



Nashville

Office Market 1Q 2018

In 2014, *TIME* Magazine named Nashville as the South's Red-Hot Town, stating that the city had seen the strongest employment growth since the Great Recession of any large metropolis. Even after four years, the dynamism and prosperity of Nashville's economy continues to demand the national spotlight, with the city recently ranking #7 on Forbes' list of the Top 25 Fastest-Growing Cities of 2018, jumping up from #20 in 2017.

With the latest unemployment rate at 2.4%, the unprecedented economic growth is a testament to Nashville's diverse market. The area's pro-business environment has not only helped grow the industry staples like healthcare, music, education, and transportation, but has also been a catalyst for corporate relocations. Since the *TIME* 2014 headline, Nashville has experienced 450 relocations and expansions bringing over 43,000 jobs to the city.



Construction

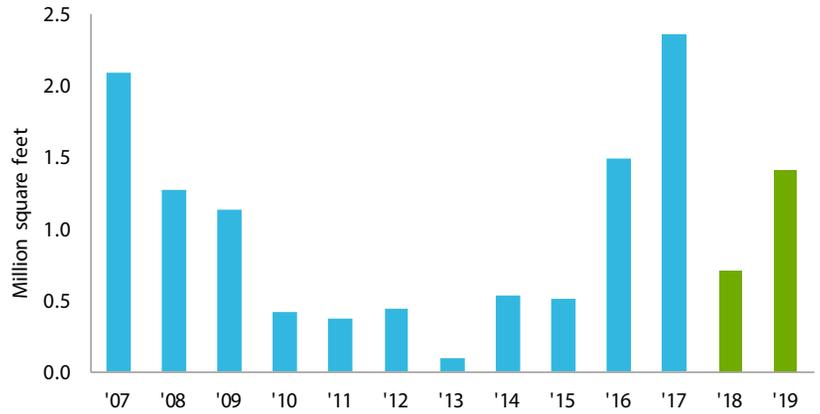
Impressive employment gains and corporate relocations continue to drive surging construction activity in the Nashville office market, changing the city's iconic skyline. Of the 2.1 million square feet (msf) currently underway, including speculative projects and three build-to-suit buildings, only 33% of the space is preleased. While there were no deliveries in the first quarter, over 720,000 square feet (sf) is expected to deliver by year end. Among the speculative buildings, totaling 1.6 msf, 4% of the space has been spoken for. The largest pockets of construction are focused in the CBD and Cool Springs submarkets, which collectively account for 75% of the construction activity.

Absorption & Leasing Activity

Nashville's office market recorded over 290,000 sf of negative absorption in the first quarter largely in part to healthcare giant HCA shifting its employees to the former AIG campus in the Brentwood submarket. HCA purchased the property from AIG back in August 2014 and is keeping it an owner-user facility that is now HCA's TriStar Health division. In recent years many Nashville headquartered companies have shifted to owning their own buildings, with notable companies including CHS, Tractor Supply and Caterpillar Financial. As these companies transition from the third-party owned inventory into the owner-user realm, absorption and vacancy statistics take a hit, but historically Nashville has rebounded quickly from these large swings in the market.

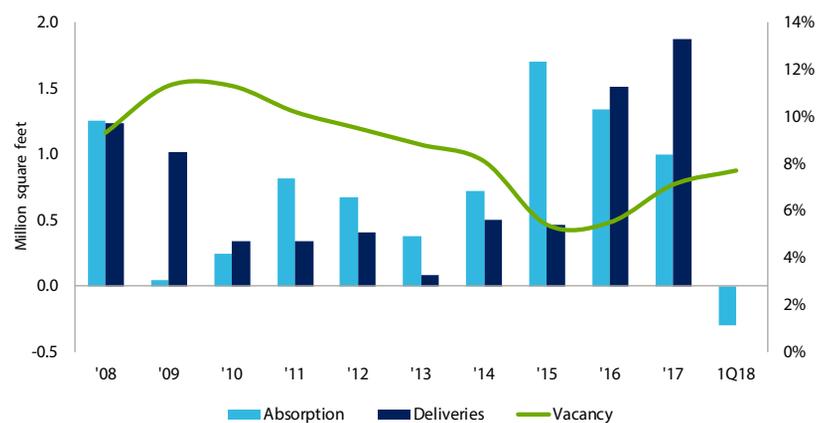
Activity was modest in the Class A market, with tenants absorbing 139,884 sf. This activity was largely offset by the negative absorption recorded in the Class B market. The CBD and Cool Springs submarkets continue to experience some of Nashville's strongest tenant demand as many office tenants are making decisions based on recruiting and retention with an increased emphasis on improved amenities.

Construction Deliveries*



*Based on projects currently under construction

Absorption, Deliveries, & Vacancy



Select Owner-User Headquarters



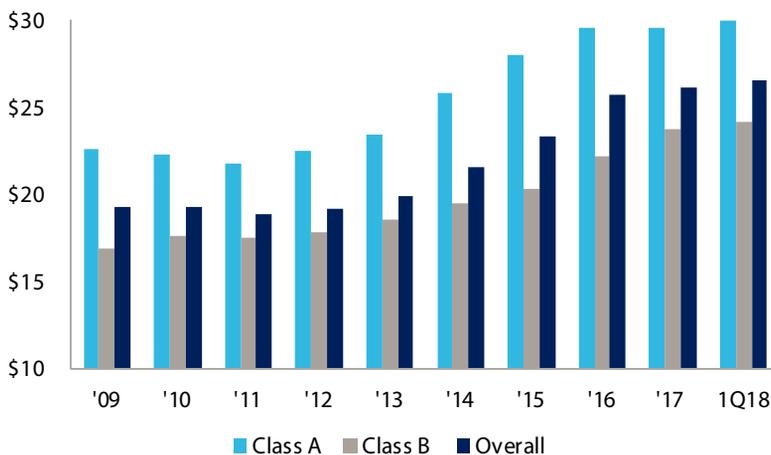
Vacancy

Office vacancy ended first quarter at 7.7%, up 140 basis points year over year. Spurred by strong tenant demand, Class A urban vacancies outperformed suburban submarkets in the first quarter, averaging 5.5% compared to the suburban vacancy of 11.6%. The Brentwood submarket saw the largest increase in vacancy in the last three months due to the HCA movement mentioned previously.

