



Nashville

Office Market 4Q 2018

The Nashville office market recorded a modest 116,433 sf of net absorption at year-end 2018. The lull in activity follows three years of record-setting robust absorption. While Class A office space continues to be in high demand, Class B & C space both recorded negative absorption at the end of the year, proving that tenants in the market are making real estate decisions based on recruiting and retention with an increased emphasis on improved amenities. Activity remained concentrated within the CBD, which recorded 255,330 sf of positive net absorption at year-end. Big name companies such as Philips, AllianceBernstein, and Asurion all signed notable leases in the urban core during the year. In the largest transaction of 2018, Asurion inked the deal for their 550,000-sf headquarter location. Construction on the project is expected to start in early 2019.

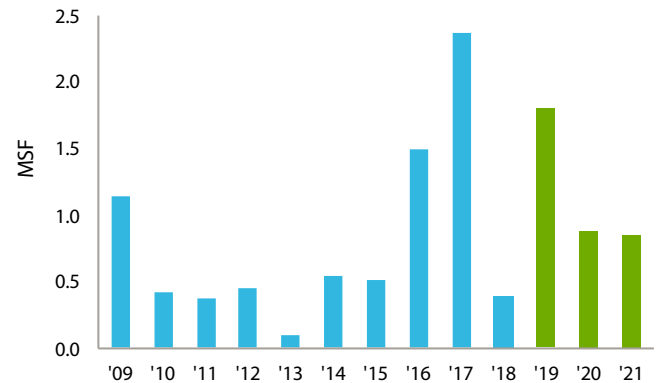
Absorption, Deliveries, & Vacancy



Construction

The Nashville office market is still in expansion mode with 10 projects totaling 2.4 million square feet (msf) breaking ground during 2018. Of the 3.5 msf under construction, including speculative projects and two single-tenant build-to-suits, only 26% has been pre-leased. Development remains concentrated in the urban core with the CBD and West End submarkets accounting for 70% of the construction activity. Five buildings totaling 387,000 square feet (sf) were added to the inventory in 2018, with 52% pre-leasing in place upon completion. The largest building completed during the year was the 175,000-sf suburban office building, Mallory Green, in Cool Springs.

Construction Deliveries



*Based on projects currently under construction

Rental Rates by Class



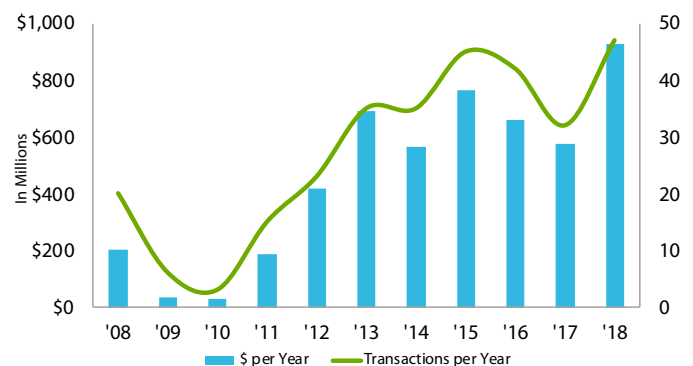
Rental Rates

Despite moderate absorption figures for the year, average asking rents continued to rise, ending the year at \$27.60 per square foot (psf), up 4.4% year-over-year. Rates for Class A space continue to increase and have reached a new high of \$30.20 psf. In an effort to compete with the new product being delivered to the market, many older buildings' landlords are beginning to pour capital into building improvements. While most would assume new construction is driving the rental rate appreciation, in the last five years Class A rates have improved by only 28.3%, while Class B rates rose 34.5% proving that renovations are paying off for owners.

Investment Sales

Office investment sales saw a significant increase in activity during the second half of the year, closing out 2018 at the highest level in decades. **Office sales totaled approximately \$238 million in the fourth quarter, bringing year to date volume to \$929 million. This marks the first time Nashville has ever reached this annual dollar volume benchmark.** In the largest sale of the year, Seattle based Unico Properties purchased One Nashville Place located in the Downtown submarket for \$139 million (\$333 psf). The 24-story, multi-tenant high rise was 91% occupied at the time of sale with notable tenants including Regions and WeWork.

