

MARKETVIEW

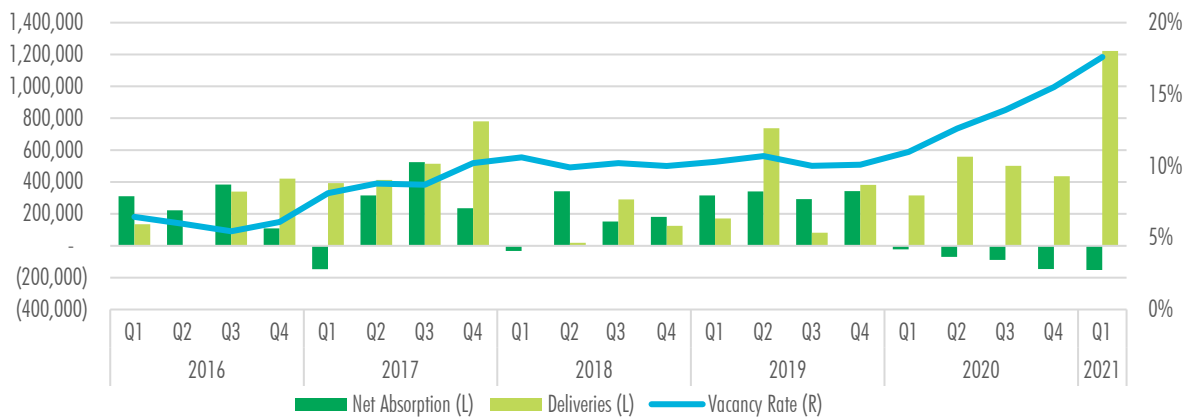
NASHVILLE OFFICE, Q1 2021

Vacancy rates trend upward while rents maintain stability

▲ Vacancy Rate 17.6%
▲ Overall Rate \$28.61
▲ Class A Rate \$33.10
▶ Net Absorption -151,987 SF
▶ Construction 2,734,947 SF
▲ Completion 1,221,717 SF

*Arrows indicate change from previous quarter.

Figure 1: Vacancy Rate, Deliveries and Net Absorption



Source: CBRE Research, Q1 2021

The outlook for the United States economy is becoming very positive as COVID-19 vaccines are deployed at a rapid pace. At the close of the first quarter, just over 40% of Americans have received at least one dose of the vaccine. The rate of daily vaccinations has accelerated to 2.5 million, making societal and economic normalization possible by mid-year.

As social distancing measures subside much of the spending will likely focus on consumer services, such as restaurants and leisure travel. A recovery within these sectors is critical for the broader labor market, as leisure and hospitality employment are more than 30% below pre-COVID levels, compared

to 5% for total employment (excluding leisure and hospitality).

As the economy continues to reopen, it is expected to support near 7% GDP growth this year – the strongest pace seen since the early 1980s. This expansion is poised to be broad-based, with personal consumption being a critical factor. Overall, the U.S. economy is projected to create an upward of 7 million total new jobs in 2021.

Nashville has already experienced strong economic recovery fundamentals to date and is expected to continue to recover at a quicker pace than many U.S. markets through 2021.

Rounding out Q1 2021, the Nashville economy continues to recover from the economic disruptions from the prior year and has already made significant strides. As of January 2021, Nashville’s unemployment rate was at 4.4%, 160-basis points off from the 2.8% unemployment rate recorded in January 2020. While most office-using jobs have recovered to pre-pandemic employment levels, the leisure and hospitality industry still has much room for improvement.

Office leasing activity has seen momentum pick up quarter-over-quarter, with a sizeable number of new leases signing in Q1 2021. As companies continue to consider expanding or relocating their operations into Nashville, leasing and investment activity should continue to trend positively over the coming quarters.

Since 2010, Nashville has had one of the fastest-growing office inventories. Over 1.2 million sq. ft. of new class A office space was delivered already 61% preleased in Q1 2021. And with 1.5 million sq. ft. under construction and expected to come online in 2021, new construction is on pace to surpass 2017 delivery levels. Of the 2.7 million sq. ft. of office space under construction, approximately 43% is preleased. Despite an increase in construction labor and material costs, developers remain bullish on Nashville as new projects break ground and planned projects seek Metro approval.

As market conditions continue to improve and more occupiers solidify their workplace strategies, pent-up demand should help absorb new and existing office supply.

