

Office fundamentals end the year on a positive note, amid a year of economic challenges

▼ 18.6%
Vacancy Rate

▼ 103K
SF Net Absorption

▼ 131K
SF Completion

▼ 2.4M
SF Under Construction

▲ \$31.18
Overall Lease Rate

▲ \$34.50
Class A Lease Rate

Note: Arrows indicate change from previous quarter.

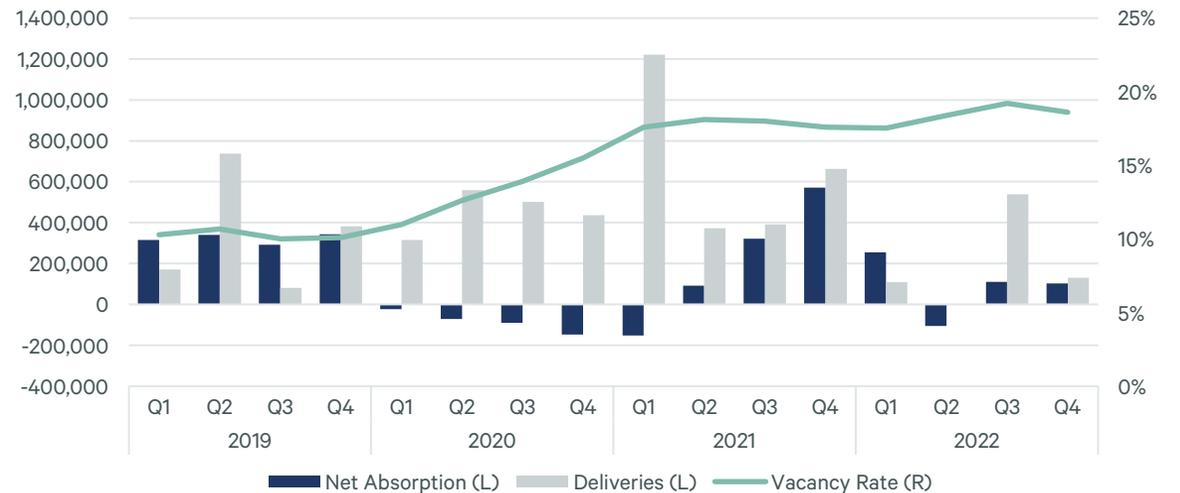
Key Takeaways

- Nashville’s average asking office rent increased to \$31.18 per sq. ft. FSG in Q4 2022, a rent growth of 6.0% year-over-year.
- The overall vacancy rate compressed to 18.6% in Q4, down 60 basis points from Q3, and up 100 basis points year-over-year.
- Tighter financial market conditions slowed capital markets activity in 2022.

In December, the Federal Reserve raised interest rates an additional 50 basis points, totaling 425 basis points in rate hikes in 2022. As the Fed continues its aggressive tightening program, the pace of recent rate hikes has increased volatility in the financial markets. Reduced expectations of earnings growth in 2023 have firms scaling back on expenses and looking to cut costs where they can. On the capital markets front, difficulty accessing debt and softening property valuations has investors taking a more conservative approach to how they deploy capital in the near term.

On the upside, Increases in the Consumer Price Index (CPI) has shown signs of cooling due in part to improved supply chains, lower energy prices, and higher interest rates. With ongoing economic challenges, CBRE expects the onset of a moderate recession by H1 2023.

FIGURE 1: Vacancy Rate, Deliveries, Net Absorption



Source: CBRE Research, Q4 2022

Rounding out 2022, high inflation, rising interest rates, and economic uncertainty resulted in challenging market conditions. Despite these challenges, Nashville’s overall market performance remained relatively positive. An active office leasing market continued to drive rent growth while helping to combat an elevated vacancy rate. New construction performed well, garnering strong tenant interest as the demand for quality office buildings carries into 2023.

Elevated inflation and high borrowing costs have led to cap rate decompression, slowing investment activity and sending some investors into a price discovery period. While new construction ground breaks decelerated in 2022, the Nashville market added 774,000 sq. ft. of new office stock, with healthy pre-leasing activity. There are more than 2.4 million sq. ft. of office space under construction with staggered delivery dates over the next 24 months, which will provide occupiers with more quality, Class A office space to choose from over the coming quarters. However, even as supply chains improve and construction costs ease, the slowing economy will likely subdue growth in the sector over the near term.

With 2023 left in the wake of challenging economic conditions, and the onset of a recession, market activity will be slow through the first half of 2023. On the upside, secondary, sunbelt cities like Nashville continue to be an attractive market for occupiers and investors, leaving those markets well-positioned for a swift rebound as inflation subsides, interest rates stabilize, and macroeconomic conditions improve.

