

NASHVILLE OFFICE

Mid-Year 2019

Accelerating success.

Corporate Relocations, Robust Leasing Activity and Investor Interest Keep Nashville Office Market Competitive at Mid-Year 2019

Nashville Market

Nashville continues to thrive on corporate relocations and expansions across multiple industries. The market's solid and consistent job growth, favorable business costs and quality of life have resulted in a confident office market for businesses and developers in the first half of 2019.

Mitsubishi Motors announced it would relocate to Franklin, Tennessee in Cool Springs, bringing 200 jobs and representing an \$18.25 million investment. That same week, Pilot.com revealed it would open its new account management headquarters in Nashville, predicting 450 jobs over the next five years. In May, Medacta USA announced it is moving its U.S. headquarters to Cool Springs, adding 50 jobs over the next five years. Xtend Healthcare also announced a \$1.3 million expansion of its operations in Sumner County, and the creation of 200 jobs.

Leasing activity exceeded well over a million square feet during Q2, with Amazon's new 500,000 square foot lease at Nashville Yards topping the list. WeWork expanded its footprint signing leases totalling 96,600 square feet at two newly constructed buildings. Postmates' new lease for 94,090 square feet in MetroCenter is part of the company's expansion that will add 500 jobs.

Market fundamentals continue to favor the Nashville market in this cycle. Tenant demand has kept new development, rental rates, and absorption elevated. Investor interest skyrocketed in 2018, and office investment during the first half of 2019 significantly outpaced that of 2018, 2017 and 2016 at \$660 million. YTD net absorption has reached nearly 625,000 SF for the first time in two years, and Nashville's amount of construction underway as a percentage of inventory is the largest in the nation.

Absorption & Leasing Activity

Nashville's office market posted 519,336 square feet of positive net absorption at the close of 2Q 2019, the highest quarterly absorption since 3Q 2017.

- > The largest occupancy in 2Q 2019 was the 223,700 square foot move-in of Mars Petcare at their new headquarters in the Cool Springs submarket, accounting for 43% of the market's absorption for the quarter.
- > Downtown experienced nearly 125,000 square feet in positive net absorption this quarter with the occupancies of Healthstream (91,807 SF) at Capitol View and Smile Direct Club's expansion (22,288 SF) at Philips Plaza.
- > The strength of office leasing was evident in 2Q, as Amazon signed a new lease for 500,000 SF at **Southwest Value Partners' Nashville Yards development**, Postmates inked a new deal for 94,090 square feet in MetroCenter, and WeWork executed at new deal to occupy 65,000 feet of new construction at Capitol View.

SUMMARY STATISTICS

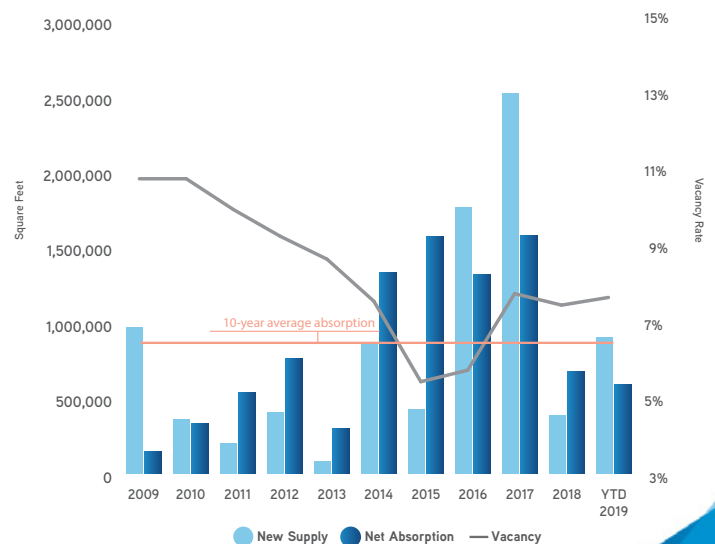
2Q 2019 Nashville Office Market	Entire Market	Downtown	Suburban
Vacancy Rate	7.6%	6.7%	8.0%
Change From 1Q 2019 (basis points)	+10	+130	-50
2Q Absorption	519,336	161,110	358,226
New Deliveries	744,540	300,000	444,540
Under Construction (Square Feet)	3.85M	2.67M	1.18M