Figure 2: Delivered SF

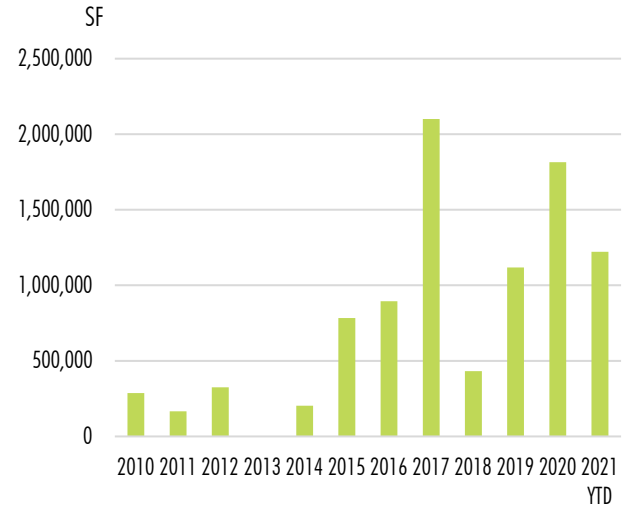
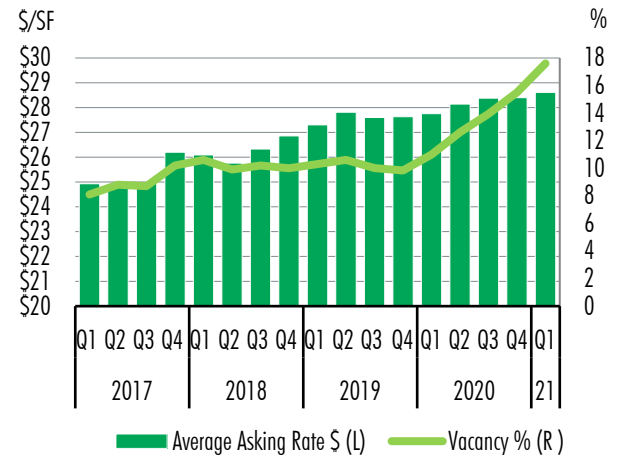


Figure 3: Asking Rate and Vacancy



Source: CBRE Research, Q1 2021

Figure 4: Key Leasing Transactions

Tenant	Location	Size (Sq. Ft.)	Submarket	Transaction Type
Premise Health	5500 Maryland Way	63,121	Brentwood	Renewal
Labcorp	201 Summit View Dr	55,945	Brentwood	Renewal
NTT Data	500 11 th Ave N	34,685	Downtown	New Lease
Idemia	340 Seven Springs Way	29,670	Brentwood	New Lease
Healthcare Blue Book	340 Seven Springs Way	29,670	Brentwood	New Lease

Source: CBRE Research, Q1 2021

OFFICE ABSORPTION

In Q1 2021, the Nashville office market recorded -151,987 sq. ft. of net absorption. Large tenant move-outs in Cool Springs (-158,562 sq. ft.), Airport North (-155,887 sq. ft.), and Brentwood (-118,226 sq. ft.) drove negative absorption for the quarter. Meanwhile, Downtown recorded 333,879 sq. ft. of positive net absorption, driven by the completion of the 552,000 sq. ft. build-to-suit Nashville Yards Tower One. With increasing leasing activity and more new leases being signed, this should promote positive absorption in the months ahead.

OFFICE RENTAL RATES

Nashville’s average asking rental rate experienced a slight uptick from the previous quarter, increasing 21-basis points to \$28.61 per sq. ft. FSG in Q1 2021. New construction deliveries quarter-over-quarter have helped uphold rents across the market over the last year. As demand continues to drive absorption, rents should also trend positively in the coming quarters.

OFFICE VACANCY RATES

New construction deliveries coupled with a handful of large tenant move-outs pushed Nashville’s overall vacancy rate upward to 17.6% in Q1 2021. The largest move-outs included a tech-related company (192,000 sq. ft. combined) with office space in Airport North and Downtown and AIG’s 174,000 sq. ft. sublease in Brentwood. Looking forward, vacancy rates will likely remain elevated but could see some relief as tenants continue to sign new leases and lease commencements ensue.

