

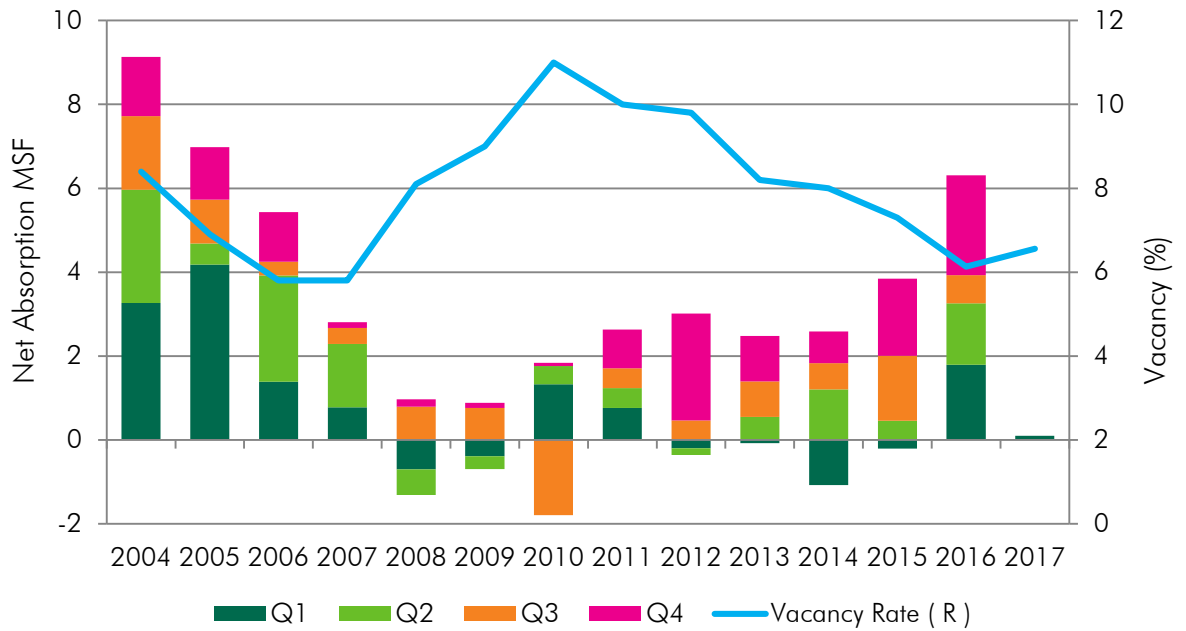
Nashville Industrial, Q1 2017

Speculative deliveries inject availability to tight market

▲ Vacancy Rate **6.6%**
▲ Lease Rate **\$4.38 PSF**
▼ Net Absorption **16,991 SF**
▲ Construction **4.9 MSF**
▼ Deliveries **595,020 SF**

*Arrows indicate change from previous quarter.

Figure 1: Net Absorption vs. Vacancy Rate



Source: CBRE Research, Q1 2017.

NASHVILLE POSTS STATE'S LOWEST UNEMPLOYMENT

Nashville continues to be a major factor in Tennessee's unemployment rate as the greater Nashville area had the lowest rate in the state, officially registering at 4.3%. This low unemployment rate speaks volumes for the city of Nashville as it marks the eighth time the rate has been below 5.0% since 2008. According to the Bureau of Labor Statistics, Tennessee's unemployment rate is currently 5.3%, having raised only 50 basis points from last quarter. Tennessee's unemployment rate has stayed below 6.0% for the past six quarters.

STABLE CONSTRUCTION, HIGHER AVAILABILITY

In Q1 2017, the Nashville industrial market saw 16,991 sq. ft. of positive net absorption. Several vacancies led to first quarter's low level of positive absorption. It is important to note that with the exception of 2016, the first quarter has underperformed over the last five years as tenants often take occupancy in the last quarter of the year. With the new speculative deliveries, the market saw a rise in vacancy rates of 40 basis points (bps) to 6.6%.

Three buildings, Skyline Buildings A-C, were completed in the Northeast/I-65 Corridor submarket totaling over 590,000 sq. ft. These speculative buildings were delivered vacant and therefore added availability to the market, pushing vacancy higher by more than 40 basis points to 6.6%. The new deliveries helped to increase overall asking rates by \$0.10 per sq. ft. Interchange City posted the highest absorption of more than 125,000 sq. ft. while Northeast/I-65 Corridor logged the lowest quarterly negative absorption of more than (165,000) sq. ft.

