

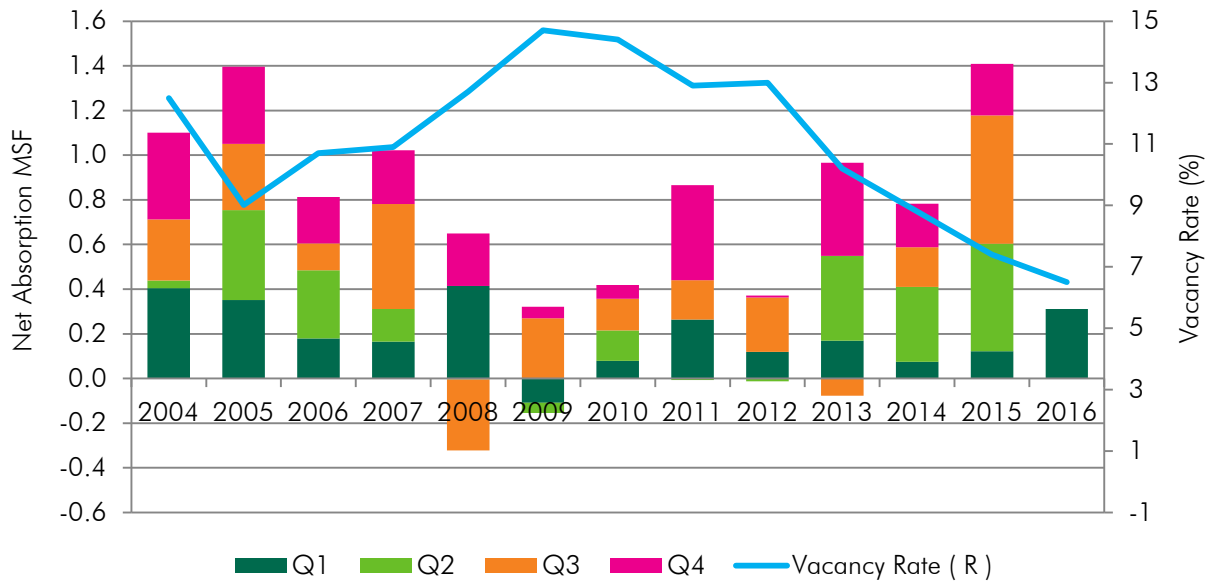
Nashville Office, Q1 2016

# Class A asking lease rates reach all-time high in Nashville

▼ Vacancy Rate 6.5%
▲ Overall Rate \$22.57 PSF
▲ Class A Rate \$27.67 PSF
▲ Net Absorption 310,651 SF
▲ Construction 3,010,493 SF
▲ Completions 135,000 SF

\*Arrows indicate change from previous quarter.

Figure 1: Historical Vacancy Rate and Absorption by Quarter



Source: CBRE Research, Q1 2016.

## RENTAL RATES RISE WITH LOW VACANCY

The Nashville office market started off 2016 with a bang. Q1 saw 310,000 sq. ft. of positive net absorption in the Nashville market. This number is well above Q1 2015's figure, and indicates that despite limited vacancy, tenants are still expanding into previously vacant space. The past three years have shown fairly consistent, organic positive net absorption quarter after quarter. Despite 783,000 sq. ft. of new office deliveries in 2015, the market has tightened further, causing the total vacancy rate to drop to 6.5%, a record low. The Nashville market has now experienced

28 consecutive quarters of declining vacancy, giving owners throughout the market the leverage needed to maximize rent potential.

With such steady declines in vacancy, rents have seen a corresponding increase. Overall rental rates have seen an increase to a new all-time high of \$22.57 per sq. ft., a higher average than Nashville's peer cities of Charlotte and Atlanta. Likewise, Class A rents rose to an average of \$27.67 per sq. ft. Looking forward, rates are anticipated to continue to rise until new office space delivers.

