CBRE

Consistent positive net absorption balances supply-side vacancy

▲ 19.5%	▼ 208K	▼ 192K	▲ 1.8M	▲ $31.96	▲ $35.13	▲ $52.46
Vacancy Rate	SF Net Absorption	SF Completion	SF Under Construction	Overall Lease Rate	Class A Lease Rate	Trophy Lease Rate

Note: Arrows indicate change from previous quarter.

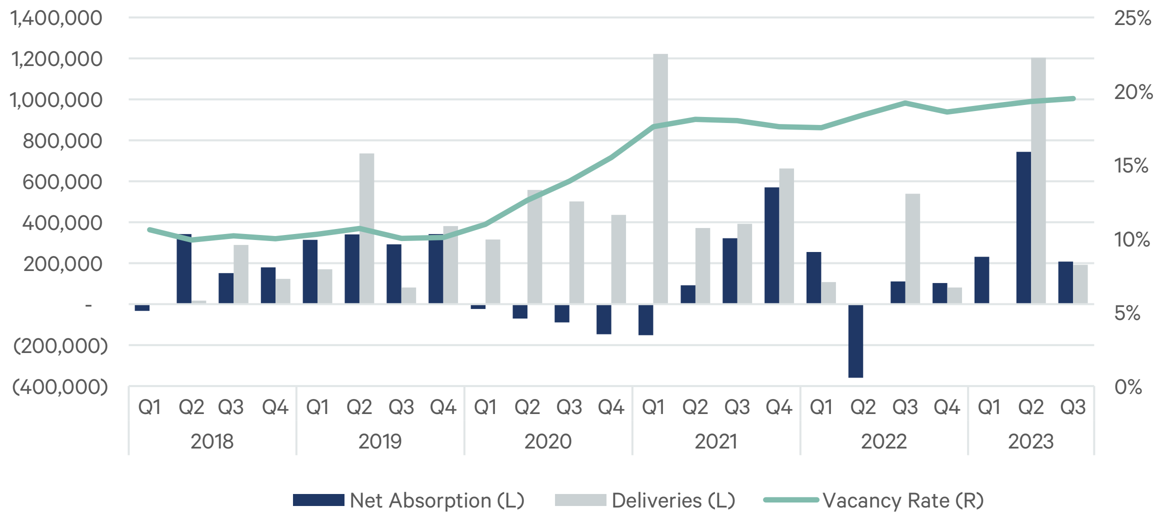
Key Takeaways

- Nashville occupiers absorbed a net positive figure for the fifth consecutive quarter of 208,469 sq. ft.
- Total leasing activity maintained stable growth at 1.8% quarter-over-quarter to 746,000 sq. ft. yet declined 14.1% year-over-year.
- Trophy rents continued to bolster market asking rent growth in Q3 2023, rising to $52.46 per sq. ft. FSG or $39.15 per sq. ft. NNN, an increase of 4.4% quarter-over-quarter and 7.1% year-over-year.

In Nashville, overall activity on the leasing and capital markets fronts remained subdued as companies exercised caution and proactively strategized their real estate portfolios looking several years ahead. Return-to-work policies were still top-of-mind for decision-makers, as they considered office utilization and cost efficiency related to their office footprints.

Although tighter financial conditions persisted in Q3 2023, the economy's resiliency through GDP growth, an increased Consumer Price Index, and strong job market may encourage future leasing momentum. A rise in the 10-Year Treasury yields suggests further headwinds for investment activity by way of increased cost of capital and potential value reduction moving into year-end.

FIGURE 1: Vacancy Rate, Deliveries, Net Absorption



Source: CBRE Research, Q3 2023

New construction supply in Nashville continued to expand and meet occupier demand for higher-quality space. Five new construction deliveries added 1.4 million sq. ft. of inventory to the office market year-to-date. Of that total, 808,000 sq. ft. was speculative and 22.9% preleased as of Q3 2023. This quarter, Hines's The Finery delivered 192,000 sq. ft. of creative office space to the growing Wedgewood-Houston neighborhood in the Airport South submarket 30.6% preleased to media and real estate occupiers. Of the total quarterly market leasing volume by square feet, tenants signed 38.4% of new leases at new construction properties. Additional leasing activity through the end of the year should promote the absorption of recent deliveries.

