

Nashville Industrial MarketView

Q4 2013

CBRE Global Research and Consulting

 TOTAL VACANCY
8.3%

 AVG LEASE RATES
\$3.85

 NET ABSORPTION
1,089,223 SF

 DELIVERIES
680,160 SF

 CONSTRUCTION
346,448 SF

ANOTHER STRONG QUARTER FOR THE INDUSTRIAL SECTOR DURING Q4 2013

The Nashville industrial market continues to thrive, and all economic indicators point to similar prosperity in the near future. For the third quarter in a row, the area witnessed increased absorption and decreased vacancy, due primarily to build-to-suit activity. Q4 2013 [hereafter referred to as “this quarter” or “fourth quarter”] absorption totaled 1,089,223 sq. ft., increasing from the 843,491 sq.ft during Q3 2013. As expected, the bulk warehouse sector outperformed, claiming more than 64% of the occupancy gains. One new building was delivered this quarter—a build-to-suit for Starbucks—for a total of 680,160 sq.ft.

Industrial investment sales increased from \$132 million in the Q3 2013 quarter to \$192 million during Q4 2013. Rental rates remained in a fairly tight range, and increased slightly to end the quarter averaging \$3.85 per sq. ft. NNN.

This quarter, overall vacancy declined by 90 basis points, resting at 8.3% which is the lowest vacancy rate since Q4 2008. The majority of submarket-level vacancy rates registered between 5.0% and 7.0%, with the exception of Elm Hill Pike/I-40 and Interchange City, with 13.2% and 9.5% respectively. Elm Hill Pike’s vacancy is largely due to the delivery of Class A bulk industrial space in 2008 that remains mostly vacant.

Nashville’s absorption grew by 1,089,223 sq.ft. in Q4 2013, bringing year-end absorption to 2,417,071 sq. ft. Notable move-ins in Elm Hill Pike/I-40 during the quarter include Starbucks, which occupies 680,160 sq.ft. at Park 840. Additionally, The largest move-outs occurred in the Interchange City submarket. CEVA vacated 289,080 sq. ft. at 2 Dell Parkway and Nissan moved out of 151,200 sq. ft. at Southpark B.

Build-to-suits continue to drive the Nashville industrial market in terms of construction. One new building—totaling 680,160 sq.ft.—has been completed this

quarter. Starbucks has finished its 680,160 sq.ft facility on Park 840. Beckwith Farms continues to work on their build-to-suit for Hollister which is expected to deliver during the first quarter of 2014.

There were several significant industrial leases signed this quarter. At 109 Kirby Drive, Unipres took approximately 219,870 sq. ft. Several leases were signed in Interchange City—including one for Ingram Publisher and one for Vantec. Ingram Publisher took 119,450 sq. ft. at 1550 Heil Quaker. Vantec took 115,600 sq. ft. at Southpark B. In the Allied Drive/I-65

South submarket, National Medical Care, Inc inked a lease for 32,863 sq. ft. at 440 Business Center V.

Industrial investment sales increased substantially during the Q4 2013. SouthPark and CentrePoint Distribution Centers sold for \$77.25 million, the largest purchase price of the year. One flex park also sold during Q4 2013. Airpark Business Center, which totals 1,016,281 sq. ft., sold to C III Capital Partners, LLC for \$63.1 million. Total sales volume for the year according to Real Capital Analytics was \$565 million, up from \$167 million for 2012. Private equity continues to dominate the market in terms of capital flow.

As the unemployment rate declines and the overall state of the local economy improves, companies have remained confident in their real estate decisions in the industrial market, committing to longer term deals and continuing to increase their capital investment.

Overall vacancy declined by 90 basis points, resting at 8.3% which is the lowest vacancy rate since Q4 2008.

NASHVILLE INDUSTRIAL MARKETVIEW

Chart 1: Market Statistics

Market	Rentable Area SF	Vacancy Rate	Availability Rate	Q4 2013 Absorption SF	Under Construction SF	Average Asking Lease Rate \$/SF/YR
Allied Drive/ I-65 South	19,401,635	5.9%	9.9%	52,863		\$4.86
CBD/Polk	13,929,756	6.5%	10.4%	45,600		\$4.86
Elm Hill Pike/Interstate 40	28,586,058	13.2%	15.2%	1,015,323	240,000	\$3.75
Interchange City	55,563,181	9.5%	12.7%	-452,298		\$3.78
Metro Center /Cockrill Bend	13,663,013	6.5%	11.8%	117,805		\$4.55
NE/I-65 North Corridor	37,976,294	5.5%	11.7%	309,930		\$3.20
Overall Nashville	169,001,937	8.3%	12.3%	1,089,223	240,000	\$3.85

