

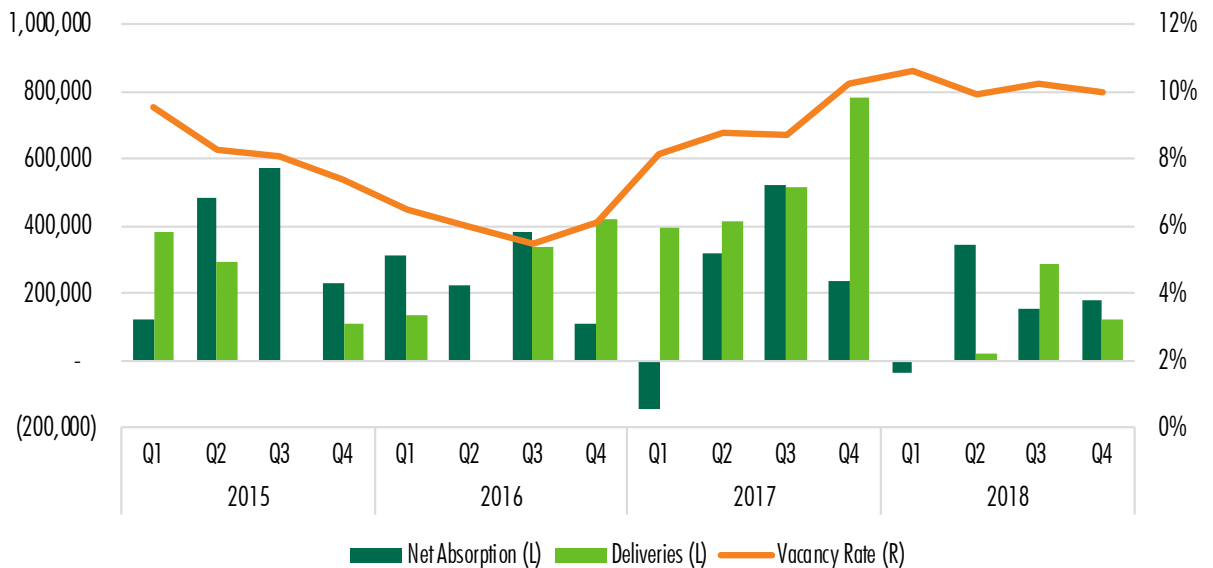
Nashville Office, Q4 2018

# Ample room for tenant activity with positive fundamentals

▼ Vacancy Rate 10.0%
▲ Overall Rate \$26.86 PSF
▲ Class A Rate \$32.00 PSF
▲ Net Absorption 180,506 SF
▲ Construction 3,156,526 SF
▼ Completions 124,286 SF

\*Arrows indicate change from previous quarter.

Figure 1: Vacancy Rate, Deliveries and Net Absorption



Source: CBRE Research, Q4 2018.

Fourth quarter 2018 posted moderate absorption, rising rental rates and ample construction activity. Leasing activity remained robust as several large users committed to Class A space in both urban and suburban submarkets. As a whole, the Nashville office market is maturing, providing ample room for tenant activity with positive fundamentals. The Nashville office market is adjusting to the delivery of new Class A inventory. After several years of single digit vacancy, tenant demand pushed developers into the expansion phase throughout 2017 and 2018. Nashville’s office inventory has increased 1.3 million sq. ft. since Q3 2017 to 38.5 million sq. ft.