ASKING RENTS

Per Square Foot Per Year (FSG)

Market Average	\$28.05
Market Class A	\$31.21
Downtown Class A	\$34.90
Suburban Class A	\$30.30

NEW SUPPLY, ABSORPTION, & VACANCY



Q2 2019 NOTABLE LEASING ACTIVITY

PROPERTY	TENANT	LEASE TYPE	SF	SUBMARKET
Nashville Yards	Amazon	New	500,000	Downtown
431 Great Circle Road	Postmates	New	94,090	MetroCenter
Capitol View - Block E	WeWork	New	65,000	Downtown
Mallory Green	Video Gaming Technologies	New	33,229	Cool Springs
One Nashville Place	AllianceBernstein	New	32,700	Downtown
18th & Chet	WeWork	New	31,594	Green Hills/MR
Trolley Barns	Emma, Inc.	Renewal	30,601	Downtown

Vacancy & Availability

- Nashville's market-wide Class A average vacancy rate has remained under 10% since 1Q 2018, closing mid-year 2019 at 9.0%.
- Tenants continue to favor Downtown Nashville, as vacancy in the submarket's 20 largest office towers decreased for the seventh consecutive quarter to 8.5% in 2Q 2019. Over last quarter, Downtown experienced a slight uptick in Class A vacancy with the delivery of Capitol View Block E (300,000 SF).
- The Cool Springs submarket currently has the largest amount of Class A direct space available at nearly 936,000 square feet.
- Nashville is bracing for another wave of office deliveries exceeding 682,000 square feet by the end of 2019 that will result in 495,150 available square feet. Eighty percent of this new space is located in the suburban submarkets.

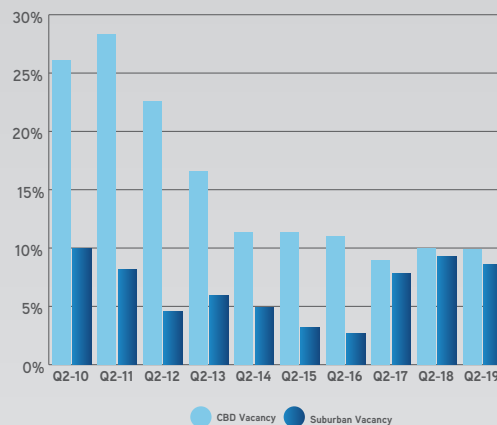
Rental Rates

- The overall decreases in Class A vacancy over the last 12 months continue to be met with increases in an average rate totaling over \$30.00 per square foot market-wide. At \$31.21 per square foot for Class A space in Q2 2019, this represents a 2.7% increase over last quarter and 4.9% a year ago.
- Asking rents have exceeded \$40 per square foot for new construction in the Downtown submarket, with rates for existing buildings trailing by \$5-\$10 per square foot at \$34.90 for existing product. Class A rental rates in the urban submarkets on the borders of Downtown continue to climb, with Class A rates reaching \$38.30 per square foot in Green Hills/Music Row and \$33.30 per square foot in West End.

