CBRE

Tenant occupancies and rent growth drive activity through economic uncertainty

▲ 19.0%	▲ 231K	▼ 0	▲ 2.8M	▲ $31.45	▲ $34.68	▲ $48.83
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.

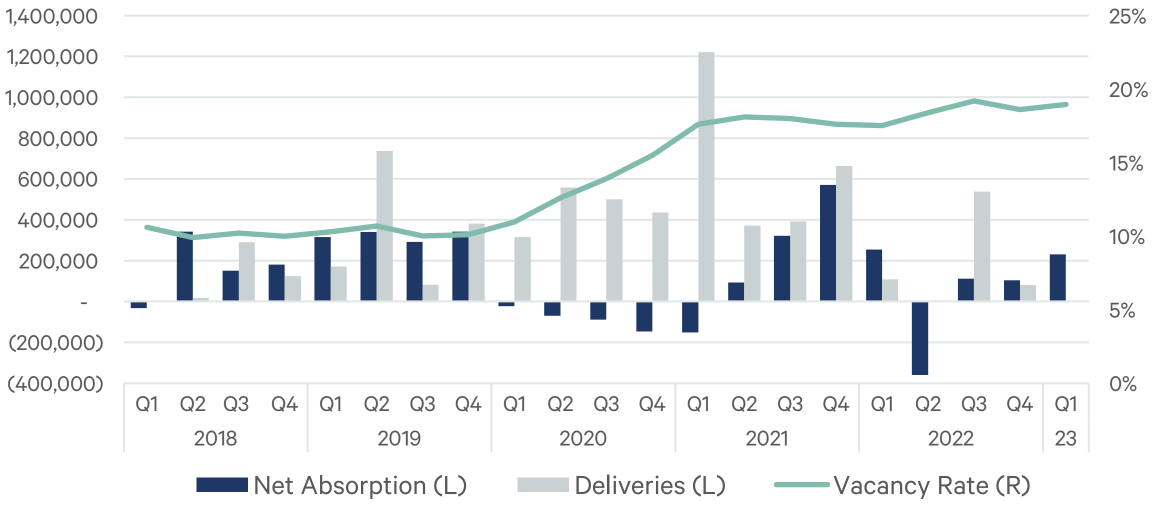
Key Takeaways

- Average asking rents increased to $31.45 per sq. ft. FSG overall and $34.68 per sq. ft. FSG for Class A in Q1.
- Move-ins increased by nearly a third, and overall net absorption doubled to 231,210 sq. ft quarter-over-quarter.
- Transactions in the sub-10,000 sq. ft. range accounted for 83% of deals signed and 65% of lease commencements in Q1.

Even as inflation begins to subdue, the Federal Government's aggressive tightening program indicates slower growth ahead. The Federal Reserve expects weaker GDP growth, lower unemployment, and higher inflation through 2023. Trouble in the banking sector will likely weigh on consumer confidence, and banks may scale back further on lending to increase their own liquidity. Inflation and cost of capital caused some companies to shelve expansion plans while investors continue to exercise caution.

Interest rate volatility and construction costs challenge office developers and occupiers alike as ground breaks slow and tenants seek high-quality office space options. Although there is office-using job growth, impending slowdown and return-to-office policies in flux muddle the outlook of office occupancies until economic stabilization.

FIGURE 1: Vacancy Rate, Deliveries, Net Absorption



Source: CBRE Research, Q1 2023

Office inventory in Nashville continues to expand to meet occupier demand for high-quality spaces that offer experiential live-work-play environments. In the face of decreased ground breaks nationally, two Nashville office development projects began construction in Q1 2023 in the Green Hills/21st Ave/Music Row and West End/Belle Meade submarkets. Both projects, Ashwood 12 South and 5 City Blvd, positioned in high-growth, mixed-use neighborhoods, represent the emphasis on drawing workers to the office through amenity-rich offerings.

Under construction office supply totaling 2.8 million sq. ft. will increase the availability of premier options and further drive asking rent differentials between new and existing product. New construction preleasing consisting of tenants completing internal market moves and new-to-market companies reflect the diversity of tenants actively in the market for space.

Market conditions in Nashville continue to promote development and tenant demand during a recessionary period. Interest rate stabilization anticipated by midyear and improved economic conditions will determine the velocity of future market activity.

