

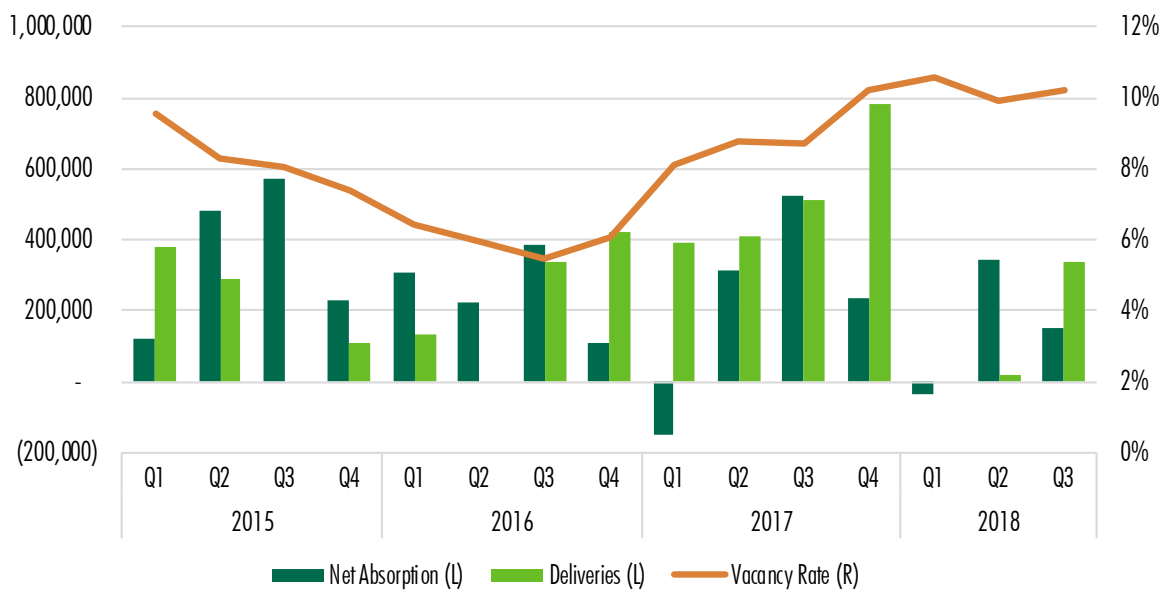
Nashville Office, Q3 2018

# New construction and tenant demand push rental rates

▲ Vacancy Rate 10.2%
▲ Overall Rate \$26.33 PSF
▲ Class A Rate \$32.00 PSF
▼ Net Absorption 151,492 SF
▲ Construction 2,752,303 SF
▲ Completions 290,243 SF

Figure 1: Vacancy Rate, Deliveries and Net Absorption

\*Arrows indicate change from previous quarter.



Source: CBRE Research, Q3 2018.

The Nashville office market has been experiencing a back and forth shift in vacancy trends due to inventory gains throughout 2017 and 2018. Nashville’s office inventory has increased by 50 bps since Q3 2017 to 38.4 million sq. ft. Following Nashville’s largest vacancy decline in six quarters in Q2 2018, third quarter posted moderate absorption, increased vacancy and construction activity. Leasing activity remained robust as several large users committed to Class A space both in urban and suburban submarkets. As a whole, the Nashville office market is still in the expansion phase, providing ample room for tenant activity with positive fundamentals.

