INVESTMENT FORECAST

Retail

Nashville

IPA | INSTITUTIONAL PROPERTY ADVISORS

2022

Rapid In-Migration and Swelling Household Incomes Drive Music City's Outstanding Retail Outlook

Robust job growth amid minimal construction boosts absorption. Nashville has been one of the most resilient metros in the nation, evidenced by vacancy staying below 5 percent throughout the health crisis. Construction is at one of its lowest levels in the past decade, and much of what is scheduled to arrive has a tenant roster secured, furthering downward pressure on availability. At the same time, the metro has seen multiple outdated centers become repurposed, removing this square footage from the market's retail inventory. Meanwhile, large tech firms like Amazon and Oracle have committed to growing their payrolls in the city. Wage growth tied to the tech sector, coupled with robust in-migration trends, creates a favorable environment for retailers and overall leasing activity. The metro has recently recorded larger leases from grocery stores like Whole Foods, with other essential chains expanding their footprints. Additional signings from gyms and restaurants that were debilitated by capacity limits earlier in the pandemic indicate the long-term confidence many vendors have in the metro's demand drivers.

Investors flock to affluent submarkets. Sales volume has been largely unaffected by the pandemic, with the metro seeing a greater volume of trades in 2020 than 2019. This trend escalated in 2021 as deal flow climbed and per-square-foot pricing rose faster than the national pace. The southern suburbs along Interstates 65 and 24 remain highly sought after, as communities along these freeways provide retailers with high-income consumer pools and access to growing populations. Premium pricing in cities like Franklin have led some investors to target older industrial spaces for redevelopment into mixed-use assets containing retail space. At the same time, rising wages across the metro have increased investor interest in centrally-located suburban assets, namely those with retenanting potential. In the CBD, older multi-tenant properties are being targeted based on proximity to major employers and entertainment hubs.

2022 Market Forecast

Employment up 3.3% — Job recovery in the metro's crucial leisure and hospitality industry will help add 35,000 roles as tourism returns in 2022.

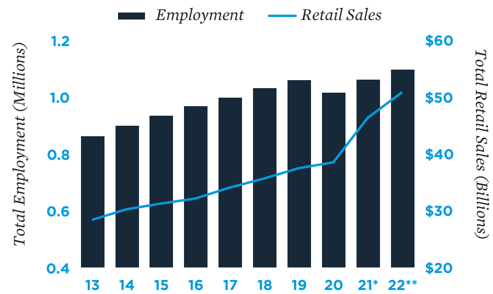
Construction 575,000 sq. ft. — Developers will complete more retail space than they did last year. At just 0.5 percent of all inventory, additions will likely not threaten the performance of existing stock.

Vacancy down 30 bps — Rapid population growth will facilitate retailer expansions, contracting vacancy to 3.8 percent at year-end. This makes Nashville one of 10 major metros with sub-4 percent availability.

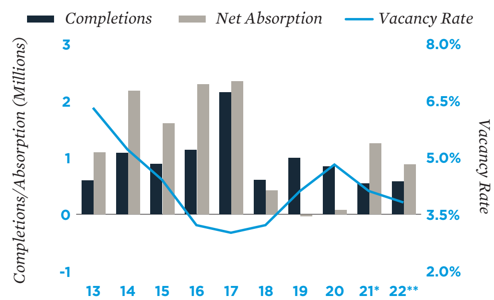
Rent up 3.1% — Asking rents will return to a positive growth trajectory in 2022 after declining last year, advancing the average marketed rate to $21.30 per square foot.

Investment — Pricing in North Nashville is well below market average, even as the city debates potential public redevelopment projects in the submarket. Discounted pricing could be a buying opportunity.

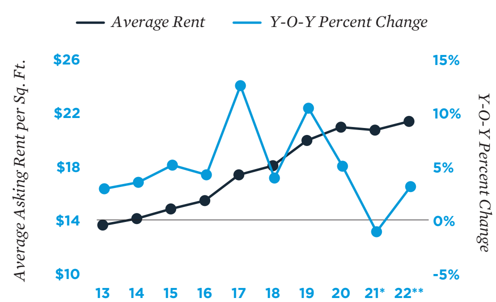
Economic Trends



Supply and Demand



Rent Trends



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

Daniel Taub
Senior Vice President
Director IPA Retail
Tel: (212) 430-5100 | dtaub@ipausa.com