FIGURE 4: Key Leasing Transactions

Tenant	Location	Size (SF)	Submarket	Transaction Type
Delek US Energy	310 Seven Springs Way	56,141	Brentwood	Sublease
Elmington Construction	1030 16 th Ave S	32,758	Green Hills/21 st Ave/Music Row	Expansion
First Bank	211 Commerce St	32,555	Downtown	Renewal
Surgery Partners	340 Seven Springs Way	29,670	Brentwood	Sublease
Lifeline Systems	310 Seven Springs Way	28,733	Brentwood	Sublease

Source: CBRE Research, Q4 2022

FIGURE 2: Delivered SF

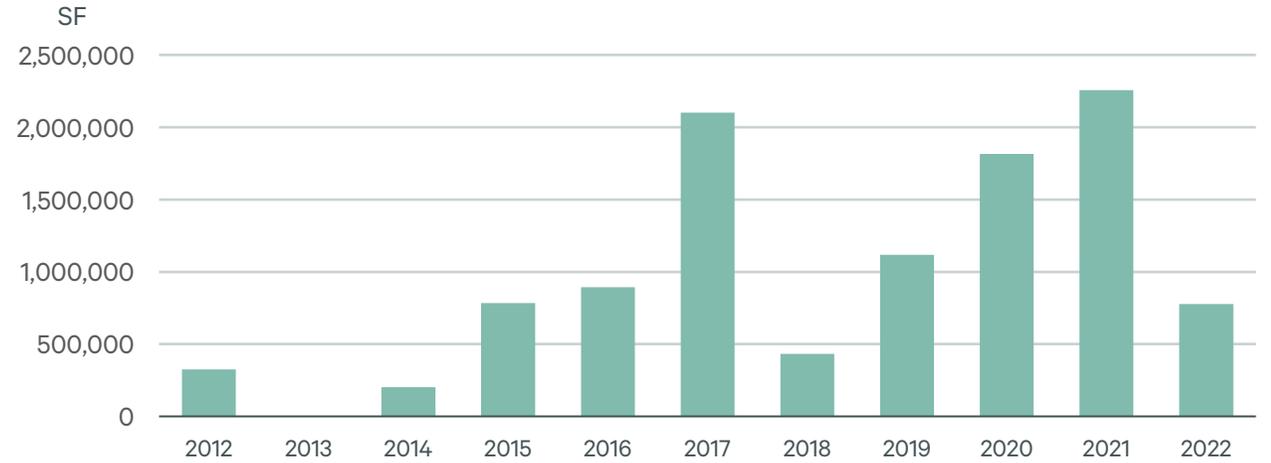


FIGURE 3: Asking Rate and Vacancy



Source: CBRE Research, Q4 2022

Office Absorption

The Nashville office market recorded 103,281 sq. ft. of positive net absorption in Q4, bringing the year-to-date total to 109,370 sq. ft. of positive net absorption. With occupiers continuing to reassess their office space needs and lower office utilization rates since the 2020 pandemic, tenants are leasing office space just in smaller size segments. To put this into perspective, 63% of Nashville leases signed in 2022 were in the sub-10,000 sq. ft. range. A reduction in space requirements coupled with some sizable move-outs and downsizes have led to a scale back in overall absorption volume in 2022 compared to years prior. As high-performing secondary markets like Nashville continue to be a hotbed for company relocations and expansions, this will drive demand for office space. However, a moderately forecasted recession entering 2023 will likely curtail activity in the new year.

Office Rental Rates

Between 2021 and 2022, Nashville's average asking rent increased by 6.0%, well above the historical average office rent growth of 3.0%. This upward rent trend has been largely driven by new construction and spec suite build-outs, fueled by occupiers seeking out highly amenitized, conveniently located office space. As of Q4, the average asking office rent in Nashville was \$31.18 per sq. ft. FSG. Class A and trophy rent growth were the strongest performing asset classes. Average Class A rents increased 5.7% year-over-year to \$34.59 per sq. ft. FSG, and trophy office rents commanded upward of \$50.00 per sq. ft. FSG. With a conservative outlook entering the new year, rent growth could be impacted over the coming quarters.

Office Vacancy Rates

The office vacancy rate trended downward to 18.6% in Q4, a 60-basis point decrease from Q3 2022. While the vacancy rate remains elevated, up 100 basis points year-over-year, leasing activity and ensuing commencements have helped to subdue vacancy quarter-over-quarter. Despite 2022 being a year of economic challenges and uncertainty surrounding return-to-office protocols and office space needs, steady occupier demand drove positive market fundamentals throughout most of the year. While new construction and spec suites are favorable options for tenants, occupiers seeking cost-effective alternatives have continued to sign in sublease space, helping to alleviate the amount of available sublet inventory that has come online in recent years.