FIGURE 4: Key Leasing Transactions

Tenant	Location	Size (SF)	Submarket	Transaction Type
Primeritus	100 Centerview Dr	41,219	Airport South	New Lease
Sherrard Roe Voigt & Harbison, PLC	1600 West End	32,227	West End / Belle Meade	New Lease
CoreTrust	601 11th Ave N	31,580	Downtown	New Lease
V. Alexander & Co.	22 Century Blvd	23,814	Airport North	Renewal
Revance Therapeutics	1222 Demonbreun	17,248	Downtown	Expansion

Source: CBRE Research, Q1 2023

FIGURE 2: Delivered SF

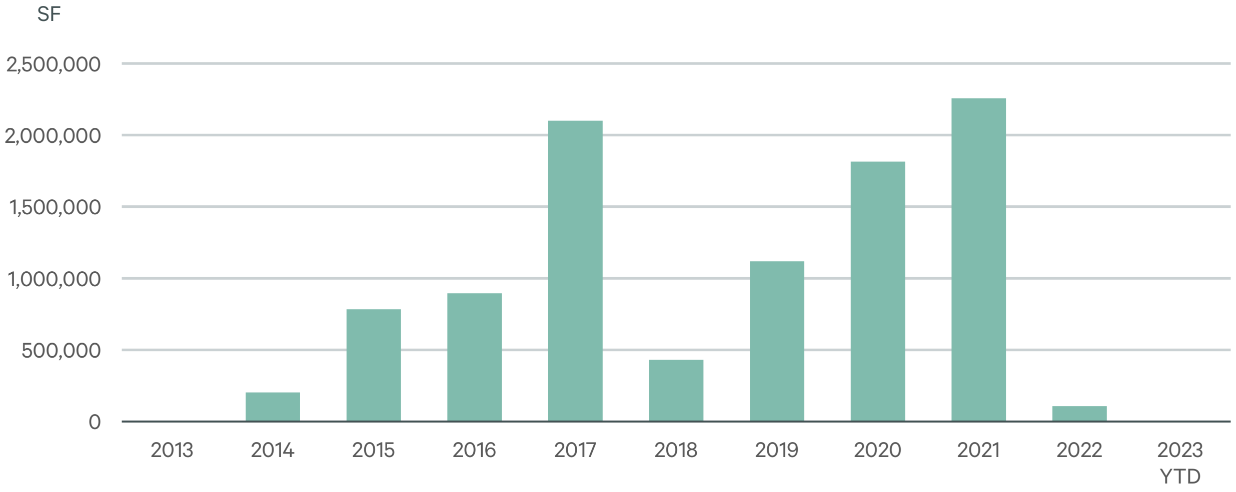
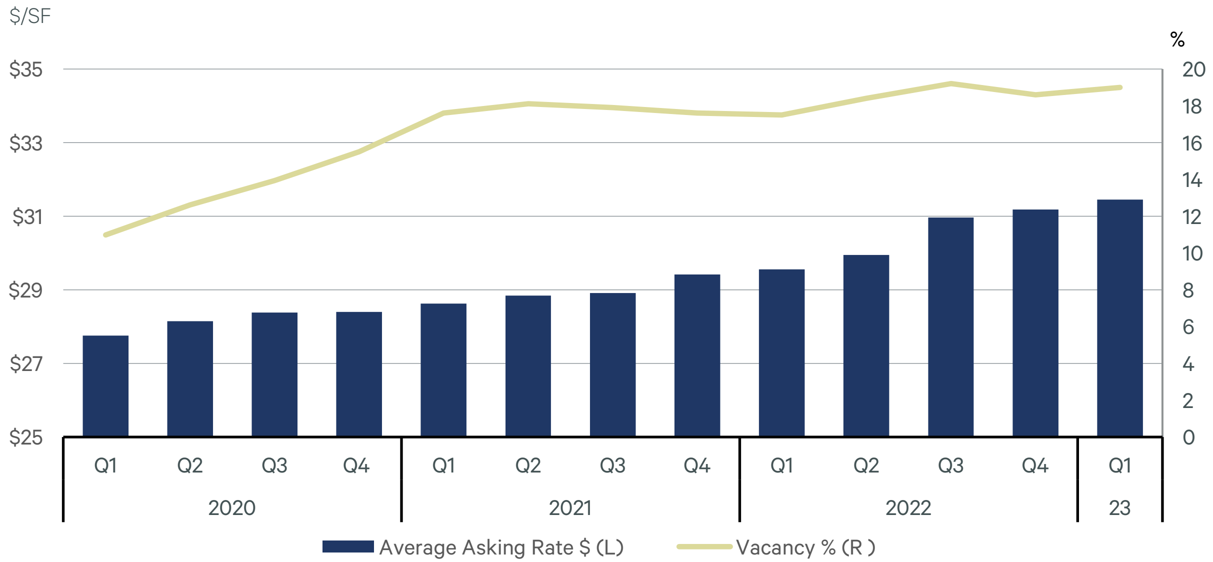


