

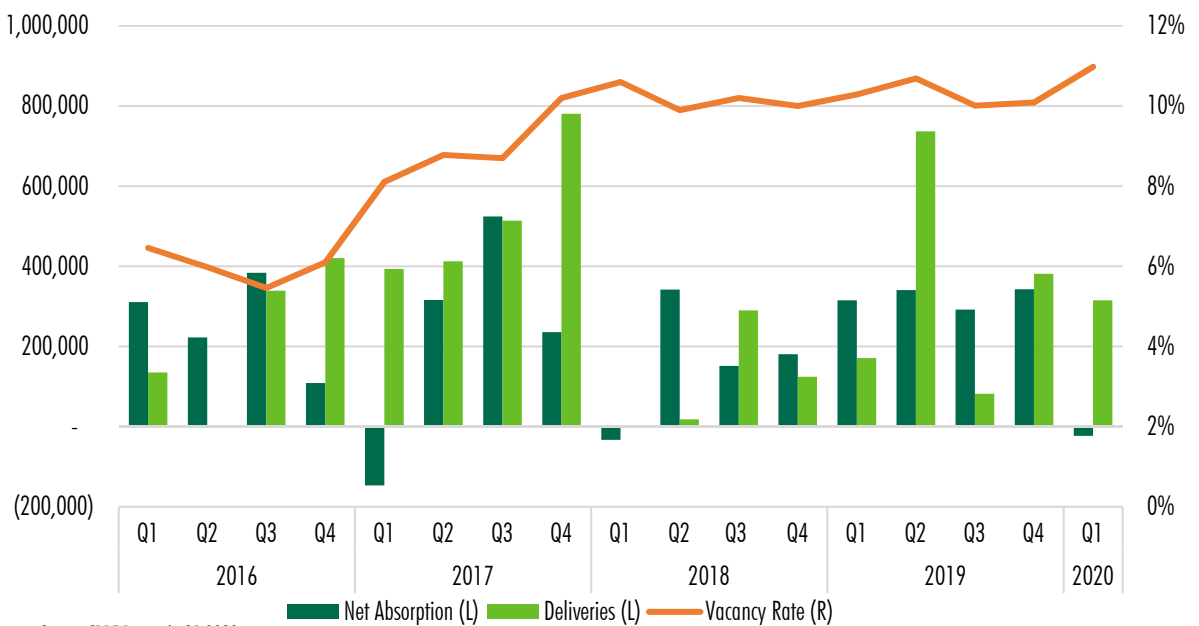
Nashville Office, Q1 2020

Strong demand bodes well for rent growth and positive market gains

▲ Vacancy Rate 10.9%
▲ Overall Rate \$27.75 PSF
▲ Class A Rate \$32.95 PSF
▼ Net Absorption -22,910 SF
▲ Construction 4,791,624 SF
▶ Completions 315,296 SF

Figure 1: Vacancy Rate, Deliveries and Net Absorption

*Arrows indicate change from previous quarter.



Source: CBRE Research, Q1 2020.

The Nashville office market ended the Q1 2020 quarter posting stable rent growth, new construction ground breakings and deliveries, and healthy leasing and sales activity. Despite a relatively positive market performance throughout the first quarter of 2020, recent implications of COVID-19 have slowed transaction activity market-wide and will likely affect the Nashville office market in 2020.

The COVID-19 pandemic has forced some state governments to impose strict stay-at-home orders that are adversely affecting many industries. This is leading the U.S. economy into a recession that will result in very sharp declines in GDP for H1 2020

