

## 2019 SOUTHEAST U.S. REAL ESTATE MARKET OUTLOOK

## NASHVILLE

# Nashville office sector experiencing an influx of new Class A inventory

## CURRENT CONDITIONS

After several years of single-digit vacancy rates, tenant demand pushed developers into an expansion phase. In the last two years, over 3 million sq. ft. of office space was delivered. The market is now adjusting to the delivery of the new Class A inventory with increased vacancy rates and increased rental rates. Due to more Class A inventory on the horizon, it can be expected for rates to continue their upward trend through 2019 and 2020.

## CONSTRUCTION ACTIVITY

Construction activity is showing no signs of slowing. In the next two years, 4.6 million sq. ft. is projected to be delivered. These new Class A buildings with top-end amenities are coming to market at record-high rental rates. The high rates are due in part to a more modern asset that effectively blends work, comfort, and productivity. To aid in promoting tenant activity and with many of the projected developments being speculative, asking rents may decrease if developments remain vacant for a substantial period.

## INVESTMENT ACTIVITY

Investors are continuing to find desirable cap rates within the office sector. Due in part to a low cost of living and business, Nashville has become a favorable destination for corporate relocation. Investors are responding to these relocations with state of the art inventory set to accommodate both new and existing businesses in the area.

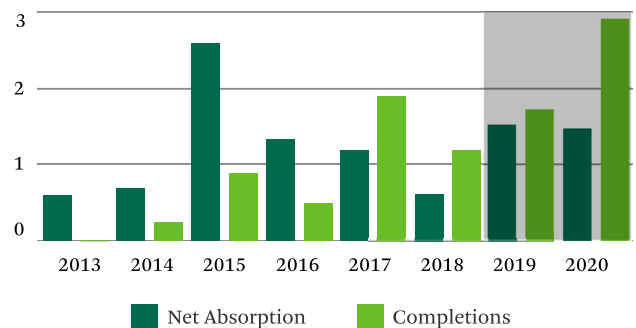
## OUTLOOK

Historically, a vacancy rate increase follows a construction boom. Over the next few years, net absorption will increase as the supply of inventory and tenant demand come to an equilibrium point. As supply and demand move closer to meeting, vacancy will begin to tighten and ultimately lower to a more sustainable level. Overall, Nashville is positioned for a strong, active future in the office sector.

- Tenant amenities are increasingly important, becoming a “must have” for many tenants looking to recruit and obtain top talent.
- Landlords should consider spec suites for difficult vacancies to offer move-in ready turn key options.
- Occupiers looking for space should expect fewer options for some time.

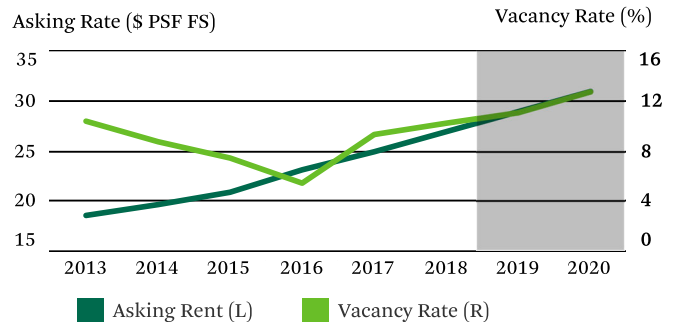
**Figure 1: Total Market Absorption and Deliveries**

Net Absorption and Completions (MSF)



Source: CBRE Research, Q4 2018.

**Figure 2: Total Market Vacancy and Asking Rates**



Source: CBRE Research, Q4 2018.

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