

MARKETBEAT

Nashville

Industrial Q3 2018



NASHVILLE INDUSTRIAL

Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
Nashville Employment	985k	998k	▲
Nashville Unemployment	2.6%	2.7%	▼
U.S. Unemployment	4.4%	3.9%	▼

*Numbers above are quarterly averages

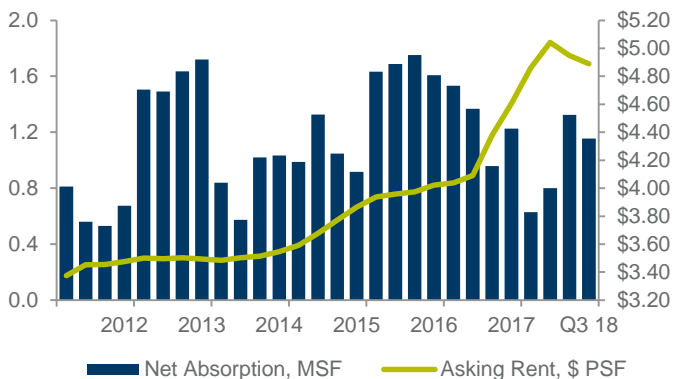
Market Indicators (Overall, All Classes)

	Q3 17	Q3 18	12-Month Forecast
Vacancy	3.3%	3.9%	■
YTD Net Absorption (sf)	2.5M	4.2M	▲
Under Construction (sf)	30k	4.5M	▲
Average Asking Rent*	\$5.03	\$4.80	▲

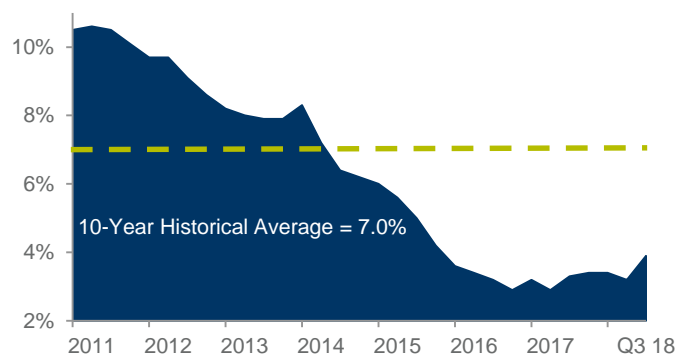
*Rental rates reflect weighted net asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Nashville's growing 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 overall vacancy rate increased across all industrial submarkets during third quarter to 3.9%, the highest rate since 2015. The North market had the sharpest increase, rising 110 basis points (bps) to 5.9%, making it the highest rate in Nashville. 65-South remains the tightest market at 0.2% overall.

Warehouse/Distribution vacancy is highest in the Southeast market at 6.1%. Vacancy could remain high as over 1.4 million square feet (msf) of speculative space is currently under construction in the market, however preleasing is expected before the projects complete.

Nashville recorded over 1.0 msf of positive absorption for the third straight quarter, bringing the year-to-date total to 4.2 msf. Quanta and Technicolor occupied 148,800 sf and 100,700 sf respectively at Interchange Distribution Park, taking over the 249,500-sf sublease space vacated by Incipio. The USPS build-to-suit warehouse at Skyhawk Business Park was completed in August, adding 451,000 sf of occupied space to the Southeast Market. Absorption is expected to remain positive for the eighth consecutive year even as almost 2.7 msf of unoccupied new construction is slated to hit the market before the end of 2018.

The overall net asking rent in Nashville increased for the first time in 2018, up 0.8% quarter-over-quarter to \$4.80 per square foot (psf). Flex buildings command the highest asking rent in the market, averaging \$10.13 psf overall. Warehouse/Distribution buildings ask an average of \$4.87 psf, a 1.9% increase quarter-over-quarter. The most affordable market overall is the North with just \$3.27 psf. Landlords are expected to keep rental rates high even with the anticipated influx of new space.

MARKETBEAT

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With less than 1.0 msf leased during the third quarter, leasing activity slowed to its lowest mark in 2018. Activity was primarily concentrated in the Southeast submarket, which accounted for 44.2% of new deals. Nearly 82.2% of space leased during the quarter came from eight new deals greater than 50,000 sf. The largest deal of the quarter occurred at 1125 Vaughn Parkway, where XPO Logistics took 312,000 sf of warehouse/distribution space. Additional large leases include Verizon Wireless renewing its 158,220-sf call center at 300 River Rock Blvd in Murfreesboro and Sinomax taking 102,652 sf at 1600 Corporate Place.

Over 2.7 msf of warehouse/distribution space has been constructed in 2018, including 968,500 sf during the third quarter. The largest project completed during the quarter was DRG's Interchange Center A in Antioch, which added 517,500 sf of vacant space to the Southeast market. The previously mentioned 451,000-sf USPS build-to-suit at Skyhawk Business Park was also completed during the quarter. An additional 2.7 msf of vacant space is set to deliver by the end of 2018, which may cause vacancy to increase slightly.

