

# MARKETBEAT

## Nashville

### Office Q2 2017



#### NASHVILLE OFFICE

##### 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%	■

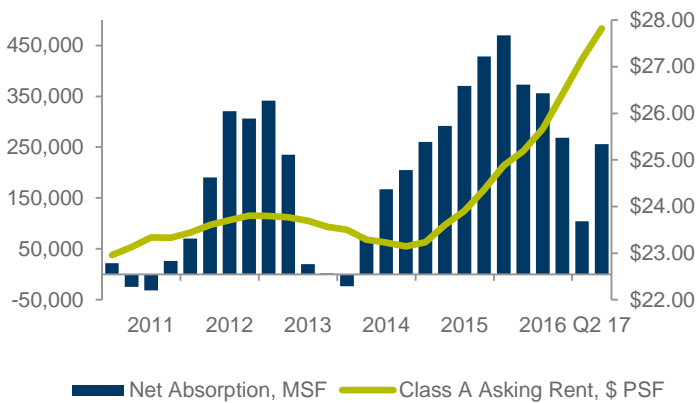
##### Market Indicators (Overall, All Classes)

	Q2 16	Q2 17	12-Month Forecast
Vacancy	5.2%	6.9%	▲
Net Absorption (sf)	76K	667K	▲
Under Construction (sf)	3.8M	2.5M	▲
Average Asking Rent*	\$23.21	\$25.50	■

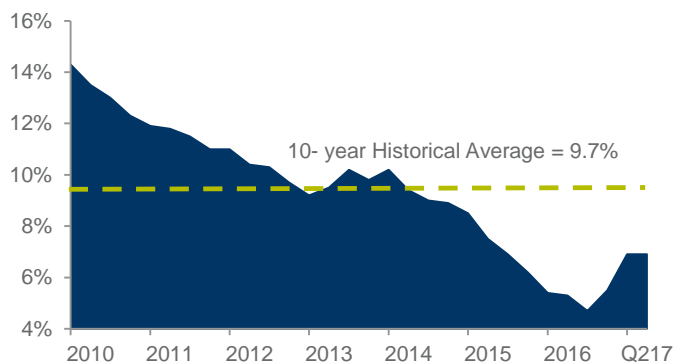
\*Rental rates reflect gross asking \$psf/year

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

###### 4-QTR TRAILING AVERAGE



##### Overall Vacancy



## Economy

If there can be too much of a good thing, Nashville is getting close to it. Moody's Analytics reports that Nashville's tight labor market is making it difficult to fill open positions, and gains in office-using industries are contending with limited office space. The result is upward pressure on wages and lease rates. An influx of well-educated workers are attracted to Nashville's growing professional services and healthcare industries. Housing demand is soaring; single family permits for 2017 are projected to exceed last year's by a third. The rapidly expanding tourism industry completes the picture of a healthy and growing economy.

## Market Overview

The Nashville office inventory of just less than 37 million square feet (MSF) recorded 443,000 square feet (sf) of absorption in the first half of 2017, slightly below the comparable figure for 2016. Class A buildings absorbed 498,000 sf, while absorption for Class B buildings was negative 80,000 sf. Leading the quarter for Class A absorption were Cool Springs/Franklin with 256,000 sf and Brentwood with 122,000 sf. MetroCenter and Airport North each had negative absorption of 68,000 sf and 42,000 sf, respectfully.

The overall vacancy rate for the office market ended the second quarter at 6.9%, down from 7.2% at the end of the first quarter. The CBD recorded the largest change in vacancy rate, from 10.4% to 8.2%. New construction pushed Brentwood's vacancy rate up, from 5.8% to 10.6%, the highest rate among the submarkets. Cool Springs/Franklin vacancy dropped from 7.9% to 5.3%, and Midtown vacancy dropped from 8.3% to 6.0%. Class A vacancy rates were mostly lower, led by Green Hills/West Nashville vacancy of 3.0%. Brentwood had the highest Class A vacancy at 8.1% (up from 4.7%). Class B vacancy for the CBD was 11.9% at end of second quarter, and 6.9% outside the CBD.