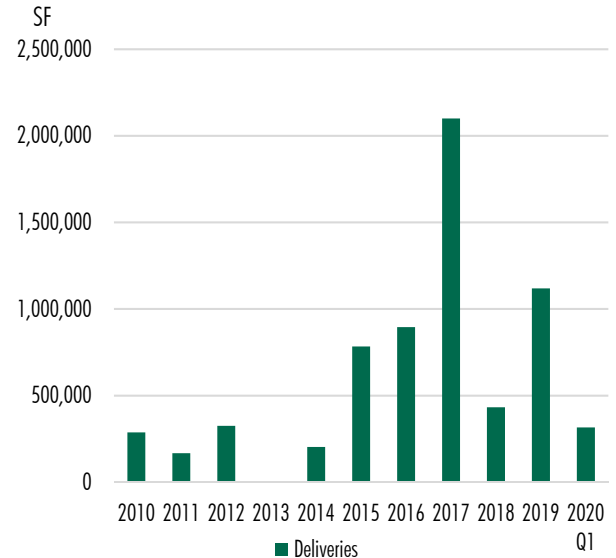
and in job losses, particularly in the retail, food & beverage and transportation sectors. Office-using employment may be less negatively affected than in recent recessions. But the unique nature of this downturn should result in an unusually swift recovery that could begin as early as Q3 2020. Assuming the coronavirus peaks this summer in the U.S.—mirroring China’s experience—the U.S. government’s fiscal and monetary stimulus will begin to bear fruit. This will be paired with pent-up private demand that could help the U.S. economy return to growth by year-end and drive stronger than previously expected growth in 2021.

As a direct response to recent economic conditions, the Federal Reserve decreased the federal funds rate to a range of 0% to 0.25% in March, the lowest it has been since 2008. The immediate impact of the interest rate cut has been minimal during the first quarter, as office sales remained stable, recording \$481.8 million in sales volume and averaging \$297 per sq. ft. at the end of Q1 2020. Looking forward, only time will tell how the Fed's monetary policy will influence office capital markets in the quarters to come.

There is currently 4,791,624 sq. ft. of Class A office product under construction throughout Nashville. The Downtown submarket is experiencing the majority of this construction activity, with over 2.5 million sq. ft. currently under construction, and an additional 1.3 million sq. ft. approved and awaiting ground break.

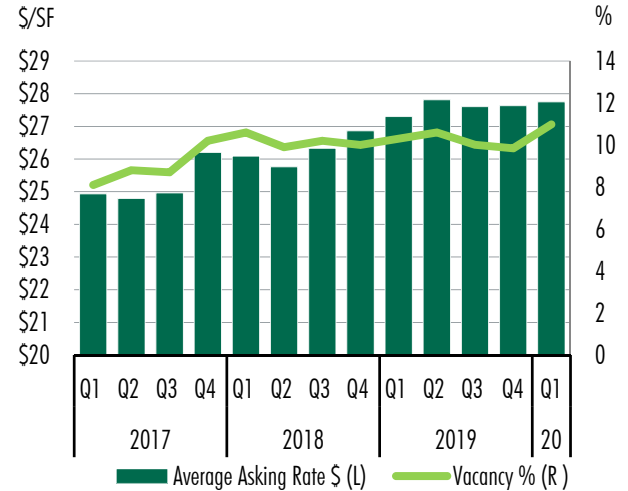
In Q1, 315,296 sq. ft. of new office product was delivered to the market, consisting of Sylvan Supply (135,900 sq. ft.) and Northside McEwen Block B (179,396 sq. ft.). Of the 315,396 sq. ft. of new supply delivered, 24% was preleased prior to delivery. It can be expected for 2020 to be another year of ample office deliveries, with over 1.5 million sq. ft. slated to deliver throughout the year. However, current market conditions will likely result in some construction delays as permitting is deferred and preleasing activity decelerates.

Figure 2: Delivered SF



Source: CBRE Research, Q1 2020.

Figure 3: Asking Rate and Vacancy



Source: CBRE Research, Q1 2020.

Figure 4: Key Leasing Transactions

Tenant	Location	Size (Sq. Ft.)	Submarket	Transaction Type
Genesco	535 Marriott Drive	185,000	Airport North	New Lease
Blue Cross Blue Shield	26 Century Boulevard	84,091	Airport North	New Lease
QTC	100 Centerview Drive	57,347	Airport North	New Lease
Comdata	5301 Maryland Way	50,690	Brentwood	Renewal
iHeart Radio	1200 Broadway	40,000	Downtown	New Lease

Source: CBRE Research, Q1 2020.

