

MARKETBEAT

Nashville

Office Q4 2018



NASHVILLE OFFICE

Economic Indicators

| | Q4 17 | Q4 18 | 12-Month Forecast |
|------------------------|-------|---------|-------------------|
| Nashville Employment | 988k | 1007.8k | ▲ |
| Nashville Unemployment | 2.6% | 2.9% | ▼ |
| U.S. Unemployment | 4.1% | 3.7% | ▼ |

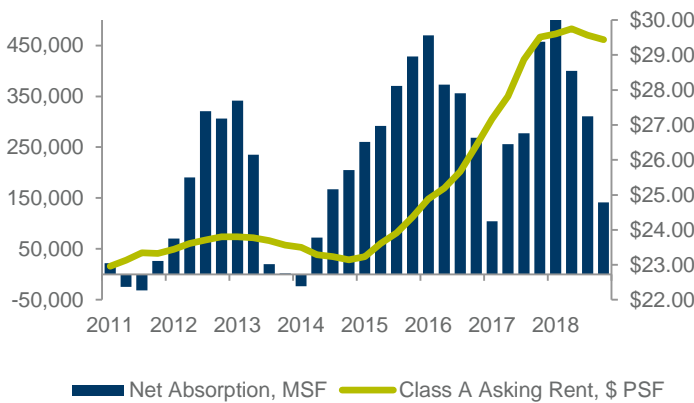
Market Indicators (Overall, All Classes)

| | Q4 17 | Q4 18 | 12-Month Forecast |
|-------------------------|---------|---------|-------------------|
| Vacancy | 8.5% | 9.7% | ▲ |
| Net Absorption (sf YTD) | 909K | 233K | ■ |
| Under Construction (sf) | 1.7M | 2.9M | ■ |
| Average Asking Rent* | \$26.99 | \$26.71 | ▲ |

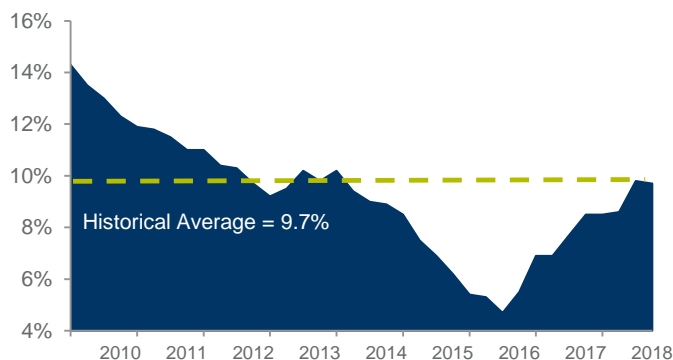
*Rental rates reflect weighted gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

In 2018, Nashville's increasing employment and population placed it amongst the healthiest economies in the U.S. Low unemployment and a tight housing market helped differentiate Nashville from its regional and national competitors. Employment topped 1.0 million for the first time, with projections that the population will exceed 2.0 million within three years. All this translated into booming commercial and residential real estate sectors. The development community demonstrated an optimistic outlook on Nashville's future that led to speculative construction in traditional and emerging parts of the metropolitan area.

Market Overview

Nashville's overall office vacancy rate finished 2018 at 9.7%, a 120-basis point (bps) increase from one year ago. This jump was driven by an increase in vacant new construction and an influx of sublease space. Cool Springs had the largest year-over-year difference, with a 520-bps increase to 12.3%, including an 80-bps increase between third and fourth quarter. A large concentration of newly constructed vacant space in the market led to the increase. Meanwhile, vacancy continued to tighten in the CBD as the rate decreased for the fourth straight quarter to 9.3%, down 410 bps from the end of 2017. Strong leasing activity and tenant move-ins contributed to the submarket's robust year. Class A vacancy decreased 50 bps quarter-over-quarter to 10.0%. Meanwhile, Class B vacancy increased 50 bps quarter-over-quarter to 10.5% and is up 230 bps from the end of 2017.

Overall absorption for the year totaled just over 232,000 square feet (sf). The CBD market was the primary driver during 2018, with over 359,000 sf of absorption. Verizon vacated its 180,000-sf call center at 455 Duke Drive in October, which created a chunk of negative absorption in Cool Springs. Notable large occupancies during the year included WeWork moving in to 66,000 sf at One Nashville Place and Nissan taking a 55,000-sf sublease space at Cool Springs V. Nine tenants, including Bank of America, E+Y, and Silicon Ranch, moved into 222 Second Avenue South during 2018, bringing the building close to complete occupancy.

