

Historic industrial construction deliveries provide high-quality availabilities

▲ 3.5%
Vacancy Rate

▼ 869K
SF Net Absorption

▲ 9.9M
SF Under Construction

▼ 1.4M
SF Completions

▼ \$7.41
NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

Key Takeaways

- After record-breaking industrial construction deliveries in 2021, 2022 recorded the second largest year of completions in Nashville’s history, totaling 6.6 million sq. ft.
- Manufacturing net absorption doubled to 1.0 million sq. ft., and R&D/Flex tripled to over 256,000 sq. ft. year-over-year, indicating strong demand across industrial subtypes.
- Asking rental rates decreased by 15 cents from Q3 2022 to Q4 2022 and increased by 16.1% from 2021 to 2022.

After multiple rate hikes throughout the year, the December Consumer Price Index (CPI) reading measured 6.5% annual inflation. Core inflation rose 5.7% during the same period, in line with forecasting expectations. Due to these improvements, credited mainly to lower gas and airfare prices, the Federal Reserve expects future rate hikes to lessen but may still impose them to reach their target of 2.0% inflation. CBRE anticipates a moderate recession in H1 2023, restraining investment and leasing activity until economic conditions stabilize.

The reshoring of domestic manufacturing should bolster the industrial sector and the overall economy. U.S. companies adopting a “China Plus One” approach may onshore to the U.S. or nearshore to Mexico all or part of their manufacturing efforts to localize production and curb significant slowdown.

FIGURE 1: Vacancy Rate, Deliveries and Net Absorption



Source: CBRE Research, Q4 2022

Tennessee’s high-growth economic environment promoted an annual GDP growth rate estimated to outperform the national growth rate over the same time period. Economic opportunity in Tennessee attracted landmark investments like Korean chemical company LG Chem, who has plans to to deploy a record \$3.2 billion of capital to create a new battery manufacturing facility in nearby Clarksville, indicative of rising electric vehicle battery demand and onshoring prioritization.

After record-breaking industrial construction deliveries in 2021, 2022 recorded the second largest year of completions in Nashville’s history, totaling 6.6 million sq. ft. Occupiers preleased 65.0% of the new construction inventory added in 2022, leaving 2.3 million sq. ft. of new, available inventory. Overall net absorption outpaced deliveries by 1.1 million sq. ft., indicating that total market demand outweighed new supply. Demand increased across most industrial property size segments year-over-year, with the highest vacancy rate compression occurring in the 100,000 to 300,000 sq. ft. range, resulting in a potential need for additional availabilities. Completions of the 7.7 million sq. ft. of speculative projects under construction across all size segments should buoy availability as they continue to deliver.

Despite a national slowdown in investment sales activity in 2022, industrial investment sales volume grew in Nashville. Investors continue to seek sun belt market opportunities as they navigate investment strategies in a tightened capital markets environment.

FIGURE 4: Key Leasing Transactions

Tenant	Location	Leased SF	Submarket	Lease Type
HD Supply Facilities Maintenance	Interline National Distribution Center	317,085	Interchange City	Renewal
Armstrong Relocation	Smyrna Airport Business Park Bldg 4	107,500	Interchange City	New Lease
WestRock	Prologis Eastgate Bldg 1	100,880	Elm Hill Pike / I-40	New Lease
Zwanenberg Food Group	Smyrna Airport Business Park Bldg 4	89,845	Interchange City	New Lease
Distribuidora Limeña	Smyrna Airport Business Park Bldg 4	89,845	Interchange City	New Lease