OFFICE ABSORPTION

Compared to previous quarters, 2020 started slow with 22,910 sq. ft of negative absorption recorded at quarter end. This was largely due to AT&T’s consolidation of office space in downtown, which accounted for 166,536 sq. ft. of negative absorption in the urban submarket. Suburban office product led the market in absorption for the quarter, with Brentwood (58,431 sq. ft.) and Cool Springs (30,544 sq. ft.) posting a combined 88,975 sq. ft of positive absorption.

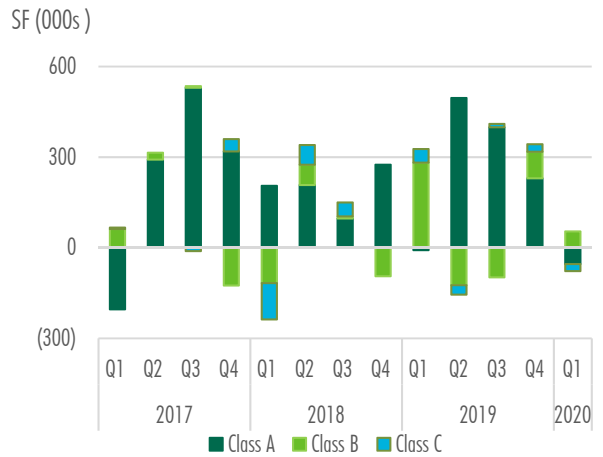
OFFICE RENTAL RATES

In Q1 2020, average asking rents market-wide increased to \$27.75 per sq. ft. full service gross, a 1.6% year-over-year increase since Q1 2019. Class A average asking rents increased by 0.6% year-over-year, bringing the average Class A asking rate to \$32.95 per sq. ft. full service gross at the end of Q1. Unwavering demand for office space continues to drive rents upward, even as a consistent stream of new supply delivers to the Nashville market.

OFFICE VACANCY RATES

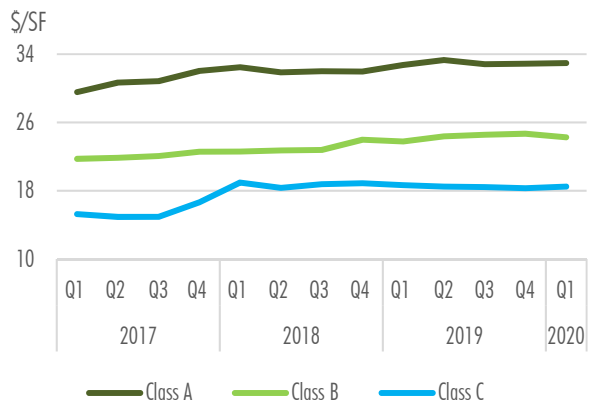
Nashville’s overall vacancy ended the quarter at 10.9%, a 110 basis point increase from Q4 2019. This uptick in vacancy can be attributed to new office deliveries and consolidation of office space by AT&T. Despite an increase in vacancy market-wide, this was counterbalanced by healthy demand for office space, with several new office leases signed including specialty retailer Genesco (185,000 sq. ft.), health insurance provider Blue Cross Blue Shield (84,091 sq. ft.) and healthcare company QTC (57,349 sq. ft.), who will occupy their new spaces throughout 2020. With 4,791,624 sq. ft. of new office space in the construction pipeline with staggered completion dates over the next few years, the market will likely experience an increase in overall vacancy as new stock delivers.

