

MARKETBEAT

Nashville

Office Q3 2018



NASHVILLE OFFICE

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%	▼

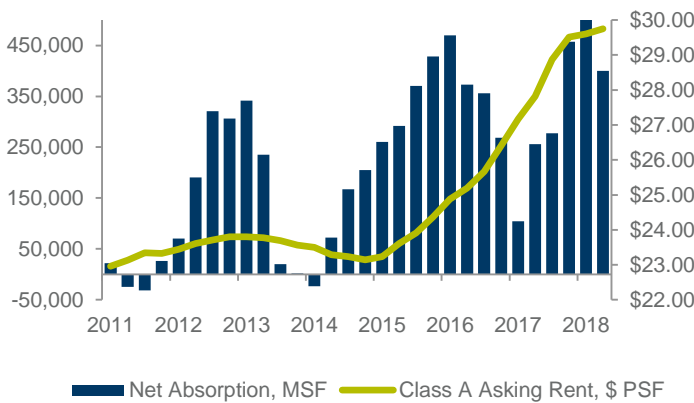
Market Indicators (Overall, All Classes)

	Q3 17	Q3 18	12-Month Forecast
Vacancy	7.7%	9.8%	▲
Net Absorption (sf YTD)	940K	118K	■
Under Construction (sf)	1.8M	2.2M	■
Average Asking Rent*	\$26.94	\$26.78	▲

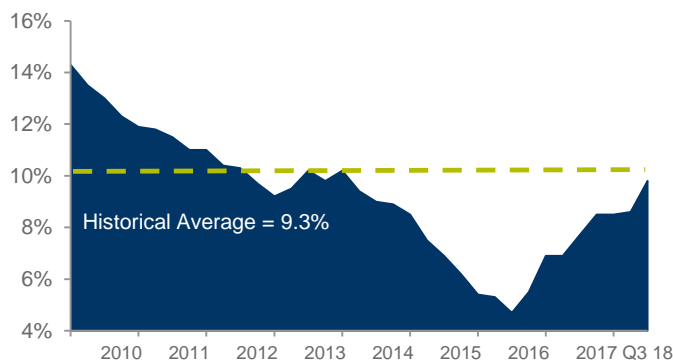
*Rental rates reflect weighted gross asking \$psf/year

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. 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 office vacancy rate increased 210 basis points (bps) year-over-year to 9.8% largely due to newly constructed vacant space coming online. Cool Springs had the largest quarter-over-quarter increase, jumping 420 bps to 11.5%, driven by the addition of almost 180,000 square feet (sf) of vacant space at Mallory Green. Meanwhile, vacancy continued to tighten in the CBD as the rate decreased for the third straight quarter to 11.4%. Class A vacancy increased 150 bps quarter-over-quarter to 10.5%. Overall vacancy could continue to rise as an additional 1.2 msf of space is set to come online by the end of 2020, although preleasing is expected in those projects.

Year-to-date overall absorption totaled just under 118,000 sf, marking a sixth straight quarter of positive absorption. The CBD market was the primary driver through the third quarter with more than 200,000 sf absorbed. Health services company NaviHealth occupied its 33,013-sf space at Westwood Place in Brentwood during this quarter. During the same time, Key Pro Acquisitions occupied 25,306 sf at 801 Royal Parkway in Airport North. Overall absorption in Nashville's suburban markets was negative 84,185 sf year-to-date, largely due to the addition of newly constructed, vacant space to the market. Verizon is expected to vacate its 180,000-sf headquarters at 455 Duke Drive in October. This, accompanied by the new construction slated to hit the market, should negatively impact absorption as 2018 comes to a close.

The overall average gross asking rent in Nashville increased during the second quarter to \$26.78 per square foot (psf). Suburban markets fueled the surge with 3.3% quarter-over-quarter growth to \$26.63 psf. Construction completions drove Class A asking rents up 2.2% quarter-over-quarter to \$29.89 psf. Meanwhile, Class B rents decreased 1.2% to \$24.10 psf overall.