**NEW CONSTRUCTION IN 2016**

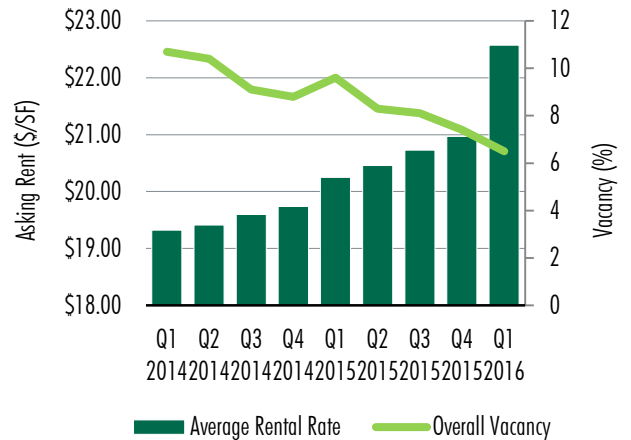
With high rents and limited available Class A office space, developers are planning to finally answer tenants' demands in 2016. Currently, there are eight speculative developments under construction, totaling 1,487,000 sq. ft. However, four more speculative developments are anticipated to begin construction this year. The second office building in the Cool Springs' Franklin Park development will add 280,000 sq. ft. of much needed Class A space to the Cool Springs/Brentwood submarket once complete. Additionally, another office tower will soon be added to downtown Nashville's skyline. 222 2<sup>nd</sup> Avenue South (Hines' office project with 350,000 sq. ft. of Class A space) is expected to be completed in 2017.

With record low vacancy rates and rapidly rising asking rates, tenants unwilling to wait for new development are now working with developers on build-to-suit projects. LBMC recently broke ground on its 114,000 sq. ft. office building in Hill Center Brentwood Building B. Their new office building will consist of Class A fully occupied space when complete. Hill Center Brentwood Building A is also under construction with available space. Bridgestone Americas is now going vertical with a completion date in 2017. Bridgestone will fully occupy its 514,000 sq. ft. headquarters.

**PRELEASING NEW CONSTRUCTION**

Demand is at an all-time high for Class A office product in Nashville's urban and suburban submarkets. Currently, developers are planning to meet those demands, as one can see by the number of cranes in Nashville's skyline. With Nashville's low vacancy comes an influx of new construction. Currently, Nashville has 3 million sq. ft. of Class A office space under construction and 4 million sq. ft. is expected to be under construction by year-end 2016. As a result of this pent up demand, tenants are quickly preleasing new construction. Office projects under construction are on average 70% committed. This average includes both speculative and build-to-suit projects. High demand for quality space and limited vacancy have applied pressure to office lease rates. For the first time Nashville is seeing asking rents for new construction reaching \$40.00 per sq. ft. on a full service gross basis.

**Figure 2: Overall Nashville Rental Rate and Vacancy**



Source: CBRE Research, Q1 2016.

**Figure 3: Key Leasing Transactions**

Tenant	Location	Size (Sq. Ft.)	Submarket	Transaction Type
Surgery Partners, Inc.	310 Seven Springs	56,141	Cool Springs/Brentwood	New
Lend Lease	1201 Demonbreun	26,000	Downtown	New
C3 Consulting	2963 Sidco Drive	20,000	Airport South	New
Warby Parker	L&C Tower	14,380	Downtown	New
APA Literary Agency	One Nashville Place	10,000	Downtown	New

Source: CBRE Research, Q1 2016.

**OFFICE ABSORPTION**

Tenant growth in metro and suburban Nashville led to new occupancy gains in Q1 2016, as Q1 net absorption was 310,651 sq. ft. This figure is a strong start to the year as 2015 averaged 350,000 sq. ft. of positive net absorption per quarter. The Cool Springs/Brentwood submarket experienced the greatest amount of net absorption in Q1, with 97,000 sq. ft., while submarkets Airport South, Downtown and Green Hills/Music Row followed with approximately 40,000 sq. ft. Class A properties regained the top spot over Class B for the highest contribution to net absorption in Q1, posting a net total of 213,000 sq. ft.

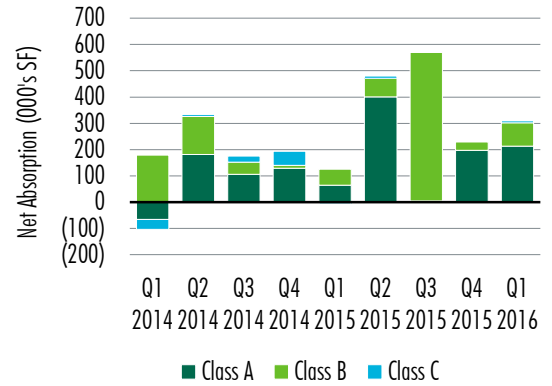
**OFFICE RENTAL RATES**

Overall asking rental rates for Nashville’s office market showed strong growth in Q1 2016. The average overall asking rate increased by \$1.60 per sq. ft., to an all-time high of \$22.57 per sq. ft. Likewise, Class A space increased from \$25.31 per sq. ft. in Q4 2015 to a new record of \$27.67 per sq. ft. in Q1. Class B properties increased from \$19.50 per sq. ft. to \$19.88 per sq. ft. Class C properties increased from \$16.02 per sq. ft. to \$16.24 per sq. ft. The Nashville market is likely to see increasing rate trends throughout 2016 as Class A vacancy continues to tighten and new construction delivers to the market and as a result, pushes average rental rates.

