

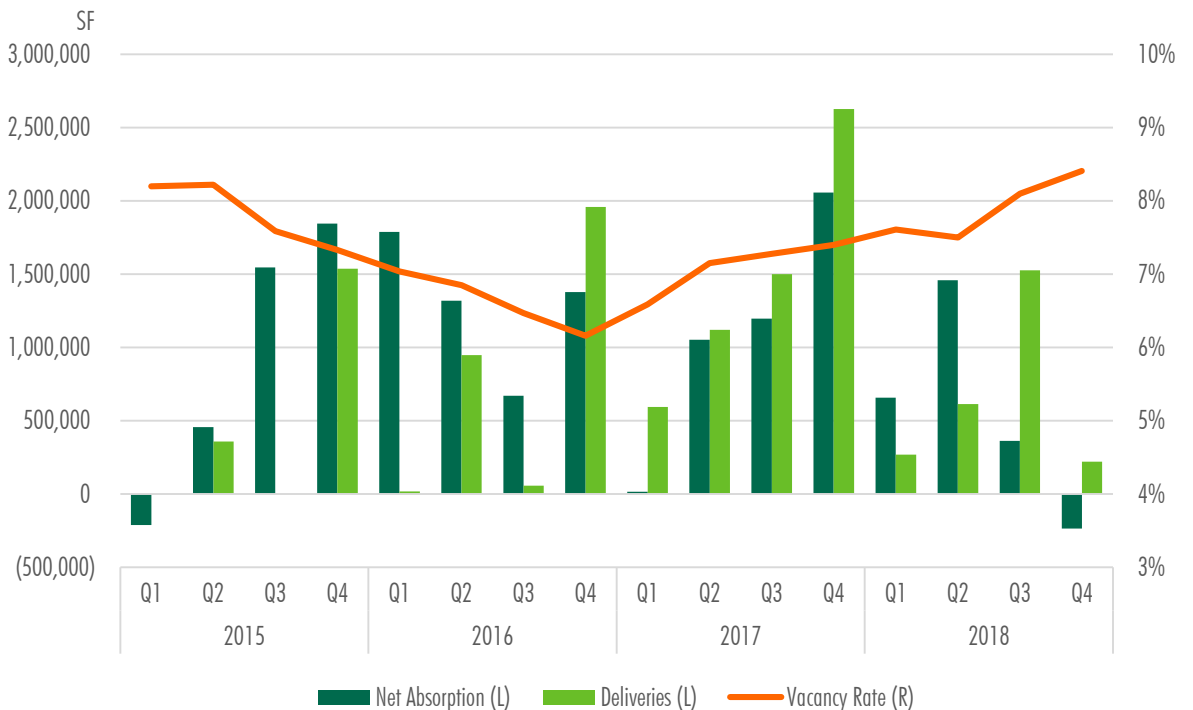
Nashville Industrial & Logistics, Q4 2018

Developers remain bullish - highlighted by spec construction

▲ Vacancy Rate 8.4%
▼ Lease Rate \$4.71 PSF
▼ Net Absorption (236,144) SF
▼ Construction 3,928,009 SF
▼ Deliveries 222,030 SF

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption, Deliveries, Vacancy Rate



With vacancy having risen by 230 basis points in the last two years to 8.4% and with more than 3.9 million sq. ft. of speculative development underway, industrial market conditions appear to be shifting to benefit tenants. However, with approximately 4 million sq. ft. of industrial users in the market and strong leasing velocity, the recent downshifting of absorption is likely to be short-lived. Fourth quarter 2018 recorded a negative net absorption of 236,000 sq. ft., which is the first quarter in more than three years with negative absorption.

These vacancies have not deterred developers from maintaining their bullish outlook on the market. As Nashville’s centralized geographic location remains unmatched for distribution, market reach and affordable transportation costs. With two-day ground delivery from Nashville reaching approximately 72% of the U.S. population, tenants will continue to be drawn to the area as a logistics hub. These geographic advantages have aided in Nashville’s increasing rental rate over the last 3 years, currently at \$4.71 per sq. ft. on a triple net basis.

