

# MARKETBEAT

## Nashville

### Industrial Q2 2017



#### NASHVILLE INDUSTRIAL

##### Economic Indicators

	Q2 16	Q2 17	12-Month Forecast
Nashville Employment	944K	978K	▼
Nashville Unemployment	3.6%	3.8%	■
U.S. Unemployment	4.9%	4.4%	■

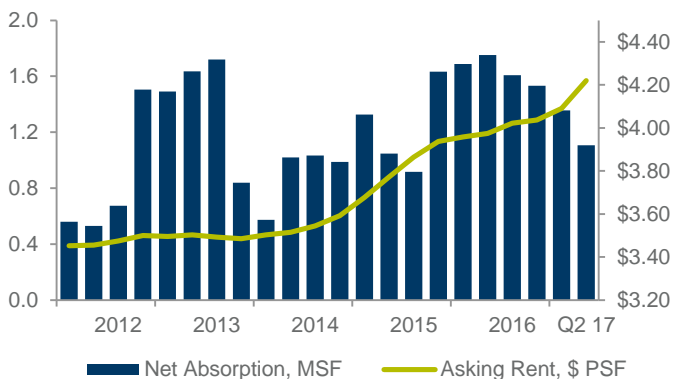
##### Market Indicators (Overall, All Classes)

	Q2 16	Q2 17	12-Month Forecast
Vacancy	3.6%	2.9%	■
Net Absorption (sf)	1.3M	443K	■
Under Construction (sf)	4.7M	4.4M	▲
Average Asking Rent*	\$3.96	\$5.12	▲

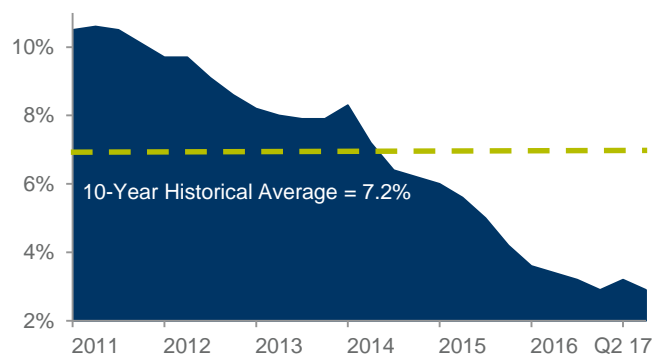
\*Rental rates reflect net asking \$psf/year

##### Overall Net Absorption/Overall Asking Rent

###### 4-QTR TRAILING AVERAGE



##### Overall Vacancy



## Economy

Construction employment in the Nashville metropolitan area has increased more than eight percent over the past year, making construction the region's fastest growing industry. Expansion among auto manufacturers, gains in office-using businesses and growing demand for housing are contributing to the rapid increase in construction employment. In addition, Nashville is a top location for conventions and tourism, which in turn increases tourism, leisure, hospitality and retail related construction. Education, healthcare and professional and business services round out the region's diverse and growing economy. That growth promotes a flow of migrants into Nashville that averages 100 people a day.

## Market Overview

The Nashville industrial inventory absorbed 1.0 million square feet (msf) in the first half of 2017, compared to 2.8 msf absorbed in the first half of 2016. The year-to-date absorption consisted of positive absorption for Warehouse/Distribution space of almost 1.4 msf, offset by negative absorption of manufacturing buildings of 381,000 square feet (sf). Manufacturing buildings recorded strong positive absorption in the Southeast, only to be offset by negative absorption in the North, due to RR Donnelly vacating 478,000 sf, and the United Methodist Publishing House vacating 145,000 sf in the Industrial CBD. Warehouse/Distribution absorption was concentrated in the Southeast with 1.3 msf absorbed, and the Industrial CBD which absorbed 147,000 sf. Much of the Southeast gain was the net result of significant deliveries in the CentrePointe Distribution Park.

At mid-year, industrial's overall vacancy was 2.9%, the same as it was at the end of 2016. Vacancy rates varied widely among submarkets, from a high of 5.9% in the North, to a miniscule 0.2% in the West. Nearly a third of the North's inventory is in manufacturing buildings, which had 7.6% vacancy. Warehouse/Distribution buildings account for the other two-thirds of the North's inventory, which was 5.2% vacant. The East, which is dominated by Warehouse/Distribution buildings posted a 2.8% vacancy overall and 3.2% vacancy in Warehouse/Distribution. The largest submarket, the Southeast, with 2.1% vacancy overall, had 5.8% vacancy in its Flex inventory and Warehouse/Distribution buildings had a 2.7% vacancy. Similarly, the Industrial CBD, second in size to the Southeast, had 2.8% vacancy in Warehouse/Distribution as well, and 2.7% vacancy overall.