From the standpoint of building type, manufacturing remains active with more than 200,000 sq. ft. of net absorption while Nashville’s warehouse/distribution market recorded negative net absorption of more than 300,000 sq. ft. The R&D/Flex market was mildly active with only 30,000 sq. ft. of positive net absorption.

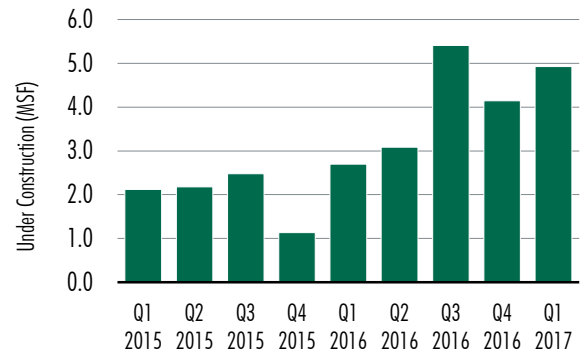
DEVELOPER’S ACTIVITY CONTINUES

There are currently thirteen buildings under construction, eleven of which are scheduled to deliver in 2017 totaling nearly 4 million sq. ft. Of the eleven buildings only CentrePointe Drive Building II, in the Elm Hill Pike/I-40 submarket, is fully leased at 600,000 sq. ft. This building is one of four other Panattoni developments on track to be delivered this year, all of which are a part of the CentrePointe Distribution Center. The final 505,000 sq. ft. portion of Nissan’s 1,505,000 sq. ft. build-to-suit manufacturing and distribution building in Smyrna is set to finish Q2 2017. The Nashville industrial market is positioned to exhibit high leasing volumes.

There is nearly 5 million sq. ft. of industrial product under construction and almost all of it is speculative space. It is anticipated that many of these properties will be filled by many smaller tenants. This is an extension of last year’s trend where over 1.3 million sq. ft. of speculative space was absorbed. Since 2011, over 2.5 million sq. ft. of speculative space has come online with another 4 million sq. ft. set to deliver this year alone.

In recent news, LG Electronics Inc. has committed to open a factory in Clarksville, TN which lies roughly 50 miles northwest of Nashville. This deal stands to strengthen the industrial markets of middle Tennessee. Sewing machine giant, SVP Worldwide, is relocating its headquarters to LaVergne in the Interchange City submarket. Additionally, e-commerce and third-party logistics companies continue to show noticeable activity within the market.

Figure 2: Quarterly Construction Activity



Source: CBRE Research, Q1 2017.

Figure 3: Key Leasing Transactions

Tenant	Location	Size (sq. ft.)	Submarket	Transaction Type
UPS	CentrePointe Dist. Park 4 Bldg A	400,000	Interchange City	New
Singer Sewing	1714 Heil Quaker Blvd	214,000	Interchange City	New
Sumitomo Rubber North America	704 12 th Avenue	124,000	Interchange City	Renewal
CTDI, Inc.	640 Massman Drive	80,000	Elm Hill Pike/I-40	New
Schwarz Partners Packaging	3287 Franklin Limestone Rd	43,500	Interchange City	Renewal

Source: CBRE Research, Q1 2017.

INDUSTRIAL ABSORPTION

The Nashville area posted 16,991 sq. ft. of net absorption in Q1 2017. Interchange City remained the most active submarket with more than 125,000 sq. ft. of absorption while Northeast/I-65 N Corridor recorded the lowest with more than 160,000 sq. ft. of negative absorption. Elm Hill Pike/I-40 had a solid positive net absorption of more than 90,000 sq. ft. The manufacturing sector greatly contributed to Q1 2017’s positive net absorption, accounting for more than 200,000 sq. ft. Historically, Nashville’s warehouse/distribution inventory has led the market in terms of new occupancies.

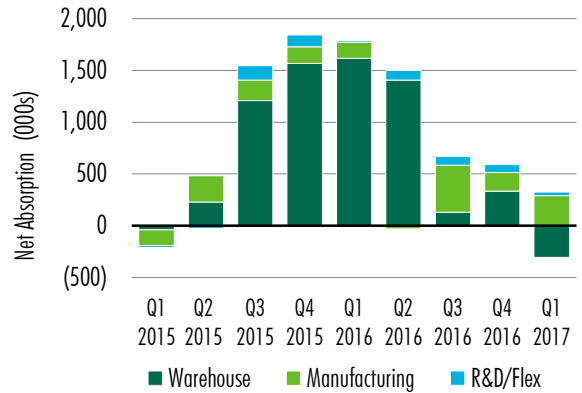
INDUSTRIAL RENTAL RATES

Historically, high demand for quality space and limited vacancy have applied pressure to industrial lease rates as Nashville has seen rates slightly increase quarter-after-quarter. Rents have seen a corresponding increase due to Nashville’s low industrial vacancy. The Q1 2017 average asking rental rates over all property types increased by \$0.10 per sq. ft. on a triple net basis. MetroCenter/Cockrill Bend registered the largest rise of \$0.36 in rates from to \$4.40 since Q4 2016.

