

MARKETBEAT

Nashville

Industrial Q4 2018



NASHVILLE INDUSTRIAL

Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
Nashville Employment	987.7k	1007.8k	▲
Nashville Unemployment	2.6%	2.9%	▼
U.S. Unemployment	4.1%	3.7%	▼

Numbers above are quarterly averages

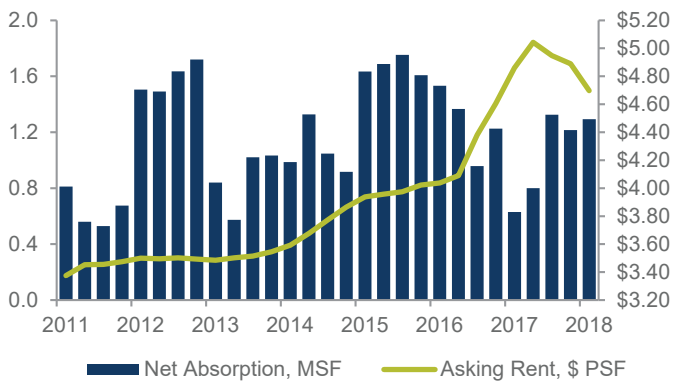
Market Indicators (Overall, All Classes)

	Q4 17	Q4 18	12-Month Forecast
Vacancy	3.5%	3.6%	■
YTD Net Absorption (sf)	2.2M	5.2M	▲
Under Construction (sf)	3.6M	5.0M	▲
Average Asking Rent*	\$5.09	\$4.32	▲

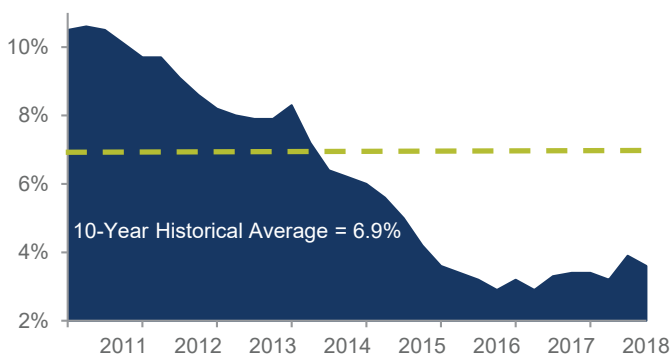
*Rental rates reflect weighted net asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Nashville's increasing employment and population reveal an economy among the healthiest in the U.S. Extremely low unemployment and a tight housing market differentiate Nashville from its regional and national competitors. Projections foresee further growth, with employment topping 1.0 million in 2018 and population exceeding 2.0 million within three years. All this translates into booming commercial and residential real estate sectors. Optimism toward Nashville's future is shared by a development community that is confident in introducing speculative construction in traditional and emerging parts of the metropolitan area.

Market Overview

Overall vacancy rates decreased quarter-over-quarter across all Nashville industrial submarkets, bringing the year-end total to 3.6%. The North market had the steepest decline, dropping 80 basis points (bps) to 5.1%. 65-South continued to be the tightest submarket, with only 0.2% of product vacant. Warehouse/Distribution vacancy ended 2018 at 4.2%, a 20-bps increase from one year ago. The Southeast market had the highest warehouse/distribution vacancy rate at 5.9%, followed closely by the East with 5.0%. These were the only submarkets to see speculative construction completions in 2018, which contributed to the higher rates. Vacancy could remain high in the Southeast and East with an additional 4.0 million square feet (msf) of speculative construction in the pipeline. However preleasing is anticipated to be strong, which could offset the increase.

Absorption in the fourth quarter was 726,000 square feet (sf), the only quarter in 2018 where it was below 1.0 msf. Despite the slow down, Nashville recorded 5.2 msf of positive absorption in 2018, marking the eighth straight year of positive absorption and outpacing 2017 by nearly 3.0 msf. Two major move-ins from earlier in the year were Ceva Logistics at Beckwith Farms Building 9 (527,000 sf) and Sumitomo Corporation at 1042 Fred White Boulevard (312,000 sf).

The overall average asking rent in Nashville ended 2018 at \$4.32 per square foot (psf). Rents increased in both the Southeast and East with the addition of newly constructed space. The Industrial CBD market commands rents of \$6.28 psf, while in the more affordable North submarket rates are \$3.29 psf. Flex buildings command the highest asking rent at \$9.72 psf overall. Warehouse/ Distribution space is most expensive in the West market, where tight availability allows landlords to ask \$7.70 psf.

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Nashville finished 2018 with 4.7 msf of leasing activity, including 994,000 sf in the fourth quarter. The Southeast submarket was the most active area, with 49.8% of the new deals. The largest deal of the year was the Dorman products 816,000-sf warehouse lease in Portland. Additional large leases included the previously mentioned CEVA logistics move at Beckwith Farms Building 9 and Cardinal Health taking 323,000 sf at Park 24 – Building 4. XPO Logistics leased three different spaces totaling over 641,000 sf, including 312,000 sf at 1125 Vaughn Parkway. Several large renewals also occurred during the year, notably CEVA Freight at its 480,000-sf space at Beckwith Farms Building 3 and Bridgestone Americas at 332,000 sf in Commerce Farms.