Roughly 1.8 million sq. ft. of speculative office projects were under construction in Q3, 9.2% preleased to media, financial, and legal services firms. Each preleased tenant will represent an in-market relocation to higher-quality product. Despite a growing construction pipeline, the nearly 8.0 million sq. ft. of office space delivered to the market since 2019 was 77.0% leased as of Q3 2023.

Total leasing activity maintained stable growth at 1.8% quarter-over-quarter to 746,000 sq. ft. yet declined 14.1% year-over-year. Overall, average transaction sizes shrunk 27.3% year-over-year, consistent with the trend toward office footprint optimization.

FIGURE 4: Key Leasing Transactions

Tenant	Location	Size (SF)	Submarket	Transaction Type
JE Dunn Construction	Neuhoff Block 2	46,939	Downtown	New Lease
elspaces	17th & Grand	33,036	Green Hills/21st Ave/Music Row	New Lease
SVP Worldwide	Ragland Building	30,812	Downtown	New Lease
Iron Galaxy	333 Commerce	25,694	Downtown	New Lease
SP Plus	Riverview Business Center II	24,701	MetroCenter	Renewal

FIGURE 2: Delivered SF

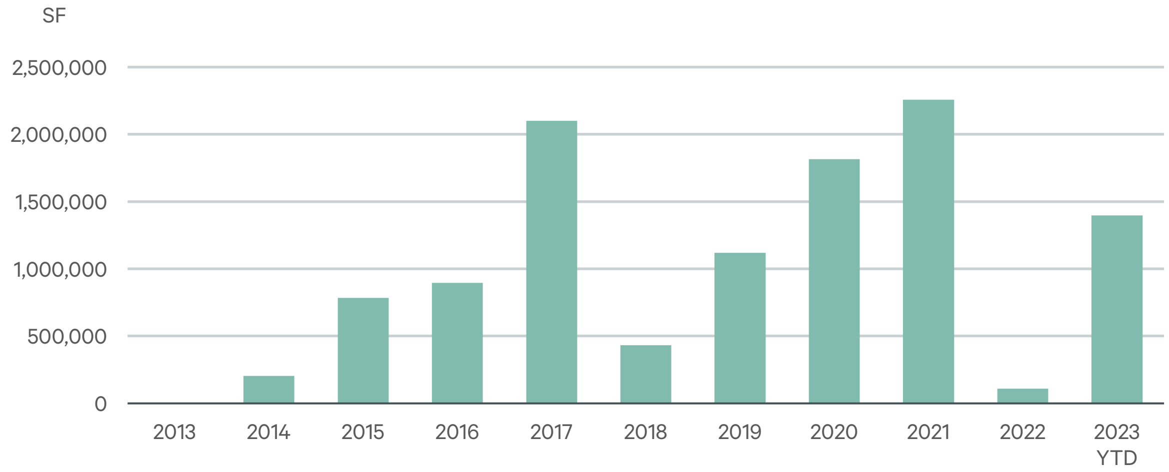
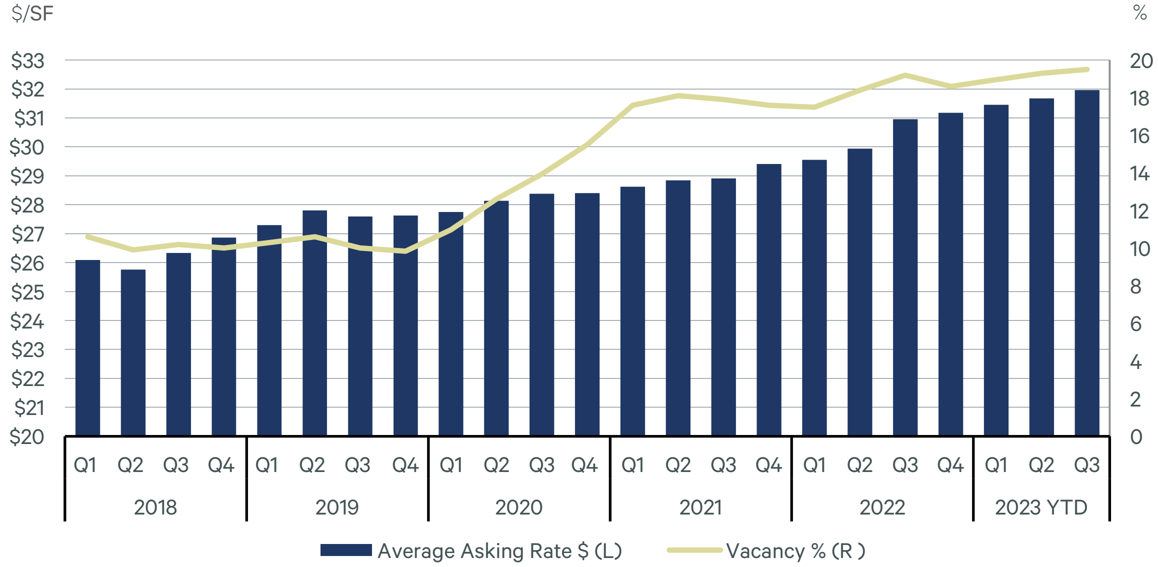