Figure 5: Absorption



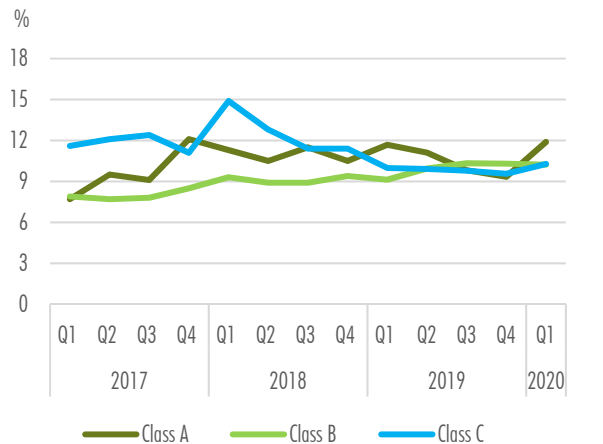
Source: CBRE Research, Q1 2020.

Figure 6: Rental Rates



Source: CBRE Research, Q1 2020.

Figure 7: Vacancy

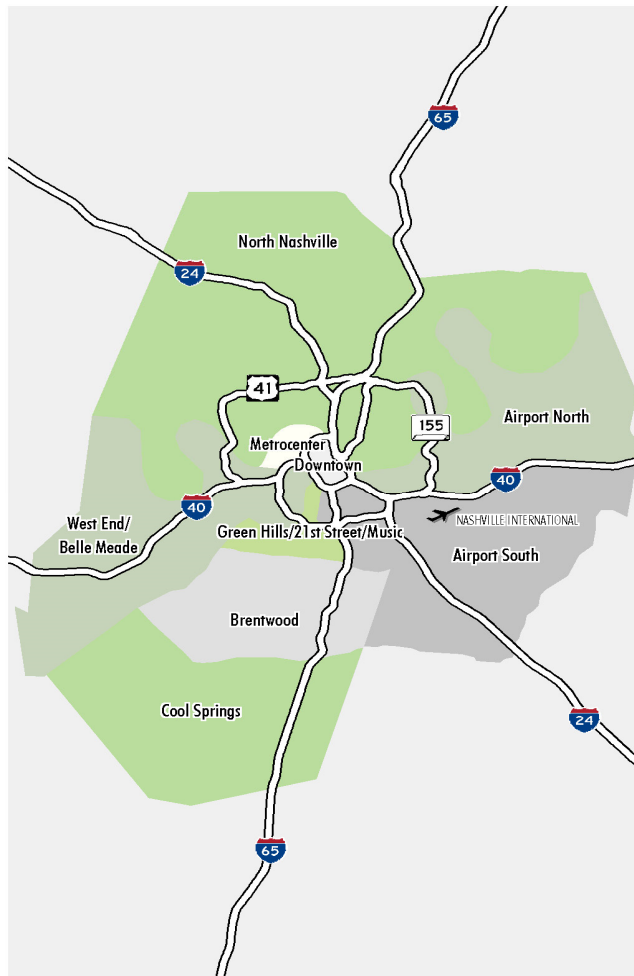


Source: CBRE Research, Q1 2020.

Figure 8: Market Statistics

Submarket	Market Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Avail. Rate (%)	Q1 2020 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Avg. Gross Asking Lease Rate (\$/SF/Yr)
Airport North	3,931,741	11.7	12.9	21.7	18,897	18,897	0	23.59
Airport South	4,317,477	9.2	9.8	13.7	(667)	(667)	240,000	19.23
Brentwood	6,033,067	9.9	11.1	14.4	58,431	58,431	313,500	28.23
Cool Springs	7,245,484	14.8	16.1	23.2	30,544	30,544	332,407	30.29
Downtown	9,805,140	9.2	9.9	15.3	(93,484)	(93,484)	3,132,526	30.26
Green Hills/21 st Ave/Music Row	2,774,209	7.9	7.9	9.2	(5,735)	(5,735)	108,522	32.78
MetroCenter	1,774,116	6.9	7.4	8.4	0	0	139,249	24.46
North Nashville	857,840	9.8	9.8	11.1	0	0	0	17.83
West End/Belle Meade	3,977,778	7.1	7.3	8.1	(30,896)	(30,896)	525,420	30.82
NASHVILLE	40,716,852	10.2	10.9	15.5	-22,910	-22,910	4,791,624	27.75

Source: CBRE Research, Q1 2020.



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