

# MARKET REPORT

Office  
Nashville Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

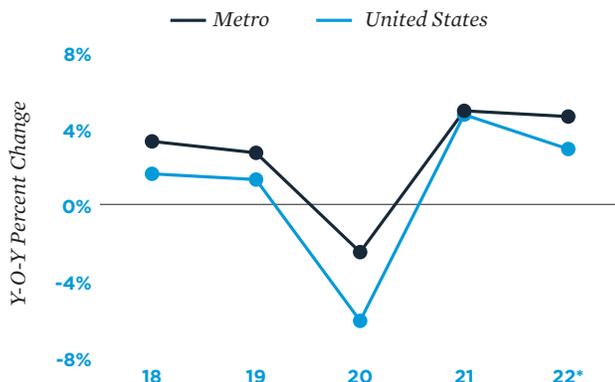
2Q/22

## Educated Labor Force and Big Tech Presence Spark Additional Leases in the Music City

**High-end developments reinvigorate downtown.** Nashville has several large builds currently under construction, headlined by Oracle's project along the East Bank, a former industrial hub that is being reshaped into a major live-work-play center. This transformation is benefiting fundamentals east of the Cumberland River as auxiliary firms prepare for Oracle's arrival. Vacancy in Rivergate-Hendersonville, the submarket containing East Nashville, sat at 5.4 percent in March, 460 basis points beneath its year-end 2019 level. While the Oracle site is being completed, the firm leased 31,000 square feet downtown. At the same time, Amazon is set to complete the second tower of its campus in the core during 2023. Outside of big tech, AllianceBernstein unveiled a 221,000-square-foot office in the CBD, adding diversity to the tenant roster downtown.

**Corporations see value in the metro's workforce.** As announcements from major firms became public, several supplemental businesses are committing to the metro. Iron Galaxy Studios and Yoshi recently inked notable leases, with the latter firm citing the market's talented labor pool as the impetus for relocating to Nashville. This skilled workforce, in concert with business-friendly policies, are expanding the startup ecosystem within the metro. Moving forward, as prominent tech firms fill high-end spaces in the core, smaller companies and startups are poised to follow. This has the potential to improve the leasing outlook for smaller and less centralized buildings with available square footage.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Office 2022 Outlook



**50,000  
JOBS**  
*will be created*

### EMPLOYMENT:

The metro added more than 5,000 traditional office-using jobs in the first quarter of 2022. Year-over-year, employment in this segment has grown 8.1 percent as of April. Unemployment below 3 percent is likely the strongest barrier to continuing this pace.



**1,450,000  
SQ. FT.**  
*will be completed*

### CONSTRUCTION:

Development will slip below 2 million square feet in Nashville for the first time since 2018. Much of the traditional office space scheduled for 2022 completion is in the core, with medical office projects concentrated in growing suburban counties.



**10  
BASIS POINT**  
*increase in vacancy*

### VACANCY:

Vacancy compresses during the remainder of 2022. However, this reduction is unable to offset the 60-basis-point increase registered in the first quarter. At 15.4 percent, year-end vacancy is the highest dating back to at least 2007.

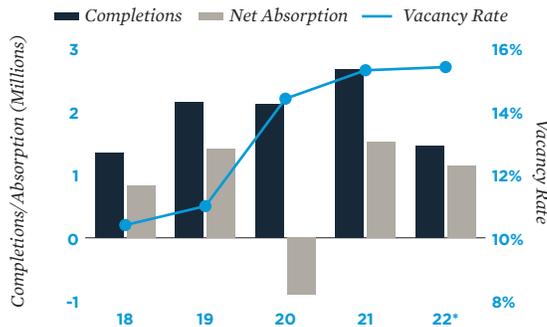


**2.1%  
INCREASE**  
*in asking rent*

### RENT:

Sustained growth of the metro's office-using labor force has led to a consistent stretch of asking rent growth. The average marketed rent will reach \$27.75 per square foot by the end of 2022, the 13th successive year of upward movement.

## Supply and Demand



## Rent Trends



## Sales Trends



\* Forecast \*\* Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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## 1Q 2022 - 12-Month Period



### CONSTRUCTION

**2,715,000 sq. ft. completed**

- A large proportion of projects slated for completion this year are located in the CBD. One of the most notable is One22One, a speculative project that has secured a 50,000-square-foot commitment from FirstBank.
- The majority of recent construction finalized in the Downtown and West End submarkets, growing stock in both locales by more than 7.0 percent.



### VACANCY

**40 basis point increase in vacancy Y-O-Y**

- A record volume of completions contributed to vacancy rising to 15.9 percent in March. However, the metro did record three consecutive quarters of positive net absorption to close out last year.
- After tightening at the end of 2021, the omicron surge likely played a role in Class A vacancy lifting 100 basis points in the first quarter of 2022.



### RENT

**3.5% increase in the average asking rent Y-O-Y**

- The pace of rent growth accelerated since last year's second quarter. Entering April, the average marketed rent was \$27.28 per square foot.
- Asking rents in the core swelled 7.6 percent to \$33.18 per square foot on average in the 12-month period ended in March. Meanwhile, suburban marketed rates grew 2.0 percent year-over-year to \$25.56 per square foot.

## Investment Highlights

- Transaction velocity climbed to the highest level on record over the 12 months preceding April, up over 40 percent compared to 2019. The average sales price rose to \$358 per square foot during the same span, while the average cap rate held at 6.5 percent. As high-end projects finalize at a brisk pace, redevelopment plays involving older stock are becoming increasingly frequent among institutional buyers, who have grown more active here.
- Well-capitalized investors and out-of-state buyers have been active in central areas like the CBD, West End and Green Hills-Music Row. Cap rates for trophy assets are typically landing in the mid- to high-3 percent range, with per-square-foot pricing near \$400 on average. Smaller and older properties in the core can trade at yields roughly 200 basis points higher.
- Population growth in suburbs including Franklin and Murfreesboro have sparked a plethora of medical office leases and developments. As a result, investors are targeting such assets within these locales. Medical office sales were at the highest level on record in 2021, with average pricing of \$297 per square foot, and first-year yields near the high-5 percent span in growing areas. Closer to the core, pricing can be nearly double that of further out suburbs, but typically lands near \$400 per square foot.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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