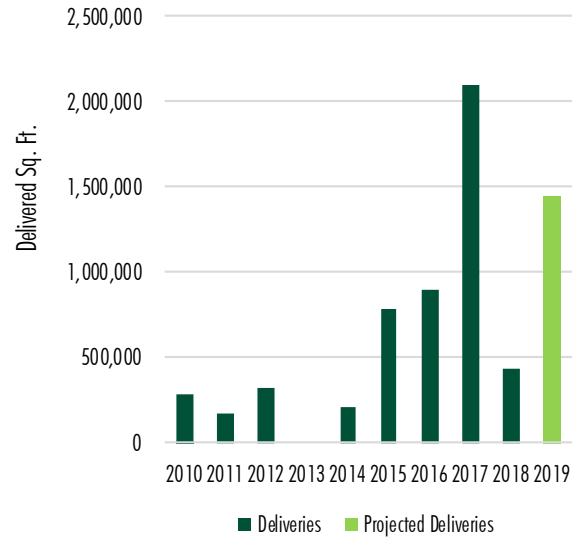
Overall vacancy slightly decreased to 10.0% in Q4 2018 due to several new occupancies in Class A buildings in both suburban and downtown submarkets. Significant vacancies remain in second generation space in suburban submarkets. In Q4 2018, Verizon Wireless vacated its 180,000 sq. ft. suburban office space in Cool Springs. Compared to other markets in the region, vacancy in Nashville is still relatively low. Additionally, Nashville’s current state of the market is a significant improvement from that which was available two years ago, when vacancy was roughly half of what it is now and tenants were struggling to find office space.

As for new inventory, three office buildings, totaling over 124,000 sq. ft. delivered in Q4 2018. More than 514,000 sq. ft. of Class A office space has been delivered in 2018. Notably, Virginia Springs I, a Class A office buildings in the Brentwood submarket, completed and is 100% preleased with tenants occupying in mid-2019. Additional Q4 deliveries include LKQ's new office building and CitiView II, both located in the Airport South submarket.

Currently there is 3.1 million sq. ft. under construction, 20% of which is preleased. Of these 15 developments under construction, eight are projected to deliver over 1.3 million sq. ft. in 2019. One noteworthy 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 early 2020. In Q4 2018 financial services firm, Alliance Bernstein, committed to occupying 205,000 sq. ft. in Fifth and Broad once the building is completed.

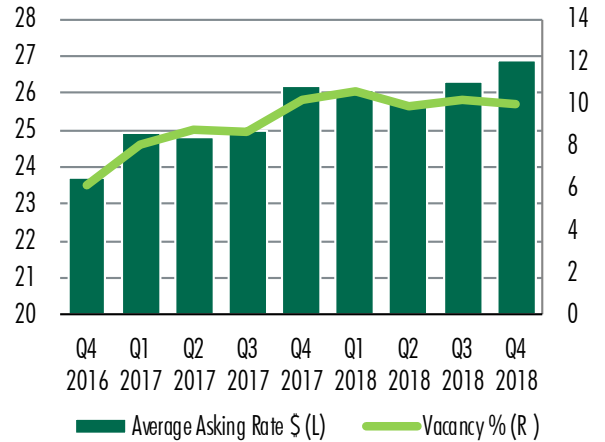
New modern Class A buildings with high-end amenities have pushed rental rates throughout the market. Weighted average asking rental rates increased to \$26.86 per sq. ft. on a full service basis. Class A rates remain at \$32.00 per sq. ft., which is still a record high for the Nashville office market. Rental rates in the CBD experienced similar growth, increasing to \$28.64 per sq. ft.

Figure 2: Annual Deliveries Sq. Ft.



Source: CBRE Research, Q4 2018.

Figure 3: Asking Rate and Vacancy



Source: CBRE Research, Q4 2018.

Figure 4: Key Leasing Transactions

Tenant	Location	Size (Sq. Ft.)	Submarket	Transaction Type
Alliance Bernstein	Fifth and Broad	205,000	Downtown	New
EY	18 <sup>th</sup> and Chet	63,000	Green Hills/Music Row	New
Premise Health	5401 Maryland Way	42,000	Brentwood	New
Warner Music Inc.	511 Union Street	36,000	Downtown	Expansion
AKZO Nobel Coatings	535 Marriott Drive	25,000	Airport North	New

Source: CBRE Research, Q4 2018.