Figure 5: Absorption

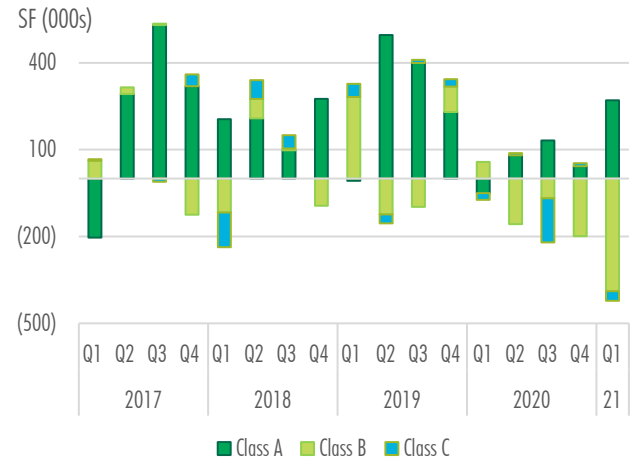


Figure 6: Rental Rates

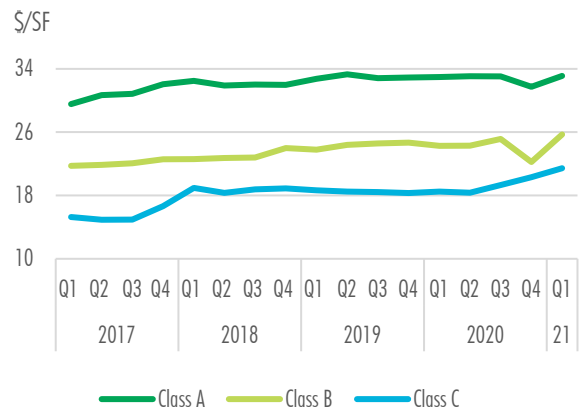
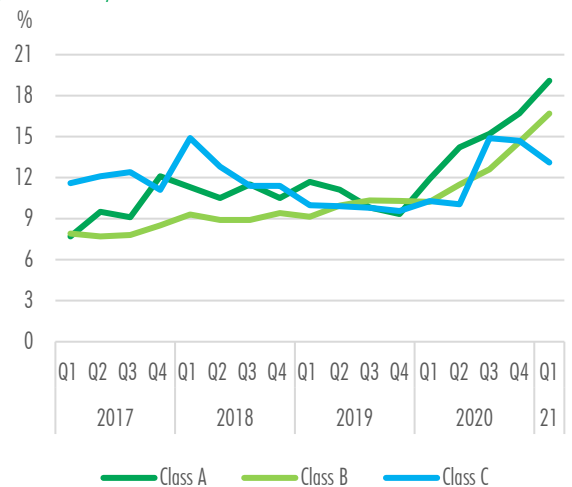


Figure 7: Vacancy

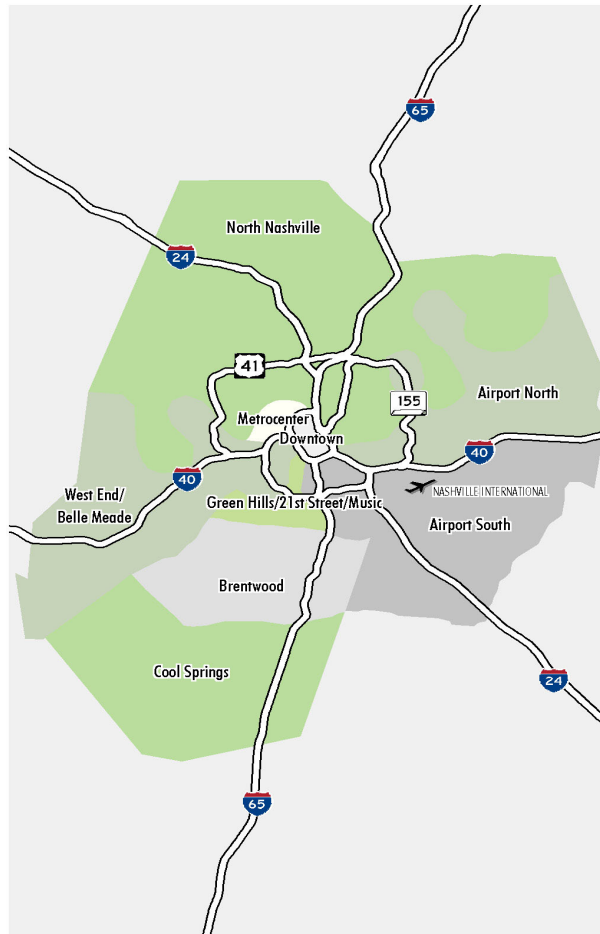


Source: CBRE Research, Q1 2021

Figure 8: Market Statistics

Submarket	Market Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Avail. Rate (%)	Q1 2021 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Avg. Gross Asking Lease Rate (\$/SF/Yr)
Airport North	3,850,491	7.2%	13.1%	18.5%	(155,887)	(155,887)	0	23.58
Airport South	4,380,127	15.2%	15.6%	18.3%	12,294	12,294	310,000	18.70
Brentwood	6,347,803	13.3%	17.4%	20.1%	(118,226)	(118,226)	0	28.59
Cool Springs	7,286,387	20.6%	24.8%	30.1%	(158,562)	(158,562)	152,407	30.84
Downtown	11,729,319	14.5%	17.7%	25.2%	333,879	333,879	1,895,526	31.72
Green Hills/21 st Ave/Music Row	2,774,209	9.4%	9.4%	11.9%	5,394	5,394	268,802	31.14
MetroCenter	1,915,340	17.7%	21.4%	26.3%	(77,988)	(77,988)	0	25.23
North Nashville	857,840	5.9%	5.9%	7.5%	(1,741)	(1,741)	0	19.20
West End/Belle Meade	4,550,942	15.2%	17.3%	18.8%	8,850	8,850	108,212	32.08
NASHVILLE	43,692,458	14.5%	17.6%	22.2%	-151,987	-151,987	2,734,947	28.61

Source: CBRE Research, Q1 2021



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