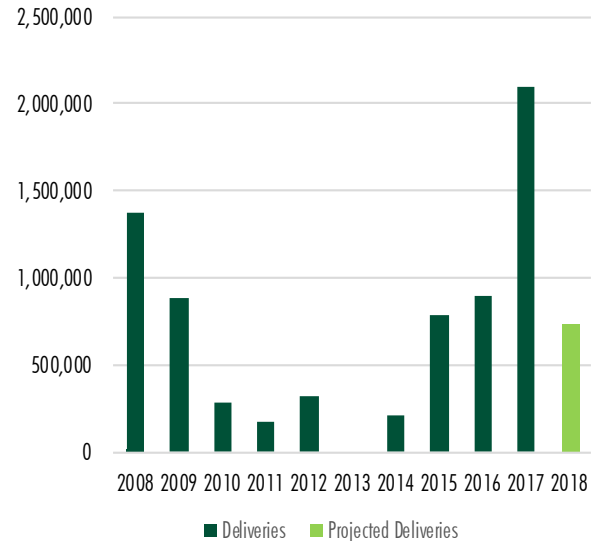
Overall vacancy reached 10.2% in Q3 2018 due to new Class A inventory and vacant Class B and C second generation space as tenants have upgraded to Class A space. A bulk of this second generation space vacancy is located in the Brentwood and Cool Springs submarkets. Overall direct vacancy was recorded at 9.0%, a decrease of 20 bps from last quarter. Compared to other markets in the region, vacancy in Nashville is still relatively low. While this can present tenants with challenges when looking for expansion or relocation options, the situation is a significant improvement from that which was available two years ago, when vacancy was roughly half of what it is now.

As for new inventory growth, Mallory Green, a Class A office building in the Cool Springs submarket, delivered in Q3 2018. Spaces leased and occupied 28% of the 178,000 sq. ft. building. In addition mixed-use development Vertis delivered during Q3 2018. Southern Land Company will be a tenant of the Class A building located in the Green Hills submarket. More than 390,000 sq. ft. of Class A office space has been delivered in 2018. Currently there is 2.7 million sq. ft. under construction, 31% of which is released.

Of these 18 developments, seven are projected to deliver over 475,000 sq. ft. in Q4 2018. Despite high levels of development in 2017, a new record is likely to be established in 2019 with an anticipated 1.7 million sq. ft. delivering in 2019. A project in the Downtown submarket is Fifth and Broad, the redevelopment of Nashville’s former convention center, which will result in the delivery of 380,000 sq. ft. of speculative office in late 2019.

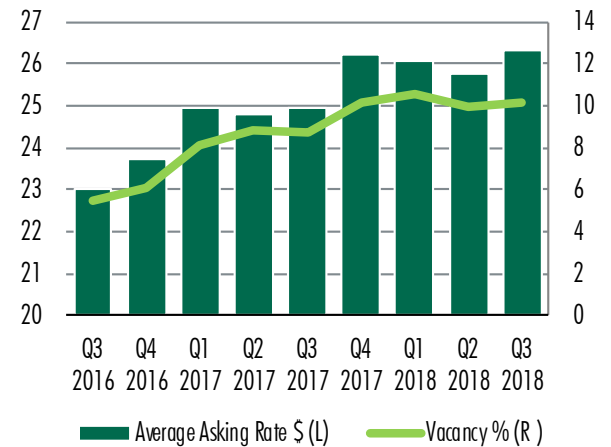
New modern Class A buildings with high-end amenities have pushed rental rates throughout the market. Weighted average asking rental rates increased to \$26.33 per sq. ft. on a full-service basis. Class A rates increased to \$32.00 per sq. ft., a record high for the Nashville office market. Rental rates in the CBD experienced similar growth, increasing to \$28.78 per sq. ft. overall and \$36.00 per sq. ft. for Class A space.

Figure 2: Annual Deliveries Sq. Ft.



Source: CBRE Research, Q3 2018.

Figure 3: Asking Rate and Vacancy



Source: CBRE Research, Q3 2018.

Figure 4: Key Leasing Transactions

Tenant	Location	Size (Sq. Ft.)	Submarket	Transaction Type
Asurion	1100 Broadway	550,000	Downtown	New
Gannett	1801 West End	38,000	West End	New
Industrious	209 10 <sup>th</sup> Avenue	32,000	Downtown	New
Enable Comp	Wallace Place	25,000	Cool Springs	New
IQ Talent	201 4 <sup>th</sup> Avenue	22,000	Downtown	Renewal/expansion

Source: CBRE Research, Q3 2018.

