INVESTMENT FORECAST

IPA | INSTITUTIONAL PROPERTY ADVISORS

RETAIL

Nashville Metro Area

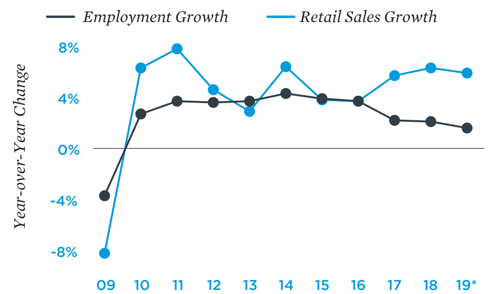
2019

Music City Among Most Desired Destinations for Out-of-State Capital

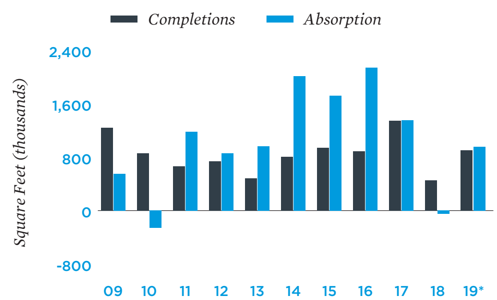
Nashville retail market poised for another strong year. Although new construction is approximately double last year's pace, supply additions are in line with the average during the last five years of the cycle. Fifth + Broadway is the largest development underway and is indicative of the commuter-friendly, mixed-use properties builders are favoring in downtown Nashville. The $400 million project contains apartments, Class A office space and 180,000 square feet of retail. High-paying tech jobs will help support retailers in the vibrant core of the city. Amazon, for example, will hire 5,000 workers at its Operation Center of Excellence while EY, formerly Ernst & Young, adds 600 employees. Nashville's sub-3 percent unemployment rate will make filling these spots a challenge and attract workers from outside the metro. Net migration to the market is already strong, and nearly 25,000 people are expected to move to the market this year, supporting a healthy retail climate.

Buyers keen on local retail assets. Investors have a more optimistic outlook about the local retail market despite an economic cycle that is aging nationally. High-paying job growth, healthy rent gains, and low vacancy are lending confidence to investors that continue to scour the market for value-add deals. Contrary to trends seen in many primary markets, multi-tenant investors are searching for properties with a vacancy factor in an effort to fill dark space at new, higher rents. Larger assets are also trading, illustrating the risk-taking of active multi-tenant buyers. With average cap rates in the mid-7 percent range, buyers are finding attractive spreads. Single-tenant properties, meanwhile, saw a jump in activity during 2018 as outside capital continue to flow into Nashville. Restaurants, in particular, garner a lot of attention as investors see online retailers as a greater threat to vacancy than a recession.

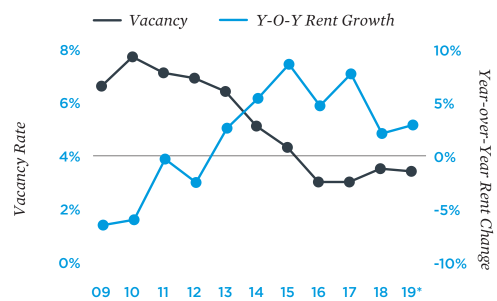
Employment vs. Retail Sales Trends



Retail Completions



Asking Rent and Vacancy Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

2019 Market Forecast

Employment up 1.6% — Building on last year's 20,900 new jobs, employers will add 16,000 positions in 2019.

Construction 900,000 sq. ft. — Construction doubles this year as new supply expands by 0.9 percent. Approximately 70 percent of the underway space has leasing commitments.

Vacancy down 10 bps — Vacancy will reverse course this year, finishing 2019 at 3.4 percent. Last year, vacancy climbed 50 basis points.

Rent up 2.9% — After rent growth slowed to 2.1 percent in 2018, the pace of gains will accelerate this year. Asking rents will climb to $19.12 per square foot by year end.

Investment — Investors may find an opportunity to acquire strip centers in the metro this year. Vacancy for these smaller properties is near the metrowide level for all retail space, suggesting strong demand from local retailers.

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