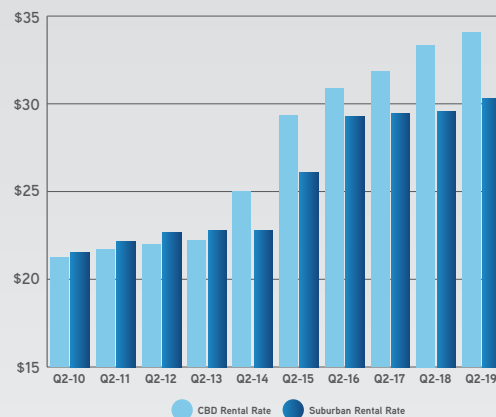
Office Development

- Year-to-date, developers have added 911,546 square feet to the market, with only 30% of space available. Notable deliveries during 2Q include **One Music Circle South** (107,840 SF), Capitol View (300,000 SF), and Mars Petcare (223,700 SF).
- Nashville has 3.85 million square feet of office space under construction market wide, with 70% located in Downtown Nashville. **Nashville Yards Parcels 4 and 3A**—totaling a combined 1M square feet—Asurion (552,000 SF), and 501 Commerce (375,000 SF) are some of the largest projects in the market and will join the Nashville skyline by 3Q 2022.
- Middle Tennessee has 2.2 million square feet of speculative product under construction. Developers are confident in the Nashville market, as tenants continue to flock to new space. Additionally, of the 3,859,404 square feet that delivered since 1Q 2017, 87% is leased.