**OFFICE ABSORPTION**

Nashville's Class A office market experienced strong occupancy gains in Q4 2018 with over 275,000 sq. ft. of net absorption, which contributed to the strong quarter. In 2018 over 775,000 sq. ft. of space has been absorbed in Class A buildings. The top absorptions in Q4 were tenants occupying new construction and Class A buildings in Nashville's urban and top suburban submarkets. Tenants on the move included LKQ, Philips, AKZO Noble Coatings and Cherry Bekaert.

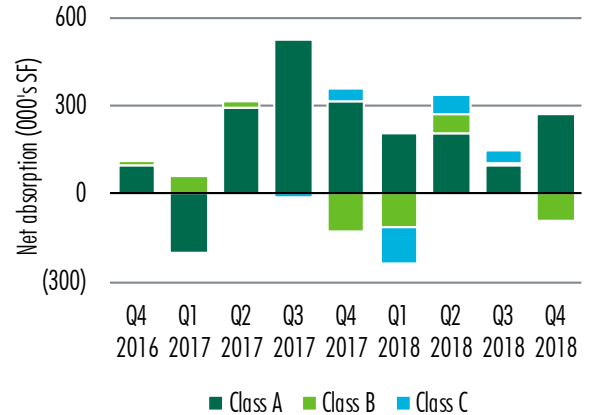
**OFFICE RENTAL RATES**

The combination of new construction hitting the market and tenant demand has led to steady rent growth since Q1 2016. Q4 2018 reported a slight decrease in overall asking rates, with an average rate of \$26.86 per sq. ft. Class A rents slightly decreased to an average rate of \$32.00 per sq. ft. in Q4 2018. Class A rates have remained steady around \$32.00 per sq. ft. throughout 2018. Class B and Class C product has been steadily rising with a Class B average of \$23.98 per sq. ft. and Class C at \$18.89 per sq. ft. The Nashville market is likely to see rising rate trends throughout 2019 as Class A vacancy continues to tighten and new construction delivers.

**OFFICE VACANCY RATES**

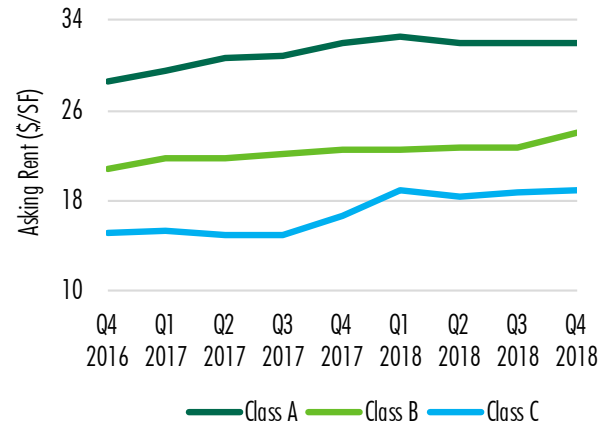
As predicted, the delivery of new office space during 2017 and 2018 resulted in temporary vacancy increases. Nashville's overall vacancy ended the year at a healthy 10% with annual absorption of 640,000 sq. ft. Nashville's overall vacancy started to increase in Q2 2018 as new construction entered the market. As would be expected in a market with extensive new construction, rising vacancy has been concentrated among Class A product in past quarters, which is a trend that is predicted to continue in the upcoming year.

Figure 5: Quarterly Net Absorption



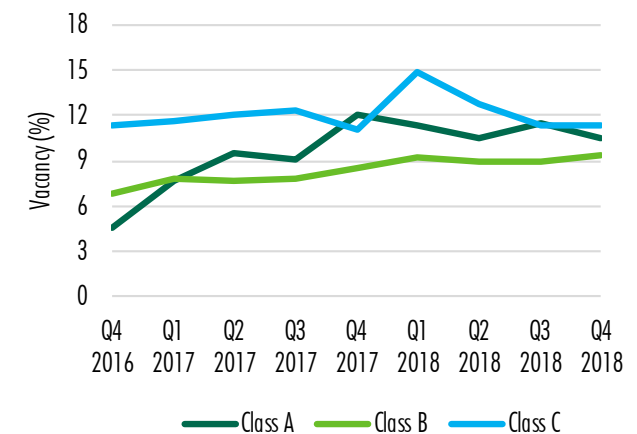
Source: CBRE Research, Q4 2018.