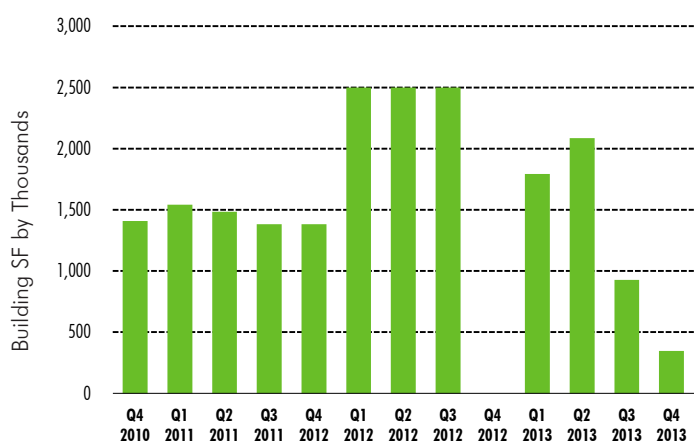
Sources: CBRE, Costar

Chart 2: Key Transactions

Tenant	SF	Submarket	Address
Unipres	219,879	Northeast/I-65	109 Kirby
Ingram Publisher	119,450	Interchange City	1550 Heil Quaker
Vantec	115,600	Vantec	Southpark B
National Medical Care	32,863	Allied Drive/I-65 South	784 Melrose

Sources: CBRE, Costar

Chart 3: Construction Activity

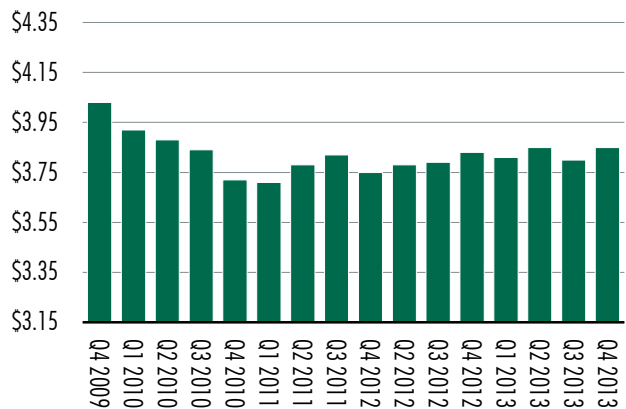


Sources: CBRE, Costar

CONSTRUCTION

Construction pipeline remains steady with several developments under construction. Duke's 680,160 sq. ft. facility at Farm 840 delivered during the Q4 2013. Charles Hawkins is currently constructing a 106,448 sq. ft. facility in Portland, expected to deliver Q1 2014. Additionally, Hollister plans to relocate its U.S. distribution center to a 240,000 sq.ft. facility at Beckwith Farms, slated to deliver in the spring of 2014.

Chart 4: Rental Rates

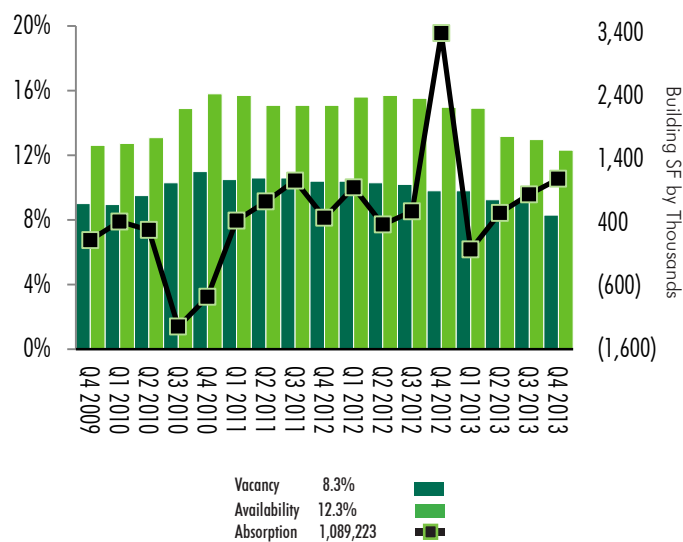


Sources: CBRE, Costar

INDUSTRIAL RENTAL RATES

Average asking lease rates have increased \$0.05 per sq. ft. since Q3 2013 to close the quarter at \$3.85 Net per sq. ft. Average asking lease rates for the bulk warehouse distribution sector, which accounts for more than half of the available industrial space on the market, closed out Q4 2013 at \$3.58 Net per sq. ft. Overall asking rents for all tracked properties in the manufacturing sector increased from last quarter, closing at \$3.34 Net per sq. ft. Allied Drive/I-65 South Corridor currently posts the highest asking rents, clocking in at \$4.86 Net per sq. ft.