INDUSTRIAL VACANCY RATES

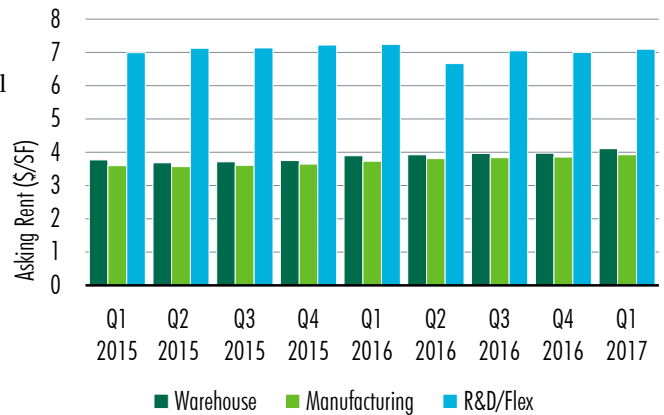
In the last five years, industrial vacancy has declined considerably in Nashville. However, with the new speculative deliveries, the market saw a rise in vacancy rates of 40 basis points to 6.6%. Warehouse/distribution vacancy rates rose 100 basis points to 7.3% during Q1 2017. Manufacturing and flex experienced considerable shifts in vacancy. Manufacturing dropped 30 bps to 5.1% and R&D/Flex still represents the largest amount of vacant space but remained unchanged at 10.1%.

Figure 4: Quarterly Net Absorption



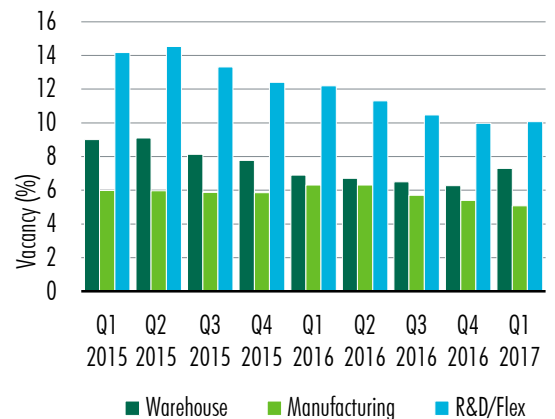
Source: CBRE Research, Q1 2017.

Figure 5: Rental Rates by Property Type



Source: CBRE Research, Q1 2017.

Figure 6: Vacancy by Property Type



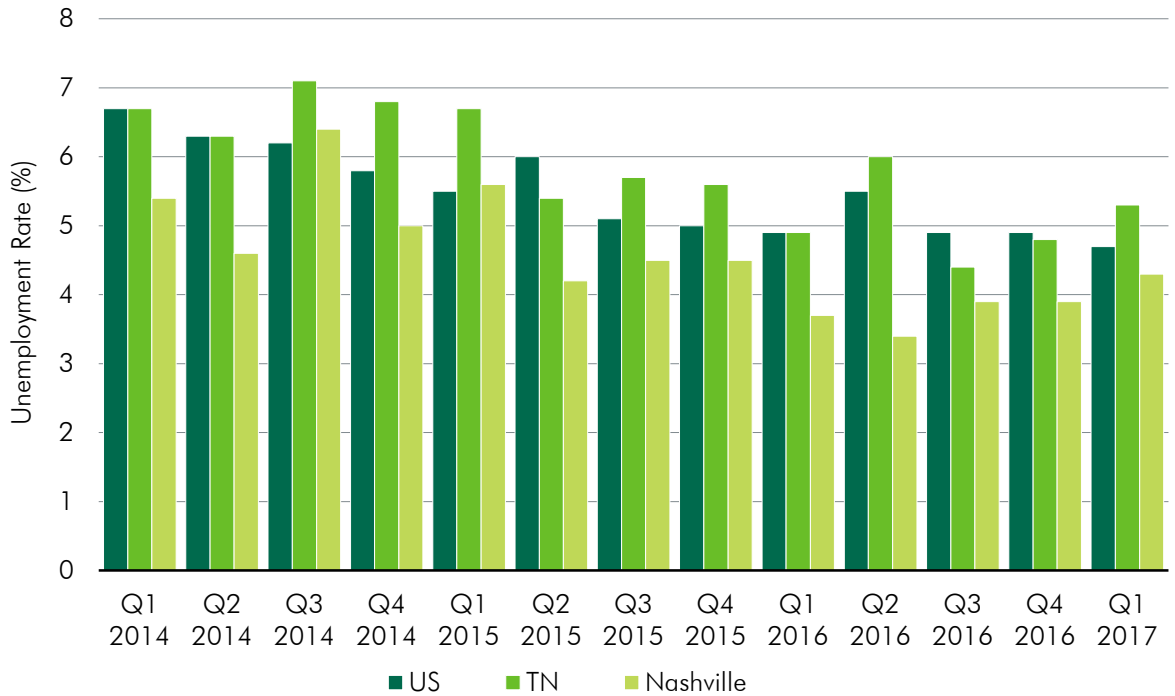
Source: CBRE Research, Q1 2017.