**OFFICE VACANCY RATES**

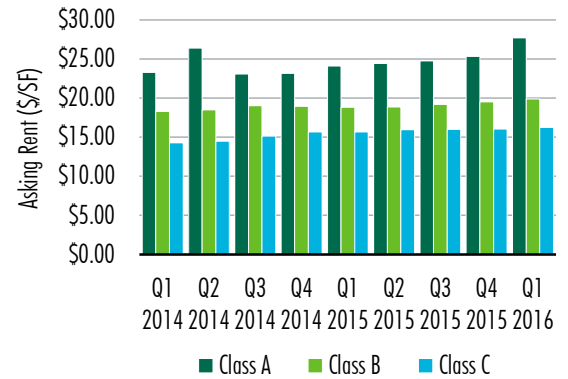
The overall vacancy rate decreased by 90 basis points (bps) to a record low of 6.5% in Q1 2016. Class A was responsible for the majority of the overall decrease, with its vacancy falling by 30 bps to end Q1 2016 at 4.2%. Class B saw a vacancy decrease of 180 bps to 7.6%, while Class C experienced a decrease of 30 bps. The anticipated delivery of Nashville’s office spec throughout 2016 and 2017 may increase vacancy temporarily while lease-up activity occurs.

**Figure 4: Quarterly Net Absorption**



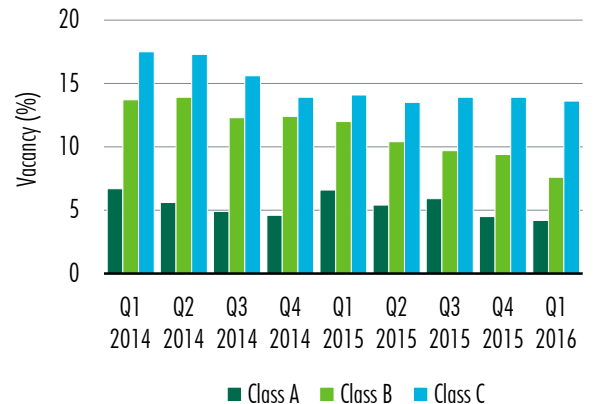
Source: CBRE Research, Q1 2016.

**Figure 5: Rental Rates by Property Type**



Source: CBRE Research, Q1 2016.

**Figure 6: Vacancy by Property Type**

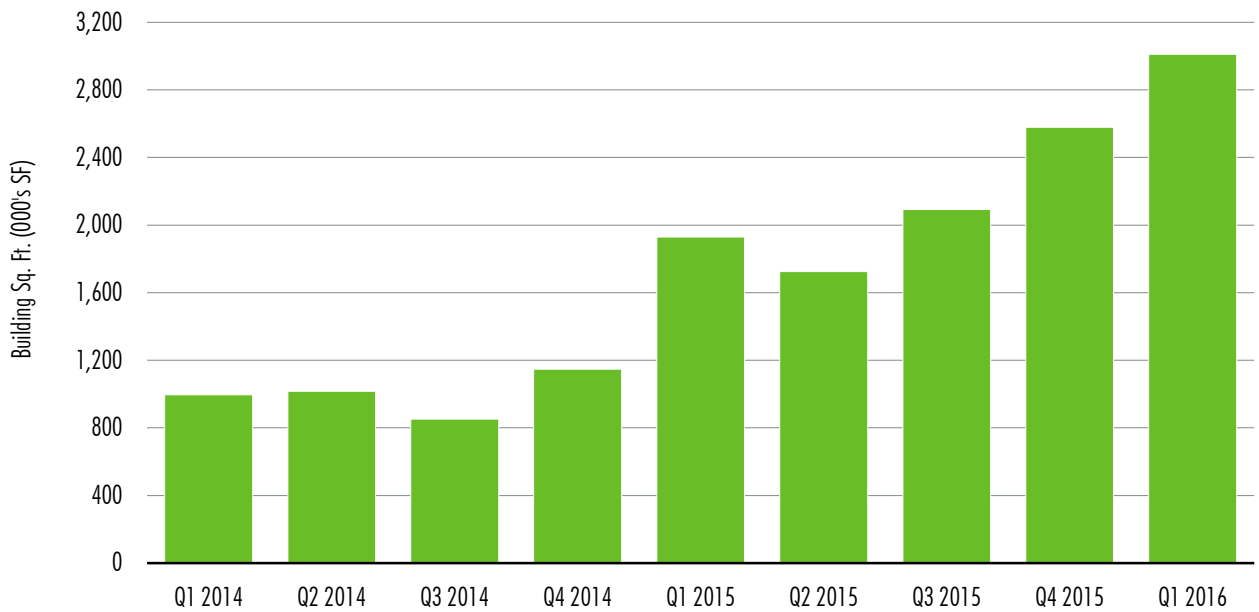


Source: CBRE Research, Q1 2016.