As newly constructed space is added to the market, Class A asking rents should continue to rise, while Class B rents could decrease to make the space more competitive. Midtown commands the highest average overall and Class A rents at \$32.58 and \$34.96 psf. Two additional markets ask greater than \$30.00 psf overall: Green Hills/West Nashville at \$32.53 and Cool Springs/Franklin at \$30.02 respectively. Airport South is the most affordable market asking \$18.10 psf, while North Nashville asks only \$21.16 psf for Class A space.

Almost 280,000 sf of newly constructed space was completed during third quarter. 3401 Mallory Lane added 178,638 sf of Class A to the Cool Springs/Franklin market. 4000 Hillsboro Pike (60,000 sf) and Capitol View Block D (40,000 sf) also completed during the quarter. An additional 2.2 msf of additional space is currently under construction. Gulch Union began construction in August and is set to add 323,000 sf to the Midtown market in May, 2020. Newly constructed space should cause sustained growth in asking rents, while the vacancy increase should be temporary as new tenants continue to enter the market.

Nashville leasing activity totaled over 1.1 million square feet (msf) of new deals year-to-date. CBD accounted for 29.6% of new activity with 331,543 sf of new deals signed, followed closely by Cool Springs/Franklin with 252,023 sf. Asurion signed the largest deal of the quarter at 1100 Broadway, preleasing 550,619 sf. The building is not yet under construction and has no set starting date. The largest renewal of the quarter occurred at Point Place I in Airport North where Remington College renewed its 41,145-sf space. Additional significant leases included Gannett taking 39,851 sf at Palmer Plaza and Industrious leasing 32,124 sf at Cummins Station in Midtown. Healthstream also expanded its preleased space at Capitol View Block E by 20,000 sf, bringing the total footprint to 86,331 sf.

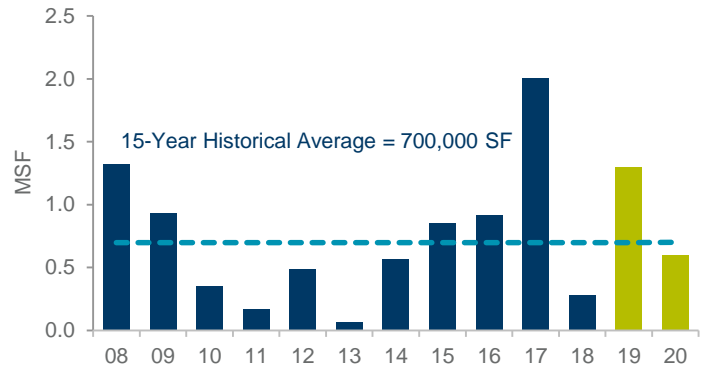
Unico Properties completed the largest sale of the quarter with the \$139.5-million, \$354-psf acquisition of One Nashville Place. During the same time, Previdi ReDev Equities purchased 810 Broadway for \$11.3 million, or \$161 psf. Additional sales during third quarter include Speedwagon Properties buying 814 Church Street for \$9.6 million (\$199 psf) and North Point Hospitality's procurement of 1903 Church Street for \$6.5 million (\$225 psf).

Outlook

- With additional speculative new construction completions, the vacancy rate will slowly rise providing opportunities for tenants.