Chart 5: Vacancy Rates, Absorption & Availability



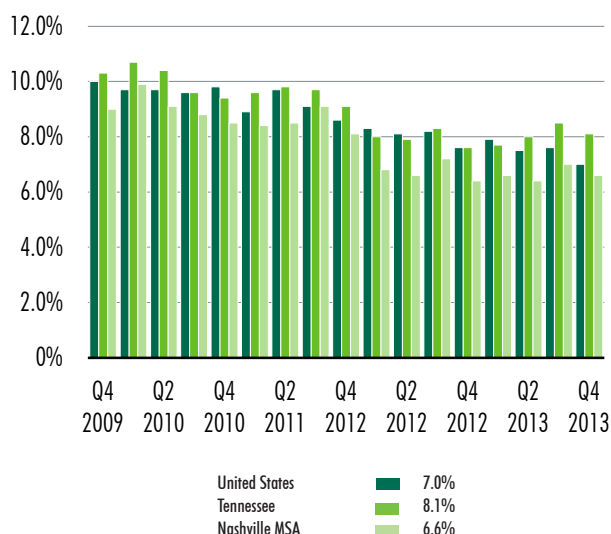
Vacancy 8.3%
 Availability 12.3%
 Absorption 1,089,223

Sources: CBRE, Costar

INDUSTRIAL VACANCY RATES, ABSORPTION, AVAILABILITY

The Nashville industrial market closed out the quarter in black ink, registering 1,089,223 sq.ft. of positive absorption. Consequently, overall vacancy has decreased, closing the quarter at a rate of 8.3%, which is the lowest vacancy rate since Q4 2008. The overall rate represents all property types in the industrial market, including R&D Flex. The manufacturing sector posted the lowest vacancy at 6.8%. Northeast/I-65 North posts the lowest vacancy across all property types with a 5.5% vacancy rate, while the Elm Hill Pike/I-40 submarket continues to post the highest with 13.2% vacancy. Overall availability decreased from 13% in the Q3 2013 to its current level of 12.3%.

Chart 6: Unemployment



United States 7.0%
 Tennessee 8.1%
 Nashville MSA 6.6%

Source: Bureau of Labor Statistics

UNEMPLOYMENT

According to the Tennessee Department of Labor & Workforce Development, the state's unemployment rate decreased to 8.1% from the previous quarters reported 8.5%.

The unemployment rate for the Nashville MSA decreased 40 basis points from third quarter of 2013 to clock in at 6.6%. Total nonfarm employment increased 9,400 jobs from October to November. The largest increases occurred in leisure/hospitality, durable goods manufacturing, and professional/business services.

The national unemployment rate as of November 2013 clocked in at 7.0%, a decrease from the previous quarter's 7.6%. The Nashville MSA continues to post unemployment rates lower than Memphis and Atlanta.

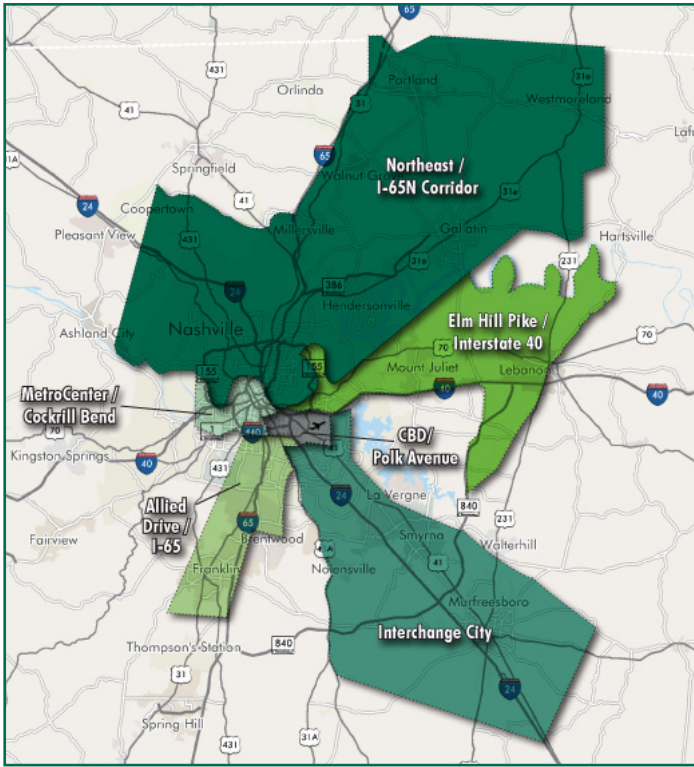


Chart 7: Top Sale Transactions

Size (SF)	Address	Price in mil.
1,778,400	SouthPark Distribution Center Nashville, TN	\$77.3
1,124,368	1415-1451 Donelson Pike Nashville, TN	\$63.2

Sources: CBRE, Costar

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