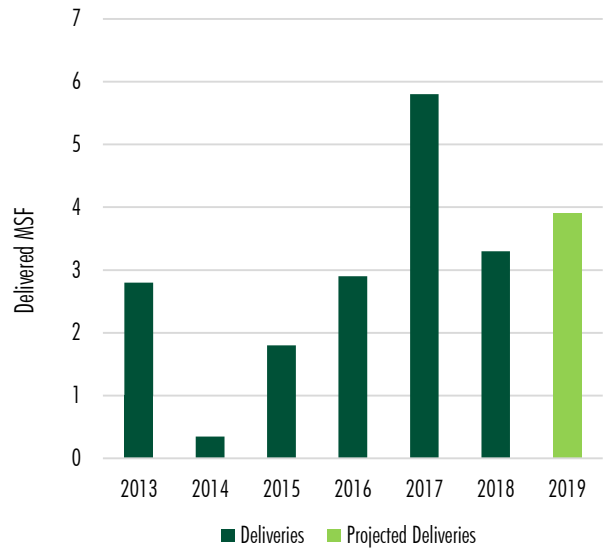
Of the 3.9 million sq. ft. under construction, under 5% is preleased, which means vacancy can be expected to rise further over the short term. Leasing velocity is expected to rise as well given the high degree of interest in the market.

Approximately 2 million sq. ft. was leased during Q4 2018. The Interchange City submarket made up the majority of all leases in Q4, with the largest being Cardinal Health’s lease of 322,000 sq. ft. and Ryder Integrated Logistics lease of 204,000 sq. ft.

Market wide vacancy slightly increased from 8.1% to 8.4% as Dorman Products, Hinkle, and Vantec World Transport vacated their previously occupied space, equating to a combined vacancy of 750,000 sq. ft. Over the last 2 years vacancy has fluctuated between a high of 8.4% and low of 6.2%. The submarkets with the lowest vacancy rates are MetroCenter/Cockrill Bend (2.5%) and Allied Drive/I-65 South (5.7%).

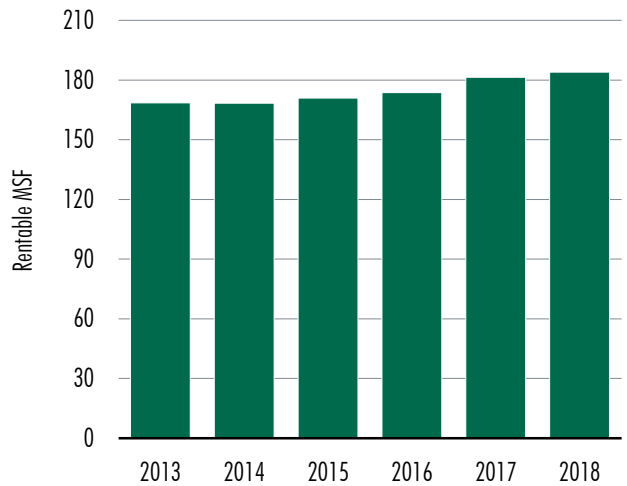
Negative net absorption of 236,000 sq. ft. was recorded in Q4 2018, pushing the annual net absorption to 2.2 million sq. ft. So far this year’s absorption has been led by tenants occupying new warehouse/distribution product. The Elm Hill Pike/I-40 submarket has seen the most positive activity this year recording over 678,000 sq. ft. of annual net absorption. The Northeast/I-65N Corridor has experienced the most negative absorption at 444,000 sq. ft. year-to-date.

Figure 2: Annual Deliveries



Source: CBRE Research, Q4 2018.

Figure 3: Rentable Sq. Ft.



Source: CBRE Research, Q4 2018.