Figure 7: Market Statistics

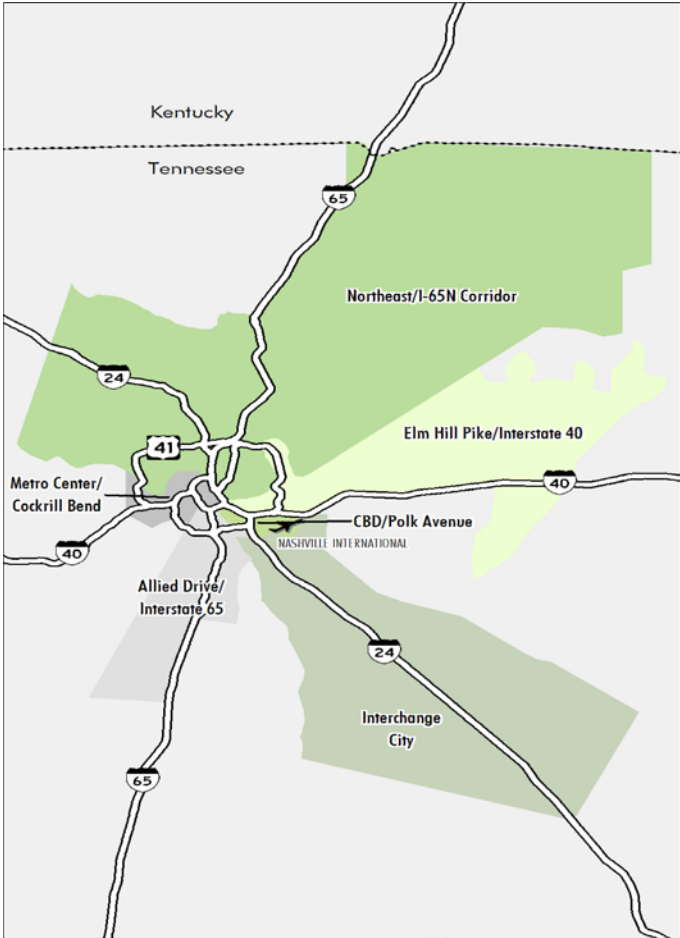
Submarket	Market Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Avail. Rate (%)	Q1 2017 Net Absorption (SF)	YTD Net Absorption (SF)	Under Construction (SF)	Avg. NNN Asking Lease Rate (\$/SF/yr)
Allied Drive/I-65	19,402,864	5.8	5.9	9.0	32,913	32,913	0	5.66
CBD/Polk Avenue	14,088,148	5.8	5.8	10.0	(15,860)	(15,860)	0	4.95
Elm Hill Pike/I-40	31,977,517	6.9	7.0	8.3	91,943	91,943	1,052,000	4.50
Interchange City	57,816,232	6.3	6.6	8.8	127,226	127,226	2,842,037	4.27
MetroCenter/Cockrill Bend	13,242,391	4.5	4.5	6.6	(52,129)	(52,129)	0	4.40
Northeast/I-65N Corridor	38,880,604	7.5	7.5	10.3	(167,102)	(167,102)	1,032,525	3.75
Warehouse/Distribution	93,780,628	7.2	7.3	10.0	(307,239)	(307,239)	4,926,562	4.11
Manufacturing	66,494,137	4.9	5.1	6.8	291,600	291,600	0	3.92
Flex	11,067,860	9.7	10.0	13.7	32,630	32,630	0	7.10
NASHVILLE	175,407,756	6.5	6.6	9.0	16,991	16,991	4,926,562	4.38

Source: CBRE Research, Q1 2017.

Figure 8: Unemployment



Source: CBRE Research, Q1 2017.



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