FIGURE 2: Annual Deliveries

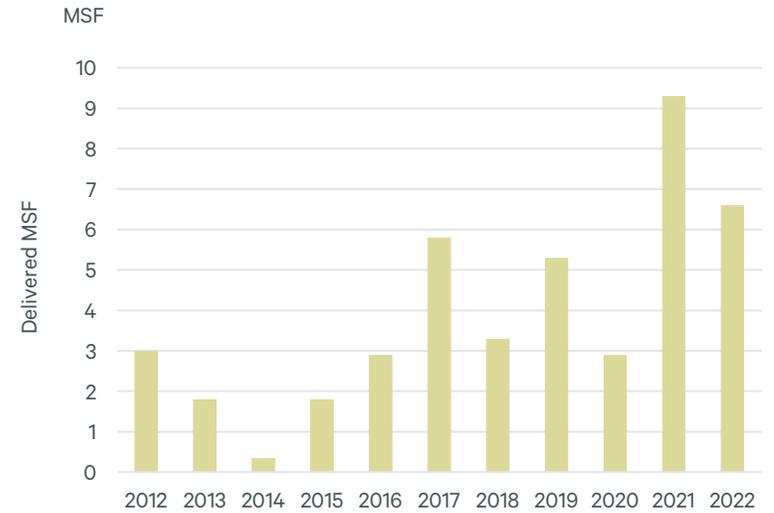
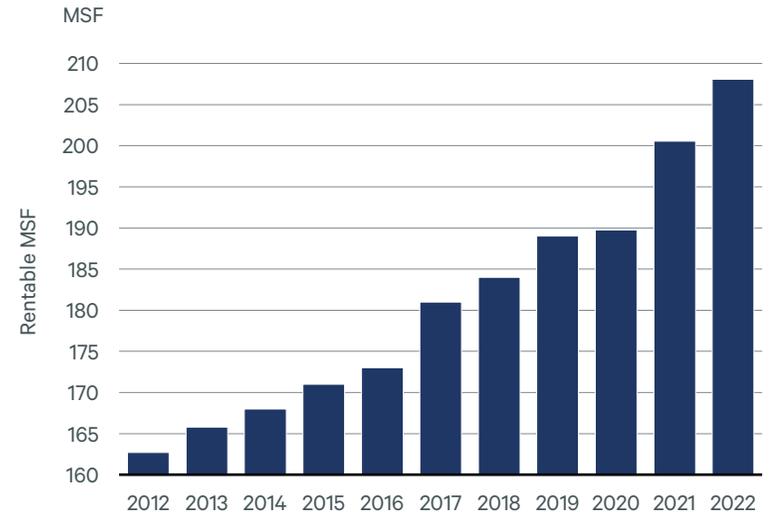


FIGURE 3: Rentable Sq. Ft.



Source: CBRE Research, Q4 2022

Industrial Absorption

Nashville occupiers absorbed 7.7 million sq. ft. throughout 2022 and 869,229 sq. ft. in Q4. Manufacturing net absorption doubled to 1.0 million sq. ft., and R&D/Flex tripled to over 256,000 sq. ft. year-over-year, indicating strong demand across industrial subtypes. Consistent with 2021, I-840 and Interchange City remained the most active development submarkets and accounted for 7.1 million sq. ft. of total net absorption in 2022. A significant decrease in leasing activity year-over-year in 2022 will impact new occupancies and absorption in 2023.

FIGURE 5: Quarterly Net Absorption



Industrial Asking Rates

Asking rental rates decreased by 15 cents from Q3 2022 to Q4 2022 and increased by 16.1% from 2021 to 2022. Asking rates increased across most Nashville submarkets in Q4 2022, except for the Northeast/I-65N Corridor, which had a nominal decrease due to a large bulk availability. Warehouse/Distribution asking rates moved closer to historically higher R&D/Flex rates as demand grew, tightening by 15.9% to an average price differential of \$5.22 per sq. ft. in 2022.