Figure 4: Key Leasing Transactions

Tenant	Location	Size (sq. ft.)	Submarket	Transaction Type
Cardinal Health	Park 24 Mason Road	322,000	Interchange City	New
Superior Third Party Logistics	245 Couchville Blvd	237,000	Elm Hill Pike/I-40	New
Ryder Integrated Logistics	328 Weakley Lane	204,000	Interchange City	New
Goggin Warehousing	3309 Briley Park Blvd	113,000	Northeast/I-65	New
Nashville Wraps	11 Fant Industrial Drive	100,000	Northeast/I-65	New

Source: CBRE Research, Q4 2018.

INDUSTRIAL ABSORPTION

Nashville posted more than 235,000 sq. ft. of negative net absorption in Q4 2018. The submarket with the largest negative net absorption for the quarter was Northeast/I-65 corridor posting nearly 500,000 sq. ft. of negative absorption. The submarket with the largest positive net absorption for the quarter was Elm Hill Pike/I-40, posting just over 191,000 sq. ft. of positive absorption. Q4 2018 is the first quarter since Q1 2015 that Nashville’s industrial market has not posted positive absorption.

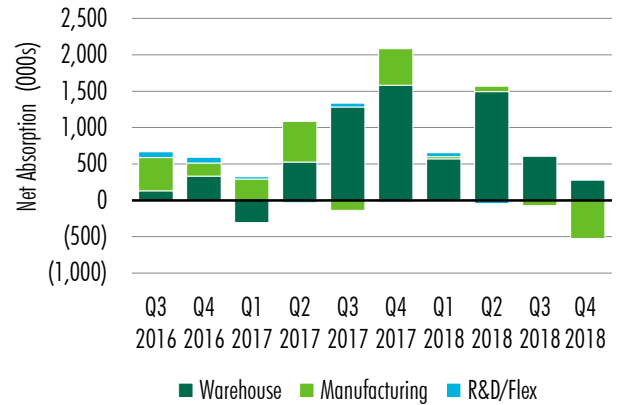
INDUSTRIAL RENTAL RATES

Nashville’s overall industrial asking rental rates have increased over the past 15 months by 7.4% to their current levels at \$4.71 per sq. ft. on a triple net basis. This rent growth has been spurred by new Class A projects, with over 7.7 million sq. ft. of Class A space being delivered since Q2 2017. In the last quarter manufacturing rental rates decreased by \$0.15 to \$4.37 per sq. ft., R&D/flex remained constant at \$7.85, and warehouse/distribution rates saw a slight increase to \$4.45, all on a triple-net basis.

INDUSTRIAL VACANCY RATES

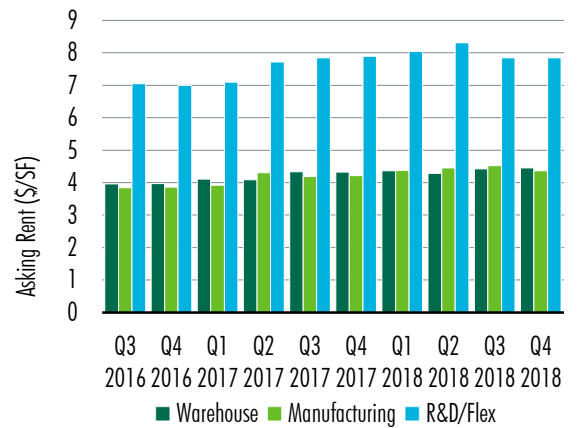
Over the past two years, Nashville’s vacancy rate has risen by 140 basis points from 7.0% in Q1 2016 to 8.4% in Q4 2018. It is important to note that the warehouse/distribution vacancy has grown by nearly 360 basis points from Q4 2016 to Q4 2018 as new speculative product has been delivered consistently in the last eight quarters. In terms of property type, warehouse/distribution vacancy remained flat from the previous quarter, currently at 9.4%, R&D/flex saw a 20 basis point increase to 10.1%, and manufacturing had a 74 basis point vacancy rate increase to 6.5%.