FIGURE 3: Asking Rate and Vacancy



Source: CBRE Research, Q1 2023

Office Absorption

Even as occupiers continued to lease office space in smaller size segments in Q1 2023, move-ins increased by nearly a third, and overall net absorption doubled to 231,210 sq. ft quarter-over-quarter. Transactions in the sub-10,000 sq. ft. range accounted for 83% of deals signed and 65% of lease commencements in Q1 as tenants optimized their footprints. Although total leasing activity declined 49% from Q4 2022 to Q1 2023, roughly 270,000 sq. ft of new leases signed in Q1 will reinforce positive absorption in the following quarters.

Office Rental Rates

Average asking rents increased to $31.45 per sq. ft. FSG overall and $34.68 per sq. ft. FSG for Class A in Q1 amid ongoing economic turbulence. Asking rents for each property class increased despite flight to quality trends, while submarkets with new construction availabilities continued to dominate rent growth. Trophy asking rents averaged $48.83 per sq. ft. FSG ($35.92 per sq. ft. NNN), commanding a 41% rent differential over traditional Class A buildings. Occupier demand for cost-effective options could promote further Class B and C activity while economic pressures persist.

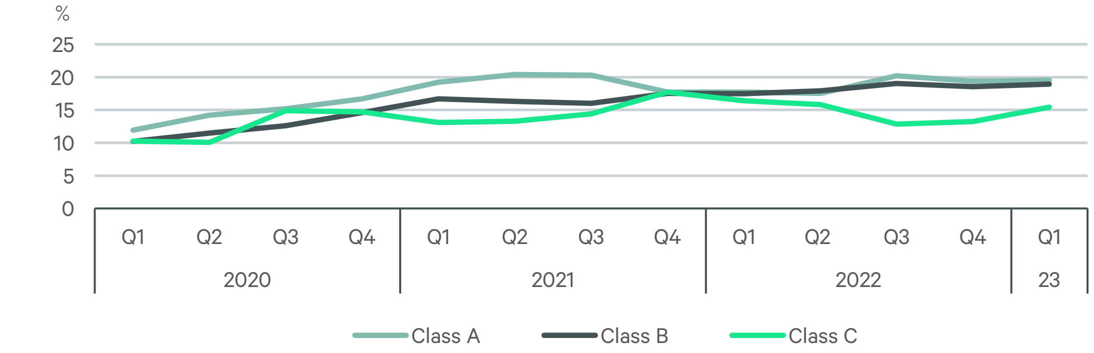
Office Vacancy Rates

Total vacancy in Nashville increased 36 basis points since Q4 2022 to 19.0% in Q1 2023. Some occupier move-outs that contributed to the slight uptick resulted from location consolidation or flight-to-quality strategies that have already or will coincide with additional leasing activity and absorption. Additionally, absorption from previous leasing activity should help balance oncoming direct vacancies from new construction deliveries throughout the remainder of the year.

FIGURE 5: Absorption

FIGURE 6: Rental Rates

FIGURE 7: Vacancy



Source: CBRE Research, Q1 2023

Market Area Overview

FIGURE 8: Market Statistics

Submarket	Market Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Aval. Rate (%)	Q1 2023 Net Absorption (SF)	2023 Net Absorption YTD (SF)	Under Construction (SF)	Avg. Gross Asking Lease Rate ($/SF/Yr)
Airport North	3,934,255	14.3	18.9	25.8	94,590	94,590	0	24.18
Airport South	4,564,986	25.9	26.0	28.7	-74,344	-74,344	193,000	23.47
Brentwood	6,543,082	10.9	13.9	16.3	24,499	24,499	0	29.63
Cool Springs	7,917,299	17.4	25.8	30.2	83,885	83,885	0	31.53
Downtown	11,956,422	16.5	18.7	22.9	-22,179	-22,179	1,954,440	36.62
Green Hills/21st Ave/Music Row	3,023,558	12.6	14.7	22.5	62,999	62,999	299,200	36.11
MetroCenter	2,256,034	20.8	22.8	29.1	0	0	0	25.82
North Nashville	933,506	4.4	4.4	4.8	0	0	0	20.69
West End/Belle Meade	4,659,154	11.3	13.1	15.0	61,760	61,760	360,000	34.11
Nashville	**45,788,296**	**15.8**	**19.0**	**23.1**	**231,210**	**231,210**	**2,806,640**	**31.45**

Source: CBRE Research, Q1 2023

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