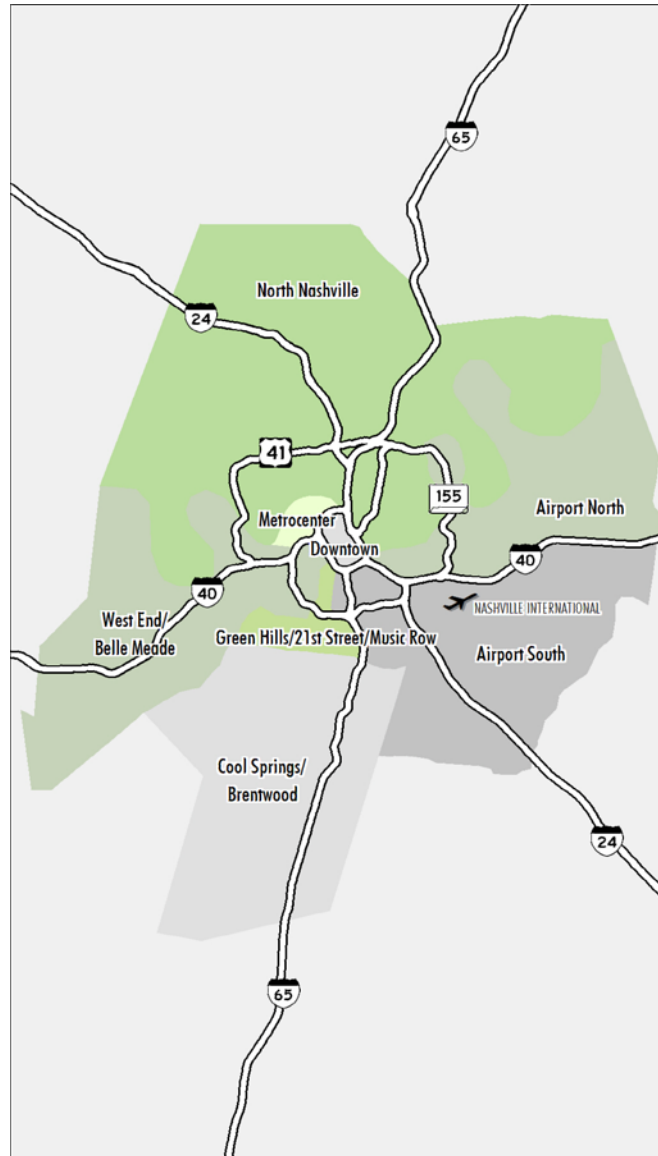
**Figure 7: Market Statistics**

Submarket	Market Rentable Area (sq. ft.)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Avail. Rate (%)	Q1 2016 Net Absorption (sq. ft.)	YTD Net Absorption (sq. ft.)	Under Construction (sq. ft.)	Avg. Gross Asking Lease Rate (\$/sq. ft./Yr)
Airport North	3,929,610	5.8	5.8	16.7	39,243	39,243	0	23.62
Airport South	3,311,819	10.6	11.3	16.2	42,489	42,489	0	14.90
Cool Springs/Brentwood	10,803,494	2.1	2.1	6.8	97,234	97,234	1,142,018	23.85
Downtown	7,949,088	11.4	12.6	16.0	40,944	40,944	1,808,475	24.70
Green Hills/21 <sup>st</sup> Ave/Music Row	2,428,665	6.1	6.1	9.2	40,240	40,240	60,000	24.96
MetroCenter	1,756,346	7.5	8.1	8.8	3,518	3,518	0	18.02
North Nashville	816,840	7.5	7.5	10.1	7,270	7,270	0	16.62
West End/Belle Meade	3,841,878	1.7	1.7	4.9	39,713	39,713	0	27.93
<b>NASHVILLE</b>	<b>34,837,740</b>	<b>6.1</b>	<b>6.5</b>	<b>11.0</b>	<b>310,651</b>	<b>310,651</b>	<b>3,010,493</b>	<b>22.57</b>

**Figure 8: Quarterly Under Construction Sq. Ft.**



Source: CBRE Research, Q1 2016.



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