FIGURE 3: Asking Rate and Vacancy



Source: CBRE Research, Q3 2023

Office Absorption

Nashville occupiers absorbed a net positive figure for the fifth consecutive quarter of 208,469 sq. ft. Three large-block occupancies over 20,000 sq. ft. added a collective 146,000 sq. ft. of positive absorption by tech, manufacturing, and legal services firms who all moved into new construction properties. Excluding the 588,000 sq. ft. built-to-suit that elevated figures in Q2 2023, net absorption was still 33.6% greater quarter-over-quarter in Q3. Without additional construction completions anticipated until 2024, further commencements during year-end should continue to counterbalance vacancy caused by recent construction deliveries.

Office Rental Rates

Market asking rents continued to grow, albeit at a slower year-over-year growth rate. In Q3 2023, the average asking rent increased to $31.96 per sq. ft. FSG, or 3.2% year-over-year. Trophy rents continued to bolster market asking rent growth in Q3 2023, rising to $52.46 per sq. ft. FSG or $39.15 per sq. ft. NNN, an increase of 4.4% quarter-over-quarter and 7.1% year-over-year. There was a 49.3% rent premium for trophy availabilities compared to the Class A average of $35.13 per sq. ft. FSG. The highest rental rate increase throughout the market occurred in Airport South, which rose to $23.58 per sq. ft. FSG, an increase of 7.3% quarter-over-quarter and 3.6% year-over-year due to a new construction delivery and asking rent increases. Persistent demand for prime space allowed landlords throughout the market to remain firm on price.

Office Vacancy Rates

Despite positive net absorption, further inventory growth contributed to a 19-basis-point increase in total market vacancy quarter-over-quarter to 19.5%. Leasing activity over the next several quarters should aid the absorption of nearly 700,000 sq. ft. of direct vacant availability added to the market by this year's deliveries. Sublease vacancies during Q3 2023 increased market sublease vacancy by 10 basis points from the previous quarter to 3.0%. Upcoming direct lease commencements and sublease term expirations should place downward pressure on the overall vacancy rate.