**OFFICE ABSORPTION**

Nashville’s Class A office market experienced moderate occupancy gains throughout Q3 2018 with over 97,000 sq. ft. of net absorption, largely contributing to the quarter’s positive absorption. Year-to-date over 500,000 sq. ft. of space has been absorbed in Class A buildings. The top absorptions in Q3 were tenants occupying new construction in Nashville’s urban and top suburban submarkets. Tenants on the move included Lee Company, Spaces, and Southern Land Company.

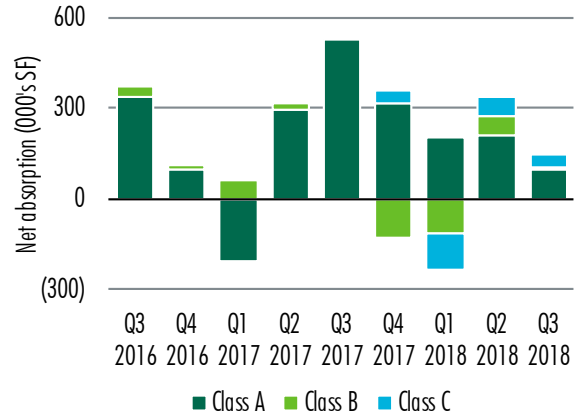
**OFFICE RENTAL RATES**

The combination of new construction hitting the market and tenant demand has led to steady rent growth since Q1 2016. Q3 2018 reported a slight decrease in overall asking rates, with an average rate of \$26.33 per sq. ft. Class A rents reached a new record high of \$32.48 in Q1 2018, since then the average Class A rate has slightly decreased to \$32.00 per sq. ft. on a full service basis. Class B and Class C product has been steadily rising with a Class B average of \$22.78 per sq. ft. and Class C at \$18.77 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**

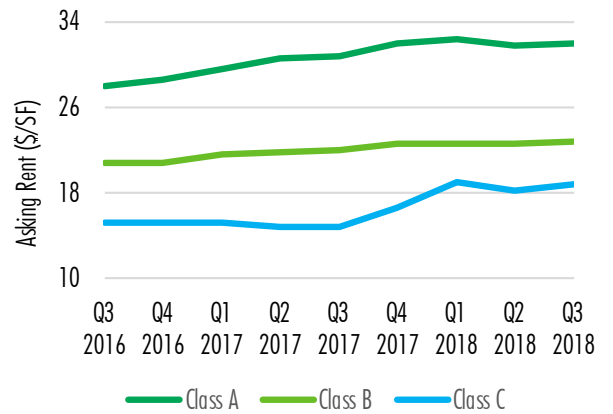
As predicted, the delivery of new office space during 2017 and 2018 resulted in temporary vacancy increases, reaching 10.2% total vacancy. In Q3 2018, Nashville’s overall vacancy started to increase as new construction entered the market. However, despite increased vacancy, absorption was still positive with over 151,000 sq. ft. of tenants occupying previously vacant space. As would be expected in a market with extensive new construction, rising vacancy has been concentrated among Class A product in past quarters.

Figure 5: Quarterly Net Absorption



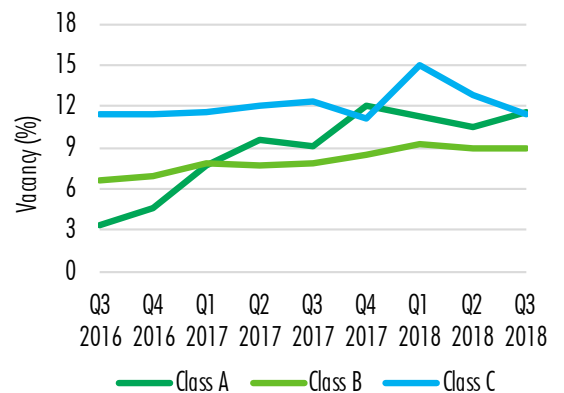
Source: CBRE Research, Q3 2018.