Nine buildings totaling over 2.0 msf were completed in the first half of 2017. The Southeast captured over 1.8 msf in seven buildings with two of those being build-to-suit: a 500,000 sf expansion for Nissan and a 100,000 sf building for Topre America. Of the five speculative buildings completed, only CentrePointe IV – Building D & F (185,000 sf & 159,000 sf) delivered with no pre-leasing. The remaining two construction completions were speculative Warehouse/Distribution buildings. In the North, 9534 Fairbanks Road (107,000 sf) remains available and in the Industrial CBD, Skyline Distribution Park Building C has 56,000 sf available. Twelve buildings under construction are scheduled for completion in 2017, totaling 3.2 msf. If all are completed, the 2017 total would reach 5.2 msf, a little less than two-thirds the square feet completed in 2016. Seven buildings are build-to-suit totaling 2.6 msf. The largest is a 1.0 msf distribution center for Lowe’s in the North. A 500,000 sf manufacturing building will serve The Wonderful Group in the East. The remaining six speculative buildings under construction total 1.9 msf with only Commerce Farms V and Three Oaks Phase IIIa having any pre-leasing.

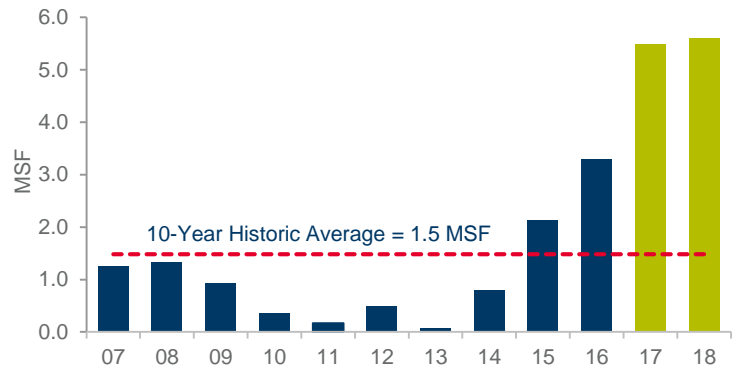
Overall net weighted average rental rates ended the second quarter at \$5.14 per square foot (psf). Rates varied widely among submarkets, reflecting the type of space available. The top net rental rate was \$8.64 in the 65-South submarket. The North has the lowest overall rate, at \$3.39. Flex space averaged \$9.70 overall, with a range from \$8.30 in the North to \$12.96 in the 65-South submarket. Manufacturing rates averaged \$4.04 for all markets.

Second quarter moves included Pathgroup, which took 144,000 sf at Airport Business Center in the Industrial CBD; a 206,000 sf move by Hot Topic into Prologis Interchange Distribution Center 10, and a 130,000 sf move by Superior Communications into Building C at CentrePointe Distribution Park 4, both in the Southeast; and Orca’s occupancy of 103,000 sf in the Industrial CBD.

Industrial investment sales in the first half of 2017, include Haywood Oaks (326,000 sf) in the Southeast, selling for \$34.75 million to Albany Road. In the Industrial CBD, Polk Center (280,000 sf) sold for \$12.4 million to Smith/Halleman Parnters; Willow Trace I (52,000 sf) sold for \$4.6 million to RTA Willow Trace LLC; and Willow Trace II Building D-E (63,000 sf) sold for \$4.36 million to Horrel Properties. Lastly, the portfolio of Haywood Oaks East, in the Southeast, and Corners II, in the Industrial CBD sold to Pacer Partners for \$25 million.