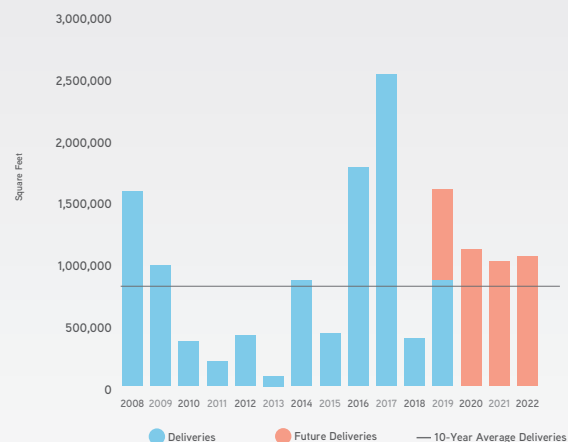
CLASS A VACANCY RATES: CBD VS SUBURBAN



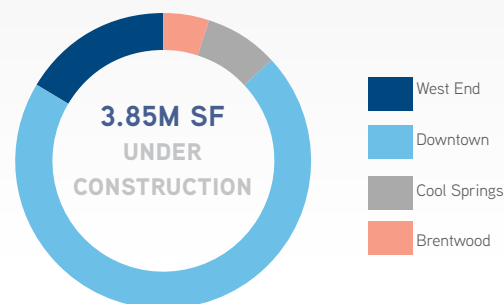
CLASS A RENTAL RATES: CBD VS SUBURBAN



NASHVILLE MARKET NEW DELIVERIES



CONSTRUCTION BY SUBMARKET



NASHVILLE OFFICE MARKET								
MARKET	BUILDINGS	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLEASE VACANT (SF)	TOTAL VACANCY RATE	2Q ABSORPTION	YTD NET ABSORPTION	AVG RENTAL RATE PSF (GROSS)
AIRPORT NORTH								
Class A	12	2,292,908	393,470	33,043	18.6%	-10,430	-24,190	\$26.30
Class B	38	2,534,724	110,817	10,758	4.8%	-32,567	-23,817	\$18.85
Class C	6	263,844	50,601	0	19.2%	-2,010	5,262	\$17.05
TOTAL	56	5,091,476	554,888	43,801	11.8%	-45,007	-42,745	\$23.26
AIRPORT SOUTH								
Class A	5	482,121	3,453	0	0.7%	3,453	3,453	\$32.10
Class B	64	4,652,502	519,310	17,547	11.5%	10,555	4,551	\$21.93
Class C	29	1,443,595	148,975	0	10.3%	3,501	3,801	\$20.75
TOTAL	98	6,578,218	671,738	17,547	10.5%	17,509	11,805	\$21.57
BRENTWOOD								
Class A	27	3,176,058	195,787	27,139	7.0%	16,334	36,713	\$31.45
Class B	55	3,642,394	421,088	36,642	12.6%	30,597	21,917	\$27.50
Class C	6	239,924	7,389	0	3.1%	0	0	\$23.60
TOTAL	88	7,058,376	624,264	63,781	9.7%	46,931	58,630	\$28.43
COOL SPRINGS								
Class A	46	6,703,097	513,698	87,712	9.0%	259,293	260,744	\$30.84
Class B	61	2,549,420	173,858	7,810	7.1%	15,230	-19,768	\$26.36
Class C	4	130,265	0	0	0.0%	0	1,680	\$16.60
TOTAL	111	9,382,782	687,556	95,522	8.3%	274,523	242,656	\$29.64
DOWNTOWN								
Class A	22	7,291,226	633,752	88,384	9.9%	124,929	198,223	\$34.90
Class B	45	3,834,568	144,706	9,449	4.0%	37,491	40,919	\$28.20
Class C	28	3,431,541	92,372	5,800	2.9%	-1,310	4,744	\$25.23
TOTAL	95	14,557,335	870,830	103,633	6.7%	161,110	243,886	\$31.61
GREEN HILLS/MUSIC ROW								
Class A	12	1,459,237	173,612	6,401	12.3%	35,862	52,074	\$38.30
Class B	39	1,722,449	39,254	3,646	2.5%	-94	-14,087	\$28.61
Class C	17	692,912	7,758	1,100	1.3%	637	-791	\$26.45
TOTAL	68	3,874,598	220,624	11,147	6.0%	36,405	37,196	\$35.87
METROCENTER								
Class A	2	339,032	0	0	0.0%	0	0	\$25.50
Class B	16	1,155,614	33,089	0	2.9%	9,042	7,600	\$24.31
Class C	5	289,442	0	0	0.0%	0	0	\$17.00
TOTAL	23	1,784,088	33,089	0	1.9%	9,042	7,600	\$24.37
RIVERGATE/HENDERSONVILLE								
Class A	11	662,383	31,925	2,300	5.2%	12,097	10,249	\$21.80
Class B	19	947,362	34,963	0	3.7%	-500	23,450	\$19.25
Class C	15	780,723	15,534	0	2.0%	-4,429	-5,996	\$18.40
TOTAL	45	2,390,468	82,422	6,235	3.7%	7,168	27,703	\$20.04
WEST END								
Class A	18	2,982,830	79,043	8,382	2.9%	23,969	58,513	\$33.33
Class B	28	1,962,802	102,299	2,152	5.3%	5,119	-2,232	\$30.52
Class C	13	597,583	24,506	0	4.1%	-17,433	-18,976	\$28.92
TOTAL	59	5,543,215	205,848	10,534	3.9%	11,655	37,305	\$32.21
MARKET								
Class A	155	25,388,892	2,024,740	253,361	9.0%	465,507	595,779	\$31.21
Class B	365	23,001,835	1,579,384	88,004	7.2%	74,873	38,533	\$25.95
Class C	123	7,869,829	347,135	6,900	4.5%	-21,044	-10,276	\$23.62
MARKET TOTAL	643	56,260,556	3,951,259	348,265	7.6%	519,336	624,036	\$28.05