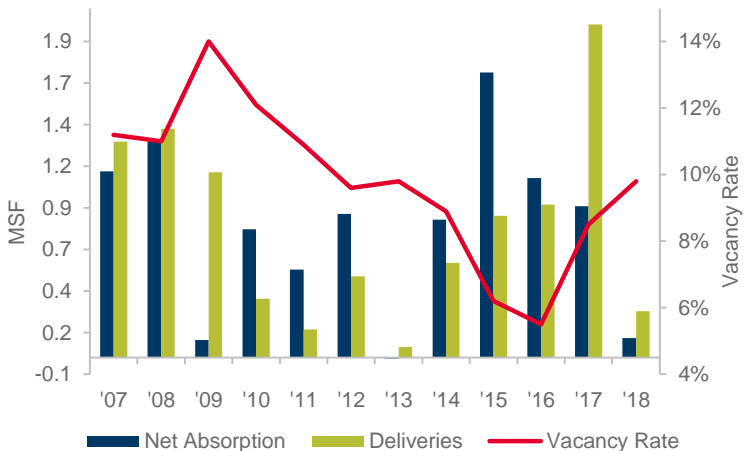
New Supply

NEW SUPPLY EXPECTED TO STAY AROUND HISTORICAL AVERAGE



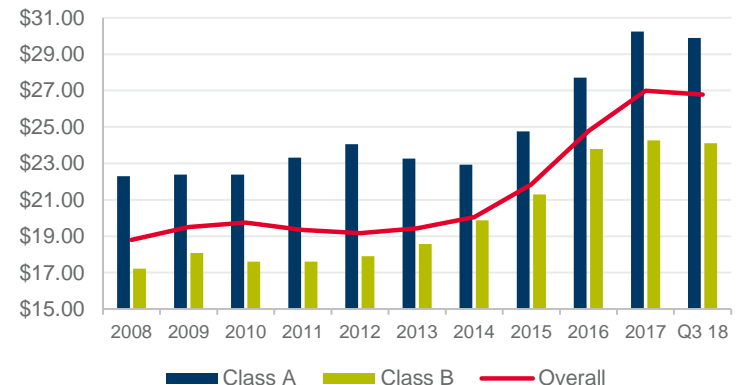
Net Absorption-Deliveries-Vacancy

VACANCY EXPECTED TO CONTINUE RISING



Rental Rate Growth

CLASS A RENT HAS SEEN A 29.4% GROWTH IN THE PAST 10 YEARS



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SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q3 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	462,386	10.9%	20,277	65,523	0	0	\$21.21	\$23.50	\$18.45
Airport South	3,608,932	332,411	9.2%	(26,101)	(34,479)	0	50,377	\$18.10	\$26.80	\$18.11
Brentwood	5,606,745	585,465	10.4%	11,706	(181,238)	0	0	\$27.07	\$29.74	\$26.12
CBD	8,384,224	953,584	11.4%	19,900	201,931	0	731,398	\$27.33	\$29.58	\$26.19
Cool Springs/Franklin	7,917,024	910,141	11.5%	(26,733)	(16,126)	178,638	522,000	\$30.02	\$30.42	\$28.00
Green Hills/West Nashville	2,007,648	115,878	5.8%	379	2,120	60,000	31,000	\$32.53	\$33.49	\$24.00
MetroCenter	1,871,717	104,403	5.6%	12,323	40,100	0	0	\$22.49	\$24.00	\$22.05
Midtown	4,526,554	264,741	5.8%	(2,017)	27,281	40,000	853,328	\$32.58	\$34.96	\$29.69
North Nashville	620,544	54,174	8.7%	12,324	12,634	0	0	\$20.19	\$21.16	\$19.19
NASHVILLE TOTALS	38,799,140	3,783,183	9.8%	22,058	117,746	278,638	2,188,103	\$26.78	\$29.89	\$24.10

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

	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q3 18 OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD DELIVERIES (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT*
Class A	18,933,817	1,993,241	10.5%	(26,102)	109,669	278,638	2,188,103	\$29.89
Class B	16,980,121	1,698,568	10.0%	42,078	3,954	0	0	\$24.10
Class C	2,885,202	91,374	3.2%	6,082	4,123	0	0	\$19.23