Figure 5: Quarterly Net Absorption



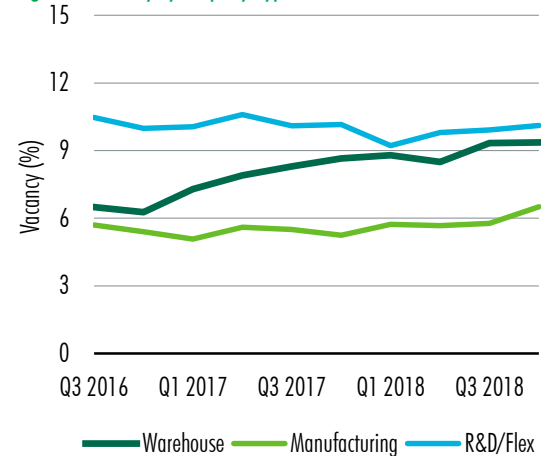
Source: CBRE Research, Q4 2018.

Figure 6: Asking Rental Rates by Property Type



Source: CBRE Research, Q4 2018.

Figure 7: Vacancy by Property Type

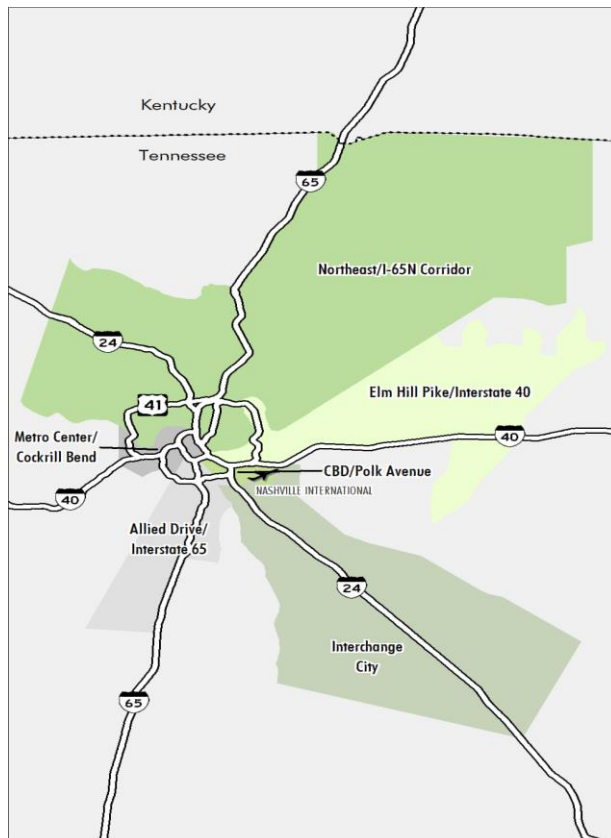


Source: CBRE Research, Q4 2018.

Figure 8: Market Statistics

Submarket	Market Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Avail. Rate (%)	Q4 2018 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Avg. NNN Asking Lease Rate (\$/SF/yr)
Allied Drive/I-65	19,404,476	5.6	5.8	8.6	11,575	(83,578)	0	6.93
CBD/Polk Avenue	14,100,148	6.8	6.8	10.7	60,368	92,368	295,000	5.59
Elm Hill Pike/I-40	34,575,196	9.0	9.1	10.1	191,410	678,132	2,018,560	4.76
Interchange City	62,521,755	8.7	9.0	10.2	(59,230)	547,298	1,614,449	4.45
MetroCenter/Cockrill Bend	13,231,024	2.5	2.5	4.4	25,000	(5,748)	0	6.40
Northeast/I-65N Corridor	40,205,081	10.7	10.7	12.7	(465,267)	(443,780)	0	3.96
Warehouse/Distribution	101,134,651	9.3	9.4	11.1	278,959	1,457,888	3,928,009	4.45
Manufacturing	68,801,289	6.3	6.5	8.1	(526,227)	(568,971)	0	4.37
R&D/Flex	11,036,609	9.7	10.1	12.4	11,124	59,199	0	7.85
NASHVILLE	184,037,680	8.3	8.4	10.2	(236,144)	2,243,405	3,928,009	4.71

Source: CBRE Research, Q4 2018.



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