2019 YTD NOTABLE INVESTMENT ACTIVITY

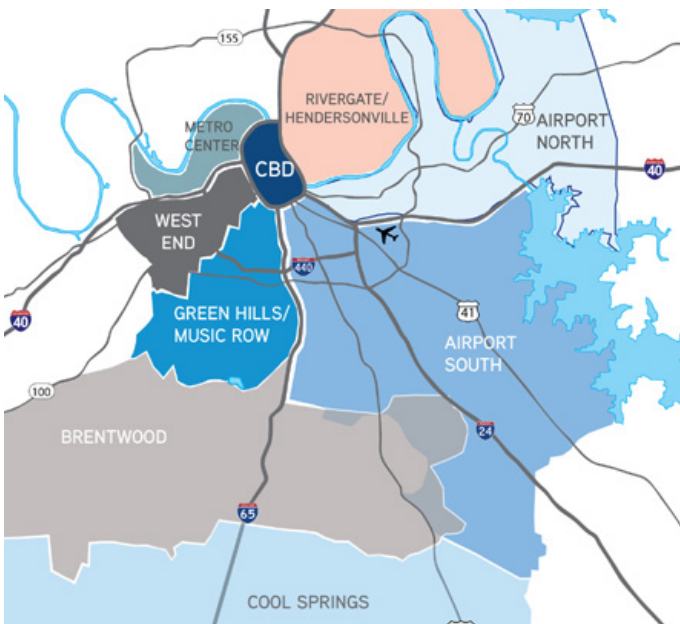
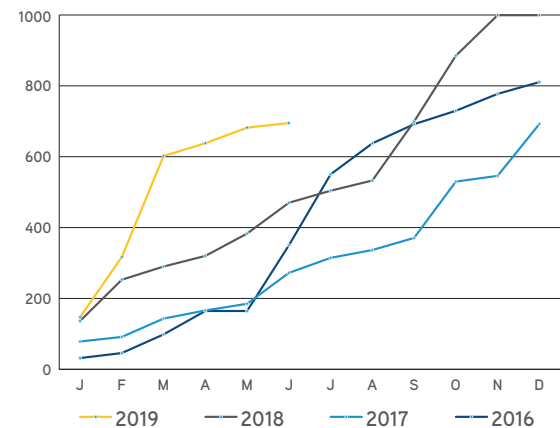
PROPERTY	BUYER	SF	PRICE	PRICE/SF	SUBMARKET
UBS Tower	Shorenstein	602,377	\$135,000,000	\$224	Downtown
Philips Plaza	Wheelock Street Capital	435,525	\$111,500,000	\$256	Downtown
Nashville City Center	CapRidge Partners	480,224	\$104,563,917	\$218	Downtown
Highland Ridge I & II	Innovatus	341,096	\$63,600,000	\$186	Airport North
Plaza Tower	Boyd Watterson	198,421	\$36,000,000	\$181	MetroCenter

Source: RCA Analytics

Investment Activity

- > Office investment in Nashville at mid-year 2019 exceeded \$660.6 million, surpassing the totals of the past three years during the same time frame. Momentum continued in the first and second quarters of 2019, following a record year of investor interest in 2018.
- > Three of the largest sales this year were the purchases of Downtown office towers UBS Tower for \$135M at \$224/SF; Philips Plaza for \$115 million at \$256/SF; and Nashville City Center for \$104 million at \$218/SF.
- > The sale of Highland Ridge I and II in the Airport North submarket was 2019 YTD's largest suburban office deal, trading at \$63.6 million for \$186 per square foot.

CUMULATIVE MONTHLY INVESTMENT VOLUME (\$ MIL)



DEFINITIONS

Colliers Inventory - Statistical set consists of all office properties of more than 20,000 SF, including owner-occupied. The data set excludes properties that are for educational, medical and government use. While Colliers attempts to provide the most accurate data at the end of every quarter, revisions are made throughout the year accounting for discrepancies in past reporting.

Class A Building - Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

Class B Building - Buildings competing for a wide range of users with average rents. Building finishes are fair to good for the area, and systems are adequate; but the building does not compete with Class A at the same price.

Class C Building - Buildings competing for tenants requiring functional space at rents below the average for the area.

Net Absorption - The net change in occupied space between the current quarter and the previous quarter, calculated by summing all the positive changes in occupancy and subtracting all the negative changes in occupancy.

SF - Square Feet

Vacancy Rate - Percentage rate of the total amount of physically vacant space divided by the total amount of existing inventory.

FOR MORE INFORMATION

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