Over 2.8 msf of warehouse/distribution space was delivered in 2018, split between speculative and build-to-suit buildings. The largest project completed was the 1.0 msf build-to-suit distribution center for home improvement retailer Lowes. Other build-to-suit projects included Medline's 240,000-sf building in the East and a 451,000-sf USPS distribution center in the Southeast. Speculative completions included Beckwith Farms Building 9 (528,000 sf) and Interchange Center A (518,000 sf). Over 53.1% of the speculative space was preleased at the time of completion.

Nashville currently has 5.0 msf of warehouse/distribution space under construction, of which 25.0% is preleased. Construction is concentrated in the East and Southeast submarkets and Cedar Farms, a 950,000-sf speculative warehouse on Couchville Pike, is the largest building under construction. Two additional buildings of more than 500,000 sf are currently under construction including Nashville Superspeedway with 689,000 sf and Park 840 East Building 100 with 559,000 sf.

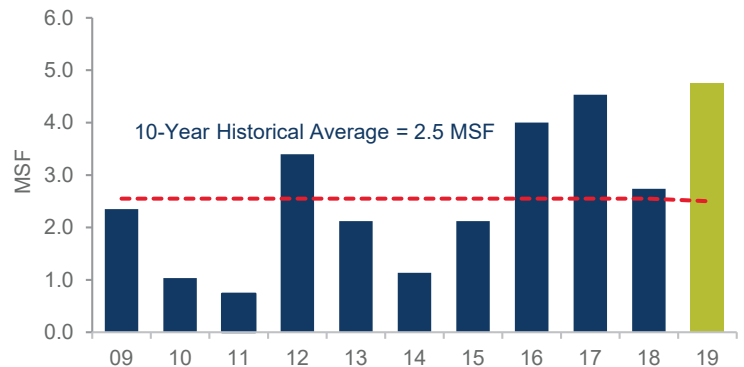
The largest sale of 2018 occurred at Park 840 – Building 200 where O'Reilly Auto Parts purchased the 408,000-sf warehouse building for \$25.5 million or \$63.00 psf. Earlier in the year, Prologis acquired DCT Industrial Trust, resulting in four property acquisitions in the Nashville market. These properties include 427 Sanford Road in La Vergne, 340 Bridgestone Parkway and 7500 Eastgate Blvd in Lebanon, and Rockdale Distribution Center in Mount Juliet. The properties sold for a combined \$210.1 million.

Outlook

- Strong preleasing activity in speculative buildings that are under construction will keep vacancy low and developer confidence high

New Supply

NEW SUPPLY SLOWS BACK CLOSE TO HISTORICAL AVERAGE



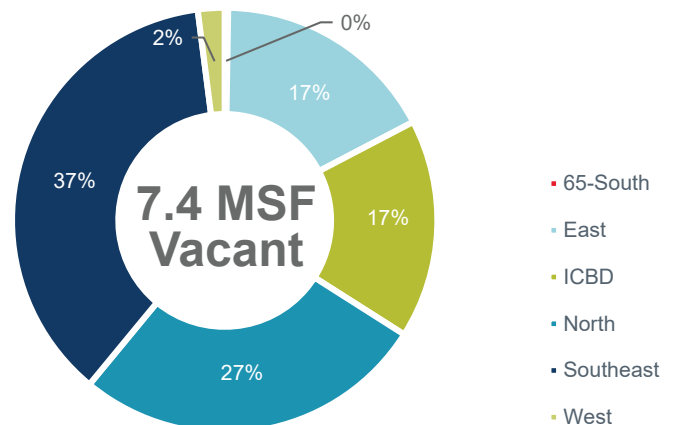
Net Absorption – Deliveries – Vacancy

ABSORPTION RETURNS TO OUTPACING CONSTRUCTION



Vacant Space by Submarket

PERCENTAGE OF TOTAL VACANT SPACE Q4 2018



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SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q4 18 OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	2018 CNSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG. NET RENT
65-South	12,457,789	19,710	0.2%	0	68,463	0	0	N/A
East	28,940,088	1,272,207	4.4%	4,000	996,684	3,376,026	768,135	\$3.87
Industrial CBD	50,068,873	1,242,709	2.5%	183,739	222,569	0	0	\$6.28
North	39,118,941	2,009,397	5.1%	293,400	1,525,010	815,670	1,000,000	\$3.29
Southeast	63,089,296	2,756,688	4.4%	217,021	2,424,294	856,830	1,054,000	\$4.96
West	16,080,008	151,438	0.9%	27,850	-65,650	0	0	\$7.70
NASHVILLE TOTALS	209,754,995	7,452,149	3.6%	726,010	5,171,370	5,048,526	2,822,135	\$4.32