FIGURE 5: Absorption

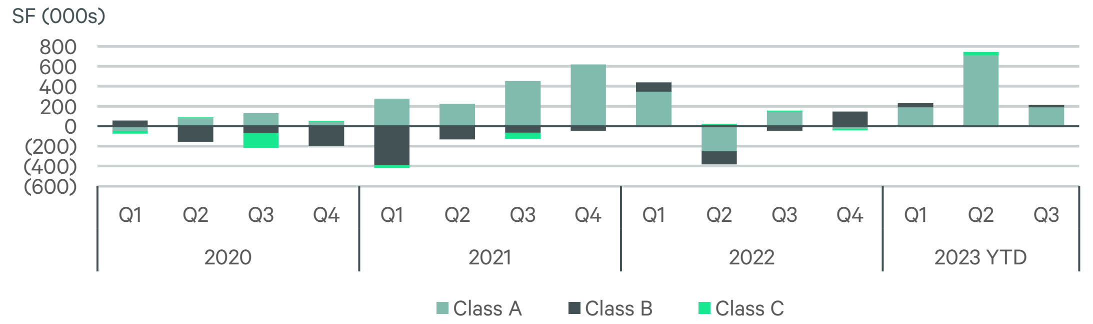


FIGURE 6: Rental Rates

FIGURE 7: Vacancy

Source: CBRE Research, Q3 2023

Market Area Overview

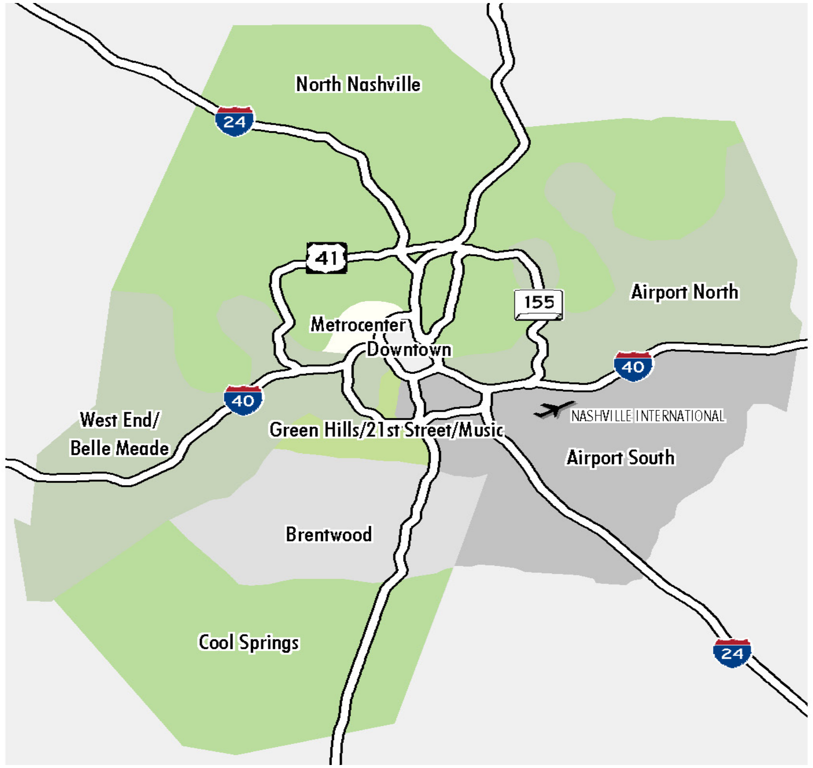


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FIGURE 8: Market Statistics

Submarket	Market Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Aval. Rate (%)	Q3 2023 Net Absorption (SF)	2023 Net Absorption YTD (SF)	Under Construction (SF)	Avg. Gross Asking Lease Rate ($/SF/Yr)
Airport North	3,935,072	13.0	15.3	28.1	8,011	139,238	0	25.29
Airport South	4,666,986	28.4	28.7	29.1	29,770	50,283	171,000	25.30
Brentwood	6,424,380	11.5	14.0	16.9	47,579	53,098	0	29.72
Cool Springs	8,036,799	16.0	24.2	29.9	66,199	166,161	0	31.59
Downtown	12,376,506	17.7	20.0	27.1	69,627	658,918	1,253,000	37.11
Green Hills/21st Ave/Music Row	3,243,498	17.9	19.4	23.1	551	44,192	0	36.46
MetroCenter	2,256,034	19.9	22.8	30.5	0	17,203	0	23.56
North Nashville	923,906	4.3	4.3	6.8	0	0	0	21.28
West End/Belle Meade	4,659,154	11.4	13.4	15.5	-13,268	54,596	360,000	34.18
Nashville	**46,522,335**	**16.5**	**19.5**	**24.8**	**208,469**	**1,183,689**	**1,702,000**	**31.96**

Source: CBRE Research, Q3 2023

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Survey Criteria

Includes all classes of competitive single and multi-tenant, non-owner-occupied office properties larger than 10,000 sq. ft. within the geographic submarket boundaries defined in the "Market Area Overview." Excludes government and medical office buildings.