Figure 6: Rental Rates by Property Type



Source: CBRE Research, Q3 2018.

Figure 7: Vacancy by Property Type

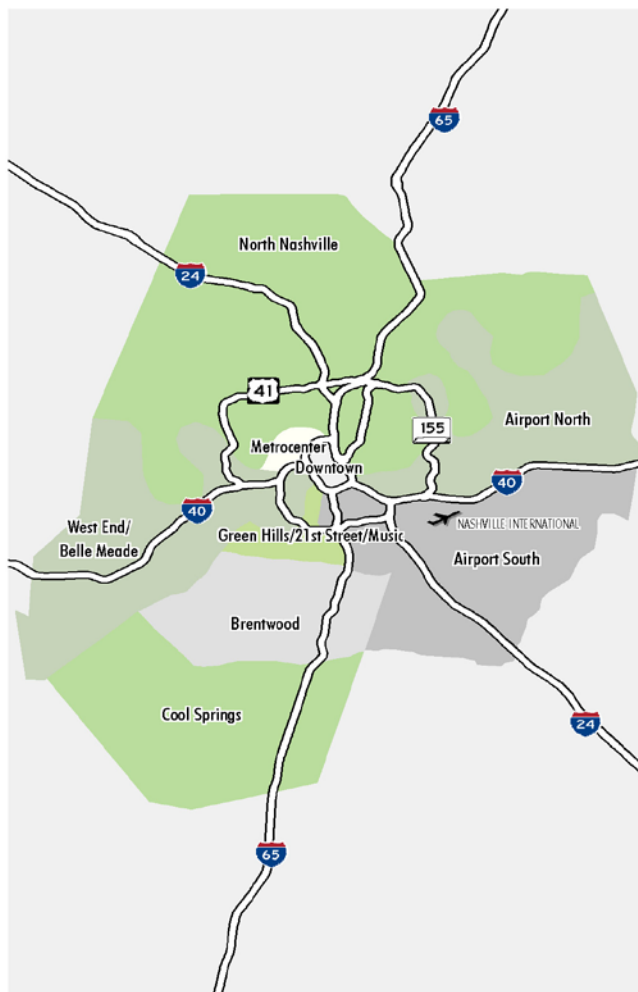


Source: CBRE Research, Q3 2018.

**Figure 8: Market Statistics**

Submarket	Market Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Avail. Rate (%)	Q3 2018 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Avg. Gross Asking Lease Rate (\$/SF/Yr)
Airport North	3,929,610	12.4	12.9	17.9	(71,875)	(35,738)	0	24.22
Airport South	3,725,438	12.1	11.0	17.5	40,500	58,042	127,286	17.68
Brentwood	6,278,233	10.4	11.5	13.7	51,199	(155,354)	306,500	27.69
Cool Springs	6,131,560	9.8	13.5	17.9	74,635	103,999	440,887	30.08
Downtown	9,444,639	8.7	9.1	12.8	21,354	398,631	1,610,150	28.78
Green Hills/21 <sup>st</sup> Ave/Music Row	2,497,209	5.5	5.7	6.9	25,261	43,579	267,480	30.20
MetroCenter	1,756,346	6.6	7.2	8.4	21,568	42,478	0	22.46
North Nashville	857,840	8.5	8.5	10.9	0	7,111	0	17.68
West End/Belle Meade	3,841,878	5.8	6.2	6.7	(11,150)	(2,362)	0	30.23
<b>NASHVILLE</b>	<b>38,462,753</b>	<b>9.2</b>	<b>10.2</b>	<b>13.5</b>	<b>151,492</b>	<b>460,386</b>	<b>2,752,303</b>	<b>26.33</b>

Source: CBRE Research, Q3 2018.



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