

INVESTMENT FORECAST

Office
Nashville Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS





2024

Nashville's Inclusion Among a Select Group of Outperforming Major Markets Elicits Investor Activity

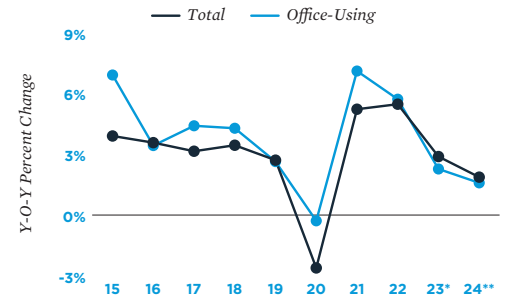
Absorption remains positive, despite a rise in vacancy. Nashville was one of the top-performing major markets for traditional office-using job creation last year, a dynamic that placed the metro's count of professional and business services positions at a record high entering 2024. This hiring coincided with a consistent number of lease executions for spaces larger than 20,000 square feet, with law firms, government and video game-related companies among those inking notable commitments. Many of these agreements have 2024 move-in dates, which, based on the various quality of buildings involved, will support net absorption across property tiers this year. Further aiding absorption, approximately half of the 1.7 million square feet slated for delivery this year was accounted for at the onset of 2024. These factors will allow Nashville to be one of just five major U.S. markets to record a fourth consecutive year of positive net absorption. Still, the impact of companies downsizing their footprints will be felt, with overall Class A vacancy reaching a record high and the Class B/C rate holding above its long-term average.

Mid- and lower-tier assets remain desirable amid elevated vacancy. The metro's Class B/C sector registered both positive net absorption and a record mean asking rent last year. These fundamentals are poised to fuel private investor competition for smaller buildings, including in the southern suburban office hubs of Cool Springs and Brentwood. Similar-sized assets should also be pursued in Green Hills/Music Row and West End, where collective Class B/C vacancy is around 6 percent. Recently home to some of the strongest rent growth, yet still one of the lowest cost options for tenants, areas just south of Nashville International Airport will also receive attention. Here, and in the aforementioned zones, Class C buildings may command pricing above \$500 per square foot.

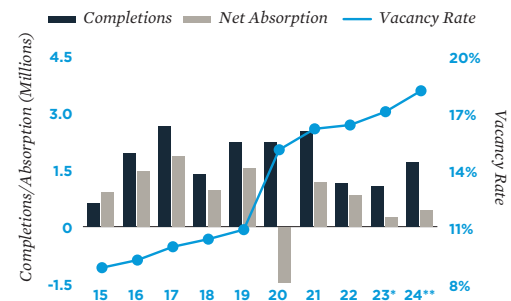
2024 MARKET FORECAST

- +1.9%**  **EMPLOYMENT:** By year-end, Nashville's total job count will be nearly 141,000 roles above its 2019 mark, with office-using hiring accounting for roughly one-fourth of all additions during 2024.
 - 1,700,000 sq. ft.**  **CONSTRUCTION:** Driven by a group of 250,000-square-foot-plus completions, delivery volume increases on a year-over-year basis, with the metro's office stock expanding by 1.9 percent.
 - +110 bps**  **VACANCY:** Despite some encouraging pre-leasing trends, supply additions exceed demand for a ninth straight year. This dynamic raises metro vacancy to 18.2 percent, the highest rate on record.
 - 1.9%**  **RENT:** A historically large vacant stock requires some operators to ease asking rents to attract tenants. This translates to the average marketed rate falling moderately to \$28.22 per square foot.
- INVESTMENT:** *A steady rate of population growth over the next five years will heighten demand for health services. In response, private investors may target suburban medical office assets suitable for one to four tenants.*

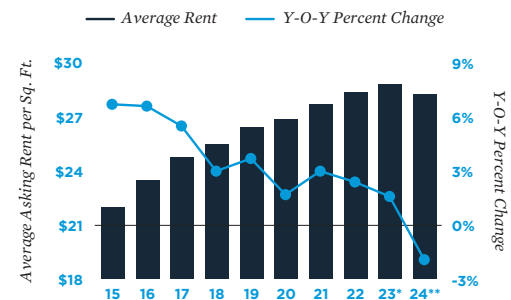
Employment Trends



Supply and Demand



Rent Trends



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

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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 2023. 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.