Six buildings were added to the inventory in the first half of 2017, totaling 868,000 sf. Two speculative Class A buildings were added in Cool Springs/Franklin for a total of 341,000 sf. Two Franklin Park with 278,000 sf and Dimension at Mallory Park – Phase II with 63,000 sf across two buildings. Brentwood added three speculative buildings totaling 220,000 sf. These included, Seven Springs II with 130,000 sf, Brentwood Commons III with 130,000 sf and Hill Center Brentwood – Building A with 90,000 sf.

Sixteen buildings currently under construction total 2.5 MSF. Ten of which have completion dates in the second half of 2017 totaling 1.8 MSF. Four build-to-suit buildings total 1.0 MSF. They are Bridgestone Tower in the CBD with 514,000 sf; CHS Antioch in Airport South with 240,000 sf; Lifeway in Midtown with 250,000 sf; and The Wabash in the North Nashville submarket, to be occupied by WeWorks, with 25,000 sf. The six speculative buildings total 770,000 sf and have 369,000 sf remaining available. In 2018, Berry Farms Ramsey Solutions-Phase 1, a 150,000 sf build-to-suit, is due for completion. Also in 2018, four speculative buildings totaling 214,000 sf are to be completed; no pre-leasing has been recorded. Capital View – Block E is a 300,000 sf speculative building in Midtown scheduled for completion in 2019, with 67,000 sf preleased to HealthStream.

**INCREASE IN VACANCY AND NEW CONSTRUCTION WILL ALLOW OPPORTUNITIES FOR NEW AND EXPANDING TENANTS IN THE MARKET.**

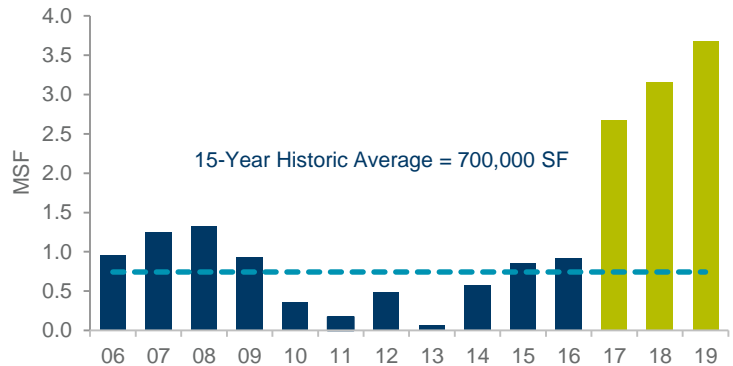
The overall gross average asking rental rate for office space was \$25.50 per sf (psf) in the second quarter, up from \$24.66 psf in the first quarter. Highest overall asking rates are in Midtown (\$31.07 psf) and Cool Springs/Franklin (\$29.21 psf). Midtown also had the highest Class A rates at \$31.95 psf, up from \$29.80 psf in first quarter, followed by Brentwood at \$30.89 psf, up from \$28.16 psf.

In the CBD, CBS Radio is bringing 200 jobs to Nashville leasing 40,000 sf at Bank of America Tower and Gresham Smith & Partners is relocating into 70,000 sf at 222 2<sup>nd</sup> Avenue North. In Airport South, South College will occupy 48,000 sf in Highland Ridge IV, space previously occupied by University of Phoenix.

Three office building investment sales closed recently. The largest sale was Vantage Place (168,000 sf) in MetroCenter sold by Atapco Properties for \$105 psf to a The Dilweg Companies. Metro Exchange Building (111,000 sf) in MetroCenter was sold by SDG Metro LLC for \$133 psf to Gramercy Property Trust. Lastly, 333 Union (37,000 sf) in the CBD was sold for \$105 psf to Manek Holdings LLC.

