MARKET REPORT

Retail

Nashville Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

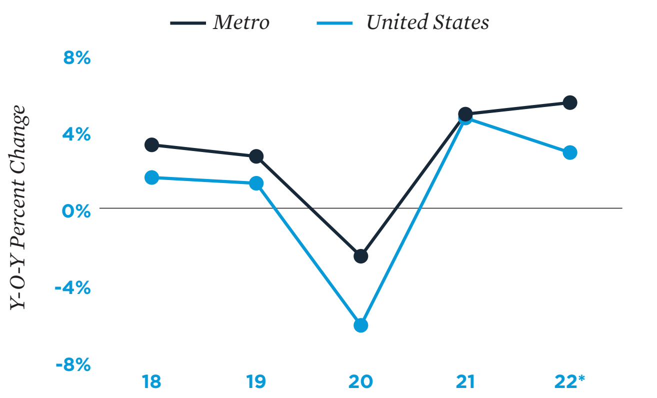
3Q/22

Single-Tenant Fundamentals Rise to Tune of Vibrant Economy as Tourism Provides Tailwinds

Growth metrics facilitate exceptionally tight conditions. Nashville registered the lowest single-tenant vacancy rate among major markets as of the second quarter 2022. The sector's conditions have tightened considerably, due to substantial demand from tenants. Recording a net of 1.2 million square feet absorbed, demand during the past year topped the cumulative volume over the preceding 36 months by more than 125,000 square feet. This surge can be attributed to the 27,000 households and 148,000 jobs created over the past two years, cuing lifestyle and necessity retailers to enter into commitments in growing population hubs across the metro. Over the past 12 months, health clubs, such as Tru Fit Athletics, Yoga Six and Legacy Fitness, absorbed over 100,000 square feet between Madison, North Nashville and Hermitage. While the grocer, Publix, took up a pair of 40,000-square-foot plates in Gallatin and Lebanon.

Tourism bolsters consumer spending. Dining and services, which have been heavily reliant on Nashville's tourism industry in the past, stand to gain considerable ground this year. Through the first half, hotel demand in the metro surpassed the equivalent frame in 2019 by 5 percent. This corresponded to a 6.4 percent increase in quarterly retail sales during the span. Nashville's central location, which places 40 percent of America's population within 600 miles of the metro, suggests that visitor counts should improve as inflation and rising transportation costs reduce travel budgets, directing more tourism-related consumer spending to Nashville.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

60,000 JOBS
will be created

EMPLOYMENT:

Although unemployment has held steadily below 3 percent in 2022, employers will add 9,000 more positions than last year. Gains are mostly led by the transportation, trade and utilities sector, which added nearly 8,000 new jobs through the first seven months.

690,000 SQ. FT.
will be completed

CONSTRUCTION:

Development heightens relative to the prior yearlong span, though deliveries fall almost 240,000 square feet short of the 2020 volume. Supply additions this year will expand the metro's retail inventory by 0.6 percent, its lowest gain in four years aside from 2021.

30 BASIS POINT
decrease in vacancy

VACANCY:

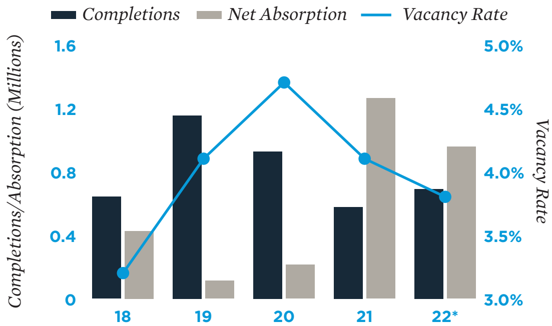
Retail availability declines to its lowest year-end rate since 2018, as demand outpaces completions by roughly 270,000 square feet. At 3.8 percent, this year's vacancy rate is 130 basis points below the long-term average.

9.5% INCREASE
in asking rent

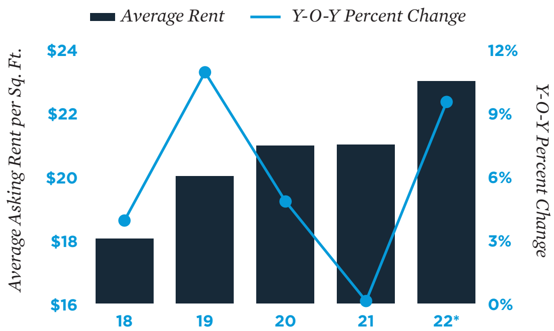
RENT:

After rising by 5.7 percent in the first half, the metro's average asking rent is on pace to accelerate significantly when compared to last year's nominal gain. This improvement lifts the mean asking rate to a record mark of $23.00 per square foot.

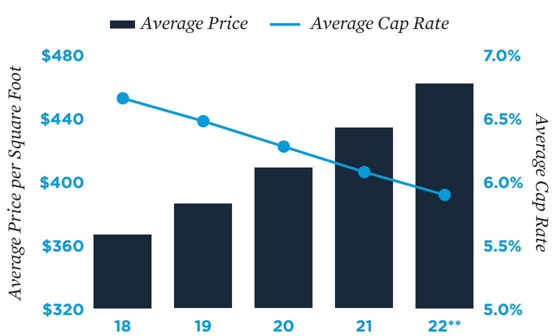
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

428,000 sq. ft. completed

- The Hendersonville-Gallatin submarket had the most development during the yearlong span ending in June at 150,000 square feet.
- The metro's active pipeline consisted of over 1.1 million square feet as of August. Development is concentrated in the Southeast Corridor, with 342,000 square feet currently pending completion here.

VACANCY

100 basis point decrease in vacancy Y-O-Y

- Compared to the prior yearlong period, demand during the past 12 months more than doubled, while deliveries slowed by nearly 50 percent. This helped facilitate a 100-basis-point drop in vacancy to 3.6 percent in June.
- Single-tenant vacancy fell 110 basis points to a historic low of 2.5 percent, while the multi-tenant rate slid 20 basis points to 7.4 percent.

RENT

6.7% increase in the average asking rent Y-O-Y

- Vacancy compression in both the multi- and single-tenant sectors pushed the overall average asking rent up to $22.20 per square foot in June.
- Dickson County, Southeast Corridor and North Nashville registered single-tenant rent growth that exceeded 25 percent. Dickson County's multi-tenant rate receded, while the other two improved upwards of 16 percent.

Investment Highlights

- Investors paid an average of $376 per square foot for multi-tenant assets during the 12-month span ending in June, translating to an 11 percent rise in pricing. This sizable gain can largely be ascribed to a growing number of higher-quality, newer-built assets accounting for a larger share of overall multi-tenant deal flow. Increased valuations compressed the segment's average cap rate 20 basis points to 6.6 percent.
- Shopping centers on the eastern side of Nashville are attracting a number of investors, in response to strong residential demand. Donelson-Hermitage represents an active area for strip center trades, while transactions involving neighborhood centers are driving deal flow in Rutherford County.
- Single-tenant sale prices rose by nearly 9 percent over the past year to $540 per square foot on average. Meanwhile, the mean cap rate contracted 40 basis points to 5.2 percent, as investor competition intensified in response to the subsector's record-low vacancy.
- Fast food establishments and restaurants are trading with average yields in the mid-5 percent band. Convenience stores transacted at slightly lower cap rates, with most of them trading in the low-5 percent range.