Rental Rates

Despite the negative absorption, average asking rates in the Nashville market increased by \$0.50 per square foot (psf) year over year to \$26.52 psf in the first quarter. Rates for class A space continue to increase and have reached a new high of \$29.93 psf. In an effort to compete with the new product being delivered to the market, many older buildings' landlords are offering concessions or renovating. While most would assume new construction is driving the rental rate appreciation over the past 24 months, Class A rates only improved by 2%, while Class B rates rose 17% proving renovations are paying off for owners.

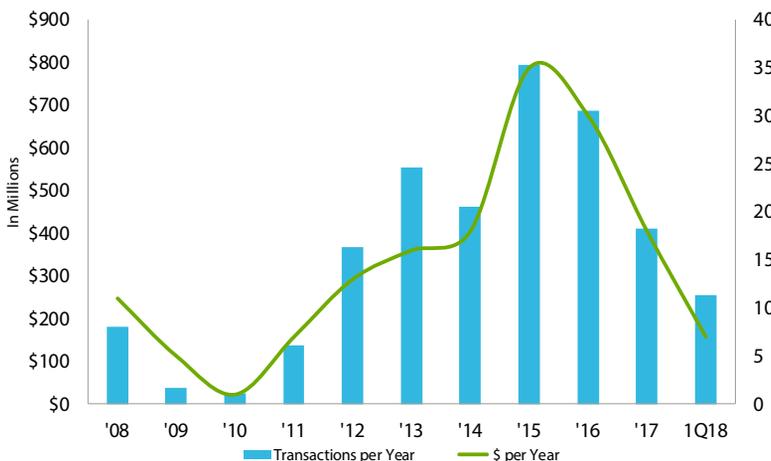
Annual Rent Growth



Investment Sales

Office investment sales totaled \$255 million in the first quarter, an increase of 92% year over year. In the largest sale of the quarter, Caterpillar Financial Services Corp. paid \$90.9 million (\$291/sf) for its West End financial headquarters location from Piedmont Office Realty Trust. Another noteworthy sale during the quarter, *The Tennessean* closed the sale of its 10-acre downtown property to Highwoods Properties, one of Nashville's largest landlords. Highwoods plans to spend \$252 million to redevelop the property for Asurion, the technology solutions company, that will consolidate four of its buildings into a single location on the site.

Investment Sales



	Inventory	Vacancy	Absorption	Deliveries	Under Construction	Average Asking Rates	
						All Classes	Class A
Submarket							
Airport North	4,363,873	8.3%	23,713	0	0	\$21.89	\$23.03
Airport South	5,438,547	8.8%	(82,198)	0	127,286	\$20.92	\$0.00
Brentwood	6,671,699	11.9%	(298,791)	0	106,000	\$28.31	\$30.43
Cool Springs	7,632,149	7.4%	43,147	0	775,000	\$29.64	\$30.54
CBD	11,325,871	8.2%	76,217	0	791,678	\$28.56	\$31.05
Green Hills/ Music Row	3,058,554	3.5%	(19,542)	0	301,193	\$30.87	\$32.86
MetroCenter	2,128,921	3.7%	6,730	0	0	\$20.60	\$22.00
North	2,072,714	7.2%	(41,970)	0	0	\$17.71	\$22.22
West End	6,289,667	5.0%	(6,279)	0	0	\$30.72	\$31.42
Market Totals							
Class A	23,327,788	8.5%	139,884	0	2,101,157	\$29.93	-
Class B	20,057,075	7.4%	(343,839)	0	0	\$24.12	-
Class C	5,597,132	5.8%	(95,018)	0	0	\$18.16	-
TOTAL	48,981,995	7.7%	(298,973)	0	2,101,157	\$26.53	\$29.93

Nashville SCORES: Impact of Major League Soccer Expansion

Recognized as one of the nation's premier cities for music and entertainment, Nashville will soon be adding a Major League Soccer (MLS) team to its thriving sports scene, beating out competing cities Detroit, Cincinnati, St. Louis and Sacramento for MLS's most recent expansion. With the backing from influential Nashville locals including John Ingram and Bill Hagerty, the pitch was strengthened after the growing local soccer community broke back-to-back Tennessee records when Nissan Stadium hosted a CONCACAF Gold Cup soccer match and an English Premier League preseason match last year. The \$275 million, 27,500-seat stadium development is slated to begin construction in 2019 with completion estimated in 2021 and is expected



to host not only soccer games but concerts and other community events. In addition to its economic impact, this development will garner additional prestige and visibility



avisonyoung.com

© 2018 Avison Young | CCRES TN, LLC

For further information:

Avison Young
700 12th Avenue S, Suite 302
Nashville, TN 37203
615.727.7400

Warren Smith
Principal, Managing Director
615.727.7409
warren.smith@avisonyoung.com

Brennan Forster
Director of Research
615.727.7430
brennan.forster@avisonyoung.com