The direct average gross asking rent in Nashville finished 2018 at \$26.91 per square foot (psf), down \$0.28 psf from this time last year. Four of Nashville's nine statistical markets posted Class A direct rents greater than \$30.00 psf, including Cool Springs/Franklin which jumped \$0.91 psf year-over-year. Midtown was the highest at \$34.38 psf, with Green Hills/West Nashville closely behind at \$33.67 psf. cushmanwakefield.com 1 1

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North Nashville remained the most affordable Class A market at \$21.16 psf.

Over 302,000 sf of newly constructed space was completed in 2018, primarily in the latter half of the year. 3401 Mallory Lane was the largest completion, with 179,000 sf of Class A space added to the Cool Springs/Franklin market. 4000 Hillsboro Pike (60,000 sf) and Capitol View Block D (40,000 sf) also completed during the third quarter. CitiView II in the Airport South submarket delivered in the fourth quarter with 24,000 sf. Over 21.0% of the newly constructed space was preleased.

An additional 2.9 million square feet (msf) of space was under construction at the end of the year. Over 1.2 msf is set to deliver in early 2019, including 302,000 sf at Capitol View Block E, and MarsPetcare's 224,000 sf build-to-suit headquarters in Cool Springs. Other large projects include Fifth + Broadway (385,000 sf), Gulch Union (323,000 sf) and Peabody Plaza (280,000 sf), which are slated for delivery in mid-2020.

Preleasing activity has been strong in these projects, with over 24.4% of the square footage pre-leased.

Nashville leasing activity totaled almost 1.7 msf of new deals in 2018. During fourth quarter, Amazon selected Nashville for its new Center of Excellence. The ecommerce giant will be taking an as-yet undisclosed amount of space at Nashville Yards in a building which has not begun construction. AllianceBernstein signed a 205,000 sf lease at Fifth + Broadway to relocate its operations center from New York City. Additional large new leases of the year include Asurion leasing 550,000 sf at 1100 Broadway and Philips taking 107,700 sf at 414 Union Street, now called Philips Plaza. Several large renewals also occurred in 2018, including Community Health Services renewing its 179,000-sf space at 9009 Carothers Boulevard in Cool Springs. HireRight LLC also renewed 86,000 sf at 100 Centerview Drive in Airport North.

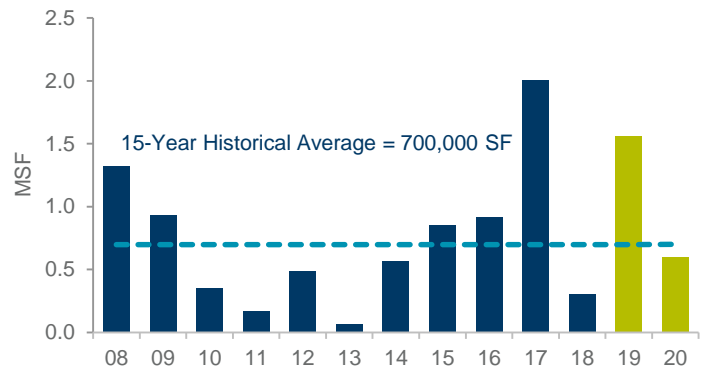
Unico Properties completed the largest sale of the year with the \$139.5-million, \$354-psf acquisition of One Nashville Place. Earlier in the year, Caterpillar purchased 2120 West End Avenue, a building it had been occupying since its completion in 1999, for \$90 million (\$290.88 psf).

Outlook

- Average direct rents should continue to climb in 2019 as newly constructed buildings come online
- Class B vacancy could continue to rise as tenants have opportunities in new Class A buildings

