

# INVESTMENT FORECAST

OFFICE  
Nashville Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS






2020

## Speculative Construction Exceeds Rising Demand; Investors Focus on Value-Add Deals Downtown

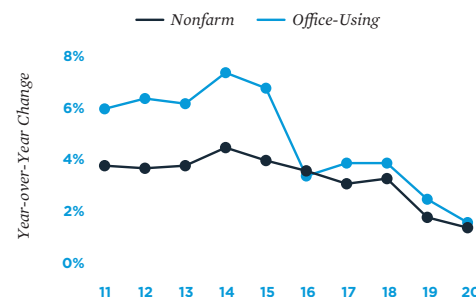
**Supply gains temporarily lift vacancy.** Robust company expansion and relocation continue to Nashville this year as the market's skilled workforce continues to grow. In 2020, Alliance Bernstein will move from its current location in New York City into a 200,000-square-foot space at the Fifth and Broadway development in the central business district. Additionally, Amazon is moving into a 750,000-square-foot space in the spring of 2021 at Nashville Yards. Collectively, the firms will bring approximately 6,000 jobs to the area, advancing the future growth of the metro's economy and drawing additional employers to the metro. As prominent business service industries such as these promote the viability of Nashville, an increase in speculative construction is taking place to meet future demand. For the second consecutive year, development surpasses 2 million square feet. The large influx of space will ultimately lead to a temporary rise in the metro's average vacancy rate to the mid-11 percent area, although the rate of increase will slow relative to 2019.

**Lifestyle communities raise investor attention.** As the entertainment and retail scene advances throughout the city center, the desirability of being near these amenities lifts sales prices and investor demand. Buyers are seeking to revamp aged inventory in the central business district for a future sale or long-term hold. Class B/C assets here sell for between \$200-300 per square foot, though some properties can change hands for more than \$400 per square foot under the right circumstances. High-end office demand is also spreading outside of the city center near growing suburbs south of downtown that contain amenity-rich shopping center developments. Near Cool Springs, for example, buyers are pursuing product for above the metro's overall average price per square foot of \$275. Marketwide, average first-year returns are in the high-6 percent range, down 20 basis points year over year.

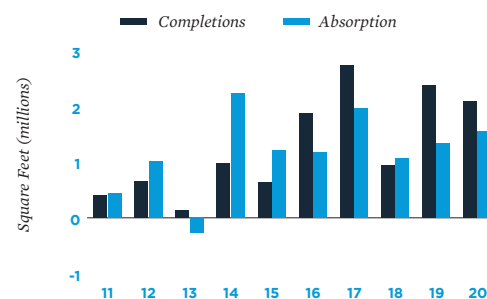
## 2020 Market Forecast

- Employment** up 1.3%  Hiring will ease slightly from the 17,500 employees added last year as employers create 13,600 new positions.
- Construction** 2.1 million sq. ft.  Development will dip slightly from last year's 2.4 million square feet of new construction.
- Vacancy** up 40 bps  Following a 100-basis-point increase last year, a heavy construction delivery schedule will result in a small uptick in vacancy to 11.6 percent this year.
- Rent** up 2.1%  The average asking rent will moderate from the 3.8 percent growth rate posted in the past two consecutive years as the rate rises to \$28.51 per square foot.
- Investment**  Class B/C assets south of downtown, toward Brentwood and Franklin, remain attractive for investors, as stock can be acquired here significantly below the metro average.

### Employment Trends



### Office Supply and Demand



### Vacancy and Rent Trends



\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

### Alan Pontius

Senior Vice President | Director  
Office and Industrial Properties Division  
(415) 963-3000  
apontius@ipausa.com

Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.