Investment Sales



Nashville placed in the **Top Five Overall Real Estate Prospects** in **Urban Land Institute's** latest *Emerging Trends in Real Estate* report.



Top Lists of 2018

Top Construction Completions

Property	Square Feet	Submarket	Major Tenant	Completion Quarter
Mallory Green	175,000	Cool Springs	Regus	3Q18
LKQ Antioch	100,000	Airport South	LKQ	4Q18
Vertis Green Hills	45,193	Green Hills/ Music Row	Southern Land	3Q18

Top Under Construction

Property	Square Feet	Submarket	Major Tenant	Completion Quarter
BroadWest	550,000	West End	-	1Q21
5th + Commerce	379,528	CBD	AllianceBernstein	4Q19
Gulch Union	330,133	CBD	-	2Q20

Top Sale Transactions

Property	Price	Price/ SF	Sale Date	Submarket	Buyer	Seller
One Nashville Place	\$139,500,000	\$340	September-18	Downtown	Unico Prop./ The Agnew Comp.	AEW Capital
Caterpillar Financial Center	\$90,900,000	\$291	January-18	West End	Caterpillar	Piedmont REIT
HCA Healthcare, Inc HQ	\$83,000,000	\$240	October-18	Airport South	HCA Healthcare, Inc.	LBA Realty
Eight & Nine Corp. Centre	\$73,000,000	\$234	June-18	Cool Springs	KBS Strategic REIT	JP Morgan, Hall Emery
MetroCenter Portfolio	\$51,000,000	\$145	November-18	MetroCenter	Albany Road RE Partners	TIER REIT



LKQ Antioch



Vertis Green Hills

Submarket	Inventory	Vacancy	Absorption	Deliveries	Under Construction	Average Asking Rates	
						All Classes	Class A
Airport North	4,465,619	11.9%	(98,662)	0	0	\$25.33	\$23.77
Airport South	5,640,927	7.1%	(33,335)	127,286	0	\$22.09	-
Brentwood	6,678,901	10.9%	(209,075)	0	309,000	\$28.56	\$30.45
Cool Springs	8,134,100	9.7%	12,036	175,000	553,396	\$29.66	\$30.78
CBD	11,441,332	5.9%	255,330	40,000	1,714,559	\$28.85	\$31.28
Green Hills/ Music Row	3,045,385	3.3%	70,604	45,193	262,384	\$29.95	\$33.67
MetroCenter	2,228,926	5.2%	31,796	0	0	\$22.30	\$24.00
North	1,841,294	6.0%	(7,780)	0	0	\$20.07	\$21.76
West End	6,309,800	3.4%	95,529	0	0	\$31.22	\$32.90
Market Totals							
Class A	23,094,824	8.5%	465,802	387,479	3,389,339	\$30.20	-
Class B	21,101,824	6.6%	(295,742)	0	132,209	\$25.09	-
Class C	5,589,636	5.2%	(53,617)	0	0	\$22.63	-
Totals	49,786,284	7.4%	116,443	387,479	3,521,548	\$27.60	\$30.20

5,600 New Jobs Announced... All Before Lunch

Nashville continues to experience solid economic momentum, demonstrated by steady tenant demand and vigorous job growth. In its November 13th announcement, Amazon reported that the company plans to make Nashville the home of their new East Coast operations hub, which will house the tech and management functions of the company's Retail Operations division. The Amazon hub is now the largest job announcement in the history of the state of Tennessee, and will bring an estimated 5,000 new jobs to Nashville.

Within hours of the Amazon announcement, news of EY, formerly called Ernst & Young, opening a 600-person office near Music Row was reported from multiple news outlets. The office will serve as EY's Exceptional Delivery Growth Engine Center and will specialize in tech-enabled tax-managed services, software development, as well as design and testing. EY and Amazon join the ranks of numerous major corporations who have reaffirmed their confidence in Nashville, including AllianceBernstein and GlockStore.com who are also in the process of relocating their corporate headquarters to Nashville.



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