Key Lease Transactions Q3 2018

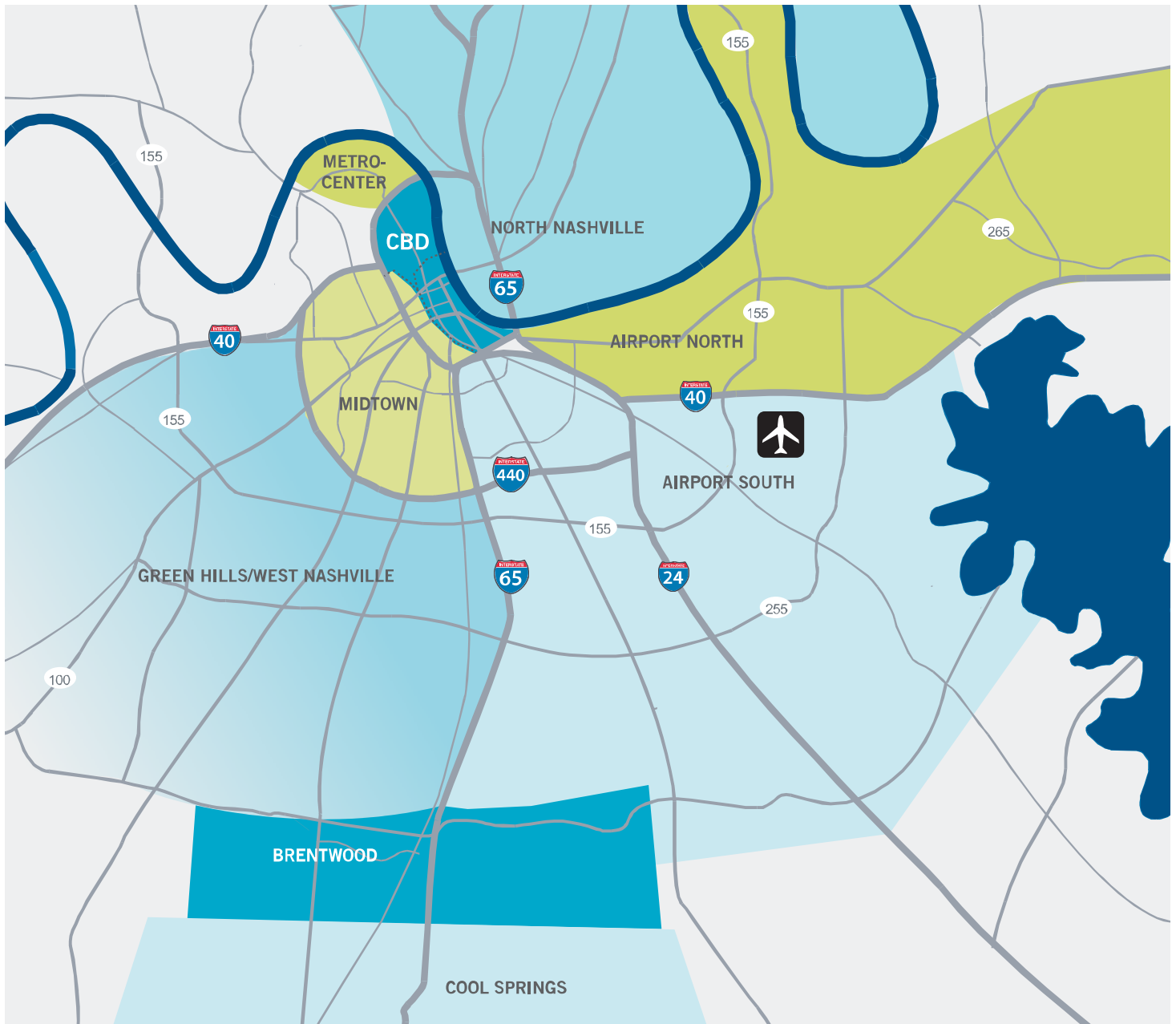
PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1100 Broadway	550,619	Asurion	New Lease	CBD/Midtown
441 Donelson Pike	41,154	Remington College	Renewal	Airport North
1801 West End Avenue	39,851	Gannett	New Lease	Midtown
Cummins Station	32,124	Industrious	New Lease	CBD/Midtown
725 Cool Springs Boulevard	27,100	Regus	Renewal	Cool Springs/Franklin

Key Under Construction Projects Q3 2018

PROPERTY	SF	TARGET COMPLETION	TYPE	SUBMARKET
501 Commerce St	385,000	Q4 2019	Speculative	CBD
Gulch Union	323,000	Q2 2020	Speculative	Midtown
Capitol View - Block E	302,000	Q1 2019	Speculative	Midtown
Peabody Plaza	280,000	Q2 2020	Speculative	CBD
Northside McEwen	180,000	Q2 2019	Speculative	Cool Springs/Franklin
18 th & Chet	121,500	Q4 2018	Speculative	Midtown
1 Music Circle	106,480	Q1 2019	Speculative	Midtown
1200 Broadway	66,150	Q3 2019	Speculative	Midtown

OFFICE SUBMARKETS

NASHVILLE



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