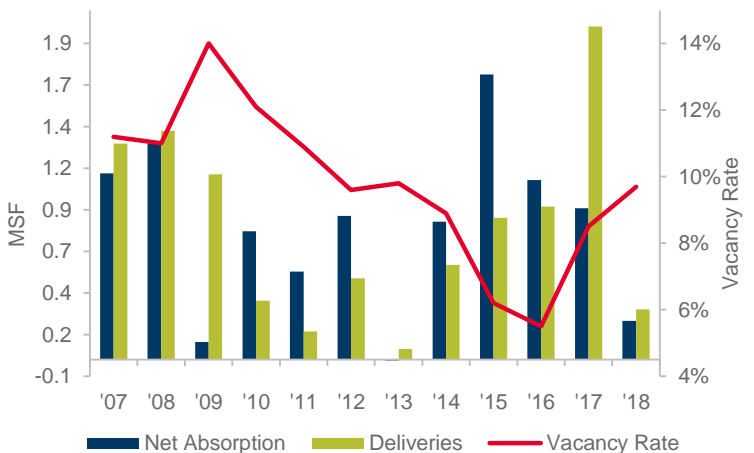
New Supply

NEW SUPPLY EXPECTED TO STAY AROUND HISTORICAL AVERAGE



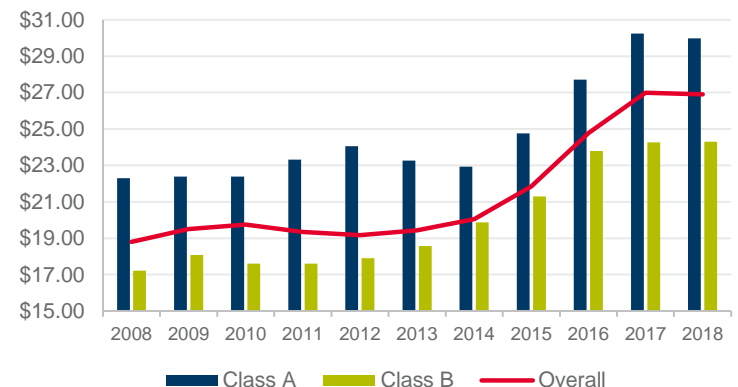
Net Absorption-Deliveries-Vacancy

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) | DIRECT VACANT (SF) | DIRECT VACANCY RATE | Q4 18 DIRECT NET ABSORPTION (SF) | YTD DIRECT NET ABSORPTION (SF) | YTD DELIVERIES (SF) | UNDER CNSTR (SF) | DIRECT AVERAGE ASKING RENT (ALL CLASSES)* | CLASS A DIRECT AVERAGE ASKING RENT* | CLASS B DIRECT AVERAGE ASKING RENT* |
|----------------------------|-------------------|--------------------|---------------------|----------------------------------|--------------------------------|---------------------|------------------|---|-------------------------------------|-------------------------------------|
| Airport North | 4,255,752 | 433,332 | 10.2% | 27,977 | 69,503 | 0 | 0 | \$21.08 | \$23.50 | \$18.23 |
| Airport South | 3,633,218 | 382,646 | 10.5% | -47,923 | -75,990 | 24,286 | 26,091 | \$18.87 | \$25.40 | \$18.42 |
| Brentwood | 5,606,745 | 575,865 | 10.3% | -916 | -170,950 | 0 | 0 | \$27.65 | \$29.60 | \$26.92 |
| CBD | 8,384,224 | 702,457 | 8.4% | 121,704 | 355,999 | 0 | 1,501,398 | \$27.72 | \$30.56 | \$26.48 |
| Cool Springs/Franklin | 7,917,024 | 928,617 | 11.7% | -100,414 | -78,979 | 178,638 | 522,000 | \$30.40 | \$30.80 | \$28.08 |
| Green Hills/West Nashville | 2,007,648 | 86,646 | 4.3% | -3,894 | 10,177 | 60,000 | 31,000 | \$32.62 | \$33.67 | \$24.00 |
| MetroCenter | 1,871,717 | 102,607 | 5.5% | 1,796 | 41,896 | 0 | 0 | \$22.53 | \$24.00 | \$22.10 |
| Midtown | 4,526,554 | 256,683 | 5.7% | 372 | 25,499 | 40,000 | 853,328 | \$32.09 | \$34.38 | \$29.70 |
| North Nashville | 620,544 | 54,174 | 8.7% | 0 | 12,634 | 0 | 0 | \$20.19 | \$21.16 | \$19.19 |
| NASHVILLE TOTALS | 38,823,426 | 3,523,027 | 9.1% | -1,298 | 189,789 | 302,924 | 2,933,817 | \$26.91 | \$29.98 | \$24.31 |

*Rental rates reflect gross weighted asking \$psf/year, in buildings with available space

| | INVENTORY (SF) | DIRECT VACANT (SF) | DIRECT VACANCY RATE | Q4 18 DIRECT NET ABSORPTION (SF) | YTD DIRECT NET ABSORPTION (SF) | YTD DELIVERIES (SF) | UNDER CNSTR (SF) | DIRECT AVERAGE ASKING RENT* |
|---------|----------------|--------------------|---------------------|----------------------------------|--------------------------------|---------------------|------------------|-----------------------------|
| Class A | 18,958,103 | 1,721,065 | 9.1% | 68,272 | 247,945 | 302,924 | 2,933,817 | \$29.98 |
| Class B | 16,980,121 | 1,707,160 | 10.1% | -66,142 | -58,851 | 0 | 0 | \$24.31 |
| Class C | 2,885,202 | 94,802 | 3.3% | -3,428 | 695 | 0 | 0 | \$19.51 |