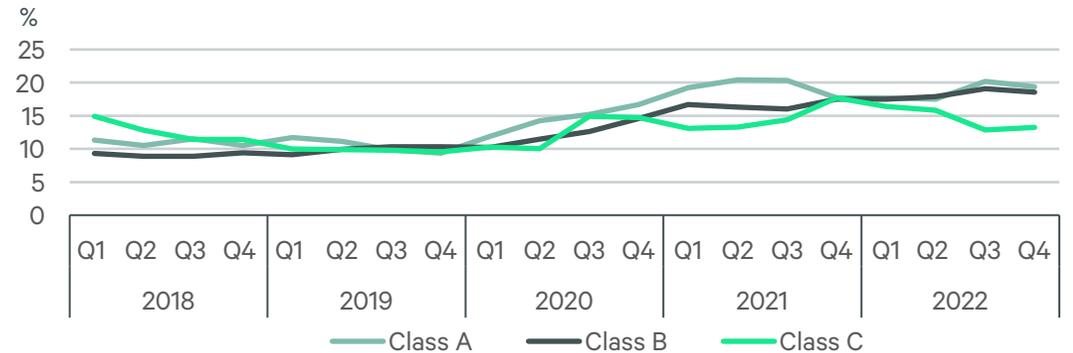
FIGURE 5: Absorption



FIGURE 6: Rental Rates

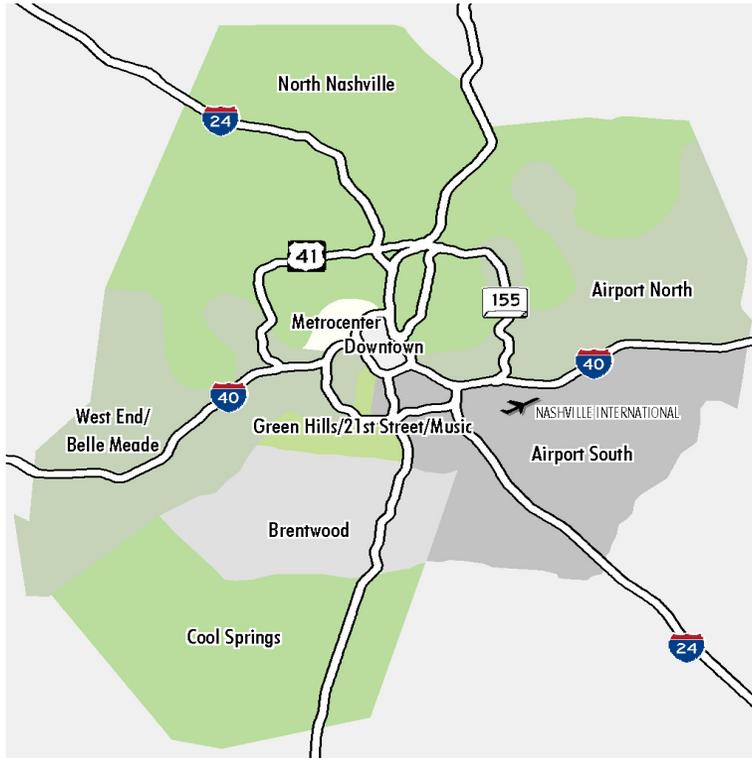


FIGURE 7: Vacancy



Source: CBRE Research, Q4 2022

Market Area Overview



Nashville Office

222 2nd Ave S, Suite 1800
Nashville, TN 37201

FIGURE 8: Market Statistics

Submarket	Market Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Aval. Rate (%)	Q4 2022 Net Absorption (SF)	2022 Net Absorption (SF)	Under Construction (SF)	Avg. Gross Asking Lease Rate (\$/SF/Yr)
Airport North	3,993,497	15.1	17.7	29.3	20,335	177,265	0	24.04
Airport South	4,389,986	25.2	25.3	27.6	9,773	-52,401	193,000	23.12
Brentwood	6,479,795	9.1	13.9	17.6	34,472	194,204	0	29.95
Cool Springs	7,917,299	16.0	24.4	28.6	-135,479	-203,673	0	31.59
Downtown	12,536,771	16.6	18.8	23.4	10,187	-228,616	1,941,628	36.17
Green Hills/21st Ave/Music Row	3,023,488	12.5	14.7	25.1	-18,733	15,135	227,000	35.94
MetroCenter	2,256,034	18.2	20.2	31.8	137,446	51,256	0	25.49
North Nashville	884,172	3.9	3.9	4.3	0	1,739	0	20.86
West End/Belle Meade	4,659,154	11.4	13.4	14.9	45,280	155,808	0	33.56
Nashville	46,140,196	15.2	18.6	23.7	103,281	110,717	2,361,628	31.18

Source: CBRE Research, Q4 2022

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