PROPERTY TYPE	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	Q4 18 OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	2018 CNSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG. NET RENT
Warehouse/Distribution	145,954,278	6,164,850	4.2%	590,533	5,076,238	5,048,526	2,822,135	\$4.40
Manufacturing	53,795,964	1,140,641	2.1%	133,950	-32,892	0	0	\$2.69
Flex/R&D	10,004,753	146,658	1.5%	1,527	128,024	0	0	\$9.72

Key Lease Transactions 2018

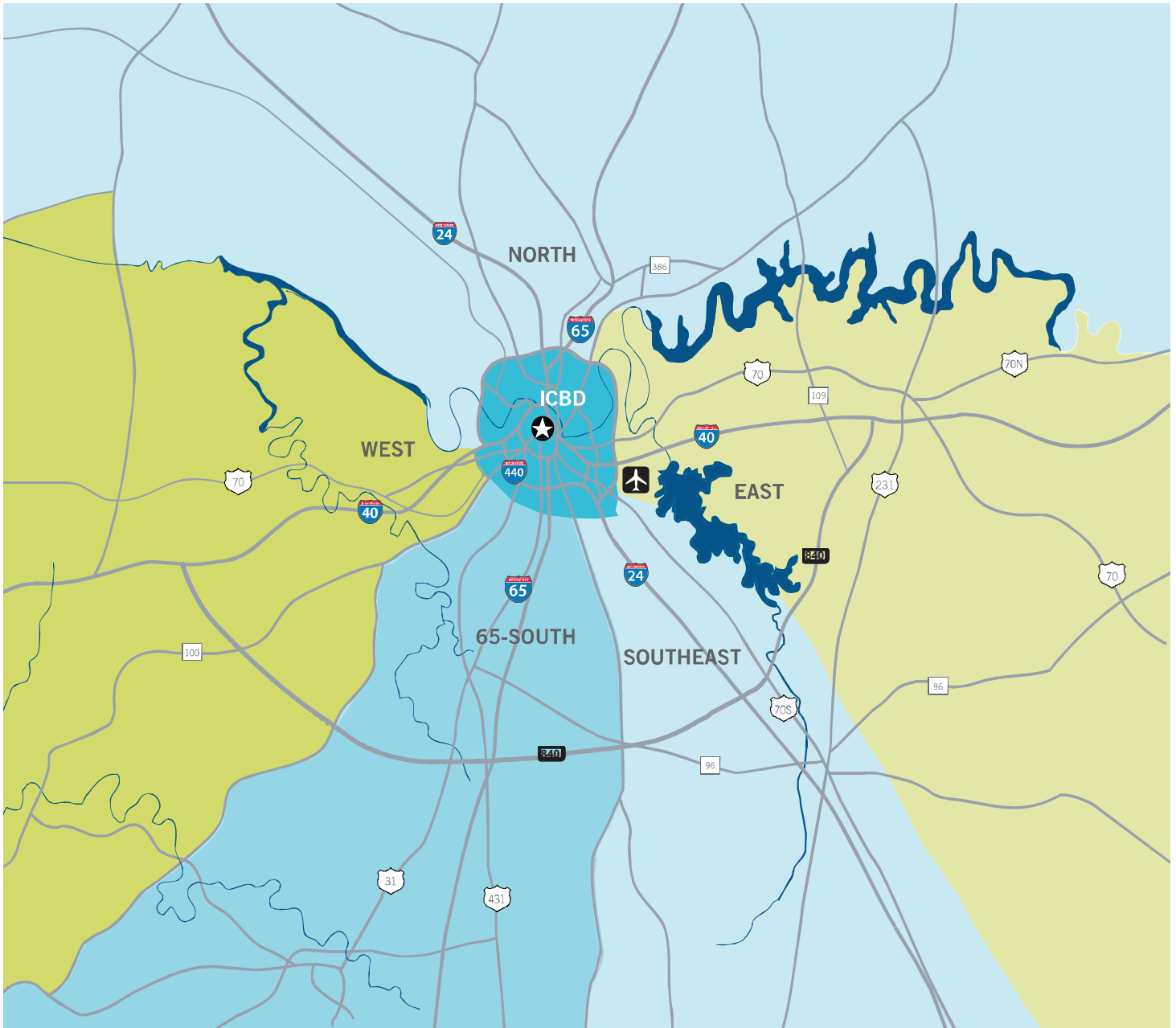
PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Dorman BTS	815,670	Dorman Products	New Lease	North
Beckwith Farms North Building 9	527,127	CEVA Logistics	New Lease	East
Beckwith Farms Building 3	480,000	CEVA Freight	Renewal	East
Commerce Farms	332,000	Bridgestone Americas Tire Operations	Renewal	East
Park 24 – Building 4	317,085	Cardinal Health	New Lease	Southeast

Anticipated Future Deliveries over 500,000 SF

PROPERTY	SF	TYPE OF CONSTRUCTION	SUBMARKET	TARGET QUARTER
Cedar Farms	950,000	Speculative	East	Q1 2019
Nashville Superspeedway	689,440	Speculative	East	Q1 2019
Park 840 East Bldg. 100	558,600	Speculative	East	Q1 2019

INDUSTRIAL SUBMARKETS

NASHVILLE



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