Key Lease Transactions 2018

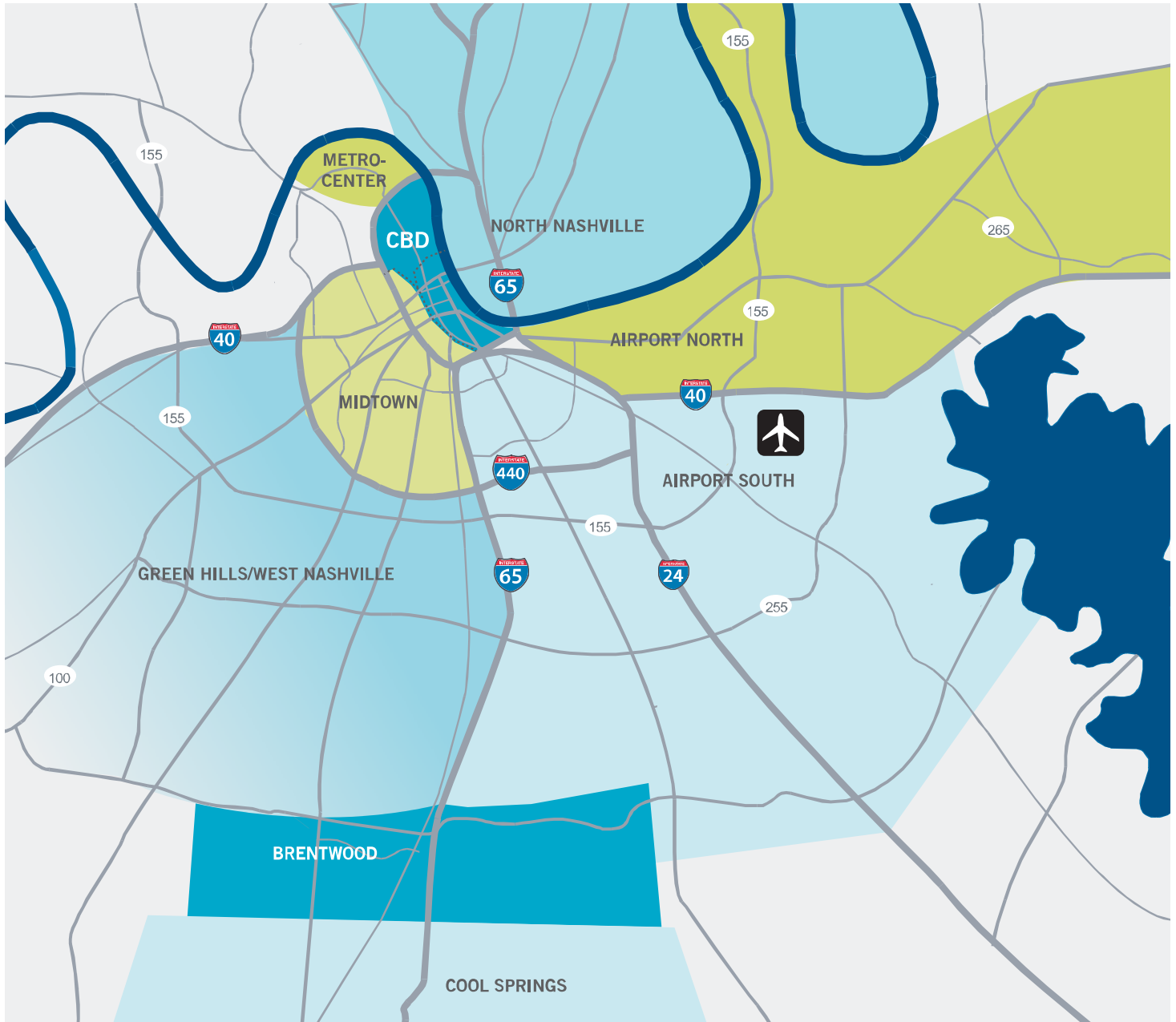
| PROPERTY | SF | TENANT | TRANSACTION TYPE | SUBMARKET |
|--------------------------|---------|---------------------------|------------------|------------------------|
| 1100 Broadway | 550,619 | Asurion | New Lease | Midtown |
| 501 Commerce Street | 205,000 | AllianceBernstein | New Lease | CBD |
| 9009 Carothers Boulevard | 178,788 | Community Health Services | Renewal | Cool Springs/ Franklin |
| 414 Union Street | 107,700 | Philips | New Lease | CBD |
| 100 Centerview Drive | 85,564 | HireRight LLC | Renewal | Airport North |

Key Under Construction Projects 2018

| PROPERTY | SF | TARGET COMPLETION | TYPE | SUBMARKET |
|-------------------------|---------|-------------------|-------------|-----------------------|
| 501 Commerce St | 385,000 | Q2 2020 | 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 | Q1 2019 | 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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