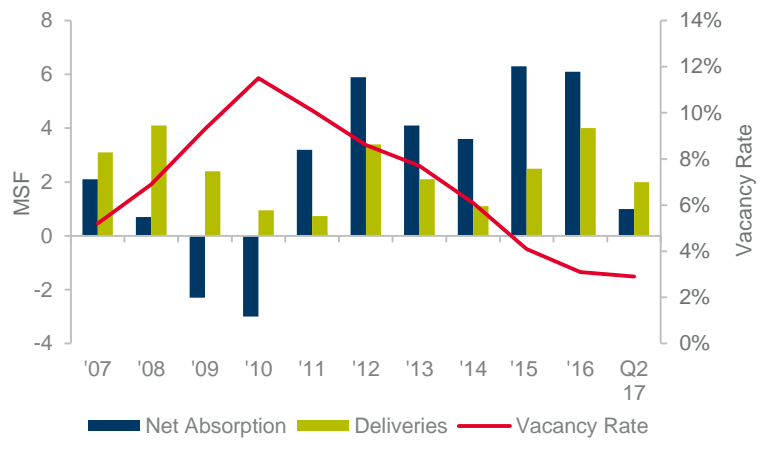
**New Supply**

NEW SUPPLY CONTINUES TO BE WELL ABOVE HISTORIC AVERAGES



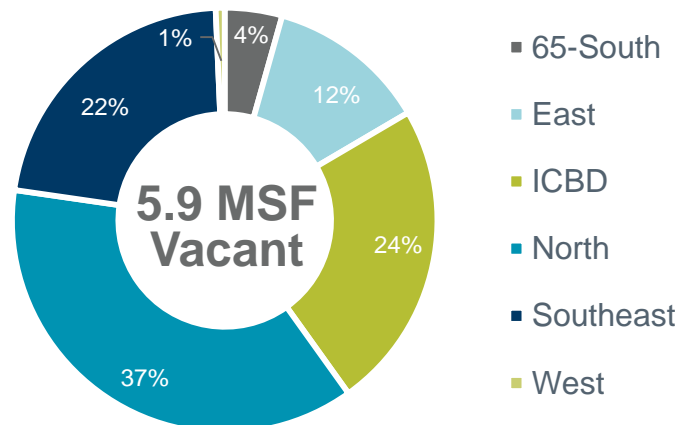
**Net Absorption – Deliveries - Vacancy**

CONSTRUCTION BEGINS TO OUTPACE ABSORPTION



**Vacant Space by Submarket**

PERCENTAGE OF TOTAL VACANT SPACE Q2 17



**MARKETBEAT**  
**Nashville**  
**Industrial Q2 2017**



SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q2 17 OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTRUC (SF)	Q2 17 CNSTRUC COMPLETIONS (SF)	OVERALL WEIGHTED AVG. NET RENT
65-South	12,871,162	259,573	2.0%	40,706	40,706	0	0	\$8.64
East	25,607,241	724,327	2.8%	0	-14,500	2,096,000	0	N/A
ICBD	51,060,524	1,401,207	2.7%	-32,668	-69,499	12,000	0	\$6.59
North	37,336,853	2,210,514	5.9%	-400,451	-515,951	1,000,000	0	\$3.39
Southeast	61,078,265	1,309,814	2.1%	806,033	1,554,577	1,340,300	1,215,912	\$5.36
West	16,525,704	40,542	0.2%	29,400	26,868	0	0	\$6.48
<b>TOTALS</b>	<b>204,479,749</b>	<b>5,945,977</b>	<b>2.9%</b>	<b>443,020</b>	<b>1,022,201</b>	<b>4,448,300</b>	<b>1,215,912</b>	<b>\$5.11</b>

PROPERTY TYPE	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q2 17 OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTRUC (SF)	Q2 17 CNSTRUC COMPLETIONS (SF)	OVERALL WEIGHTED AVG. NET RENT
Warehouse/Distribution	141,925,916	4,402,263	3.1%	977,191	1,393,464	3,781,300	1,115,912	\$5.00
Manufacturing	52,536,704	1,199,808	2.3%	-571,144	-381,424	667,000	100,000	\$4.04
Flex/R&D	10,017,129	343,906	3.4%	36,973	10,161	0	0	\$9.63