Nashville currently has 4.5 msf of new warehouse/distribution space under construction, of which 20.1% is currently preleased. Construction is concentrated in the East and Southeast submarkets. Cedar Farms, a 950,000-sf speculative warehouse on Couchville Pike, is the largest building currently under construction. Two additional buildings, which total more than 500,000 sf, are under construction including Nashville Superspeedway with 621,000 sf and Park 840 East Building 100 with 558,600 sf. Development activity shows little sign of slowing with an additional 5.0 msf of new space proposed to come online through 2020.

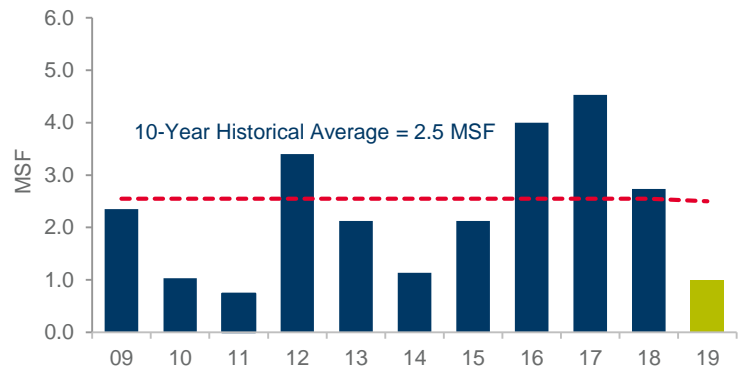
During the quarter, Prologis acquired DCT Industrial Trust, resulting in four property acquisitions in the Nashville market. These properties include 427 Sanford Road in La Vergne, 340 Bridgestone Parkway and 7500 Eastgate Blvd in Lebanon, and Rockdale Distribution Center in Mount Juliet. The properties sold for a combined \$210.1 million. Another large sale during the quarter was the 715 Beechcroft Road purchase by Legacy Property Group for \$30.0 million.

Outlook

- Brisk preleasing of speculative construction is expected to hold vacancy steady and bolster developer confidence
- Rental rates are expected to grow as new, higher-priced space hits the market

New Supply

NEW SUPPLY CONTINUES TO BE WELL ABOVE HISTORIC AVERAGES



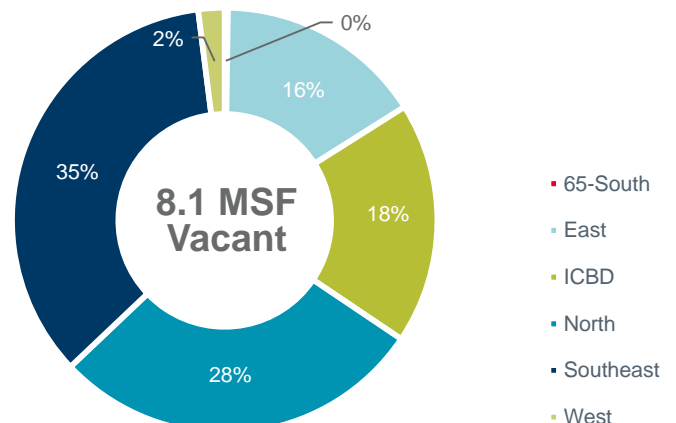
Net Absorption – Deliveries – Vacancy

CONSTRUCTION BEGINS TO OUTPACE ABSORPTION



Vacant Space by Submarket

PERCENTAGE OF TOTAL VACANT SPACE Q3 2018



MARKETBEAT
Nashville
Industrial Q3 2018



SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q3 18 OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	2018 CNSTRUC COMPLETIONS (SF)	OVERALL WEIGHTED AVG. NET RENT
65-South	12,457,789	19,710	0.2%	-1,477	68,463	0	0	\$7.50
East	28,940,088	1,276,207	4.4%	-44,050	992,684	3,073,626	768,135	\$4.07
Industrial CBD	50,065,720	1,485,624	3.0%	-65,698	-35,171	0	0	\$6.68
North	39,118,941	2,302,797	5.9%	-8,220	1,231,610	0	1,000,000	\$3.27
Southeast	63,003,796	2,835,091	4.5%	1,120,670	2,045,784	1,449,410	968,500	\$4.89
West	16,080,008	161,788	1.0%	0	-93,500	0	0	\$14.01
NASHVILLE TOTALS	209,666,342	8,081,217	3.9%	1,001,225	4,209,870	4,523,036	2,736,635	\$4.80

*Rental rates reflect gross weighted asking \$psf/year
 ***Leasing activity does not include renewals

PROPERTY TYPE	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q3 18 OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	2018 CNSTRUC COMPLETIONS (SF)	OVERALL WEIGHTED AVG. NET RENT
Warehouse/Distribution	145,865,625	6,652,955	4.6%	1,156,555	4,246,393	4,523,036	2,736,635	\$4.87
Manufacturing	53,795,964	1,274,591	2.4%	-176,842	-166,842	0	0	\$3.44
Flex/R&D	9,974,753	153,671	1.5%	21,512	130,319	0	0	\$10.13

