

INVESTMENT FORECAST

Office
Nashville

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2022

High-Profile Arrivals to the Core Improve Outlook; Below-Average Vacancy Drives Suburban Investment

Tech entrants drive Class A leasing. Nashville has grown into an attractive destination for tech companies, highlighted by Amazon and Asurion filling a combined 1.5 million square feet in the second half of last year. At the same time, Oracle continues work on a major expansion at River North that's scheduled to deliver in 2023. These commitments in Downtown Nashville are the result of massive new developments that contain state-of-the-art amenities, retail access and vast public walking space. Other large-scale projects set to deliver in 2022 are pre-leased for the most part; however, speculative properties containing less than 100,000 square feet are struggling to add tenants. These buildings should see increased future demand as auxiliary firms to the major employers set up shop nearby. This dynamic is most evident in the suburbs. As large companies targeting high-end space shift focus to the core, support firms seeking lower rental costs are occupying smaller spaces in the suburbs. As new openings are filled and large employers expand, vacancy should contract in the core.

Institutions target the CBD while private investors respond to fundamentals. Nashville's ability to attract tech firms has resulted in substantial trading activity from out-of-state and international investors. These buyers are targeting high-end assets in Downtown Nashville and the adjacent Music Row and West End submarkets. Entry costs here are nearly \$100 above the market average of \$295 per square foot and cap rates are typically reported around 5 percent. Local investors looking to pay below-average entry costs are continuing to target Class B/C buildings in the Airport South submarket. The quantity of similar trades is escalating in Rivergate-Hendersonville, due to low vacancy in comparison to other suburban locales. Rutherford County has also been a strong suburban performer; however, buy-side pressure has lifted prices here above the metro average. Cap rates in the 7 percent range are typical for transactions here.

2022 Market Forecast

- Employment**
up 3.3%

Nashville adds 35,000 jobs in 2022, with 35 percent of new roles created in segments that typically occupy office space.
- Construction**
1,800,000 sq. ft.

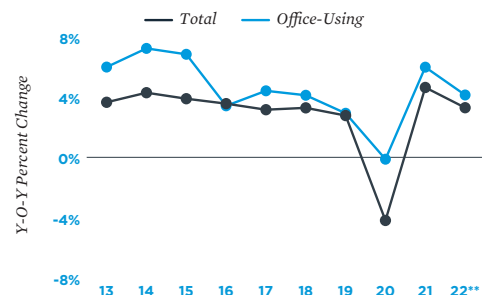
Construction of new office space will be lower than last year, as delivery volume in 2022 trails the five-year average by more than 400,000 square feet.
- Vacancy**
down 60 bps

An ease in deliveries steers more prospective tenants to existing properties, lowering vacancy to 14.3 percent. This compression nearly negates the 70-basis-point rise recorded last year.
- Rent**
up 3.3%

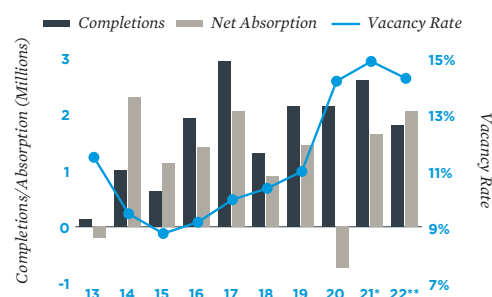
Supplementing the 3.0 percent rent growth registered last year, the average asking rent will reach \$28.10 per square foot, putting the two-year growth rate above 6.0 percent.
- Investment**

Following recent increases in available sublet space, Brentwood and Cool Springs may receive more attention from upside-seeking buyers if positive absorption returns in 2022.

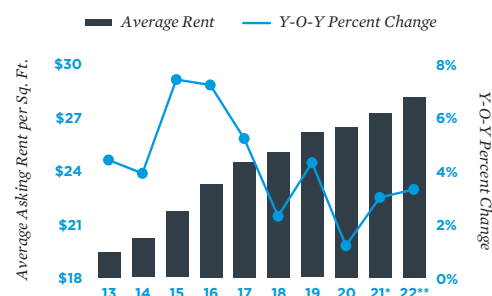
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.