**New Supply**

NEW SUPPLY CONTINUES TO STAY ABOVE HISTORIC AVERAGE



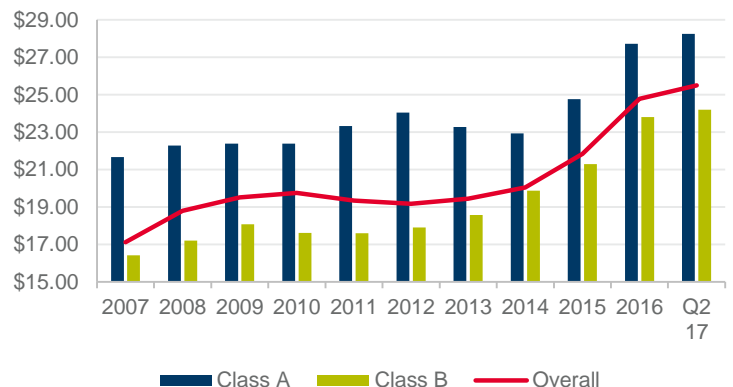
**Net Absorption-Deliveries-Vacancy**

DELIVERIES OUTPACED ABSORPTION



**Rental Rate Growth**

CLASS A RENT HAS SEEN A 33% GROWTH IN THE PAST 10 YEARS



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**Nashville**  
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Submarket	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q2 17 OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD DELIVERIES (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	CLASS A AVERAGE ASKING RENT*	CLASS B AVERAGE ASKING RENT*
Airport North	4,169,220	224,417	5.4%	-41,982	-37,321	0	0	\$20.59	\$22.85	\$17.54
Airport South	3,618,683	281,679	7.8%	195,533	170,617	176,984	289,286	\$16.85	N/A	\$17.85
Brentwood	5,394,772	572,511	10.6%	134,889	39,516	350,018	0	\$27.72	\$30.89	\$26.42
CBD	7,474,811	613,805	8.2%	77,308	110,772	0	984,000	\$24.99	\$25.01	\$25.14
Cool Springs	7,500,482	395,482	5.3%	260,664	171,664	341,473	356,000	\$29.21	\$30.13	\$24.74
Green Hills/West Nashville	1,937,681	37,479	1.9%	15,700	29,311	0	98,655	\$28.72	\$29.54	\$23.91
MetroCenter	1,871,717	139,536	7.5%	-67,537	-72,760	0	0	\$20.91	\$20.04	\$21.25
Midtown	4,495,464	269,518	6.0%	92,450	30,771	0	710,000	\$31.07	\$31.95	\$30.47
North Nashville	529,454	9,762	1.8%	0	0	0	25,000	\$22.56	\$22.56	N/A
<b>TOTALS</b>	<b>36,992,284</b>	<b>2,544,189</b>	<b>6.9%</b>	<b>667,025</b>	<b>442,570</b>	<b>868,475</b>	<b>2,462,941</b>	<b>\$25.50</b>	<b>\$28.25</b>	<b>\$24.20</b>

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

By Class	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q2 17 ABSORPTION	YTD NET ABSORPTION (SF)	YTD DELIVERIES (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT
Class A	17,174,703	1,036,898	6.0%	475,937	497,544	628,179	2,462,941	\$28.25
Class B	16,806,578	1,350,592	8.0%	177,197	-80,379	240,296	0	\$24.20
Class C	3,011,003	156,699	5.2%	13,891	25,405	0	0	\$17.43

**Key Lease Transactions Q2 17**

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
One Nashville Place & The Wabash	91,000	WeWorks	New Lease	CBD & North Nashville
Highland Ridge IV	49,473	South College of Tennessee	New Lease	Airport North
3322 West End Avenue	41,426	Vanderbilt	New Lease	Green Hills/ West End
1 Music Circle S.	23,741	BMG	New Lease	Midtown

**Key Under Construction Projects Q2 17**

PROPERTY	SF	TARGET QUARTER	TYPE OF CONSTRUCTION	SUBMARKET
Bridgestone Tower	514,000	Q3 17	Build-to-Suit	CBD
222 Second Avenue	362,000	Q3 17	Speculative	CBD
Lifeway- Capitol View	250,000	Q4 17	Build-to-Suit	Midtown
CHS- Antioch	240,000	Q3 17	Build-to-Suit	Airport South
615 3 <sup>rd</sup> Avenue S.	120,000	Q4 17	Speculative	CBD