Figure 6: Rental Rates by Property Type



Source: CBRE Research, Q4 2018.

Figure 7: Vacancy by Property Type

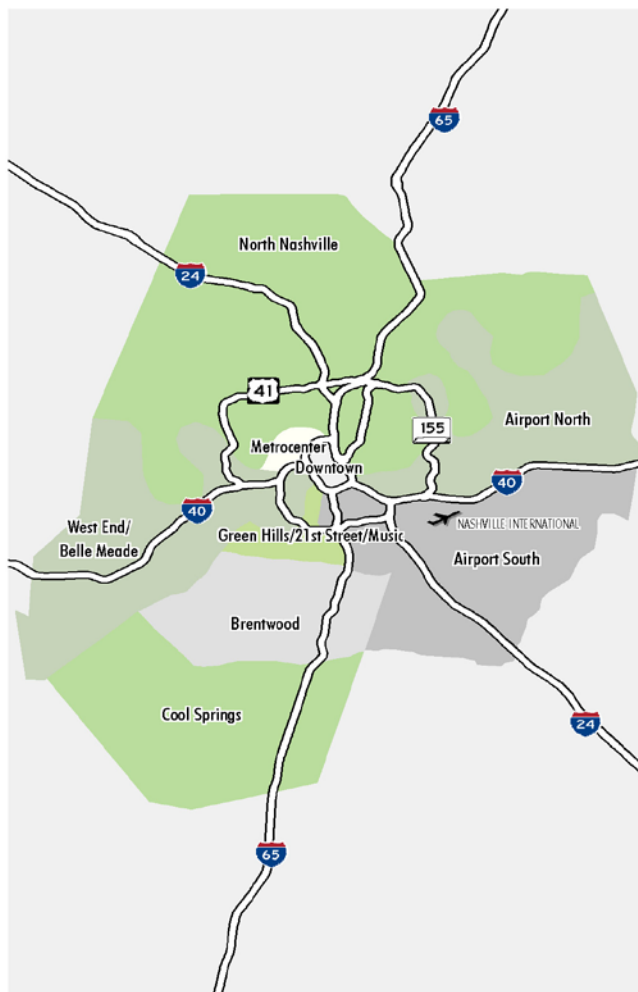


Source: CBRE Research, Q4 2018.

**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. Gross Asking Lease Rate (\$/SF/Yr)
Airport North	3,929,610	11.1	11.6	16.7	50,244	14,506	0	24.19
Airport South	3,849,724	10.6	11.2	15.8	124,286	182,328	0	18.59
Brentwood	6,278,233	10.4	11.5	13.9	(628)	(155,982)	200,500	28.07
Cool Springs	6,131,560	13.8	17.2	22.4	(225,509)	(121,510)	403,396	30.31
Downtown	9,444,639	7.5	7.8	12.0	118,500	517,131	1,641,150	28.64
Green Hills/21 <sup>st</sup> Ave/Music Row	2,497,209	5.5	5.5	6.7	5,368	48,947	267,480	30.44
MetroCenter	1,756,346	4.8	5.3	6.5	33,427	75,905	0	22.78
North Nashville	857,840	8.5	8.5	10.9	0	7,111	0	17.33
West End/Belle Meade	3,841,878	4.0	4.3	5.8	69,818	67,456	644,000	30.28
<b>NASHVILLE</b>	<b>38,587,039</b>	<b>9.1</b>	<b>10.0</b>	<b>13.6</b>	<b>180,506</b>	<b>640,892</b>	<b>3,156,526</b>	<b>26.86</b>

Source: CBRE Research, Q4 2018.



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