FIGURE 6: Asking Rates by Property Type



Industrial Vacancy

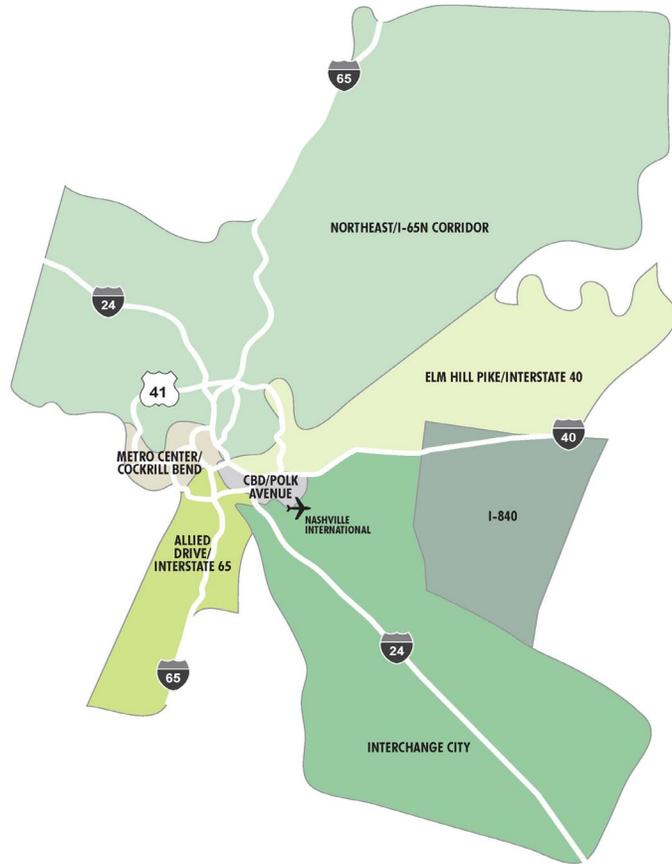
Vacant new construction deliveries and nearly one million sq. ft. of negative absorption increased total market vacancy by 40 basis points in Q4 2022. The two largest move-outs consisting of 750,000 sq. ft. and 124,020 sq. ft., respectively, were Warehouse/Distribution vacancies in the Northeast/I-65N Corridor. The oncoming speculative supply of 7.7 million sq. ft. may increase the vacancy rate further, contingent upon future leasing activity moving into the next several quarters.

FIGURE 7: Vacancy by Property Type



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 (%)	Avail. Rate (%)	Q4 2022 Net Absorption (SF)	2022 Net Absorption (SF)	Under Construction (SF)	Avg. NNN Asking Lease Rate (\$/SF/Yr)
Allied Drive/I-65	18,649,296	1.9	2.1	2.8	75,527	(14,013)	0	\$10.50
CBD/Polk Avenue	12,965,250	2.1	2.2	4.0	0	(946)	0	\$8.84
Elm Hill Pike/I-40	30,880,941	3.3	3.3	3.1	213,377	402,650	1,069,575	\$7.98
I-840	19,169,701	5.7	5.7	12.2	17,500	4,344,891	4,741,018	\$6.66
Interchange City	72,271,935	3.6	3.9	4.1	1,317,711	2,757,582	3,027,855	\$8.62
MetroCenter/Cockrill Bend	13,260,888	2.3	2.3	3.5	0	258,860	0	\$9.44
Northeast/I-65N Corridor	40,869,415	1.1	3.2	5.1	(754,886)	(125,012)	1,041,225	\$5.15
Warehouse/Distribution	126,119,914	4.6	5.0	5.9	10,546	6,378,325	9,879,673	\$7.30
Manufacturing	67,338,141	0.5	0.6	1.5	844,480	1,014,335	0	\$5.59
R&D/Flex	10,939,397	5.6	7.6	8.8	14,203	256,457	0	\$12.52
NASHVILLE	208,067,426	2.9	3.5	4.7	869,229	7,682,506	9,879,673	\$7.41

Source: CBRE Research, Q4 2022.

Disclaimer: Some statistical fluctuations quarter-over-quarter were due to property subtype changes.

Contacts

Stephen Kulinski
Senior Managing Director
+615 248 1164
stephen.kulinski@cbre.com

Diana Johnson-O'Brien
Research Manager
+615 493 9256
diana.johnsonobrien@cbre.com

Joanna Paszek
Research Analyst
+615 248 1108
joanna.paszek@cbre.com

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