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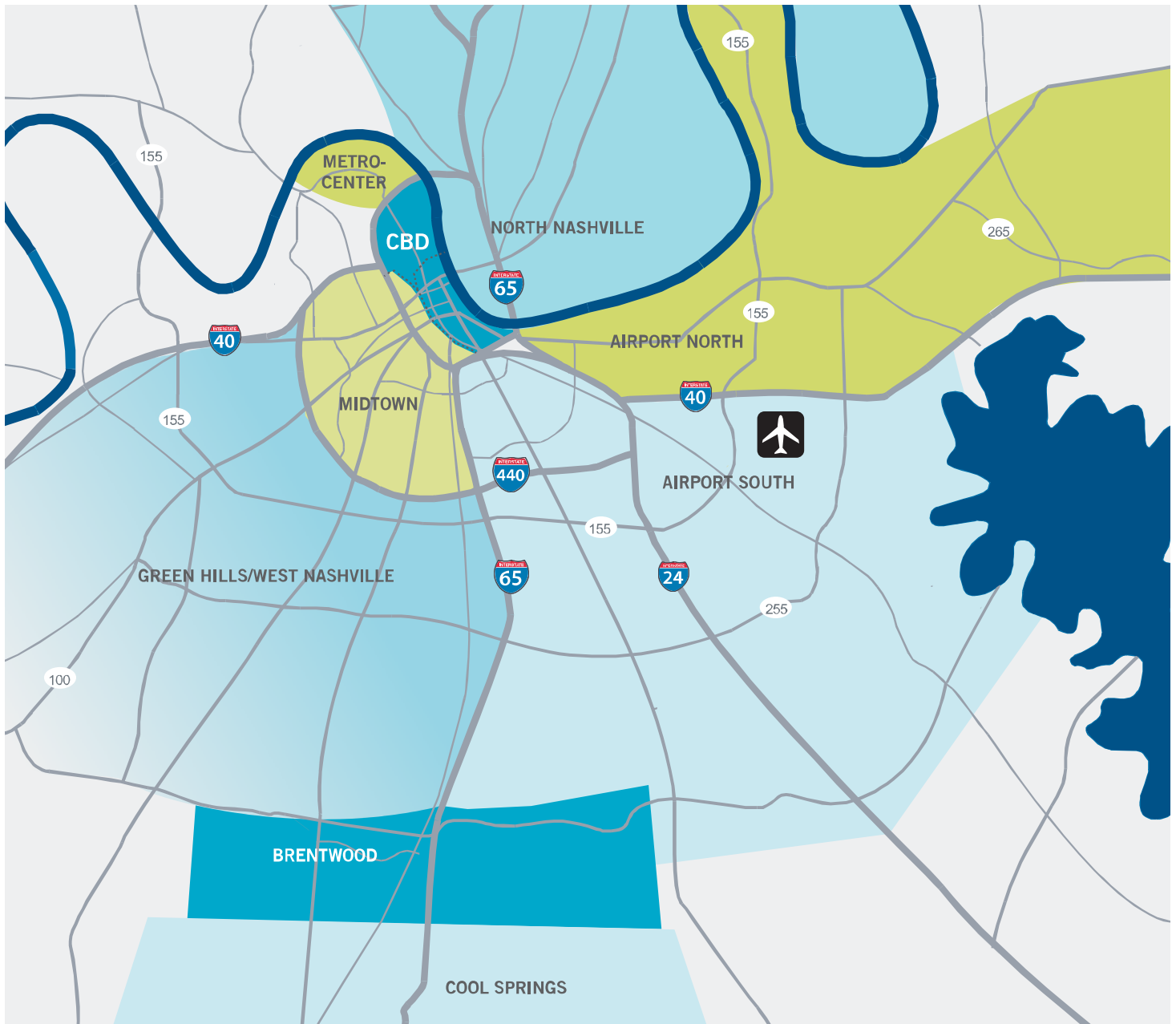
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## OFFICE SUBMARKETS

NASHVILLE



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