Key Lease Transactions Q3 2018

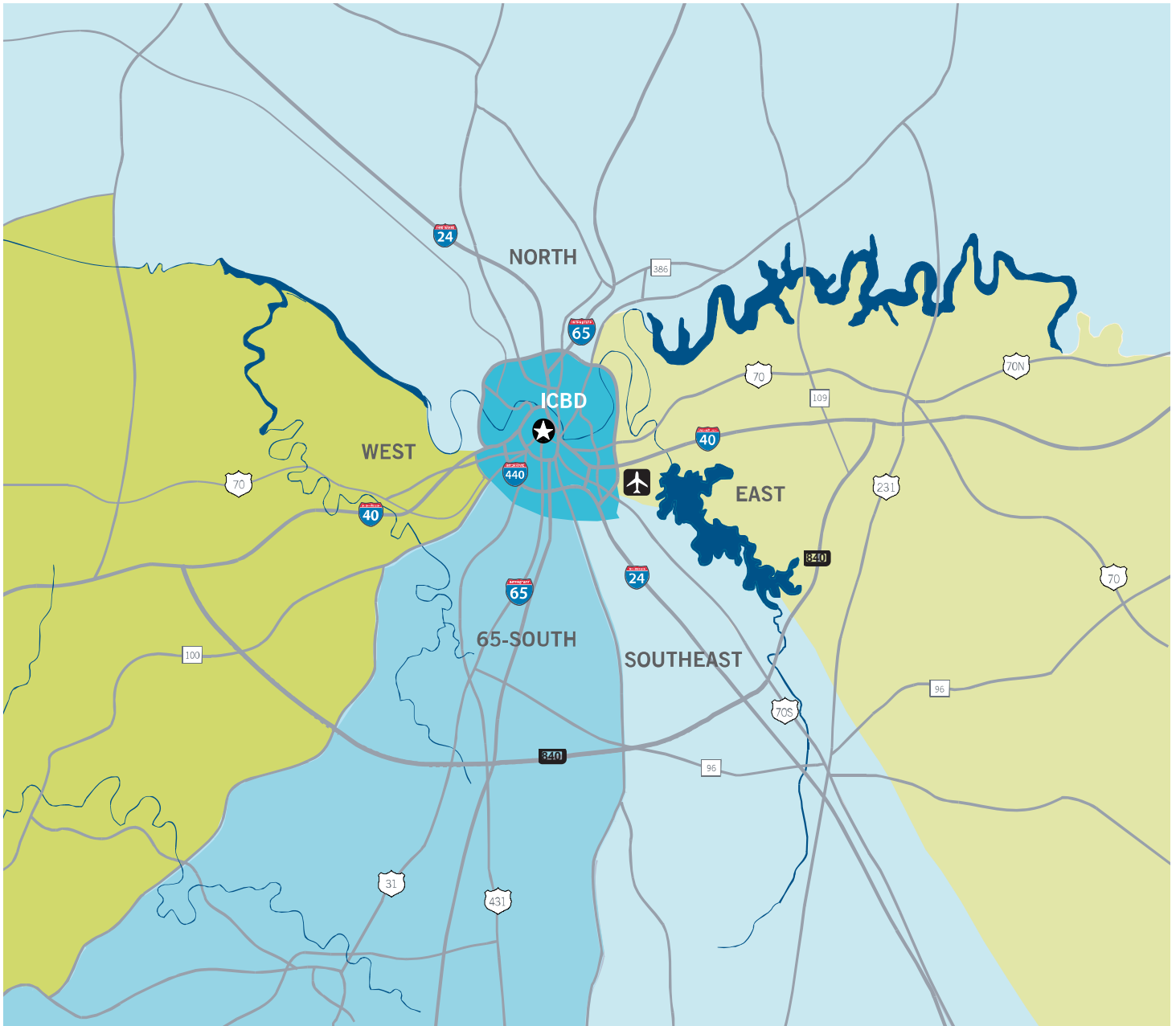
PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1125 Vaughn Parkway	312,000	XPO Logistics Supply	New Lease	North
300 River Rock Boulevard	158,220	Verizon Wireless	Renewal	Southeast
1600 Corporate Place	102,652	Sinomax	New Lease	Southeast
601-624 Space Park Drive	94,000	RJ Schinner	Renewal	Southeast
127 Athens Way	81,829	FedEx	Renewal	ICBD

Anticipated Future Deliveries over 500,000 SF

PROPERTY	SF	TYPE OF CONSTRUCTION	SUBMARKET	TARGET QUARTER
Cedar Farms	950,000	Speculative	East	Q4 2018
Nashville Superspeedway	621,000	Speculative	East	Q4 2018
Park 840 East Bldg. 100	558,600	Speculative	East	Q3 2018

INDUSTRIAL SUBMARKETS

NASHVILLE



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