**Key Lease Transactions Q2 17**

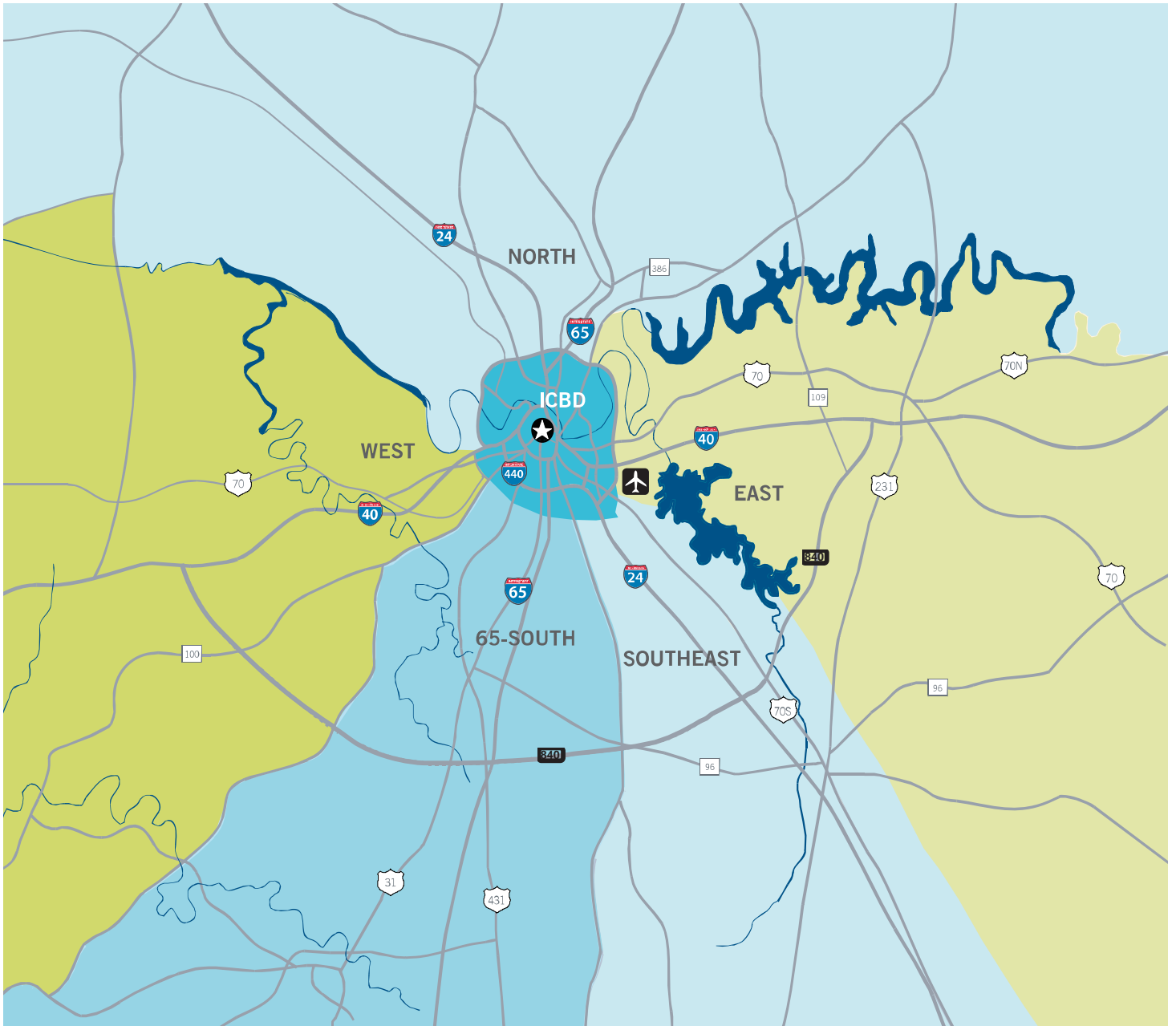
Property	SF	Tenant	Transaction Type	Submarket
Commerce Farms V	300,000	Geodis	New Lease	Southeast
Prologis Interchange Dist. Ctr. 10	206,000	Hot Topic	New Lease	Southeast
Airpark Business Center	144,000	Pathgroup	New Lease	ICBD
CentrePointe Dist. Park 4 Bldg. C	130,000	Superior Communications	New Lease	Southeast

**Anticipated Future Deliveries over 500,000 SF**

Property	SF	Type of Construction	Submarket	Target Quarter
H S A Commerce Farms V	652,000	Speculative	East	Q3 17
Airport Business Park - Hillwood - Building 1	617,760	Speculative	Southeast	Q3 17
The Wonderful Group - Cherry Farm	500,000	Built-to-suit	East	Q3 17

## INDUSTRIAL SUBMARKETS

### NASHVILLE



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