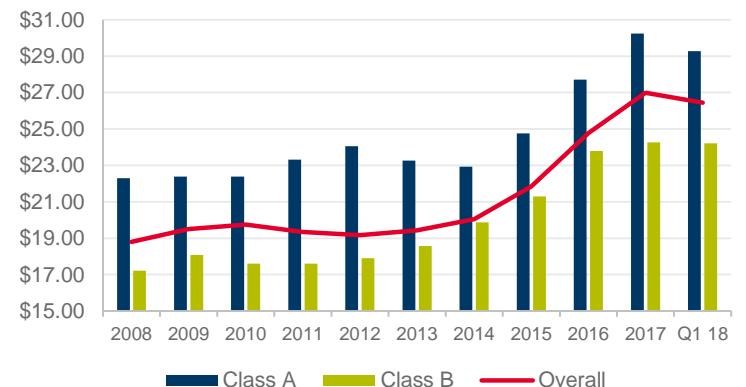
Net Absorption-Deliveries-Vacancy

VACANCY STABILIZED BUT IS EXPECTED TO RISE



Rental Rate Growth

CLASS A RENT HAS SEEN A 31.3% GROWTH IN THE PAST 10 YEARS



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SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q1 18 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	436,371	10.3%	28,115	28,115	0	0	\$21.68	\$22.78	\$20.22
Airport South	3,608,932	298,757	8.3%	-17,701	-17,701	0	24,286	\$18.01	\$26.80	\$18.15
Brentwood	5,606,745	505,266	9.0%	-96,523	-96,523	0	0	\$27.26	\$29.78	\$25.69
CBD	8,384,224	1,012,187	12.1%	116,752	116,752	0	451,398	\$27.78	\$30.98	\$25.95
Cool Springs	7,738,386	577,565	7.5%	8,442	8,442	0	700,638	\$29.35	\$29.54	\$26.33
Green Hills/West Nashville	1,947,648	50,133	2.6%	211	211	0	91,000	\$26.64	\$29.05	\$20.54
MetroCenter	1,871,717	124,217	6.6%	2,516	2,516	0	0	\$21.97	\$22.00	\$21.96
Midtown	4,486,554	210,776	4.7%	16,060	16,060	0	570,328	\$31.74	\$33.74	\$30.35
North Nashville	620,544	71,562	11.5%	-4,754	-4,754	0	0	\$20.56	\$22.00	\$19.06
NASHVILLE TOTALS	38,520,502	3,286,834	8.5%	53,118	53,118	0	1,837,650	\$26.45	\$29.27	\$24.21

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

	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q1 18 OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD DELIVERIES (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT*
Class A	18,655,179	1,734,856	9.3%	44,080	44,080	0	1,837,650	\$29.27
Class B	16,980,121	1,423,225	8.4%	3,412	3,412	0	0	\$24.21
Class C	2,885,202	128,753	4.5%	5,626	5,626	0	0	\$18.52

Key Lease Transactions Q1 2018

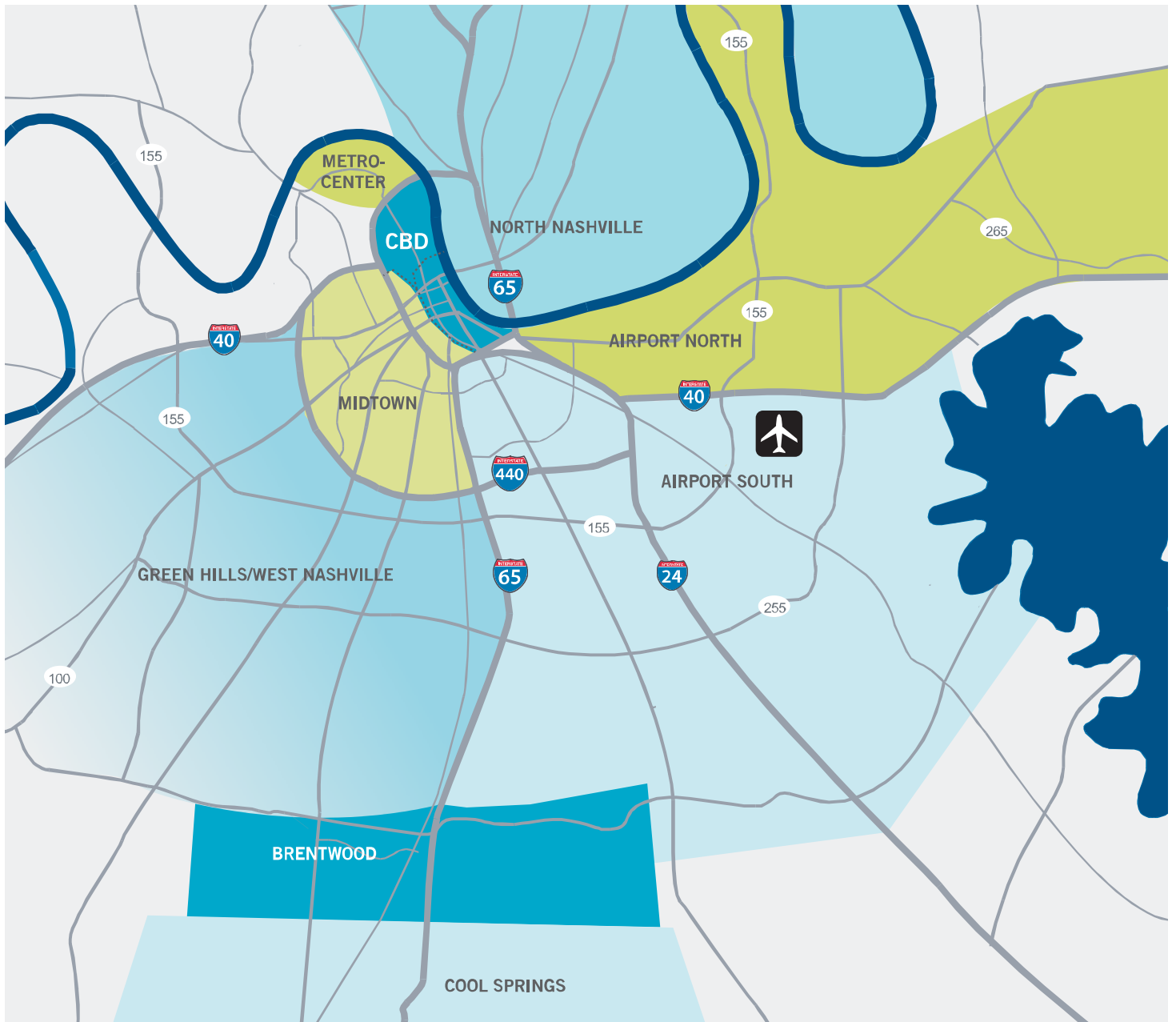
PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
100 Centerview Drive	85,564	HireRight LLC	Renewal*	Airport North
443 Donelson Pike	40,615	Inovalon Inc	Direct	Airport North
1201 Demonbreun Street	11,202	William Morris Endeavor Entertainment	Expansion	CBD

Key Under Construction Projects Q1 2018

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	Q2 2018	Speculative	Cool Springs / Franklin
18 th & Chet	121,500	Q3 2018	Speculative	Midtown

OFFICE SUBMARKETS

NASHVILLE



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