

MARKET REPORT

Office
Nashville Metro Area

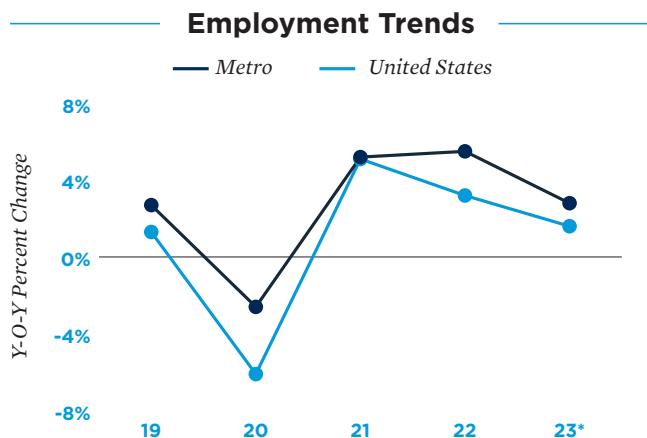
IPA
INSTITUTIONAL
PROPERTY
ADVISORS

4Q/23

Tenants' Flight-to-Quality Apparent as Class A Leasing Activity Amplifies Across Nashville

Return to in-office operations prompts corporate decisions. Nashville was one of just two primary or secondary U.S. markets to record both suburban and CBD vacancy declines over the yearlong stretch ending in June. The addition of nearly 14,000 traditionally office-using positions over that period played a role, with recent hiring requiring some companies to lease additional space. Rather than renewing existing leases, other firms are committing to high-quality floor plans in amenity-rich buildings with the goal of retaining employees and attracting talent. The latter trend is evident in the CBD. Here, Class A vacancy fell 270 basis points over the past year to a rate — 19.7 percent — that matches its long-term subsector average. Additionally, nearly three-fourths of professionals at CBD-located firms had resumed in-office work as of April. Should this count rise, the area may be in line for further demand gains.

Outlook brightens for top-tier suburban space. Areas outside the CBD are also noting Class A leasing improvement. Vacancy across higher-end suburban properties declined 90 basis points over the past year, highlighted by tenants in Green Hill-Music Row absorbing a net of 390,000 square feet, or 20 percent of the area's upper-tier stock. Over the same span, net absorption exceeded 150,000 square feet in Brentwood. Collectively, these two submarkets lack upcoming deliveries, laying the potential framework for additional compression, if demand holds up.



* Forecast

Sources: BLS; CoStar Group, Inc.; Nashville Downtown Partnership

Office 2023 Outlook



**32,000
JOBS**

will be created

EMPLOYMENT:

Hiring by traditionally office-using firms accounted for more than half of the 21,300 roles added in the first eight months of 2023. Moving forward, historically low unemployment will slow the pace of job creation.



**1,100,000
SQ. FT.**

will be completed

CONSTRUCTION:

Nashville records its lowest delivery volume in eight years. Amazon's decision to put its second tower at Nashville Yards on hold significantly impacts this year's inventory growth.



**40
BASIS POINT**

increase in vacancy

VACANCY:

For the ninth time in the past 10 years, the metro records positive net absorption. Still, vacancy rises moderately to 16.7 percent, a rate 510 basis points above its long-term mean.



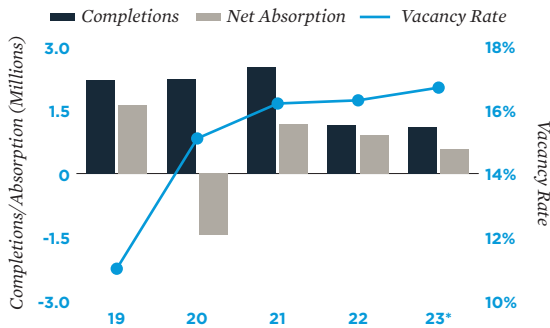
**1.5%
INCREASE**

in asking rent

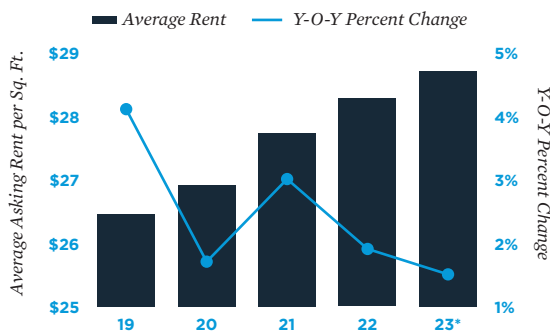
RENT:

Positive absorption supports a pace of rent growth on par with last year's gain. At \$28.70 per square foot, the year-end mark ranks as the third highest among major inland markets, surpassed by Austin and Charlotte.

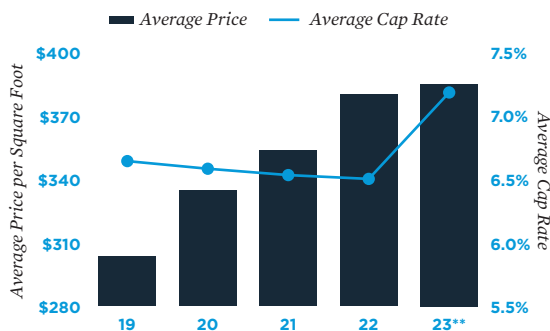
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

1,389,000 sq. ft. completed

- Office inventory grew by 1.6 percent over the 12-month span ending in June. Similar to the prior four quarters, submarkets outside the CBD accounted for more than 60 percent of recent supply additions.
- Green Hill-Music Row noted an 8.5 percent inventory gain over the past four quarters, highlighted by the 247,000-square-foot Moore Building.



VACANCY

30 basis point decrease in vacancy Y-O-Y

- Among the seven submarkets with more than 5 million square feet of space, four notched vacancy compression during the past year. This helped lower the metrowide rate to 16.2 percent in June.
- Class A vacancy declined 140 basis points during the recent 12-month interval, while the Class B/C rate rose 20 basis points to 12.7 percent.



RENT

1.1% increase in the average asking rent Y-O-Y

- The metro's average asking rent reached a record mark in the first quarter of 2023, before falling nominally during the subsequent three months to \$28.41 per square foot in June.
- At 6.7 percent, Green Hill-Music Row secured the largest rent gain among major submarkets, with recent local inventory growth likely playing a role.

Investment Highlights

- Despite a 30 percent year-over-year drop in deal flow during the 12-month stretch ending in June, the average sales price continued to rise in Nashville. Office properties that changed hands during the recent window sold for a mean of \$385 per square foot, the ninth-highest price point among major U.S. markets and a figure 27 percent above the metro's 2019 metric.
- During the first eight months of 2023, in-state buyers accounted for 70 percent of metrowide closings, with a focus on smaller properties. Class C assets of this distinction have most frequently traded in suburbs just south of Nashville International Airport. This area contains the metro's largest cluster of Class B/C inventory, with subsector asking rents here ranking as the lowest in the market. Closer in, investors are acquiring buildings in Green Hill-Music Row, where Class B/C vacancy has held below 7 percent since 2007. In both areas, pricing above \$500 per square foot is common.
- Early 2000s-built Class B properties are also of interest to active buyers. Pricing for relatively newer traditional office buildings can often exceed \$600 per square foot in downtown and adjacent areas, with suburban medical assets available for under \$350 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; Nashville Downtown Partnership